Assured Guaranty Ltd. (AGO)
May 8, 2020
First Quarter 2020 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 First Quarter 2020 financial results conference call.

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

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

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 the 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.

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 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.

First, I would like to extend our heartfelt sympathies to all those affected by this horrible pandemic and offer our thanks and admiration for the courage of the health care providers, first responders and other essential service providers on the front lines. We are all grateful for their dedication and hard work. I am also proud of the way Assured Guaranty's people have stepped up to keep our operations running without interruption, almost entirely from their homes, by implementing the remote technology and business continuity plans we put in place and have tested regularly for many years. We have continued to write new business in both the new issue and secondary markets, and we will continue to provide value for shareholders, issuers and policyholders at a time when bond insurance has never been more important in its support of the efficient function of markets.

During the first quarter, Assured Guaranty's overall insurance production was very good even though market turbulence limited March production. PVP of $51 million was 21% higher than in the first quarter of 2019, propelled by a 39% increase in public finance PVP worldwide.

The U.S. municipal market environment during the first quarter was bifurcated by the market reaction to the pandemic. Until the end of February, the economy was strong, interest rates were at or near historic lows, and credit spreads were extremely tight. For example, yields on 30-year municipal bonds fell to a record low of 1.38% on March 9th. There was robust demand and strong liquidity in the municipal bond market because long-term municipal mutual funds took in $114 billion of net inflows during the 14 months leading up to March 2020.

Then, from February 24 through March 23, major equity indices collapsed by more than 30%, and during the first four weeks of March, investors pulled out an estimated $41.8 billion, net, out of municipal mutual funds, which caused forced selling by the funds to cover liquidations. The 30-year benchmark yield jumped almost 200 basis points at one point. New issuance in the U.S. public finance market temporarily ground to a halt. For us, this meant $800 million of par of new issues that we were mandated to insure during the quarter were postponed past quarter-end. Our secondary-market business, however, has continued uninterrupted.

Even with the first quarter's generally low yields and tight spreads, and the lack of issuance during part of March, we succeeded in increasing by 22% the par amount of municipal new issues sold with our insurance, compared with last year's first quarter production. All told, across the primary and secondary markets, we insured $2.7 billion of municipal bonds during the period.

One result of the market disruption is that investors have turned more attention to credit risk. This has created opportunities for Assured Guaranty that will be reflected in future quarter results in both primary and secondary markets, and we believe these circumstances have driven home to both investors and issuers the value of our guaranty.

Outside of U.S. public finance, most of our new business in the quarter came from international infrastructure finance, most notably through our second solar energy transaction in Spain, which was also the first transaction to be guaranteed by our new French subsidiary. We have continued our strategy of further diversifying our international production. Target markets include Spain, Ireland, France, Germany, as well as Australia. Although some transactions have been delayed in the current COVID-19 environment, credit spreads have widened, and we continue to see relatively strong investor appetite for our product. We continue working on maintaining and expanding investor relationships, and we are also seeing a growing and diversified stream of incoming inquiries in response to the greater visibility we have achieved in the market in recent years.

In the UK, the Chancellor's new budget proposes a £600 billion investment over the next five years into infrastructure including rail, road, affordable housing and broadband. We have no details on where private investment will fit into this program. We are encouraged that the current government supports significant infrastructure investment.

While there are many good reasons in the current environment for investors and issuers in all of our markets to utilize our financial guaranty, keep in mind that this new business will have little impact on 2020 earnings. This is because, while we collect the majority of our premiums upfront, we earn them over the life of each transaction. For example, only approximately 3% of premiums earned in 2019 related to new financial guaranty policies we wrote in 2019.

Our insured portfolio is in good shape to weather this economic disruption. Three-quarters of our insured exposure is to U.S. municipal bonds, a sector that has a very strong track record in stressed economic environments. During the Great Recession and ensuing years, from 2008 to 2013, Assured Guaranty paid claims on only six new U.S. municipal defaults, and we obtained settlements mitigating the ultimate losses in that group. Similarly, our international infrastructure business performed very well, with only a few losses. In the structured finance market, leading into the Great Recession, we declined to insure what turned out to be some of the more high-loss-severity asset classes and transaction structures of that financial crisis. And from 2009 to first quarter 2020, our insured structured finance portfolio decreased 95%, going from $174.6 billion to $9.5 billion. Importantly, from 2008 to 2013, we were profitable each year, earning a total of more than $2.7 billion in adjusted operating income, and we have been profitable each year since.

