Assured Guaranty Ltd. (AGO)
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Second Quarter 2020 Earnings Call

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Thank you operator. And thank you all for joining Assured Guaranty for our Second 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 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 is 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.

For the first time in our history, Assured Guaranty's adjusted book value has surpassed $100 per share, and both shareholders' equity per share and adjusted operating shareholders' equity per share were also new records. We achieved this milestone while producing our best direct new business insurance production for a second quarter since the acquisition of AGM in July of 2009. Our financial guaranty PVP of $96 million was 71% higher than in last year's second quarter.

Our success reflects the tremendous work we did over several years to prepare for the unexpected. Our people were extremely effective, operating 100% remotely in unprecedented economic and market conditions. We had the technology, processes and training in place to help us excel during this pandemic, and we did excel, proving again not only the competence and dedication of our employees, but also the resilience of our business model, and the benefits of our value proposition.

With the virus creating market and economic uncertainty, bond yields had increased by the beginning of the quarter, and credit spreads widened. Investors turned more of their attention to credit quality, for which our financial guaranty insurance is a solution, and also to ratings durability, trading value stability and market liquidity, to all of which our product tends to add value. The result has manifested in heightened demand for bond insurance.

As a result, we saw the best second-quarter and first-half direct U.S. public finance production in more than a decade, writing direct PVP of $60 million and $89 million, respectively. And I can tell you that with our July municipal insured par volume exceeding $2 billion, the surge in demand for our guaranty has not let up.

At the industry level, more than $9.1 billion of U.S. public finance primary-market par was sold with bond insurance in the second quarter, the most for any quarter since mid-2009, and industry insurance penetration reached 8.7% of total new-issue par sold, the highest quarterly level since 2009. Six-month industry insured volume is 43% higher than in the first six months of 2019.

In this strengthened municipal bond insurance market, Assured Guaranty was selected to insure 63% of the insured new issue par sold in the second quarter. Compared with the second quarter of last year, Assured Guaranty's primary-market production was up 58% to $5.8 billion in insured par sold and up 22% to 318 new issues in transaction count. The heightened par volume was partly driven by large transactions, where we continue to be the insurer of choice. We insured large tax-exempt and taxable deals across a variety of sectors and underlying rating categories, including for example, single-A healthcare issues and double-A general obligations. We guaranteed 11 transactions of over $100 million in insured par during the quarter, the largest of which was a $385 million school district transaction for the Dormitory Authority of the State of New York, rated Aa3 by Moody's and AA- by Fitch.

The high value that investors place on our guaranty was visible among credits with underlying S&P or Moody's ratings in the double-A category, where we insured more than $1 billion of primary-market par in the second quarter.

We are also seeing heightened demand for our secondary market insurance. During the second quarter, we insured $533 million of secondary market par compared with $230 million for the first quarter of the year and $327 million for the second quarter of 2019. In aggregate for the primary and secondary markets, Assured Guaranty provided insurance on $6.3 billion of municipal bonds, 58% more than in last year's second quarter.

Although by quarter end, municipal yields had trended close to the historic lows seen in March, credit spreads generally remained wider than pre-pandemic levels, and that is one reason, along with very strong issuance volume, for the very successful performance we are seeing.

We also had a great second quarter in our international infrastructure business, where we generated $28 million of direct PVP, over three times last year's second quarter PVP and the second highest quarterly direct PVP in this sector since before the Great Recession. Notable transactions included our third solar bond wrap in Spain, the modification of the terms of an existing investment-grade insured transaction to provide additional flexibility to the issuer, and a secondary market guaranty to a European financial institution for a public sector credit.

The impact of COVID-19 has been mixed for the international business. On one hand, fewer transactions are coming to market, especially in transport and social infrastructure, and some transactions in our pipeline have been delayed, though none have been canceled. On the other hand, credit spreads widened materially and have not fully returned to the previous tighter levels, which increases the value of our guarantees. Also, we continue to see an increased variety of incoming new transaction inquiries, some of which are a direct result of COVID-related investor concerns.

