

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

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Senior Managing Director, Investor Relations and Corporate Communications

Thank you operator. And thank you all for joining Assured Guaranty for our Third 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 are on our website at AssuredGuaranty.com.

Turning to the presentation, our speakers today are Dominic Frederico, President and Chief Executive Officer of Assured Guaranty Ltd. and Rob Bailenson, our Chief Financial Officer. After their remarks, we will open the call to your questions.

As the webcast is not enabled for Q&A, please dial in to the call if you would like to ask a question.

I will now turn the call over to Dominic.

Dominic Frederico
President and Chief Executive Officer

Thank you, Robert, and welcome to everyone joining today's call.

In our financial guaranty business, Assured Guaranty is having our best year for direct new business production in more than a decade, based on direct PVP results since 2009 for both the third quarter and the first nine months of 2020.

Additionally, on a per-share basis, Assured Guaranty's adjusted book value, shareholders' equity and adjusted operating shareholders' equity reached new highs. As part of our capital management strategy, we have purchased more shares in nine months of this year than we did in all of 2019. And our Board of Directors has authorized additional share repurchases of \$250 million.

Also, on October 1st, S&P Dow Jones Indices announced that Assured Guaranty would become a component stock of the S&P SmallCap 600 index on October 7th. Both the price and trading volume of our shares increased on the news, presumably because index funds and ETFs that track the S&P 600, as well as actively managed funds benchmarked to the index, began accumulating positions in our shares. KBW estimated that passive funds that track the S&P 600 would need to purchase 8.7 million shares. I think it's safe to say that certain passive investors and active small cap mutual funds and ETFs now form an additional base of AGO shareholders. There are more than 2,000 funds in the small cap investment category.

Turning to U.S. public finance production, we wrote \$93 million of PVP in the third quarter, more than double our third quarter 2019 PVP and an 11-year record.

In terms of insured par sold, we continued to lead the industry, guaranteeing 64% of the \$11.9 billion of primary-market insured par sold in the third quarter, which was the industry's highest quarterly insured par amount since mid-2009 and 82% higher than in last year's third quarter. Bond insurance penetration reached 8.3%, up from last year's third quarter penetration of 5.7%. With 7.7% penetration for the first three quarters, the municipal bond insurance industry is likely to see its best annual market penetration and insured par volume in over a decade – and this is still in a very low interest rate environment. We benefited from credit spreads that are wider than at the beginning of the year, but this is still a market where AAA benchmark yields have been below 2% almost all year. The Wall Street Journal has called this increase in penetration a “renaissance” in the municipal bond insurance industry.

Driven by the heightened demand for insurance combined with a 35% year-over-year increase in quarterly issuance, Assured Guaranty's third-quarter originations totaled \$7.5 billion of primary-market par sold, essentially double the amount during the third quarter of 2019.

One of the new issues sold with our insurance in the third quarter was Assured Guaranty's largest U.S. public finance transaction since 2009, \$726 million of insured par for the Yankee Stadium project. This transaction closed in October, so its PVP and par exposure will be reflected in the fourth quarter results. It refunded \$335 million of our previous exposure, so our net exposure to this credit increased by \$391 million. This was one of 19 new issues that each utilized \$100 million or more of our insurance during the third quarter. For the first nine months, we provided insurance on \$100 million or more of par on 32 individual new issues, more than in any full year over the past decade. Our significant capital resources and strong trading value on larger transactions are important competitive advantages.

We believe two types of investors have driven our increase in larger transactions. The first are institutions investing in the traditional tax-exempt market, which are attracted by our strong balance sheet and broad proficiency in credit analysis. The others are non-traditional investors in the growing taxable municipal bond market, including international investors, whose internal resources to evaluate and surveil U.S. municipal credits may be limited. Taxable issuance represented approximately 30% of the muni market's total new issue par volume during the first nine months of 2020, compared with 5% to 10% in recent years, and 35% of our par insured on new issues sold in the period was taxable. During those nine months, the par amount we insured on taxable new issues totaled \$5.5 billion, compared with \$1.5 billion in the first nine months of 2019.

In the case of credits with underlying S&P or Moody's ratings in the double-A category, we insured a total of \$806 million of par for the quarter and, during the first nine months, more than \$2 billion of par. This year-to-date par volume is greater than our par volume of such double-A credits in all of 2019. This reflects the strength of our value proposition and the market's view of our financial strength.

