Assured Guaranty Ltd. (AGO)
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Fourth Quarter 2021 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our Fourth Quarter and year end 2021 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.

Assured Guaranty's insurance production, loss mitigation and capital management strategies combined to deliver outstanding results in 2021.

We had many notable accomplishments during the year:

- We earned $470 million of adjusted operating income, 84% more than in 2020, and we more than doubled adjusted operating income per share to $6.32 per share.
- We brought all three of our measures of shareholder value to new highs. Over the year, shareholders' equity per share grew 9% to $93.19, adjusted operating shareholders' equity per share increased 13% to $88.73, and adjusted book value per share rose 14% to $130.67.
- We repurchased 10.5 million common shares – or approximately 14% of our shares outstanding at December 31, 2020 – at an average price of $47.19. Those repurchases totaled $496 million, and with the addition of $66 million of dividends, we returned a total of $562 million to shareholders.
- Through strong new business production in each of our financial guaranty markets – U.S. public finance, international infrastructure finance and global structured finance – we generated a total of $361 million of PVP in 2021. Direct PVP exceeded $350 million for the third consecutive year, compared with an average annual direct PVP of $210 million from 2012 to 2018, making the last three years our best in more than a decade for direct new business production.
- With a more than 60% share of new-issue insured par sold, we led the U.S. public finance bond insurance industry to its highest penetration, market penetration, in a dozen years.
- And, taking advantage of exceptionally low interest rates, our U.S. holding company issued a total of $900 million of 3.15% 10-year and 3.60% 30-year senior debt to refinance $600 million of debt with higher coupons ranging from 5% to almost 7%. As a result, annual debt service savings will be $5.2 million through the next maturity date.

Our financial guaranty production was well diversified across all of our markets. U.S. public finance PVP of $235 million included its second-best direct production in at least a decade, surpassed only by the previous year's result. Our $79 million of international infrastructure PVP marks the fourth year out of the last five that we have exceeded $75 million of direct PVP in that sector. Global structured finance PVP of $47 million was the second best in direct production since 2012.

Our markets and economic environment offered both opportunities and challenges during 2021. Issuance of U.S. municipal bonds reached a record par amount of $457 billion in 2021. This partly reflected investors' increased demand for tax-exempt paper in expectation of higher tax rates and continued limitations on state and local tax deductions at the federal level. Additionally, issuers were eager to take advantage of extremely low municipal interest rates to refinance bonds issued in the past at higher rates. With the option to execute tax-exempt advance refundings still off the table, many issuers also turned to the taxable market to replace higher-coupon tax-exempt debt.

Total insured market volume increased to 8.2% of par issued, the highest annual rate over the past 12 years and up from 7.6% during 2020 and 5.9% during 2019. We believe this increased penetration in 2021 indicates that the risk of unpredictable developments, which was brought home by the onset of the COVID-19 pandemic in 2020, has made a lasting impression on investors, who have also seen that Assured Guaranty has the underwriting and risk management skills to construct an insured portfolio that experienced minimal claims from the economic disruption caused by the pandemic, most of which have already been reimbursed.

The $37.5 billion of insured par in 2021 represented a 10% annual increase on the heels of a 43% increase the previous year, resulting in 57% growth of the insured market in just the two years since 2019. Assured Guaranty's production was the leading force behind this growth, as we insured over 58% of new-issue insured par sold in 2020 and more than 60% in 2021, our highest annual market share since 2013. Our $23 billion of insured new issue volume in 2021, was almost $3 billion more par than we insured in 2020 and was generated by more than a thousand individual transactions.

An important trend in recent years has been the use of our guaranty to help launch some of the municipal bond market's largest transactions, which indicates growing institutional demand for the security, relative price stability and significant market liquidity our guaranty can provide. We guaranteed $100 million or more on each of 48 large issues launched in 2021, up from 39 transactions in 2020 and 22 in 2019.

Significantly, we continued to add value on credits with underlying ratings in the double-A category from one or both of S&P and Moody's, insuring 109 such double A transactions totaling more than $3.5 billion of insured par.

U.S. public finance forms the largest part of our uniquely diversified financial guaranty strategy. Our three-pronged strategy also targets insurable transactions in both infrastructure finance outside the United States and structured finance throughout the world. This helps us in times when one market or another shows temporary weaknesses, and it drives great results in years, like 2021, when we are thriving in all three of our markets.

Further demonstrating the diversity of our business, in 2021, we guaranteed financings of Spanish solar power facilities and U.K. higher education and healthcare projects. Additionally, we worked with a U.K. water company to extend a Debt Service Reserve

guaranty, which is a unique product we developed as an alternative to bank liquidity facilities. We also provided a number of secondary-market guarantees.

Our European business was historically based in the U.K., which previously allowed us to do business throughout the European Union, where we have long been active and where we believe we continue to have plentiful and diverse opportunities. Our Paris subsidiary, which we opened in 2020 to serve Continental Europe more effectively, especially now that the U.K. has left the European Union, further grew its business originations in 2021.