Our global structured finance business also performed well in the second quarter, contributing $8 million of PVP from a variety of transactions, including an insurance securitization and two whole business securitizations. The pandemic has slowed both asset-backed issuance and the progress of some of our transactions in development, but it has also widened credit spreads and created new opportunities. We are seeing an increased number of investor-led opportunities relating to portfolios of corporate credit exposure.

On our last call, I explained in detail why our insured portfolio is in good shape to weather this economic disruption. We have continued our due diligence and reached out to almost all of the obligors we identified in the vulnerable sectors to learn how they planned to manage their resources. Based on our research and the additional information provided by obligors, we continue to expect no material pandemic-related liquidity claims. To date, we have not been asked to pay any financial guaranty claims that we attribute to the COVID-19 pandemic. For below-investment-grade insured obligations, which we have identified as already under stress, we have updated assumptions to take into account the added stress of the pandemic. We continue to believe that for the remainder of the portfolio – the 96% of par exposure that is investment grade – there should be no material losses caused by the pandemic.

In any case, as I've said before, we have proven the resilience of our business model: For example, from 2008 through second quarter 2020, we paid $11 billion in gross claims - $5 billion net - and returned more than $4.3 billion to shareholders through share repurchases and dividends, yet our claims-paying resources were virtually the same at the end of the period compared with the beginning. Meanwhile, we have dramatically reduced our total par exposure and cut our insured leverage by more than half, measured by a variety of ratios. We are in better shape today than before the Great Recession.

I hope you will take a look at the two reports S&P published since the pandemic began. I mentioned one on our last call, S&P's April 3rd report on the bond insurance industry. The second was S&P's annual review of Assured Guaranty that came out on July 16th. The common theme of these reports was that, notwithstanding the current macroeconomic environment, S&P assessed the risk profile to be low for both the bond insurers as an industry and for Assured Guaranty, a very positive conclusion.

S&P affirmed the ratings of all of our insurance units at AA with a stable outlook in June. In the annual review that followed, S&P reiterated how our strong capital position, exceptional liquidity and proven business model support our financial strength ratings. Additionally, S&P recognized the increased demand for Assured Guaranty's product since the spread of COVID-19, writing that investors' flight to quality and wider credit spreads should continue to provide us with primary and secondary market underwriting opportunities. In U.S. public finance, it attributed the strong secondary-market demand we've experienced to institutional investors finding the economics of bond insurance appealing as a tool for risk mitigation.

In the same report, S&P said that it ran a COVID-19 sensitivity stress test and that even under the increased loss assumptions in that scenario, our capital adequacy assessment would still be "excellent." S&P also described our Financial Risk Profile as "Very Strong" and wrote that, during periods of economic stress, our insured exposures outperforms relative to the market segments in which we underwrite due to our underwriting and risk-management guidelines.

S&P does not publish a figure for our excess capital under their AAA depression stress model. We estimate that we have $2.6 billion of capital in excess of S&P's AAA requirement as of year-end 2019. And, this incorporates the impact of our capital management program, the acquisition of BlueMountain, our elimination of an excess-of-loss credit facility and the continued payment of Puerto Rico debt service claims.

Another report worth reading was issued by Kroll Bond Rating Agency on July 30th. It provided a detailed discussion of the recent increased activity and demand for bond insurance. In the report, KBRA also makes the positive observation that it “believes the pandemic should remain largely a liquidity event for the bond insurers, with the exception of Puerto Rico.”

On the subject of Puerto Rico, we continue to pursue a consensual resolution of the situation while defending our rights in the Title III bankruptcies. COVID-19 and the pending gubernatorial election may be slowing progress somewhat. In recent news:

- PREPA hired a private U.S.-Canadian consortium to operate its electricity transmission and distribution system. This appears on its face to be a step in the right direction, but the essential step to restore and improve the power system is to complete the restructuring support agreement that all appropriate parties have agreed to. We agree with the Oversight Board that quote “as long as PREPA remains in Title III, the utility will not have effective access to capital markets to fund critical grid modernization and improvement plans.”

- The Title III court refused to lift the stay on our ability to assert our property rights with respect to Highways and Transportation Authority revenue bonds. We will appeal this ruling.

- At least two members of the Oversight Board announced their imminent resignations, and all members are subject to replacement or renomination. We hope Congressional leadership and the President choose board members more familiar with municipal government and finance.