Looking at U.S. public finance from 2009, the year we acquired AGM, through 2019, the average net losses we paid on bonds of issuers in the 50 states was less than $45 million per year. This excludes our Puerto Rico claims in the latter years of that period. As a U.S.

territory, Puerto Rico presents a unique situation, and we are still in the process of negotiations and the exercise of our strong legal rights, which we believe will result in significant recoveries, based on our and the municipal market's successful history of mitigating losses.

U.S. municipalities reacted to their experience of the 2008 financial crisis by generally improving their operating and liquidity positions, which we believe has even better prepared them to ride out this pause in economic activity. COVID-19 appeared after the longest recorded economic expansion, during which municipal governments' tax receipts grew significantly, allowing them to improve their balance sheets and rainy-day funds. Of course, some municipalities are less prepared than others, and in these situations where revenues are materially reduced, downgrades could occur. But downgrades themselves do not cause us to have losses.

Our surveillance department has closely examined and applied stress tests to individual insured transactions in the portfolio sectors that we believe have the highest likelihood of being affected by the pandemic. Among the sectors we consider most at risk, the largest are certain transportation sectors, bonds backed by hotel occupancy taxes, stadiums and certain student housing.

As a class, municipal bonds are well structured to protect bondholders, with most of our transactions containing covenants that require issuers to increase rates, fees or charges to ensure there are adequate funds to meet debt service requirements, while many also require the maintenance of a debt service reserve fund with up to a year's worth of debt service capacity.

While we are still in the early stages of determining the long term economic impact of the pandemic on issuers we insure, at this point, based on our review, we currently do not anticipate material unrecoverable losses as a result of the pandemic.

We stand ready to meet our obligations to policyholders based on our excess capital, financial liquidity, granular insured portfolio, and structural protections built into our guaranteed transactions. Issuers are likely to reimburse us for liquidity claims, if any, in short order to limit damage to their reputations, credit ratings and capital market access.

The Federal Reserve and Congress have taken unprecedented steps to limit the economic damage from this crisis, including specific programs for states, municipalities, the municipal bond market, and additional actions are expected. A major infrastructure bill would almost certainly lead to municipal and state bonds being issued to share costs with the federal government, and we would expect to find opportunities among those issues.

In the current circumstances, it is sensible economic policy for the federal government to help states and municipalities keep police, firefighters, medical professionals, schoolteachers and other public employees on the payroll until it is safe to restore tax-generating economic activity.

In Puerto Rico, the lockdown has postponed activity in the Title III court, revealing again how the PROMESA process has delayed putting the island on a path to economic health, as this could have all been resolved through consensual negotiations long ago.

One of the lessons learned in this crisis does suggest a potential economic stimulus for Puerto Rico, because the pandemic has exposed vulnerabilities in the U.S. and global medical supply chain, a significant public health and national security challenge that Puerto Rico can help address. It is an opportunity for Puerto Rico to help the nation while it stimulates its own economy by bringing medical manufacturing onto American soil.

The island has had a long history of producing pharmaceuticals, supported years ago by Federal tax incentives whose removal set the stage for Puerto Rico's economic decline. Almost 50 pharmaceutical facilities still operate there, and a large, experienced workforce is available to the industry. This is an important untapped strength of Puerto Rico that U.S. policy makers should recognize. If the federal government can re-craft appropriate incentives to reinvigorate the industry, Puerto Rico can both help address the immediate medical crisis and also provide long-term domestic capacity that could reduce U.S. reliance on foreign manufacturers.

Also, oil prices have come down dramatically, and PREPA has been tasked by the Oversight Board to report by May 22nd on how it can take advantage of this development. PREPA has already announced that the reduced fuel costs will result in significant decreases in electricity rates.

Our asset management segment, which is still a relatively small part of our business, was affected by the market dislocation caused by the pandemic. This will likely affect our plans for new CLO issuance in 2020, the pace at which the legacy wind-down funds will be liquidated, and near-term capital raising. However, we believe our experience in structured finance will allow us to take advantage of market opportunities in the medium to long term, and we believe in the long-term value and returns of this business for Assured Guaranty.