In global structured finance, an important part of our business is to provide institutions like banks and insurance companies with tools to optimize the capital utilization of their asset portfolios. During the year, we guaranteed large insurance securitizations and significantly increased our CLO activity. Our guarantees help CLOs attract new investors who might otherwise be discouraged by the higher capital requirements on uninsured CLOs, and we are seeing more opportunities to help investors reduce the capital consumed by both existing structured finance exposures and new investments.

The new business we wrote across all of our markets in 2021 enabled us to increase the year-end net par amount of our insured portfolio for the first time in many years. We believe the trend going forward will be to continue increasing the par amount of our insured portfolio and increase our store of deferred premium revenue, which will further stabilize and grow our future earnings.

We have continued to reduce the risk in our insured portfolio and believe we can continue to do so as we continue to write new investment-grade business. The below-investment-grade portion of our insured portfolio declined to barely more than 3% as of December 31, 2021. Almost half of our below investment grade net par exposure is to Puerto Rico, and we expect that with the court-approved settlements pertaining to the GO and certain other credits scheduled to occur on March 15th of this year, that figure should drop to below 2.5% and continue to fall as more of our Puerto Rico settlements are executed.

After years of twists and turns related to the restructuring of Puerto Rico’s debt, decisive progress occurred in 2021. We and the other creditors, along with the Commonwealth, agreed to support the final revision of the Oversight Board’s restructuring plan for the central government, which the Title III court approved in January of this year. As a result, the Commonwealth government’s exit from bankruptcy is expected to begin in mid-March.

The Title III court also laid the groundwork for favorable consideration of additional agreements that support certain other Puerto Rico restructurings, such as for the Highways and Transportation Authority. All of this means that Puerto Rico’s long-awaited resolution of its unpaid debt is proceeding well, and the island is positioned for years of fiscal stability according to the Oversight Board’s latest fiscal plan.

In addition to our success in the financial guaranty business in 2021, we also made significant progress toward our goals for the asset management business, where overall investment performance was strong. As one of the top 25 collateralized loan obligation

managers by assets under management, we were well positioned to participate in a CLO market that reached a record level of issuance. During 2021, we launched 6 new CLOs, representing $2.5 billion of assets under management , more than double what we issued in 2020, and we converted non-fee-earning AUM to fee-earning AUM by selling substantially all of the CLO equity still held by AssuredIM legacy funds, where we had been rebating management fees. Through these efforts, we increased CLO management fees in 2021 to $48 million from $23 million in 2020. Additionally, we reset or refinanced 10 CLOs in the United States and Europe. In the asset-backed sector, we closed a continuation fund holding an auto finance investment. Additionally, the healthcare portfolio managed by Assured Healthcare Partners continued to grow as capital was deployed.

Looking back on the year, we believe much of Assured Guaranty's success reflected the market's growing appreciation of:

- the reliability of our financial strength and the security we provide investors, while also delivering financial benefits and first-class service to bond issuers and other clients;

- the responsibility embodied in our careful underwriting, disciplined risk management and tireless loss mitigation;

- the proven resilience of our financial guaranty business model; and,

- our strategic approach to capital management to protect policyholders and create value for shareholders.

In our view, this heightened recognition of our guaranty's value could help to drive demand higher as interest rates rise. We expect market conditions in 2022 and beyond to be very different from those of 2021, as the Fed strives to contain inflation; the economic and social impact of COVID-19 recedes; developing geopolitical events continue to disrupt markets; and municipal governments prepare for the end of extraordinary Federal support. Rising interest rates, widening credit spreads and the accompanying volatility tend to increase financial guaranty demand.

We believe Assured Guaranty is better positioned for long-term success than at any time in our history. Our financial strength has never been stronger. The credit challenges in our legacy insured portfolio are largely behind us. Our markets are large, our opportunities diverse, our human capital exceptional, and our business model proven through decades of economic cycles. We look forward to fulfilling the high expectations of our policyholders, clients and shareholders.

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.

I am very pleased to report that our fourth quarter 2021 adjusted operating income was $273 million, or $3.88 per share – a significant increase over the adjusted operating income of the fourth quarter of 2020, which was $56 million, or $0.69 per share.

The primary driver of the increase in fourth quarter 2021 total adjusted operating income was the Insurance Segment where adjusted operating income increased 154% over fourth quarter 2020 from $109 million to $277 million. Much of this benefit came from our loss mitigation strategies, particularly for our Puerto Rico exposure.

After many years of negotiation and other loss mitigation efforts we are close to resolving $1.4 billion in gross par associated with our Puerto Rico GO, PBA, CCDA, and PRIFA exposures. The increased certainty of the settlement and Puerto Rico's improved economic outlook, combined with the increased value of our actual and expected recoveries under the settlement agreements, were the primary drivers of the $186 million economic benefit in the fourth quarter of 2021.

During the fourth quarter of 2021, we sold a portion of our salvage and subrogation recoverables associated with certain matured Puerto Rico GO and PREPA exposures, resulting in proceeds of $383 million, thereby realizing some of our expected recoveries early. In 2022, we continued to sell portions of our GO, PBA and PREPA salvage and subrogation recoverable, resulting in additional proceeds of $133 million. The prices at which we crystallized these recoveries, as well as observed market pricing for other similar instruments, and the forward interest rate environment, are reflected in the updated assumptions of the value of the remaining recovery bonds and Contingent Value Instruments that we project receiving in the various Puerto Rico settlements.