- Lastly, supply chain management has become a significant issue on Capitol Hill, creating an opportunity for legislation that could allow the country to take full advantage of Puerto Rico’s long history and well-established capabilities in the production of pharmaceuticals, medical supplies and medical devices. This would help solve the current public health crisis and improve the nation’s security and preparedness for the future, while at the same time revive a key portion of the island’s manufacturing base and provide impetus to its economic recovery.

Turning from the financial guaranty business to asset management, Assured Investment Management benefited from a strong rally in the credit markets during the second quarter and profitably monetized CLO debt tranches. With CLO issuance regaining steam, we acquired newly issued investment-grade CLOs, and in June, Assured Investment Management priced its first CLO issuance since the market dislocation. While the current market environment has delayed the realization of this business line’s potential for the short term, we remain confident in this diversification strategy.

Yesterday, we announced an important change within the leadership of our Asset Management business. Andrew Feldstein, Chief Investment Officer and Head of Asset Management, has decided to leave the company.

Dave Buzen, BlueMountain's Deputy Chief Investment Officer, will assume Andrew's responsibilities as CEO and CIO of BlueMountain and Head of Asset Management and CIO at Assured Guaranty. Andrew will continue to serve on the Boards of BlueMountain funds and, to support a smooth transition, he will remain with the company as Senior Advisor to David through the end of October 2020.

I want to thank Andrew for helping to establish and integrate our Assured Investment Management platform since we acquired BlueMountain last year. We are confident in the long-term prospects of our asset management business under the leadership of Dave Buzen and the talented senior management team. I want to emphasize that this leadership transition reflects no change in Assured Guaranty's strategy with respect to Assured Investment Management. We continue to support the growth of the business and have allocated $1 billion of our investment portfolio to investments it manages, with the goal of generating even greater value for our investors and policyholders.

I look forward to seeing our Asset Management business making a significant contribution to the value of Assured Guaranty, and I am certain Dave is the right person to lead this effort. He was the lead executive in our acquisition of Blue Mountain and has been involved in every aspect of our asset management strategy and operations. He is a consummate financial professional who has served in top executive roles at a number of financial companies. And we have worked with David for a long time, as his over 30 years of experience includes senior positions at ACE Financial Solutions, which acquired Capital Re when David was its CFO, and which is the company we know now as Assured Guaranty Corp.

We are in the middle of a unique year in which a previously unknown disease has infected millions of people, caused hundreds of thousands of deaths, and disrupted economies worldwide. Congress, the Administration and the Fed have taken action to provide money for people in need, inject monetary liquidity, help businesses survive, and support capital markets. State and local governments are tackling the challenges of providing essential services, administering social programs and meeting financial obligations amid sharp reductions in revenues. They deserve additional direct federal assistance to prevent large-scale layoffs of government employees and a potential cascade of economic hardships. We have been impressed by the determination of our insured issuers' public officials to maintain essential services while recognizing the imperative to meet debt obligations to preserve their access to the capital markets.

As a company, Assured Guaranty is better positioned than most to thrive in this environment. By definition, our main product is designed to comfort investors when the future is uncertain. Credit-conscious investors have driven increased demand for our guaranty, giving issuers a way to reduce the cost of financing when they most need to do so. We have abundant capital and liquidity supporting a 96% investment-grade insured portfolio, consisting of transactions carefully selected to perform better under economic stress than others in their respective sectors. With our ability as guarantor to work with issuers facing short-term liquidity problems or requesting reasonable amendments or waivers, we can help them avert serious financial trouble. And we have now clearly demonstrated that we can be highly productive while prioritizing the safety of our employees and clients.

I will now turn the call over to Rob.

Robert Bailenson
Chief Financial Officer

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

I am very pleased with our results and progress on our strategic initiatives this quarter. Despite the continued market turmoil, our business model proved resilient and we made significant progress in all three areas of our strategic focus.

- In our insurance segment we had strong new business development, which is replenishing our unearned premium reserve and offsetting the scheduled amortization of the existing book of business.

- In the asset management segment, we launched a new liquid asset strategy and restarted CLO issuance towards the end of the second quarter.