Year-to-date through September, we provided insurance on \$15.7 billion of municipal new-issue par sold, which is \$1 billion more than in all of 2019. Combining primary and secondary market activity for the first nine months, we guaranteed \$16.6 billion of municipal par, \$6.2 billion more than in the same period last year, a 60% increase.

In international infrastructure finance, we completed the best third quarter originations since the 2009 acquisition of AGM, producing \$24 million of PVP, 52% more than in last year's third quarter.

Our guaranty is now a mainstream solution and widely accepted option for efficiently financing infrastructure development. The flow of transaction inquiries is much stronger than it was just a few years ago. In little over a year's time, we guaranteed four solar power transactions in Spain, including the most recent one in August. These transactions are good examples of how our guaranty helps make the financing of renewable energy projects more cost-efficient.

Another significant third quarter transaction was a £90 million private placement to finance improvements to student accommodations at Kingston University in the United Kingdom.

The high insured ratings and associated lower investor capital charges, as well as the long tenor of many infrastructure bonds we guarantee, make them attractive for institutions seeking to optimize long-term asset-liability matching.

The impact of COVID-19 has temporarily slowed the new issue transaction flow but is also creating conditions that we expect to provide significant international opportunities. We believe downgrades, or the potential for them, could make our guaranty more valuable for even a broader range of essential investment-grade infrastructure financings, such as airports that are crucial for their regions' economies. In the medium term, we expect a massive global policy initiative to invest in infrastructure and renewables.

Additionally, we see opportunities where our guaranty has been underutilized. In Australia, for example, we are ramping up our business development and advertising efforts and working with a local origination consultant to help us expand our network of relationships on the ground.

Our international and structured finance groups often collaborate when it comes to bilateral risk transfer transactions that allow large asset portfolios to be managed more efficiently, whether from the perspective of capital efficiency, capital management or risk mitigation.

Transactions of these types are a strategic focus of our structured finance underwriting group. These tend to be large transactions requiring significant due diligence, and their timing is irregular. We have a number of them in progress that are expected to close in the fourth quarter or next year.

In other aspects of structured finance, we continue to explore opportunities to add value to a variety of securitizations, including for example, those for whole business revenues, tax credits and consumer debt.

Now let me provide some insight into the ability of our insured portfolio to weather today's unique economic circumstances. We have continued to take a deep dive analytically into our highly diversified universe of insured exposures, especially in the sectors we view as most potentially vulnerable to the consequences of the pandemic, such as mass transit, stadiums and hospitality, among others. What we've found is that the underwriting we did to select the credits we've insured, and the structural protections we've required in order to be able to guarantee those transactions, have worked the way they were intended.

We again modeled performance of transactions in vulnerable sectors under economic stress tests, assuming no federal assistance beyond what was already authorized before September, as well as significant reductions in future revenues.

Having updated that analysis, we remain confident that we do not expect first-time claims arising from the pandemic that would lead to material ultimate losses. On some transactions that were already classified as below investment grade prior to the pandemic, we did make marginal reserve adjustments.

As of now, we have paid no claims that we believe are due to credit stress arising specifically from COVID-19.

Last week KBRA wrote that it views the pandemic as primarily a potential liquidity event for Assured Guaranty. It expressed that view in its rating affirmations it released for our insurance companies last week, which were AA+ for AGM, MAC and our U.K. and French subsidiaries, and AA for AGC.

We take an active role in managing risk at the transaction level. This year, we have worked with some of our insured issuers to take advantage of low interest rates to reduce or defer their debt service over the near term through refinancings. These transactions also typically benefit us by accelerating our premium earnings and generating new premium on refunding bonds that we insure.

I won't say a lot about Puerto Rico today, because a new Commonwealth administration will be starting soon and the composition of the Oversight Board is in flux. Some board members have resigned, a new board member has joined, and others may be reappointed or replaced. I'll just repeat that achieving a consensual restructuring without further delay is the best thing that could happen for the people of Puerto Rico. The recently announced release of \$13 billion in federal assistance helped to improve the conditions for reaching such an agreement.