As a large originator of CLO assets and currently a top 20 CLO manager both in the US and globally, we are well positioned in the current environment to find attractive opportunities in both the CLO and asset-backed markets. We are currently focused on the more liquid asset classes that have shown excellent credit resiliency in severe downturns.

At the corporate level, we look to prudently continue our capital management program. Unlike the experience of some other companies, we have no need for government assistance. And given our excess capital position and the strength of our balance sheet, we believe the most appropriate decision is to continue to buy back shares at their current extreme discount to adjusted book value. As always, we will continue to assess and potentially adjust the level of our share repurchase program. I am confident that Assured will weather this current economic challenge and prove again the resiliency of our business model, which is designed to withstand global economic disruptions. In fact, we came into 2020 with what I consider the strongest financial position in our history, with:

- better insured leverage, less than half of what it was in 2009

- an insured portfolio with a more conservative distribution of sector risk than ten years ago – including a far smaller, and well performing, structured finance sector

- below-investment-grade exposure at a ten-year low of less than 4% of net par outstanding

- and far more capital and liquidity than necessary to maintain our financial strength ratings.

From 2008 through 2019, our insurance subsidiaries paid $11 billion of gross public finance and structured finance claims but recovered nearly half of those payments through reinsurance and loss mitigation efforts. Meanwhile, throughout that time, our consolidated claims-paying resources remained at $11 billion or higher.

Looking at the last five years, Assured Guaranty has earned an average of over $600 million of adjusted operating income each year, including $400 million of average annual net investment income. Our high-quality investment portfolio and cash total $9.8 billion and provide far more than enough liquidity because we are only obligated to cover shortfalls in interest and principal payments when they are due. We can anticipate and plan for our liquidity needs, and many of our insured transactions have designated funds available for debt service for the rest of the year.

Everything I've said about the strength of our company was seconded in a report S&P released about the bond insurance industry on April 3rd, when the pandemic had already disrupted markets. Acknowledging the significant pandemic-caused market volatility and the fiscal challenges ahead for all U.S. public finance sectors, S&P wrote, quote, "We view the potential impact to U.S. bond insurers as somewhat low at this time. Notwithstanding the current macroeconomic environment, defaults of issues insured by bond insurers are not expected to be widespread." They went on to note the potential for ratings migration of some insured issues, but said this was not expected to put stress on the insurers' capital adequacy given the insurers' "robust capital positions." I encourage you to read their report.

Let me conclude by reviewing four important points to take away from today's call. First, we are pleased with our first quarter production, which increased year-over-year despite the market disruption. Second, the resulting environment may well create opportunities, with higher municipal interest rates, widening credit spreads and concerns over credit driving more demand for our product. Third, we have looked carefully at our individual insured transactions in the sectors we think most likely to be affected by the pandemic's economic impact and do not currently expect permanent unrecoverable losses, or liquidity claims this year that we cannot easily manage. And finally, we remain committed to our capital management program, subject to the availability of funds at the holding company.

For more than three decades, we have focused on building a company that will protect its policyholders and provide value to shareholders even in times like these. That is exactly what we've done, and I believe the current environment will shine a spotlight on the benefits of our unconditional and irrevocable guaranty and the strength of our unique business model.

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 would like to pick up where Dominic left off and re-emphasize the strength of our balance sheet, capital position, and business model, all of which enable us to withstand the turbulence in global markets caused by this pandemic. Even in this environment, we managed to achieve record per-share highs for both:

- adjusted operating shareholders' equity of $67.25 per share, or $6.1 billion, and

- adjusted book value per share of $98.02 per share, or $8.8 billion.

Our financial strength and stability are supported by the quality of our invested assets and insured portfolio. The investment portfolio and cash, are valued at $9.8 billion, has an average rating of AA minus and generates a stable stream of investment income. In our insured portfolio, over 96% of par outstanding is investment-grade, and with deferred premium revenue of $3.8 billion, it will generate a long-term stream of future earnings.

Turning now to the quarter, our consolidated adjusted operating income was $33 million in the first quarter of 2020, which consists primarily of an $85 million gain from our insurance segment, a $9 million loss from our new asset management segment, and a $39 million loss from our corporate division, which is where we track our holding company results.

Starting with the insurance segment, the adjusted operating income was $85 million, compared to $111 million in the first quarter of 2019.