- In terms of capital management, we are ahead of our plan relative to the number of shares repurchased, which helped us to propel our adjusted book value per share to over $100, a record high.

Turning to second quarter 2020, adjusted operating income was strong, coming in at $119 million, or $1.36 per share.

This consists of a $154 million of income from our insurance segment, a $9 million loss from our asset management segment, and a $26 million loss from our corporate division, which is where we reflect our holding company interest and other corporate expenses.

Starting with the insurance segment, adjusted operating income was $154 million, compared to $161 million in second quarter 2019.

Net earned premiums and credit derivative revenues in second quarter 2020 were $125 million, compared with $127 million in second quarter 2019. Structured finance net earned premiums and credit derivative revenues decreased a total of $13 million due to the decline in this portfolio. On the other hand, public finance net earned premiums increased in second quarter 2020 compared to the second quarter of 2019 due to higher accelerations as well as a modest increase in scheduled net earned premiums which is a result of increased premium writings in the last few quarters. In total, accelerations due to refundings and terminations were $32 million in the second quarter of 2020, compared with $29 million in the second quarter of 2019.

Also contributing to our increasing net unearned premiums reserve was the re-assumption of a previously ceded book of business from our largest reinsurer. This reassumption resulted in a $38 million commutation gain.

Net investment income for the insurance segment was $82 million in the second quarter of 2020 compared with $110 million in the second quarter of 2019. The decrease was primarily due to a large non-recurring benefit in 2019 from the favorable settlement of a troubled insurance transaction that decreased the size of the loss mitigation portfolio. Proceeds from the settlement were reinvested in lower yielding assets. The average balance of the externally managed portfolio also declined, in part, because of a shift 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.

Second quarter 2020 insurance segment adjusted operating income also includes a $21 million after-tax mark-to-market gain on our investments in Assured Investment Management funds. These investments are marked-to-market each reporting period with changes in the fair value recorded as a component of adjusted operating income in the line item: "equity in earnings of investees". The fair value gains on investments in Assured Investment Management funds in the second quarter of 2020 were driven by the overall market rebound.

As of June 30, 2020, the insurance companies had authorization to invest up to $500 million in funds managed by Assured Investment Management, of which $354 million had been invested as of June 30, 2020. Going forward, we expect adjusted operating income will be subject to more volatility than in the past, as we shift investments from fixed-income securities. Our long term view of the enhanced return from the Assured Investment Management funds remains positive.

Loss expense in the insurance segment was $39 million in the second quarter of 2020 and was primarily related to economic loss development on certain Puerto Rico exposures. In the second quarter of 2019, we recorded a benefit of $15 million primarily related to higher projected recoveries for previously charged-off loans for second lien U.S. RMBS, an increase in excess spread, improved performance, and loss mitigation efforts, offset in part by economic loss development on certain Puerto Rico exposures.

The net economic development in second quarter 2020 was $34 million, which primarily consisted of loss development of $30 million in the U.S. public finance sector – primarily attributable to Puerto Rico exposures. Net economic loss development in U.S. RMBS of $1 million mainly consisted of increased delinquencies, offset by higher projected excess spread across both first and second lien transactions.

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. Prior to the current market disruptions, we had made good progress on the wind-down of legacy funds, with outflows of $541 million in the second quarter. 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.

Toward the end of the second quarter 2020, we launched a new liquid asset strategy, with initial funds focused on investments in municipal securities. In addition, in the second quarter of 2020, AGM, AGC and MAC entered into Investment Management Agreements with Assured Investment Management to manage a portfolio of their general account municipal obligations and CLOs. As of June 30, 2020, the insurance subsidiaries have together allocated $250 million to the municipal obligation strategy and $100 million to the CLO strategy with authorization to allocate an additional $200 million to CLOs strategies.

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 $70 million, of which $80 million (*sic*) [$8 million] resides in AGL.

Adjusted operating loss for the corporate division was a loss of $26 million in both second quarter 2020 and second quarter 2019. This mainly consists of interest expense on the U.S. holding companies' public long-term debt and intercompany debt to the insurance companies, which were primarily used to fund the BlueMountain Acquisition. It also includes board of directors and other corporate expenses.