The integration of BlueMountain Capital, which we acquired last year, is progressing. In September, we rebranded it Assured Investment Management and rolled out the new branding on the newly launched investment management website. These changes reflect the close alignment of our investment management business with our overall corporate strategy. Assured Investment Management currently manages \$1 billion of our insurance companies' investable assets. Throughout the company, we are actively developing synergies between our insurance division's credit underwriting and surveillance skills and the investment management division's ability to structure and market investment products. We want our investment management business to grow as we continue to leverage our capital through this strategic business diversification.

I believe that Assured Guaranty is in good position, both in the market and financially. I expect a strong finish for 2020. Our U.S. public finance, international infrastructure and global structured finance businesses have strong pipelines of potential originations. Assured Guaranty is fortunate to be a company designed from the ground up to be resilient and succeed in difficult times, which we proved during the previous recession. And the effectiveness of our remote operations and the diligence and commitment of our employees have made it possible for us to perform well and operate safely in challenging times, allowing us to continue working towards:

- protecting investors in securities we insure, during an uncertain economy

- assisting issuers in funding public services and managing their fiscal challenges, and
- building a greater value for Assured Guaranty 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.

This quarter, we have continued to make progress on our strategic initiatives.

- In our insurance segment, our strong premium production is replenishing our unearned premium reserve - offsetting the amortization of the existing book of business - which will be accretive to future earnings.
- In terms of capital management, year-to-date as of September 30th, we had already repurchased 11.4 million shares, which is well over our initial plan of approximately 10 million shares.

As for our third quarter 2020 results, adjusted operating income was \$48 million, or \$0.58 per share. This consists primarily of \$81 million of income from our insurance segment, a \$12 million loss from our asset management segment, and an \$18 million loss from our corporate division, which is where we reflect our holding company interest expense as well as other corporate income and expense items.

Starting with the insurance segment, adjusted operating income was \$81 million, compared to \$107 million in third quarter 2019. This includes net earned premiums and credit derivative revenues of \$113 million, compared with \$129 million in the third quarter of 2019. The decrease was primarily due to lower net earned premium accelerations from refundings and terminations, offset in part by an increase in scheduled earned premiums due to higher levels of premiums written in recent periods. In total, accelerations of net earned premiums were \$18 million in the third quarter of 2020, compared with \$38 million in the third quarter of 2019.

Net investment income for the insurance segment was \$75 million compared with \$89 million in the third quarter of 2019, which does not include mark to market gains related to our Assured Investment Management funds and other alternative investments. As we shift to alternative investments and continue our share repurchase program, average balances in the fixed maturity portfolio have declined. As of September 30, 2020, the insurance companies had authorization to invest up to \$500 million in funds managed by Assured Investment Management, of which over \$350 million had been deployed. Income related to our Assured Investment Management funds and other alternative investments are recorded at fair value in a separate line item from net investment income.

The change in fair value of our investments in Assured Investment Management funds was a \$13 million gain in the third quarter of 2020, across all strategies. These gains were recorded in "equity in earnings of investees", along with an additional \$7 million gain on other, non-Assured Investment Management, alternative investments with a carrying value of almost \$100 million. This compares to only \$1 million in fair value gains in the third quarter of 2019. Going forward, we expect adjusted operating income will be subject to more volatility than in the past, as we shift assets to alternative investments.

Loss expense in the insurance segment was \$76 million in the third quarter of 2020 and was primarily related to economic loss development on certain Puerto Rico exposures. In the third quarter of 2019, loss expense was \$37 million also primarily related to Puerto Rico exposures, but was partially offset by a benefit in the U.S. RMBS transactions.

The net economic development in the third quarter of 2020 was \$70 million, which mostly consisted of \$56 million in loss development for the U.S. public finance sector - principally Puerto Rico exposures.

In the Asset Management segment, adjusted operating income was a loss of \$12 million. The impact of the pandemic continues to challenge the timing of distributions out of our wind-down funds, and of new CLO issuance. Additionally, price volatility and downgrades have triggered over-collateralization provisions in CLO transactions that resulted in the third quarter of 2020 management fee deferrals of approximately \$3 million.

In the third quarter of 2020, AUM inflows were mainly attributable to the additional funding of the CLO strategy under the intercompany Investment Management Agreement, which we executed last quarter. These represent assets in our insurance company subsidiaries' fixed maturity investment portfolios.