Part of the change in the insurance segment adjusted operating income is attributable to an $8 million after-tax mark-to-market loss on our investments in Assured Investment Management funds. These investments are marked-to-market each reporting period with changes in fair value recorded as a component of adjusted operating income in the line item: "equity in earnings of investees". The market dislocation and volatility caused by the COVID-19 pandemic was the primary driver of the mark-to-market losses in the CLO and asset-backed Assured Investment Management funds in which we invested. As of March 31, 2020, the insurance companies had collectively invested $192 million into Assured Investment Management funds, and will invest another $300 million over time. We expect that adjusted operating income will be subject to more volatility than in the past, when our investments were almost entirely in fixed-income securities, and our long-term view of the enhanced return we will receive from the Assured Investment Management funds remains positive.

Net earned premiums and credit derivative revenues in the first quarter of 2020 were $107 million, compared with $126 million in the first quarter of 2019. The variance is mainly due to lower accelerations from refundings, which were $15 million in the first quarter of 2020, compared with $26 million in the first quarter of 2019, as well as the scheduled amortization of the insured portfolio.

Net investment income for the insurance segment was $83 million in the first quarter of 2020 compared with $99 million in the first quarter of 2019. The change was primarily due to a decline in average invested balances in the externally managed portfolio as funds were deployed during the year to:

- expand into alternative investments, including Assured Investment Management funds, which are recorded at fair value in a separate line item, as opposed to net investment income, and

- to repurchase shares.

The average balance of loss mitigation securities also declined as a large troubled insured transaction in the portfolio was favorably settled, and proceeds were reinvested in lower yielding assets.

Loss expense in the insurance segment was down to $18 million in the first quarter of 2020, from $44 million in the first quarter of 2019. In both periods, the expense was primarily related to economic loss development on certain Puerto Rico exposures, offset in part by a benefit in the RMBS portfolio.

The economic benefit in the first quarter 2020 was $3 million, which consisted of a benefit of $63 million on RMBS exposures, partially offset by loss development of $59 million in the U.S. public finance sector - primarily attributable to Puerto Rico exposures.

The net benefit attributable to U.S. RMBS was mainly related to higher excess spread on transactions whose insured debt is linked to LIBOR, which decreased this quarter, but whose assets are partially fixed rate.

The effect of changes in discount rates, which is included in economic development during the quarter, was a loss of $31 million, of which $25 million related to first lien RMBS.

In the asset management segment, adjusted operating income was a loss of $9 million. We had previously announced our strategy to transition the investment focus and business model of our Assured Investment Management platform towards its core strategies, including an orderly wind-down of certain hedge funds and legacy opportunity funds. We had expected the restructuring to continue throughout 2020, but, depending on the duration and market impact of the pandemic, the execution of our strategy may take longer than originally anticipated. Prior to the COVID-19 market disruptions, we had made good progress on the wind-down of legacy funds, with outflows of $875 million in the first quarter. During that time, the funds sold $258 million of notional CLO equity, which contributed to the increase in fee earning AUM from $8 billion as of December 31, 2019 to $9.5 billion as of March 31, 2020.

We believe the effect of the pandemic on market conditions and increased volatility may present attractive opportunities for the alternative asset management industry that Assured Investment Management may be able to capitalize on, and so our long-term outlook for the asset management platform remains positive.

In our corporate division, the holding companies currently have cash and investments available for liquidity needs and capital management activities of approximately $220 million, of which $28 million resides in AGL.

Adjusted operating loss for the corporate division was a loss of $39 million in the first quarter of 2020, compared with a $25 million loss in the first quarter of 2019. This mainly consists of interest expense on the U.S. holding companies' public long-term debt and intercompany debt to the insurance companies. Intercompany debt proceeds were primarily used to fund the BlueMountain Acquisition. It also includes board of director and other corporate expenses. The results for the first quarter of 2020 include a $5 million loss on extinguishment of debt related to the purchase of $23 million in AGMH principal, purchased at favorable pricing for a yield of 7.5%. The loss represents the difference between the purchase price and carrying value of the debt, which includes the unamortized fair value adjustments that were recorded upon the acquisition of AGMH in 2009. The first quarter 2020 also included a $5 million write-down of an equity investment.