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 second quarter 2020, the effective tax rate was 14.2%, compared with 21.0% in the second quarter of 2019.

Turning to our capital management strategy, in the second quarter of 2020, we repurchased 6.0 million shares for $164 million for an average price of $27.49 per share. Since the end of the quarter, we have purchased an additional 800,000 shares for $19 million, bringing our year to date repurchases, as of today, to over 10 million shares. Since January 2013, our successful capital management program has returned $3.5 billion to shareholders, resulting in a 60% reduction in total shares outstanding. As always, future share repurchases are contingent on available free cash, our capital position and market conditions.

The cumulative effect of these repurchases was a benefit of approximately $23.56 per share in adjusted operating shareholders' equity, and approximately $42.76 in adjusted book value per share, which helped drive these important metrics to new record highs of $71.34 in adjusted operating shareholders' equity per share and $104.63 of adjusted book value per share, which both represent record highs.

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

QUESTION & ANSWER SESSION

Operator
[Operator Instructions] The first question is from Andrew Harte with BTIG.

Andrew Harte, *BTIG*
You mentioned in your prepared remarks that the company is taking some steps to proactively address situations in which municipalities are under financial duress. Can you give us some color on some of the actions you've been taking there?

Dominic Frederico
Okay. Generally, it relates to us, as we talked about, we went to our most vulnerable credits, reach out to the issuers and talk to them about the financial plans for the remainder of the year to ensure that timely debt service payments were going to be made, if not, what was going to be the issue until we help. So typically, the only real change that has been made to any deal is just a thought of a future debt service payment that might be restructured. So extend out the term, reduce the current payment to back-end some further payments, something of those nature is the typical, but that's been very rare.

Operator
The next question is from Tom McJoynt with KBW.

Thomas McJoynt, *Keefe, Bruyette, & Woods*
I wanted to ask about with Andrew leaving BlueMountain. Do you think that will have any impact on fund raising or flows or just a broader time line of profitability in that segment?

Dominic Frederico
I think the market has the more significant impact on fundraising and other market timing. I think we actually are entering into a new phase in BlueMountain. So if you think about it, they've been winding down their legacy funds, there really hasn't been any fundraising other than the CLO issuance, which is a debt execution, some equity investing. So as we look to the company now, what are we looking to do? We're looking to significantly increase our distribution capabilities. Specifically in that fundraising area; and two, to focus on the core competencies between the 2 organizations, where we've got credit commonality as well as market commonality, and there is a real opportunity for us, and we still feel strongly about that as a real growth for the company. And as I said, it kind of shifts the makeup of our P&L statement from less risk to some fee bearing. And as the market opens up, I think we're in a perfect position to capitalize on those opportunities.

Thomas McJoynt
Got it. And I want to switch gears. You've done about $300 million in buybacks year-to-date, obviously, $500 million is kind of a target number on an annual basis. Can you give an update on whether or not you think you can get to the $500 million this year? And just kind of the math for what you have available at the holdco and the remaining operating dividend capacity from the subsidiaries?

Dominic Frederico
Rob, you want to take that?

Robert Bailenson
Well, as we always said, we could only get to about $250 million to $300 million without special dividends or other sources of financing. We have -- let me just say that given the activity that we have seen to date, we have already bought back more than we would have planned for in this year's plan. So we're up to over 10 million shares that we bought back. So I think you should focus on the percentage of shares that we actually bought back. But to your question, without a special dividend or other sources of financing, we could only buy back a limited amount more shares over the next quarter.

Thomas McJoynt
And any sense of whether you'd want to look into sources of special financing or you're not really going to comment on that right now?

Robert Bailenson
Sorry. I couldn't hear the question.

Thomas McJoynt
Was there a sense of if you did -- would you consider other sources of financing? Or is that something that you're not really considering?

Robert Bailenson
We're always evaluating our financing options. So yes, we will consider it, and we will evaluate it in our current plan.

Thomas McJoynt
Okay. And then just last one. There was the recent court victory that allowed the guarantors to pursue claims against some of the banks for underwriting in Puerto Rico. Was there any impact on that in your reports this quarter? And just how should we think about potential recoveries from that?