Our long-term view of enhanced returns from the Assured Investment Management funds remains positive. We believe the ongoing effect of the pandemic on market conditions and increased market volatility may present attractive opportunities for Assured Investment Management and for the alternative asset management industry as a whole.

Adjusted operating loss for the corporate division was \$18 million for the third quarter of 2020, compared with \$28 million for the third quarter of 2019. This mainly consists of interest expense on the U.S. holding companies' public long-term debt, as well as intercompany debt for the insurance companies that was primarily used to fund the BlueMountain Acquisition. It also includes board of directors and other corporate expenses, and, in the third quarter of 2020, it also included a \$12 million benefit in connection with the separation of the former Chief Investment Officer and Head of Asset Management from the Company.

From a liquidity standpoint, the holding companies currently have cash and investments available for liquidity needs and capital management activities of approximately \$82 million, of which \$20 million reside in AGL.

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 third quarter of 2020, the effective tax rate was a benefit of 32.7%, compared with a provision of 16.3% in the third quarter of 2019. The tax benefit in the third quarter of 2020 was primarily due to a \$17 million release of reserves of uncertain tax positions upon the closing of the 2016 audit year.

Turning to our capital management strategy, in the third quarter of 2020, we repurchased 1.9 million shares for \$40 million, for an average price of \$21.72 per share. Since the end of the quarter, we have purchased an additional 1.7 [million] shares for \$46 million, bringing our year-to-date share repurchases, as of today, to over 13 million shares. Since January 2013, our successful capital management program has returned \$3.6 billion to shareholders, resulting in a 61% reduction in total shares outstanding.

The cumulative effect of these repurchases was a benefit of approximately \$25.43 per share in adjusted operating shareholders' equity, and approximately \$45.48 in adjusted book value per share, which helped drive these important metrics to new record highs of \$73.80 in adjusted operating shareholders' equity per share and over \$108 of adjusted book value per share.

Finally, in connection with the capitalization of AGM's French subsidiary, AGM's third quarter 2020 investment income increased due to dividends received from its UK subsidiary, which increased AGM's 2020 dividend capacity to its holding company parent. However, as always, future share repurchases are contingent on available free cash, our capital position and market conditions.

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

QUESTION & ANSWER SESSION

Operator

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

Thomas McJoynt, Keefe, Bruyette, & Woods (KBW)

So you mentioned on Slide 7 in your presentation that the stress case scenario that you guys look at through January of 2022, can you walk through some of those assumptions in terms of how stressed that model gets? And then how do you kind of think about beyond the next 14 months, perhaps as you kind of move beyond January 2022?

Dominic Frederico

Okay. So I'll start with the answer. So we looked at each of the various subcategories of the high-risk and the medium risk, so you would break down transportation versus student accommodations. And typically, what we did was we took a look at 2019 revenues and

then reduced them substantially for 2020. And then depending on the credit, like in airports and transportation, further reduced them in 2021, having, obviously, not a clear view of where we expect the impact to finally subside relative to the virus. Hopefully, that is sometime in the first quarter with the advent of a vaccination. So everything was keyed off of '19 revenues, reduction for '20, in some cases, further reductions in 2021, we assume no government intervention in terms of additional relief packages passed. And as we've always said, as we looked at our credit portfolio, in total, in most cases, the credits were in great shape prior to the pandemic, so the economy was strong. They were very healthy relative to revenues. They were funding the debt service and other obligations.

Two, we then further have protections in terms of debt service reserves on those accounts. Three, as we've always said, municipalities have many vehicles. There are many options at their management in terms of how they handle their disbursement. So things like capital expenditures could be deferred, maintenance projects could be deferred. Obviously, they could do things relative to staffing as well as raising revenues. So as we look across that analysis and as I said, stressed '20 and then '21 again, and even in some cases, going into '22, we're very comfortable with the quality of the underwriting. We're very comfortable with the performance of the portfolio. We really expect no material losses whatsoever and maybe some liquidity claims as we go through the next maybe 6 months.

Thomas McJoynt

Okay. That's helpful. And then switching over, looking at the balance sheet. It's a bit of a tricky topic. But when I think about what you guys have reserved on the liability side and kind of net of the salvage number, so that declined about \$260 million quarter-over-quarter. Can you just remind me mechanically, again, kind of what drives the salvage? And then just kind of how you think about that net reserve number and change in the quarter-over-quarter? And then just kind of reserve adequacy more broadly?