Other components of the Insurance segment also performed well in the fourth quarter of 2021. Total income from investments, which consists of net investment income on the fixed-maturity portfolio and equity in earnings on AssuredIM Funds and other alternative investments, was $111 million, an increase from $94 million in the fourth quarter of 2020. Collectively, the investments in AssuredIM Funds and alternative investments generated $44 million in equity in earnings of investees in the fourth quarter of 2021, compared with $24 million in the fourth quarter of 2020, with the increase mainly attributable to a large fair value gain on a specific investment in a private equity fund.

As a reminder, equity in earnings of investees is a function of mark-to-market movements attributable to the AssuredIM funds and other alternative investments. It is more volatile than the net investment income on the fixed maturity portfolio and will fluctuate from period to period.

Our fixed-maturity and short-term investments account for the largest portion of the portfolio, generating net investment income of $67 million in the fourth quarter of 2021, compared with $70 million in the fourth quarter of 2020.

As we shift fixed-maturity assets into alternative investments, net investment income from fixed-maturity securities may decline. However, over the long term, we are targeting enhanced returns on the alternative investment portfolio of over 10%, which exceeds our projected returns on the fixed-maturity portfolio.

In terms of premiums, scheduled net earned premiums decreased slightly in the fourth quarter of 2021 to $91 million compared with the fourth quarter 2020 of $94 million. Premium earnings due to refundings and terminations were $20 million in fourth quarter 2021, compared with $65 million in the fourth quarter of 2020 when two large transactions refunded.

The Asset Management segment adjusted operating loss was $3 million in the fourth quarter of 2021, compared with $20 million in the fourth quarter of 2020. The improvement in Asset Management segment results is primarily attributable to increased management fees in the strategies we launched since the 2019 BlueMountain acquisition, and a non-recurring impairment of a lease right-of-use asset of $13 million in 2020.

Asset management fees, on a segment basis, were $21 million in the fourth quarter of 2021, compared with $20 million in the fourth quarter of 2020. Higher fees from healthcare opportunity funds and CLOs more than offset the decrease in fees from wind-down funds as distributions to investors continued. As of December 31, 2021, AUM of the wind-down funds was $582 million, compared with $1.6 billion as of December 31, 2020.

In the fourth quarter of 2021, the effective tax rate was 15.1% compared with 12.7% in fourth quarter 2020, which included the release of a reserve for uncertain tax positions. The overall effective tax rate on adjusted operating income fluctuates from period to period based on the proportion of income in different tax jurisdictions.

Overall, the fourth quarter capped off a year of successful execution of our strategic initiatives. These achievements are reflected in our 2021 full year adjusted operating income of $470 million, which includes a loss on extinguishment of debt of $175 million pretax, or $138 million after tax. Despite the debt extinguishment charge, full year 2021 adjusted operating income represents an 84% increase compared with 2020 adjusted operating income of $256 million. The primary driver of this increase was the Insurance segment with $722 million of adjusted operating income in 2021, compared with $429 million in 2020.

The 2021 Insurance segment adjusted operating income includes a benefit of $221 million which primarily consists of a benefit of $146 million for U.S. public finance exposures, and $84 million for U.S. RMBS exposures. U.S. public finance benefited from the increased recovery assumptions for Puerto Rico exposures that I mentioned earlier, and the U.S. RMBS benefit is primarily a function of home price appreciation. Economic loss development, which excludes the effects of deferred premium revenue, was a benefit of

$287 million in 2021 across the whole portfolio. Loss expense in 2020 was $204 million and was primarily attributable to Puerto Rico.

On full year basis, total income from the investment portfolio was $424 million in 2021, compared with $371 million in 2020.

The investment returns on the portion of the portfolio invested in AssuredIM Funds demonstrates an important component of the benefits of the asset management segment, not only as a fee earning business but as an investment advisor for our insurance segment. AssuredIM Funds in which the insurance subsidiaries invest generated gains of $80 million in 2021, compared with gains of $42 million in 2020. The gains were across all strategies, particularly healthcare, CLOs, and asset-based and generated a year-to-date return of 20.8%.

Other third-party alternative investments also generated gains of $64 million in 2021, compared with $19 million in 2020.

These gains more than offset the reduced net investment income on the available for sale fixed-maturity portfolio, which was $280 million in 2021, down from $310 million in 2020. Lower average balances in the fixed maturity portfolio, reinvestment yields and income on loss mitigation securities were the primary drivers of the year over year variance.

Total net earned premiums and credit derivative revenues were $438 million in 2021, compared with $504 million in 2020, including premium accelerations of $66 million and $130 million, respectively.

In the Asset Management segment, we have continued to make great progress in 2021:

- we raised new third-party capital in our CLO, healthcare and asset-based strategies;
- we increased fee earning CLO AUM through the issuance of $2.8 billion in CLOs, and the sale of CLO equity out of the legacy funds; and,
- we continued to liquidate assets in wind-down funds.