On a consolidated basis, the effective tax rate may fluctuate from period to period based on the proportion of income in different tax jurisdictions. In the first quarter of 2020, the effective tax rate was 24.7%, compared with 13.1% in the first quarter of 2019.

On a GAAP basis, we recorded a $55 million net loss this quarter. This included large, but offsetting, mark-to-market adjustments on both our credit derivatives and committed capital securities, which we expect will reverse over time with no economic impact. We also had a $62 million loss due to changes in foreign exchange rates of the British pound and the Euro. The FX loss primarily relates to premiums receivable, which represent the present value of future premium installments that have maturity dates far into the future.

Turning to our capital management strategy, in the first quarter of 2020, we repurchased 3.6 million shares for $116 million, for an average price of $32.03 per share. Since the end of the quarter, we have purchased an additional 3.3 million shares for $92.8 million. Since January 2013, our successful capital management program has returned $3.4 billion to shareholders, resulting in a 58% reduction in total shares outstanding. As always, future share repurchases are contingent on available free cash, our capital position and market conditions.

The effect of the cumulative share repurchase program on first quarter 2020 adjusted operating income was approximately $.09 per share, bringing adjusted operating income for the quarter to $.36 per share.

The cumulative effect of these repurchases was a benefit of approximately $20.03 per share in adjusted operating shareholders' equity, and approximately $36.86 in adjusted book value per share, which helped drive these important metrics to record highs.

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

QUESTION & ANSWER SESSION

Operator
[Operator Instructions] Today's first question comes from Tommy McJoynt with KBW.

Thomas McJoynt, *Keefe, Bruyette, & Woods*
I hope everyone is doing well. When you think about the potential for municipalities to get downgraded, on a net basis, do you kind of view that positively because of the future opportunity that it creates for AGO's guarantee in the sense that it's more valuable? Or does the strain on the current insured portfolio outweigh that?

Dominic Frederico
Well, that's a good question. So you hate to say it buy typically, market disruptions are normally a -- create a very highly incentivized marketplace for us because, as you say, anytime you've got issues relative to credit performance, which is reflective of credit downgrades, the desire or the attractiveness of our insurance obviously increases both in value and visibility, and therefore, we expect to see more demand. And if you read any of the recent articles, so I'm not giving my opinion, but if you read some of the recent articles, there's been a consistent revised improved forecast for insurance penetration. So we've been averaging around, say, 6%. I see articles that now refer to a potential penetration throughout the remainder of the year, obviously, once markets recover, like at the 10% level. Obviously, in the same token, as spreads widen, the rates increase, we get paid based on debt service. So not only do you see more demand for your product, you get to charge more premium. So typically, in this environment, it really is a benefit, even though it's off of a negative situation. The other thing I would say is, remember, downgrades within the investment-grade classes are not significant capital users. It's only after an issuer gets downgraded below investment grade that there's a significant bump

in capital and even that's in percentage terms. So based our excess capital position and as S&P noted in their report, they even believe that there will be some downgrades that shouldn’t have any impact whatsoever on the performance of our portfolio or our ratings. So you're right, in a way, disruption causes opportunity, disruption will cause increased demand, better our pricing. So -- and then also an increase in rates increases the return on our portfolio. So we get benefited on both sides of the balance sheet. And much like in 2008, 2009, as you can see, based on the numbers I quoted in my speech, our performance was spectacular during those periods as well, much as in the asset management area as well. That when you have capital and there's opportunity, you can obviously take advantage of the dislocation in prices.

Thomas McJoynt
Got it. And does your outlook anticipate some sort of funding help from the federal government like I think you mentioned a major infrastructure bill? Or is that kind of -- would that be kind of icing on the cake?

Dominic Frederico
Well, we don't count on that relative to what we look at, but it's unique in that. If you think about it, in '08, '09, the government's response was typically to the financial institutions and large corporations. And at that time, we had tremendous amount of consumer exposure through our RMBS and other exposures. You look at us today, a) the portfolio is a lot smaller. Our insured leverage is way down. Our structured finance, I mean, at $140 plus billion back in 2009 to be under $10 billion today, really gives you the impression or gives you the specific evidence of how little we have exposed. But yet the government response in 2020 to their credit has been across all borders, right? They've gone to the consumer, they've gone to the municipalities, they've gone to the financial markets. So the amount of government aid, which is significant, seems to be better spread, which to me, will also kind of limit the depth of the downside. Like I said, go back to '08, '09 and look where the government provided support and where it is today. I think that response is, obviously, for us, better appropriated across all exposures in the portfolio.