Robert Bailenson

Well, I could just start with what drives the salvage, is based on our reserve assumptions. And to the extent that we expect to receive claims that we have already paid, you're going to get a salvage asset. That's just basically how that happens.

Dominic Frederico

So predominantly the continued payment of the Puerto Rico debt service because the Control Board has authorized no debt service where what we'll call the general obligations of the Puerto Rico Government itself, minus what we believe is continued further deterioration in our reserving based on the GAAP analysis of scenario analysis and probability weighting. So one is the payments going out each quarter or in each year relative to Puerto Rico, as they've made absolutely no debt service over 4 years, minus what we think is going to be the true loss that we might have to realize relative to how GAAP makes us account for reserves and, therefore, the rest becomes a subjacent asset.

Thomas McJoynt

Okay, Okay. That makes sense. And then just last one, switching over to investment income. So the addition of the alternative assets kind of changed a little bit. Just from a modeling standpoint, how should we think about the run rate of investment income? And then is it right to think about those alternative assets on a fair value gains and losses as being a bit lumpy?

Dominic Frederico

Rob, do you want to take that?

Robert Bailenson

Yes. Yes, sure. Well, yes, I would say the investment income line is the run rate, I think, is pretty similar to what you're seeing now. However, as you know, interest rates are at historical low levels. And as some of our investments mature, we have to reinvest at very low rates in our fixed income portfolio. So for now, I think, the run rate for investment income should be similar. In addition to which our loss mitigation bonds that we bought previously helped mitigate the reduction of investment income because we bought them and keep them as an investment. And they actually generally have much higher yields.

With respect to the investment in alternative investments, you're absolutely correct that the fair value of those – the fair value coming through that line equity in investees will be more lumpy. However, over the long term, we expect returns in the low double digits between 10% and 12% for all those strategies.

Dominic Frederico

Yes. But the volatility is going to be a little more because of the mark-to-market, but you got to look at the investment over the long term, and we expect the realization to be in terms of returns. And as Rob said, except for the muni strategies, we expect that low double-digit return on all the other strategies that we deploy in insured investment management.

Operator

And the next question today comes from Brock Erwin with *CleverInvesting*.

Brock Erwin, *CleverInvesting*

I've been a long-time shareholder of the company, and I would just like to say that overall, I'm very pleased with the company's capital allocation strategy. I do understand, though, that the buyback program, in particular, is contingent on the special dividend, as Rob mentioned last quarter and about the share repurchases slowing down. That being said, I'm sitting here looking at the financial position of the company, and it's strong. And if anything, I'd like to see share purchases – repurchases accelerate, not slow down. I know you've been contemplating some alternative financing to fund the buyback program. But regardless of how you're able to acquire the funds, it seems like there should be a way that you can do that, maybe some ways you can get creative with that. So if you could comment on that, that would be great.

Dominic Frederico

Well, as we said, and we agree with you, share repurchases is the most accretive transaction the company can do, especially at the rather unique value that the current shareholder, the stock is performing at based on the true book value and the adjusted book value of the company. You are exactly right that we have a certain amount of dividend capacity normally coming out of the share -- or the dividends coming out of the operating subsidiaries, and we normally enhance that with special dividends that obviously need the state approvals of both or – either Maryland or New York. Obviously, in a COVID world, with the uncertainties, that provides special dividends are obviously not something being contemplated very readily by the regulators. And at the same time, we're still paying Puerto Rico losses. So that also takes a dollar-for-dollar hit of our capital, and we'd like to keep a cushion to make sure we protect the ratings of the company.

Having said that, as you point out, we are exploring other alternatives to the extent that we think we can get something accomplished creatively that would allow us to further enhance share buybacks, but with the limiting factors of Puerto Rico, special dividends, and with those other alternatives are and the impacts they would have relative to ratings, et cetera. So everything is being considered. We appreciate the comment. We understand and, obviously, view it the exact same way. And it's just as we work through the various alternatives, we'll come up with decisions in the near, the short term.

Robert Bailenson

And as I said earlier, the capitalization of our French subsidiary increased our investment income at AGM, which increased our dividend capacity for this year.