The improvement in the asset management segment operating loss from $50 million in 2020 to $19 million in 2021, was primarily attributable to an increase in management fees from $59 million in 2020 to $76 million in 2021. Higher fees from CLOs and opportunity funds more than offset the decline in fees from wind-down funds. The increase in opportunity fund fees was primarily attributable to the new healthcare funds launched in late 2020, which raised additional third-party capital in late 2021.

The Corporate division had adjusted operating loss of $263 million in 2021 including a loss on debt extinguishment of $175 million, or $138 million on an after-tax basis, which resulted from the $600 million in debt redemptions that Dominic mentioned earlier. This charge is simply an acceleration of expenses that would have occurred over time. In the prior year, corporate division adjusted operating loss was $111 million.

The debt redemptions were financed with the proceeds from the issuance of $900 million in new 10 year and 30-year debt, which resulted in a reduced average coupon on redeemed debt from 5.89% to 3.35%, and a $170 million debt reduction in our 2024 debt refinancing need. In addition, the debt refinancings generated annual debt service savings of $5.2 million until the next maturity date and provided flexibility to continue share repurchases. We were able to accomplish all of this without significantly affecting our debt leverage or interest coverage ratios.

The additional $300 million of proceeds from the debt issuances were used primarily for share repurchases. In the fourth quarter of 2021 we repurchased 3.7 million shares for $192 million at an average price of $51.47 per share. This brings full year 2021 repurchases to 10.5 million shares or $496 million, which represents 14% of the total shares outstanding at the beginning of the year. The continued success of this program helped to drive our per-share book value metrics to record highs as of December 31, 2021.

Subsequent to the quarter close, we repurchased an additional 1.7 million shares for $91 million. Since the beginning of our repurchase program in January 2013, we have returned $4.2 billion to shareholders under this program, resulting in a 69% reduction in total shares outstanding.

The cumulative effect of these repurchases was a benefit of over $37 in adjusted operating shareholders' equity per share, and $65 in adjusted book value per share, which helped drive these metrics to new record highs.

From a liquidity standpoint, the holding companies currently have cash and investments of approximately $274 million, of which $124 million resides in AGL. These funds are available for liquidity needs, or for use in the pursuit of our strategic initiatives to either expand our business or repurchase shares to manage our capital.

This week, the Board of Directors authorized the repurchase of an additional $350 million of common shares. Under this and previous authorizations, the Company is now authorized to purchase $364 million of its common shares. In addition, we declared a dividend of $0.27[1] per share, which represents an increase of 13.6% over the previous dividend of $0.22 per share.

As we look to 2022 and beyond, we are optimistic that our largest single BIG exposure - Puerto Rico, will be substantially resolved by the end of this year, the interest rate environment will be more conducive to new insurance business production, and that the asset management segment and alternative assets strategies will continue to contribute to the Company's progress towards its long-term strategic goals.

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

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[1] As mentioned during the Q&A, the actual dividend was $0.25 per share.

QUESTION & ANSWER SESSION

Operator
[Operator Instructions]
And our first question today comes from Tommy McJoynt at KBW.

Tommy McJoynt, *Keefe, Bruyette, & Woods (KBW)*
So first, does the international insured portfolio have any exposure to areas that would potentially be at risk given the ongoing conflict in Eastern Europe?

Dominic Frederico
No, we have no exposure to the Ukraine or Russia. We do have exposure in Hungary, but it's a best – it's small and it's vastly amortizing.

Tommy McJoynt
Thanks for clarifying that. And then next, I have a few questions around the contingent value instrument. So first, were the marks related to the CVI that you already have received as well as CVIs that are contemplated of receiving in the future with unfinalized settlements?

And then second, does the CVI get marked-to-market every quarter based on things like actual tax receipts in Puerto Rico? Or is it the updated fiscal outlooks there? Can you just kind of walk through those pieces?

Dominic Frederico
Well, so number one, we've not received any CVI yet. So remember, all the restructurings are still in the future, with the first one being the general obligation and related credits, where we'd actually receive instruments starting on March 15th.

You know the CVI is a long-duration instrument. It's predicated on sales tax volumes over many, many years. So you're going to make an assessment of what you think that present future value is relative to current performance and any other expectations you might have. So that number is a mark-to-mark number, will fluctuate based on a long-term view of value. And obviously, as they – we know they've already substantially exceeded the early benchmarks relative to that revenue, obviously, we think that security is a solid investment or solid returning value.

Tommy McJoynt
Okay. And when you do receive the CVI come March 15th, will you be able to monetize it immediately? And also speaking of monetization, the fully satisfied claims that you did monetize in the fourth quarter and again in the first quarter, how much additional fully satisfied claims are there that you'd be able to do the same with?

Dominic Frederico
Okay. So these are complicated questions. So in terms of the monetization, you have to have the right structure and you have to be able to convert the existing exposure into a

security that can be sold into the marketplace. So that's not for all of Puerto Rico. And as we looked at those opportunities to monetize, it was really based on our view of value. It's a kind of benchmark relative to expected value.