Dominic Frederico
We're not a part of that litigation. Obviously, it didn't have any impact on our financial statements for that judgment. And obviously, we would expect those things to go through an appeal process, and we'll continue to evaluate it as that moves along, of course.

Operator
The next question is from Geoffrey Dunn with Dowling.

Geoffrey Dunn, *Dowling & Partners*
I'm not sure I'm completely following the commitment to the Asset Management business in terms of funds from the insurance. Can you review that again? You mentioned the $354 [million] out of $500 [million], and then the $250 [million] to $100 [million] and additional $200 [million] authorization. Can you just lay that out a little bit more, so I understand what you're doing?

Dominic Frederico
Yes, I'll let Rob go over the numbers. But the big takeaway you've got to think about, Geoff, is as we look at our portfolio, as we look at the changing capital charges to the portfolio from the S&P revisions last year. Obviously, we wanted to start investing more up and down the spectrum of credit and probably wider in terms of asset class. At the same time, we say, well, if we're going to do that, we could obviously pay a third party, or we can do it internally. If we do it internally, wouldn't it be great if that would also lead to us driving the opportunity to develop a new business, a new revenue stream and lower the beta, the risk in the overall organization by looking at fee income. So the two are married together as kind of a cohesive look at the opportunity that we see to increase yields across our investment portfolio. Principally based on the S&P cap charge changes and at the same time, driving new business opportunity, new enterprise within the organization. Rob can give you the numbers as to how the $1 billion commitment breaks down.

As you can imagine, there's been power outages in New York and Connecticut, it's kind of made us piecemeal some of this stuff together, different people, different people's houses, et cetera, people on phones as opposed to Zoom. So it's been a little bit difficult putting stuff together and making sure we can present this earnings call kind of cohesively, and I think we're doing as good a job as we can. So, Mr. Bailenson, have you found your information?

Robert Bailenson
We have -- so I said, we funded $354 million from AGAP. We have $250 million funded in the muni fund. We have CLO -- a CLO funded of $100 million get to get to about $704 [million]. We've got authorized $500 million at AGAP, which is the investment subsidiaries. And we've been authorized $250 million for the muni fund. As well as $300 million for additional CLO -- for CLO activity in IMA. It's coming to over $1 billion, $1.5 billion.

Dominic Frederico
So remember, Geoff, two components, right? One is the $500 million commitment to AGAS, which is a dedicated subsidiary owned by AGM and AGC. That then gets invested in various funds and new funds that are being developed and authorized in BlueMountain, $365 [million] of that's committed already. So there's still some dry powder there. The rest we're doing is on the balance sheets of AGC and AGM in terms of IMA investment management agreements where they're going to have a municipal portfolio, a CLO equity

portfolio and kind of an opportunities municipal portfolio. So that's kind of how it breaks down.

Robert Bailenson
And then CLO, just so you understand, the CLO debt that I referenced in the IMA is investment grade debt.

Geoffrey Dunn
Okay. So $354 [million] funded of really what was the original $500 million commitment that I think you guys shared with us. And then, $250 [million] out of another $500 million authorized is funded into muni funds and $100 million funded into CLOs out of a $300 [million] authorization. And those latter two are out of the -- directly out of the...

Robert Bailenson
[Out of the] $550 million that was authorized. So $250 million for muni, $300 for CLO debt, and what was -- that was authorized. What we have funded is $250 [million] for muni and $100 [million] for investment-grade CLOs.

Geoffrey Dunn
Okay. And the difference is the $354 million is coming out of AGAP and the $250 -- or the $250 authorized, $300 authorized coming directly from the subsidiary balance sheets.

Robert Bailenson
Yes. So it's…It's a separate IMA.

Operator
[Operator Instructions] The next question is from John Helmers from Long Focus.

John Helmers
Dominic, I've been an investor in Assured since the financial crisis. And it seems that you face one knife fight after another. And I would just appreciate if you could frame why when the market seems to believe that the existential threat of state bankruptcies is going to wipe out the value that is clearly here. And it would make -- otherwise, the disconnect from equity and adjusted book value don't make any sense. Is there a way you can frame why you're so confident that the state, I guess, stress is not going to lead to that outcome?