Thomas McJoynt
Regarding Blue Mountain, obviously, there was plenty of volatility around March and April. Did that cause enough kind of shake out in that business where you feel like the opportunity for Blue Mountain has improved? Or was it not stressful enough, I guess, you could say?

Dominic Frederico
Well, so 2 things. One, if you look at the quarter and understand the quarter shows some impacts of the market and the pandemic. But most of the quarter changes or shortfalls are really timing or temporary. So obviously, in the asset management, we have great expectations for what that's going to deliver for Assured Guaranty. However, in the current environment, they weren't able to get as much of the legacy assets sold. They weren't able to issue as much CLO opportunity. They weren't able to raise as much funds. As we talked about last year at the end of the year, we had to carry expenses that although we

identified to be expenses related to the run-off business, and therefore, will fall off, we are paying some severance and some retention. We couldn't accrue at that at the year-end, so that's going to bleed in through 2020, which we would have hoped we would have been able to put in 2019. All of those things, though, are not permanent declines. And the same thing with the mark-to-market, with accounting, and I'm a former accountant, even though I won't admit that in public, right? They're now pushing for current value on everything. Well, current value has that 1 problem where you have these market disruptions, you got a price to the current value, although you don't believe that is the long-term economic value nor does it reflect the long-term economic returns that you expect, but you're stuck with the market loss. So at the end of the day, as I look at our results, to me, the delay in say, recognizing refunding - that catches up. We're not a consumption business. In other words, the sale that we miss in March does come back to us. We don't lose it, right? People that, in effect, plan and budget and approve financings, need to get those financings accomplished for the reasons that were originally put into their budgets and plans. So we're very different in that regard. As I talked about on my speech, most of our 2020 earnings are already known. So in terms of protection of 2020, we're in pretty good shape. Number two, our demand should increase. And number three, we don't lose clients, and most of the impairment that we faced in the first quarter are really based on mark-to-market temporary or just delayed activity that is fully expected, but doesn't really affect the long-term economic value or returns of the company.

Thomas McJoynt
Right. And just in terms of the number of CLO managers that kind of serves as the competition, obviously, many of them are subscale. Did you get the sense that March and April created enough volatility that there should be more consolidation than you expected pre-COVID?

Dominic Frederico
I'll let Andrew answer that since he's our expert on that environment.

Andrew Feldstein
Chief Investment Officer and Head of Asset Management
I think that's a good insight. Look, there's 125 CLO managers in the world, 30 of them with more than $5 billion in AUM and those 30 control, maybe 60%, 65% of the market. And it is the case that the smaller independent managers are going to find this environment more challenging. And I do think that gives us an opportunity, an acquisition opportunity, whether it's whole businesses or CLO contracts. Because we're in a stronger position, just the beginning scale of our CLO business with $13 billion under management. And then, of course, the greater stability and access to capital that we get because we're part of the Assured family. So I think you're right. I think your insight is right. And I think over the next 9 months, either organically or through acquisitions, the struggles of smaller independent managers are going to create opportunities for the larger ones.

Operator
Our next question comes from Josh Esterov with CreditSights.

Joshua Esterov, *CreditSights*
I see on some of the slide information that you published that of the 6,500 direct U.S. public finance obligors in the insured portfolio, you expect roughly 10 to see claims in excess of recoveries. But if you put the recovery portion aside for a moment, could you talk about where you see at least temporary disruption that could lead to some level of claims payments in the foreseeable future. Is that still mostly limited to transportation, student housing and some of those other pockets of exposure you mentioned earlier?