It allowed us to risk manage some of the Puerto Rico exposure. Obviously, we've been dragging around fairly substantial balances related to this principal credit of transportation and general obligation. It also allowed us to do a better cash management strategy relative to the settlement obligations we have coming March 15th, when we have to settle the old bonds as we receive the new. So that's number one, to your second question.

And on the first question, obviously, we can't really – at this point in time, there's still a lot of uncertainty in terms of value. In terms of the CVI, we hope that it will start to trade as soon as it's issued, but that really relates to the market and demand in the marketplace for the security and what prices are available.

These are the things that we continue to watch, monitor and we'll manage as we see opportunities unfolding in the future based on all these variables. You have variables of interest rates, you have variables of further geopolitical unrest, you have variables of market perception of Puerto Rico in terms of their willingness to pay. So there's a lot of balls in there that will ultimately dictate value. But obviously, the best value you're going to have is the one that the market's willing to provide once these securities are issued and a market is established.

Robert Bailenson
Let me just add, Tommy, that when we sold our subrogation rights this quarter – I mean, fourth quarter and first quarter, that will include what we were going to get on March 15th when this is consummated, which is – consists of new GO bonds, CVI and cash. So we sold those before we actually are getting them in March 15th because we have subrogation rights to the extent that, that par has been paid.

So effectively, we've been selling those CVIs through selling our subrogation rights. And then on March 15th, we will get an additional, say, rough numbers, $1.5 billion of cash, new recovery bonds and CVI. And we will look to execute and sell them and maximize our economic benefit over time.

Tommy McJoynt
Right, right. Yes. That all makes sense. And then lastly, can you just walk through the most likely timelines for the resolution of HTA and PREPA? I know you mentioned that you expect Puerto Rico to substantially be resolved by the end of this year. Can you just put a little finer tune on actual timing throughout the year? And then have you any strategic actions, such as acquisitions or capital actions like special dividends, factor into that expected timeline?

Dominic Frederico
So let's get to the timelines of Puerto Rico. So we really expect, and of course, these are dates that could slide, obviously, as you've seen happening in the general obligation that doesn't get to now March and it could have been done by the end of the year. So we look

at transportation, our expectation is a third quarter resolution. PREPA, you saw the request for immediate mediation, but we still think that drags on a little bit, maybe that's fourth quarter. But between third and fourth quarter for transportation and PREPA, we expect it to be resolved by the end of the year.

And then you're right, once we're free of this burden because obviously, it's been a significant drag on the company, relative to people's perception, not economic reality, as you can see in the current quarter, the benefit we realized based on our perceived value of settlements around predominantly general obligation. It at least then gives that, which then provides us that opportunity to start to reengage on further capital management opportunities, principally special dividends to kind of accelerate the capital management that we've been doing.

So it opens up a whole host of opportunities for us as we finally get Puerto Rico behind us into the rearview mirror, which we believe economically is there, but we still have the legal technicalities of having to go through the process of the exchange, et cetera, as Rob pointed out.

Operator
Ladies and gentlemen, our next question comes from Jackie Cavanaugh with Putnam.

Jackie Cavanaugh, *Putnam*
Can you hear me okay?

Dominic Frederico
Yes.

Jackie Cavanaugh
I just had two quick questions. One of them, I think Dominic might have just answered. But on the sold – the subrogated assets that you sold, the proceeds, I'm assuming, are not available for capital redeployment, but are – will be withheld to satisfy the claims that you expect on March 15th. Is that kind of what you indicated?

Dominic Frederico
Yes.

Jackie Cavanaugh
Okay, okay. So we shouldn't be penciling that in as excess cash available?

Dominic Frederico
We have a significant liquidity event on the settling of the old bonds before we get the new bonds to cash in the CVI. So we're going to pay first before we receive second. So this allowed us – took a lot more opportunities in the portfolio to basically farm that for short-term cash. These sales allow us to further alleviate some of that cash responsibility.

Robert Bailenson
Jackie, I just want to also add that just remember, we sold those subrogation rights at significantly higher values than we expected with respect to our reserve analysis, and that's why you're seeing a significant benefit to our Puerto Rico reserves.

Jackie Cavanaugh
Right. So that was going to be my second question, Rob. So the benefit that we saw from the Puerto Rico reserves, that incorporates though the full expectation of where we sat on December 31st. That's not just a reflection of those sales. Is that correct?

Robert Bailenson
Yes, that's correct. It's a reflection of a couple of things. We look at all possible scenarios, as you know. We look at all the news that happened in the quarter. We looked at the fact that the judge accepted the plan of adjustment. We looked at the sale as a benchmark.

And then we then that – we look at that and we sort of extrapolate, or it instructs us to look at the other exposures, the GOs that are coming – that we're getting in March 15th and also transportation and PREPA. And we put appropriate interest rate sensitivities with respect to inflation adjustments, that's all taken into account in our future loss reserves related to Puerto Rico.

Jackie Cavanaugh
Great. And then, Dominic, I know you've talked about this many times over the years. But could you just refresh our memory, now that we may actually be some rising rates, in terms of what are the key benchmarks that you watch in terms of new business production? And both on – maybe whether it's the 10-year or the Fed, I think it's the 10-year. And then also on spreads, just like what you would anticipate? I know we've seen some pretty strong demand already, but you would really anticipate to start to see municipalities really coming back to market in size.