Dominic Frederico
Well, I'll do my best. And I share your frustration as a large individual shareholder myself in terms of the current valuation of the stock, which I agree makes no sense. So if you think about it, as our portfolio shrinks, it gets more granular, the exposure to the large states become smaller and smaller. And as we talked about in New Jersey's case, there's substantial amortization over the next 5 years that will significantly decrease the amount of money we have in various New Jersey facilities or authorization. So you think about it, if there is a thing -- there is no ability today for state bankruptcy. If you really tried to authorize the state bankruptcy, you would have to go against the U.S. Constitution, which means a constitutional amendment. We can all talk about the political kind of upheaval of

something like that. But more importantly, it's the creditability and efficiency of the capital markets of the United States. States have to borrow money all the time. Their whole budget concept looks at potential future revenues against current support needs, and therefore, the whole concept of municipal borrowing, they share a very special focus in terms of tax exemption, et cetera. So we believe that there will never be the authorization of state bankruptcies, and then they'll all say, well, they carved out Puerto Rico. But understand Puerto Rico is not done yet. There's going to be a lot of constitutional challenges to that, both the U.S. Constitution as well as the Puerto Rico Constitution, there is a clause in the U.S. Constitution, called the Takings Clause, it says you basically can't take away a legal right that was agreed and granted. And now obviously, a state bankruptcy, retroactively, would be taking away a legal right, so we firmly believe in that. It would destroy the financial markets. It would turn everything upside down relative to the price that you would want to get from the municipal bond if such bankruptcies were allowed to happen. So the practicality of it is it's very impossible to get there. But as we shrink our overall exposure to the various states, it becomes less and less of an issue. Assured has been on a definite track to continue to lower limits for us by credit. We have a great credit operation in the company, our credit committee, run by Steve Donnarumma looks at limits every 2 years. And typically, the direction has been with the limits keep coming down, which has been a very effective way to us managing risk.

As I've always said, the easiest way for to protect the company is just lower your limits. And yet as we see opportunities across a broader spectrum of issuers, we think there's great opportunity relative to the growth of the business. And at the same time, we're risk managing so we don't see the Armageddon scenario. We can always create worst-case scenarios that would be having a major impact. When you think about the overall impact of the U.S. economy as a whole to the U.S. financial markets for the ability to the U.S. to raise money offshore, or overseas, all those things would fall apart. So at the end of the day, people can think the dust and destruction scenario, but it really practically can't happen. There will be tremendous challenges. And as I said, we've got a thing called U.S. Constitution that tends to protect us as well.

Robert Bailenson

Let me also add, muni credit spreads are very, very tight. So the market is perceiving much less risk, which would means that AGO is completely undervalued. People are buying muni bonds at historically tight credit spreads.

John Helmers

I see the disconnect and the inconsistency in the markets. And obviously, the -- and that's very helpful. I appreciate you addressing that, both of you. Because it makes no sense. And obviously, it goes back to the comment around the ability to repurchase shares here because the -- assuming the Armageddon scenario, it doesn't play out, which obviously is a very good bet, then the accretion is at least in the 10 years that I've been invested has never been more compelling than it is today.

Dominic Frederico
And so we appreciate that and recognize it. And the one thing you got to understand is states rely on the markets to fund capital improvements to meet certain short-term obligations. Our revenue claim on them is mostly perpetual. So at the end of the day, we have a lean forever and a day relative to our recovery. So without some constitutional amendment, which once again would be challenged in the courts because there is that clause in the constitution. You just really can't get there. And as I said, the destruction of the financial markets would be overwhelming. The United -- that's like saying, let the U.S. default on one of the treasury notes to see what happens to the U.S.'s ability to borrow trillions of dollars. It just can't happen. And as Rob points out, which is a very good point, look where yields are in the municipal space, look where spreads are. If everybody really thought there was such a credit concern, Illinois has just got off some additional debt and not very high prices. So at the end of the day, whatever is being applied to Assured Guaranty is obviously not being applied to the overall market. And with the dislocation between value and price, you can't engineer a loss that large that would ever really significantly impact that delta.

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

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

Operator
The conference call has now concluded. Thank you for attending today's presentation. You may now disconnect.