Dominic Frederico
Well, as we said, we actually -- we review the entire portfolio annually for every risk. And of course, certain risk get more attention than that, that are looked at either quarterly or monthly and some like Puerto Rico probably daily. So we're constantly culling our portfolio to understand the risk. We're constantly reaching out to the issuers to make sure we understand the current financial position. So once the pandemic hit, we immediately went back to the portfolio, basically divided it among high risk, medium risk, low risk, went out to actually speak to the high-risk people, which, as you identified, transportation, hotel occupancy, student housing or some of the more critical ones, health care. And as we looked at that portfolio and really tried to ascertain first, what is the total debt service due in the next 6 to 12 months as well as over the next 2 years, what is the availability of funds at the issuer, either based on cash on hand or debt service reserve funds and try to map out where we thought there could be some potential request for payment and the numbers are incredibly, incredibly small. These are very well engineered, well protected, typically have the availability of debt service reserve funds. So even as we look to the liquidity payments, so ignoring the recovery, right, it was an incredibly small number and something easily absorbed within the organization's available cash and cash flow. So we continue to cull that. We continue to reach out to our issuers to make sure we understand the portfolio. We try to get updates as frequently as possible. Obviously, we just had our Board meeting and went through a full kind of dissertation with the Board on each credit, each risk. So we're in very good shape. And historically, there's not been a lot of defaults in the municipal market. If you go back and look at the published data from like S&P and Moody's, you're talking like basis points of ultimate loss per year in the municipal marketplace. Why? Because they rely on the market's access other like some large kind of headline credits they think they can behave differently but there's always a long-term cost to it. Most people want to and do pay their bills and will restructure or negotiate or provide additional protection to make sure they can maintain that. Remember, in everybody's budget, there is what I'll call discretionary spending. So as you see revenue shortfalls, even before you start capping reserve funds, et cetera, you just eliminate CapEx or some other discretionary funds to make sure that you can make the balance of payments relative to debt service because that's a critical component. People do not want to get downgraded. And in most cases, in our experience, a threat of a downgrade typically results in the insurer paying the debt service because they don't want the downgrade and have that additional cost or lack of market access put on their backs.

Joshua Esterov
I appreciate that. That’s helpful color. I hope everyone stays safe.

Dominic Frederico
Please, everyone stay safe.

Operator
And our next question comes from Giuliano Bologna with BTIG.

Giuliano Bologna, *BTIG*
I guess starting off on the new business front, is there any way of thinking about pricing trends? Obviously, as credit spreads are wider, you can usually charge more, and also as there's concerns about credit, you can charge more. Is there any sense of the magnitude of the pricing changes that you might be able to capture in the near term?

Dominic Frederico
We don't really give you that number in that detail. I can tell you that pricing has improved across the board. And someone might say, well hang on a second. Let me go back and look at your par written in the first quarter against premium versus last year, it’s down. Only because there's a little credit in last year that was significant called Chicago. It was part of their refunding that really skewed the first quarter number rate wise last year. But on average, the rate is up reasonably -- and I don't want to give you a number, but it's up significantly in the end of the first quarter, and we expect that to continue through at least the next few months, if not the remainder of the year.

Giuliano Bologna
That makes a lot of sense. Then thinking about the investments into the investment management funds, you invested $192 million so far, and the target is $500 million. Is there any sense of timing around those investments or how fast you would continue investing?

Dominic Frederico
Our Chief Investment Officer will answer that question.

Andrew Feldstein
Yes. The pace picked up a little bit in March and then continued in April. And it was really because opportunities in the market arose. So I don't think we'll continue at the pace that we saw in April. We do expect credit markets are going to normalize a little faster in this crisis than they did after 2008. 2 reasons. First, unlike 2008, the banking system is healthy. We don't have a problem with our financial transmission system. It's a different kind of crisis, worse in many ways. And, but better in that way, better, in that the banking system is sound. Second, the response from the public sector has been much quicker and much larger in this crisis. And that's both from the Fed and from fiscal stimulus programs. So the duration of the opportunity to make the kinds of investments we did in April may slow. So I don't think we'll keep up that pace. But we do expect that by the end of the year or sometime in the beginning of next year, we will have deployed that capital.

Giuliano Bologna
That's great. Thank you for that. And then just 1 quick follow-up, I guess, switching back a little bit to the insured portfolio for a second. One of the things that's obviously come up as a lot of people are asking about exposures. And specifically, for as an example, the New York MTA came up. And I think what a lot of people missed was the fact that you probably have 7 or 8x coverage in the New York MTA from a -- because it's a revenue bond and you have a lot of liens on revenues. Is there any sense within the transportation portfolio, kind of what the coverage is when you start looking at a lot of the revenue coverages in those deals?