Dominic Frederico
Well, Jackie, the long-awaited and maybe starting to come to fruition of rising interest rates, which we've been predicting going all the way back to 2011, but it actually finally come to a realization.

But when we look at – and to your question, is predominantly the 10-year treasury. When we look at overall rates, and more importantly, the economic conditions surrounding the rate environment. Because remember, the credit uncertainty, the global political uncertainty widens our market, it creates opportunities for the business irrespective of interest rates. But obviously, as interest rates rise, typically, the credit spreads widen as well because they're kind of related. One is in aggregate, one is a percentage of that aggregate.

So uncertainty is a key driver, but we look at the 10-year treasury as kind of the biggest benchmark because most of our bonds have a 10-year call on them, so that's kind of the rate that we look at. So as we look at the potential movement in that rate. Obviously, you've seen the penetration starting to grow anyway across our markets relative to the

use of insurance and the acceptance of the institutional investor. So we believe that the rising interest rates further enhances, if not exacerbate, there's opportunity. So we watch that 10-year treasury spreads overall, rates overall. And then the other kind of surrounding economic. Where is inflation? Where is growth versus recession? Where is the geopolitical environment? Because all those things feed into the calculation.

Jackie Cavanaugh
Got it. And is there a number, Dominic, in your head where you think it really is a step-function change in demand? Or is it more a sliding scale?

Dominic Frederico
Jackie, I've been sliding that number for, I can't tell you how many years. So right now, I'm -- probably my happy place would probably a 3-year -- 3% 10-year treasury.

Jackie Cavanaugh
Got it. Okay. I figured I knew that, but I wanted to ask.

Dominic Frederico
But Jackie, remember, all movements along that curve will significantly enhance demand. Remember, the market has gotten so used to refinancing on very, very low rates, it's kind of a need they're going to need to continue to feed. And the only way they're going to be able to get there at comparable terms in a rising market is to use more insurance, which is obviously great news for us.

Obviously, we think, at a 3-year / 10-year Treasury, it's a panacea, right? A very different market relative to growth opportunity and the production that we would book. It would be substantially different than what we currently experience.

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

Michael Temple, *Private Investor*
Good morning gentlemen and congratulations.

Robert Bailenson
Thank you, Mike.

Michael Temple
A few questions. You noted the bond refinancing which you affected in Q3 of last year, and how you refinanced $600 million, but raised an additional $300 million which went towards share repurchase. I'm just curious, in the previous decade, the share buyback was affected by a request for a special dividend from your regulators. And in this instance, it appears that maybe you didn't go that route and instead opted to raise holding company debt to fund that additional buyback that was above and beyond your as-of-right. I'm just curious, do I have that correct? And if so, what motivated you to go that route rather than your traditional annual request for a special dividend?

Dominic Frederico
It's a great question, Michael. So special dividend, obviously, we look at a lot of things, but one of the things that is really predicated on the special dividend is our relationship with the regulators and the regulators' view of the company.

So because of, not so much Puerto Rico, but the uncertainty from COVID, even though obviously, COVID didn't have a significant impact on the company in terms of the performance of the insured portfolio, we thought it'd be wiser as the states still grapple with other issues for other companies kind of across a broad spectrum, that we'd be smarter to delay that and really get to a point where, whenever we go to the state, they're just going to shake our hands, nod their heads and let us walk out of the room as supposed to sit there and kind of rub their chins and say, "Well, you have this to worry about, that to worry about."

So we think, with both COVID hopefully behind us and Puerto Rico behind us, the state would really be in a lot better position and feel a lot more comfortable with the approval of any special dividend request. So we haven't had a special dividend quest in the last two years, probably more than that. And obviously, we found other means to still accomplish our goals of capital management. And obviously you have to – go ahead, Rob, I'm sorry.

Robert Bailenson
And Mike -- I'm sorry. Go ahead, finish, Dom.

Dominic Frederico
Then I was going to say, as we look to 2022, we still think we can accomplish our goals without a special dividend. Special dividend would just further enhance our opportunities for capital management. And we said – as I said, I think we're going to be in a great position relative to that specific request as we go through the year, resolve the rest of Puerto Rico, finally get that off the books and therefore, obviously, also have COVID finally burn out, so to speak, and lead us back to a normal lifestyle.

Robert Bailenson
And Michael, about the debt refinancings. We looked at where rates were on the 10- and 30-year curve and saw what we could execute last year. And one, you're always looking at your cost of capital and the makeup of your capital and want to get the cheapest form. And by executing that first 10-year at 3.15% and the second 30-year at 3.60% lowered our cost of capital significantly, in addition to which, saves us money as we stated in our call. And we didn't increase our – we didn't significantly – or very small, we increased our leverage ratios and our coverage ratios remain very strong. So it was a very opportunistic and very strategic move by the company to go out and execute that and use that as excess funds for capital management without changing those ratios.

Michael Temple
Understood. No, I mean listen, also in hindsight, you chose the perfect time to issue such an amount of debt. So no, congratulations on that.