Operator

Our next question today comes from Giuliano Bologna with Compass Point.

Giuliano Bologna, *Compass Point*

I guess, starting out on a little bit of a similar topic. You've already deployed a fair amount of capital into some of the Assured Guaranty Investment Management funds, and you're going to continue deploying that capital. You should have some like upside to your investment income as you realize low double-digit returns. Just trying to think about the impact that, that could have on dividend capacity? And if that is credited towards investment income when it comes to the dividend test?

Robert Bailenson

Actually, Giuliano, until that money is dividend up from the investment subsidiary called AGAS, as we call it, which is owned by the insurance companies, it will not increase the dividend capacity. But we're exploring as that investment income increases in those alternative strategies, dividending up from our investment subsidiaries to our insurance subsidiaries, which would increase the investment income capacity and therefore, increase our dividend capacity.

Giuliano Bologna

That makes sense. And is there kind of a standard schedule that, that's going to roll through on? Or is it based on the different vehicles that you're investing in?

Robert Bailenson

Well, we're working on a dividend policy from that company right now, and we haven't determined yet what that number is going to be because right now, we're still ramping up, investing in those funds as well.

Giuliano Bologna

That makes sense. And then, on a little bit of a different topic. Obviously, when we look at a lot of the revenue bond exposures, we usually have debt service reserve funds that cover you for, call it, 12 months. So there's obviously significant stress before you would trigger claim payments. So in terms of like what portion of the muni portfolio has debt service reserve funds, and kind of what the average debt reserve fund looks like from a duration perspective?

Dominic Frederico

I think if you go through the disclosure we have shown, a composition of the portfolio by muni credit. Basically, think of anything with the revenue stream typically has reserve funds on. Obviously, general obligations typically don't.

Giuliano Bologna

That makes sense. And the only other thing I could think just from a focus perspective, a lot of focus kind of goes back and forth between investment management and the insurance company. But one of the things I was curious was just trying to think about the relative kind of capital allocation, not necessarily looking at the investments in these funds, but just looking at kind of the relative capital allocation that's attributed to the Investment Management segment, kind of relative to the total capitalization of the business?

Dominic Frederico

Well, remember, the total capitalization of the business was its purchase price. From then on, it should be self-funding relative to its capital needs. The other side of it is when additional money we want to infuse into the asset management, but as an investor, like any other investor. Obviously, the goal of the asset management was to diversify our revenue stream. We will move away from basically risk revenue to risk-free revenue fee income, and at the same time, enhance the returns of our portfolios, which we're doing, as you can see, based on the current quarter, and we expect that as we continue to deploy additional strategies, which we've developed – have not announced yet as we'll see the fruition of certain transactions as we continue to roll this thing out, will further benefit the overall value that it provides to the company. And then as well as lastly, the diversification or the opportunity that it provides us in the marketplace under the now single branding of Assured for both Asset Management and financial guarantee across the entire universe.

Giuliano Bologna

That makes sense. And I think, kind of, what I was trying to think about was looking at Investment Management, you probably have somewhere in the ballpark of \$200 million of capital that's invested which is just a nominal fraction of your total capital from an investment perspective. From a focus perspective, just trying to think about the relative contribution, at least, at this point, while you're turning around the investment management platform. Obviously, it has a nominal basis. So that's just trying to think about the, where the focus...

Dominic Frederico

Yes, for that specific portion of the "capital investment and asset management," that should not change dramatically. And as we said, COVID and the ability to dispose of the runoff portfolio as well as launch of these strategies has kind of delayed the asset management by about a year. So obviously, we look to look for profitability in 2021. Now we'll look for profitability in 2022. That's kind of the metrics we're looking at. But in terms of capital, it really doesn't take additional capital. And as you said, we paid very little for the company and got basically \$18 billion of assets under management, a new diversification of our business strategies, new opportunities to deploy our own portfolio, to our own resources, which we're not paying a third-party for, which is also kind of nice while we're still recognizing enhanced yields.

Giuliano Bologna

That makes sense. Thanks for answering my questions.

Operator

[Operator Instructions] Our next question comes from Brian Meredith, UBS.