Dominic Frederico
Well, the transportation portfolio is 1 of the portions of the portfolio that benefits the most from structural protections, and that's in 2 regards. One, cash on hand, and we do a current sweep of cash on hand so we know what the available funds are and 2, debt service reserves. So as we look at the airports, MTA, et cetera. The debt service reserve is significant that we will pay claim or pay debt service for a minimum of 6 months, if not 12 months. Obviously, MTA is kind of a special circumstance where the revenue box only accounted for around 50% of its total revenue relative to the ability to beat expenses and pay debt service. We have a gross revenue pledge on MTA, which makes it obviously even higher protected. And I think they've already gone on record saying that bankruptcy is not an issue, and they will continue to fund all payments.

Giuliano Bologna
That makes sense and I appreciate the additional color and perspective there.

Operator
Our next question today comes from Jordan Hymowitz with Philadelphia Financial.

Jordan Hymowitz, *Philadelphia Financial Management*
A couple of questions. You continue to buy back stock even after the quarter. Can you confirm that there is nothing in terms of state authorization or anything that would prevent you from buying back that $500 million this year, if needed?

Dominic Frederico
Remember, during our buyback is composed of 2 portions, right? Our ability to buy back or the availability of funds. 1 is what has created normally out of the operating company, subject to no approval process other than notification and the payment of dividends; and two, to top it up to the level that we'd like to get to on an annual basis, we typically rely on special dividend. Obviously, in today's environment, we fully expect that they're going to be a little hesitant to approve a special dividend. So that portion of the funding will have to be delayed at some point in time. Obviously, in my remarks, we're committed to capital management. We believe the strength of the balance sheet, the granularity of the portfolio, the protections that are implied therein, still provide us good opportunity. And then, of course, add that to the significant discount that's now currently available to us in the stock. And we did some goofy numbers. So people, especially the accountants like to

play with numbers, so I'll give them some credit. If you look at where the price is versus what we anticipate the price to be for this year relative to the stock authorization buyback, we're going to probably still buy back more shares than we would have had in the original authorization at the share price not reflective of the volatility of this current pandemic. So bottom line is we still do require special dividends at some level at some point in the year to top-up the funding. Now we can accomplish it through other sources, like borrowing if we wanted to do that. So all things are on the table for us. Obviously, as I say, we're committed to the program. We believe we're in great financial condition to allow us to do that. And just a matter of getting the available funds with the holding company to basically execute the strategy where we're at today.

Jordan Hymowitz
Okay. Second is, do you still anticipate the portfolio flattening this year in terms of the decline?

Dominic Frederico
That's a great question. Obviously, we looked at 2020 as the year of the balance, right? And obviously, with the market disruption, obviously, there's been some delay. It really depends on when the recovery begins, when these shelters at home are lifted, when normal becomes more normal if there will ever be a normal. So having all those caveats. But as I said, the nice thing about our situation is we typically don't lose the customer. It just delays the customer. So whether our hopeful bounce in 2020 goes to the first or second quarter of 2021, I really don't think it makes much difference. I think we see the track, we see the trend and we know that the acceleration of the amortization of the portfolio, by and large, has run its course. So therefore -- and we know we've got good activity across all of our profit lines in the current marketplace, we're really impressed by the number of inquiries we're getting across the structured finance and international infrastructure areas, obviously, the domestic municipal market is more or less a flow market. There's fundamental demand all the time there. But we still see an increased interest in insurance anyway because of the current volatility. So if things work out well and the recovery is steeper than what people think and markets normalize, I think we'll get the balance in 2020. If not it goes to 2021 because of the pandemic.

Robert Bailenson
I also want to add, Jordan, if you look at last year, the year-end numbers, our year-end UPR was greater than the prior year. So we did increase our store of earnings at the end of last year.

Operator
Our next question today comes from Geoffrey Dunn with Dowling & Partners.

Geoffrey Dunn, *Dowling & Partners*
Jordan beat me to the punch on the buyback question. But Rob, could you just give me the breakdown of the primary and secondary new business this quarter for muni?

Robert Bailenson
Sure. Secondary PVP for the first quarter was $9 million versus $22 last year. Dominic did mention there was a significant transaction last year which was Chicago. That's the delta for the difference, significantly, and the par was $230 million for the first quarter of 2020 versus $338 million in the first quarter of 2019.

Operator
Ladies and gentlemen, this concludes the question-and-answer session. I'd like to turn the conference back over to the management team for any final 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. You may now disconnect your lines, and have a wonderful day.