A couple of other questions. As I listen to the benefits of the Assured alternative platform and the returns that it's provided to the portfolio, that's all well and good. But I just wonder if you are able to provide guidance. I know in the previous call, that you had indicated that while trends were improving, you didn't think you were going to reach run rate profitability until perhaps Q3, maybe Q4 of this year. I'm just wondering, with the turmoil and credit markets, does that get pushed back into next year?

And finally, are you at the stage where you can provide meaningful guidance as to what we could expect run rate revenue, profitability to be – to look like once you do finally cross that threshold? And put all the, so to speak, onetime losses behind you that have marked the performance to date.

Dominic Frederico
Okay. So in terms of asset management, as we said on the call, I think we made tremendous progress across all boundaries of that specific operation. And if we look at its total contribution to the firm, it's a huge net positive to us. So the benefit of having it there with the ability to do the alternative investments and the returns that we've been able to realize through our own management has been substantial and therefore help to really make that a worthwhile proposition.

If you look at the operations itself, we thought we'd be able to get to breakeven by the end of this year. We lost $3 million in the quarter. And remember, that still includes depreciation and amortization. So if you look at cash on cash, it's positive, number one.

Number two, it's really the secret sauce there in terms of turning the corner is two things. One, we still got to grow AUM against our fixed expenses relative to being a public company in the asset management space. And obviously, we grew AUM this year. We've got other plans that we have not made public to further enhance the growth in AUM in 2022. So that should help with the equation of profitability.

Number two, if the expenses relative and the distraction of the legacy funds, and hopefully by the end of 2022, we will no longer have any legacy funds. I think getting rid of the legacy funds and growth of assets will turn that to profitability. The continued use of it as a manager of our own alternative investments has been hugely beneficial and profitable for us. And that's a scale business. We need to get more scale. So we've got strategies to increase the scale and the breadth of the operations. And as we execute them through 2022, we look for a very positive result.

Once we get to those new asset classes and new fee management propositions, we'll be able to provide further direction. But as we launch them, obviously, there's a lot of uncertainty at the beginning. And as you get further performance, you're going to get more comfortable on expectations.

Robert Bailenson
Michael, I just want to add for the group. I'm getting texts that I might have said something incorrectly. So just to be clear, we declared a dividend of $0.25 per share. If I said $0.27,

I don't remember saying it, but it's $0.25 per share. And we -- over last -- the previous dividend was $0.22 per share, a 13.6% increase. Thank you.

Michael Temple
And then just one final question, sort of a follow-up to the question you had from the Putnam team. Let us work with the assumption that spreads are 50 basis points wider in the new issue space, again, just choosing that as an arbitrary figure given the run-up in interest rates and the widening in credit spreads.

In an environment where new issuance is 50 basis points wider for issuers, theoretically, how much of that do you think you can capture in terms of enhanced underwriting spread, where it's a win for them and it's clearly a win for you?

Dominic Frederico
Well, that's another good question. So if you think about it, if you go back to when there were seven AAA companies competing for the business, you captured typically, for premium purposes – and remember, our premium is our rate, which is a percentage of the spread, times the debt service. So when you have a widening of spreads and increase of rates, A, the basis for which your calculation goes up, and then, of course, the widening of spreads also increases what you're able to charge. So it's a win-win.

So if you go back to say, '04, '05, maybe you were getting anywhere between 10% and 20% of the spread. Today, we get between 40% and say 60% of the spread. So if you do your math and say, "Okay. If the par is X, the debt service is Y," that spread goes up 50 basis points, and I can on average capture 50% of the increase of 50 basis points, that's 25 basis points across the entire debt service spectrum, you can get an idea of what that means relative to premium. It's a good number.

Operator
Our next question today comes from Jonathan Giuliano with Deutsche Bank.

Jonathan Giuliano, *Deutsche Bank*
So I just want to go back to the debt liability management one more time. So you guys obviously had very good success with that in 2021, lowering your coupons, getting the interest expense lower. You still have a number of contingent preferred securities outstanding that lack modern LIBOR fallback language. So I guess my question is 2-part.

One, do you have any plans to address or do additional debt liability management perhaps on those securities to deal with the LIBOR language? And then two, if not, how do you see things playing out in the back half of 2023 around the LIBOR language in coupons on those securities?

Dominic Frederico
Well, every time we see a date for the end of LIBOR, it continues to be extended. So I guess we'll hold that as it is. And number two, the contingent security financing is incredibly cheap. So other than working around the legal logistics of the LIBOR language, this is a very cheap form of capital.

Robert Bailenson
Yes, it's our cheapest form of capital at this point, and it's perpetual, and it's dollar per dollar credit for the rating agencies.

Dominic Frederico
We're going to look to refinance any more debt. We still got some 5 percenters out there. What, Rob? $360 million?

Robert Bailenson
Yes, we have $330 million that's coming due in '24.

Operator
Our next question today comes from Geoffrey Dunn at Dowling.

Geoffrey Dunn, *Dowling & Partners*
If we fast forward a year and Puerto Rico is off the liability side and maybe you have some residual assets to manage. And the story becomes then about new business and capital management and asset management, kind of going back to the way things were 15, 20 years ago. And obviously, the capital management is a big headwind when you're posting single-digit ROEs on a GAAP basis. And we can assume that the underlying FG business is double digit.