Brian Meredith, UBS

A couple. Rob, maybe we can simplify this a little bit. I mean, there's a lot of things you guys are doing to try to get dividend capacity out to the holding company for share buyback. Maybe just simply, what it would it take to get back to your \$500 million share repurchase level in 2021?

Dominic Frederico

A special dividend.

Brian Meredith

You need the special dividend?

Dominic Frederico

Well, unless we do something like borrowing, issuing another type of share, preferred share. Obviously, there are other ways to get there, but principally the easiest way since we have excess capital in the operating companies, is just to get the state, either Maryland or New York to grant us a special dividend.

Robert Bailenson

I just, so remember, Brian, that this year, we – because of the capitalization of the French subsidiary, we're going to get closer to that number because that increased our dividend capacity by about \$100 million, rough numbers.

Brian Meredith

Got you. Got you. And the \$237 million sitting at AG Re, the restrictions around that? Or is that – do you want to keep a certain amount of money there?

Robert Bailenson

Yes. Yes, AG Re is our – when it comes to insurance leverage, it's the most levered and we do keep a significant amount of cushion because a lot of its assets are encumbered in insurance trusts for the reinsurance for AGM and AGC.

Brian Meredith

Got you. Makes sense. And then lastly, maybe dive a little bit more into kind of what's going on in Puerto Rico. You did take your provisions up. I know you commented a little bit more about it. Dominic, why the provision this quarter? What was going on that kind of drove that? And then maybe, Dominic, you can comment a little bit about the elections that are going on right now and what that could potentially mean for Puerto Rico?

Dominic Frederico

I'll tell you, there's a whole lot of different tributaries to that river, that's for sure. So in Puerto Rico, in general, remember, we're very focused on what we have to do from a GAAP perspective relative to setting scenarios and then probability weighting. You did have the blowout of the Control Board's most recent offer that was rejected by that creditor group that's been working with them to try and negotiate a settlement for the general obligation. So because of the blowout, which once again showed no debt service, which we think pushed back potential timing of recovery, we have to look at our scenarios and then look at the probabilities and change them as we believe that, that external third-party verifiable information would provide. So that's kind of where we get to relative to reserves.

However, that doesn't change our view that basically, we've got very strong legal rights. We've not had a real day in a real court other than for certain fringe kind of disputes, and we're hoping that the recent revenue ruling that will be appealed in October and hopefully heard by the Second Circuit in first quarter of 2021, gets us some clarity. Number two, you do have the whole issue of the Control Board, and obviously, the last member added by the President seems to be a person focused on constructive resolution and paying debt service at some level, which is very different than the existing Control Board's behavior. And if you read the headlines of a week or so ago, he walked out of a meeting just so they didn't get a quorum, they couldn't vote on something that was once again ignoring creditors rights. So I think that potentially has to resolve itself before I have any clue.

Number three, as you point out, we've got elections that are too close to call in both locations. And it does change a little bit, the complexion, if the election goes one way, you

can say, "well, jeez, this should be good relative to further aid to municipalities, including Puerto Rico." There's this issue of statehood over Puerto Rico, which if we get statehood, then you'd have to argue that the Medicaid and Medicare reimbursements got to go significantly up, which really changes the complexion of the budget of the Commonwealth. So there's potential really good guy out there.

Number four, remember, we still have that pharmaceutical bill banging around, which makes absolute sense, they say, even in a disputed world of government they should all be able to agree that we should bring all of the manufacturing of both pharmaceuticals and pharmaceutical equipment onto U.S. shores, so that we can ensure ourselves with the manufacturing of that when another crisis hits. So I think there's a lot of events out there and the election could flip them one way or the other, but I think there is a common stream there. Do we expect another relief package? Sure, we do. What does it look like? Who knows, depending on who's calling the ball.

If the Puerto Rico election gets resolved and there seems to be a more pro-statehood flavor to this election than it's been in the past with more of the citizenship voting, that has a huge potential impact. As I said, we still believe in our strong legal rights. We are going to still kind of obviously fight for our legal rights and the recognition of the respecting of the constitutional priorities and contractual liens, which we think are critical to us getting a substantial amount of our money back. And that's what we're going to continue to fight for. But you've got these other things that are flying around - Board, litigation, relief, et cetera, and elections that will swing this thing left, right, and sideways. But I think the path is still pretty much forward.

Operator

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