So Dominic, can you help us triangulate how that business should be run? And back to the question of really rightsizing that platform. Rough idea, what is the underlying targeted ROEs of a largely mini business in financial guarantee? And anything else you can kind of point us to, to try to help us get an idea of what the excess management need is going to be once you get past the credit headwind.

Dominic Frederico
Geoff, it's a complicated question. I'll give it my best shot and I'll probably get a lot of head shaking and a few mutters from my staff as I answer this question because they'll all be concerned about what I say.

So let me first give you a commercial. So my commercial is as follows. We've had to play defense in this company since the day we went public. If you think about it in '04, we were split-rated. We were the smallest financial guarantee company out there. We were struggling for market share. Moody's gave us a market share minimum to upgrade us. So we struggled those early years to get recognition and acceptance.

We finally break through, and I can't remember the exact date, but I think it was in 2008, we finally get all 3 AAAs, which everybody else had. So we're now on a competing platform with them, and it gets taken away from us in 3 months because of the financial crisis.

So now we're into the financial crisis. And of course, everybody had a huge expectation of the doom of Assured Guaranty, which obviously, we knew better even though nobody

believed this, at the end of the day, we had full confidence in the ability of the company because we knew our books better than anybody else knows our books. And trust me, we knew where our exposures were and we knew how to get around them.

So we fight that for a number of years. I said, okay, finally, we got that behind us. We took advantage of it. We bought our competitors at very steep discounts, really enhanced earnings. But we created a portfolio that included the 5 ½ companies we bought plus our own writing new business in a very impaired marketplace. So by definition, you could not replace the volume of that earnings. It's impossible. You've got basically 6 ½ companies' portfolios with 1 company writing in an impaired market.

But anyway, we fight that fight. We say, "Okay. We're going to finally get through the play. We're proving to people that we don't have the problems the other guys have, we're the survivor and we're taking advantage of being the survivor." And what happens? Puerto Rico declares bankruptcy. So here we are again back in a firefight with $5.5 billion of exposure to Puerto Rico. So we had to fight that fight.

We said, "Okay. Finally, we think we got Puerto Rico behind us." Even though the market still didn't believe us, that basically, we've defeated this thing economically to our benefit. Okay, fine. We'll take the criticisms as we always have because we did have too much Puerto Rico exposure, but a lot of it came through acquisition that we got paid very well for. We're actually doing the analysis now by going back and recapturing those premium to see what the net-net-net was. And I think it's going to be a pleasant surprise.

And then what happens, we get hit by a pandemic. So we say, "Okay. So from 2004, we've been in a battle the entire time."

As I look at 2022, with Puerto Rico very much looking like it's in our rearview mirror because of the settlements that had already been agreed and it's just a matter of execution and the pandemic finely residing, our portfolio is well structured, diversified across many obligations, to which all of them have withstood the test of recessions, natural disasters, pandemics. So we feel really confident that, for once, we can now go on the offensive and not defensive.

Now as part of being defensive, we kept a very large excess capital balance because you had to. We had people predicting doom and gloom. And if we were addressing in those years, they'd say, "What are these people? Nuts? They're going to get rid of their capital cushion when they've got $5.5 billion of Puerto Rico?" You couldn't. Your hands were tied. Well, guess what? The ties are coming off our hands. We're going to be allowed to aggressively manage the organization.

So what are the challenges in the organization? As you hit the nail right on the head, ROE. While we're moving the R as best we can, the market will really support us in further enhancing that. But asset management is the key, and asset management is 2 things: One, grow the AUM; b, get rid of the legacy portfolios, which we're well on the way to doing. And we got new strategies coming out in 2022 that we haven't announced yet. So we're working on the R through financial guarantee and through asset management.

Now it's the E, okay? Is the E biggest driver. If you go back and take out the excess capital that S&P continues to – they didn't require it, we required ourselves. But if you take out our S&P excess capital number, you'll find our ROE becomes really competitive. And really in today's interest rate environment, a high 8 or 9 ROE is not bad. And of course, with our episodic transactions like reserves, you can obviously get into double digits on a regular basis, which we have done.

So we've managed the company well, but E is the challenge, and we've got to look at that E really hard and see whether there's other strategies to enhance our opportunity to manage the E. Because if I can move the R, drop the E, then I would say I get that ROE to in excess of the cost of equity, and therefore, we then have a different valuation of this company.

That's the goal. That's the objective. We're working hard to get it done. And as you can look at this company's performance in the past, we typically do not fail when we set an objective for the organization.

Geoffrey Dunn
Okay. And can you remind what was the last estimate under the S&P model, probably last July, for your excess capital against AAA? And...

Dominic Frederico
It was – I'm sorry, Geoff. It was 2019, it was $2.6 billion.

Geoffrey Dunn
And fair to say that the underlying financial guarantee business is a double-digit return profile?

Dominic Frederico
We calculate ROEs on every transaction. We do a summary for the year. If I told you the exact results, I'd have to shoot you. But they're very, very positive.

Operator
Ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the call back over to Robert Tucker for 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
Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.