# Letter to Shareholders

By Kevin O'Donnell
President and Chief Executive Officer

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## Dear Shareholders,

For RenaissanceRe, 2015 was notable for both its challenges and its opportunities. Our industry continued to be buffeted by the dual headwinds of excess capital and scarce risk. In the face of this market turmoil, we were able to execute on several important initiatives that improved our resiliency as a company. We closed our acquisition of Platinum, engaged in material capital management, strengthened our global underwriting team and enhanced our ability to trade with more clients across a wider product and geographical spread. Combined with our highly rated balance sheets and strong capital position, we believe we have the necessary tools and strategy to overcome current market challenges and have positioned ourselves to take advantage of future opportunities.

In 2015, our focus was on expanding our product lines to ensure we delivered the right products in the right locations with the right capital to meet our customers' needs. The acquisition of Platinum brought us established, successful business platforms in New York and Chicago, an experienced roster of underwriters to complement our existing team, and strong relationships with an expanded pool of clients. Now, more than 80% of our customers either purchase a non-cat line or more than one line of business, and a similar percentage access more than one of our underwriting locations.

I am proud of the success we achieved in 2015. Nonetheless, we have more to do. Simply put, if 2015 was about the breadth of our product offering, then 2016 will be about its depth. While superior customer relationships have always been core to our culture, we will focus on strengthening and deepening customer relationships even further in 2016. We will continue to concentrate on helping our customers manage their risk to ensure that we match their full range of reinsurance needs with our expanded worldwide product offering.

That said, we remain committed to building efficient portfolios of risk. Given current market dynamics, the best opportunity to improve our performance will come from managing our net underwriting risk. We will seek to increase our participation on the best transactions, reduce on the worst and continue to build optimized portfolios of risk as measured by expected net returns on modeled required capital.

## Financial Performance

In 2015, we generated operating income available to RenaissanceRe common shareholders of $477.7 million and an operating return on average common equity of 11.4%, increasing tangible book value per share plus accumulated dividends by 5.0%. This growth in tangible book value per share plus accumulated dividends reflects both the impact of significant share repurchases and the recognition of goodwill and intangible assets from our acquisition of Platinum. The acquisition was accretive to operating income and book value per common share. Our combined ratio, the sum of our loss ratio and expense ratio, was 64.7%, which is higher than in prior low-loss years, but emphasizes the growing impact of the casualty business on our results. We ended the year with over $4.7 billion of total shareholders' equity, not counting the capital we manage on behalf of private investors. We generated 17.8% of total shareholder return in 2015, among the highest in our industry.

## Capital Management

We view capital management as one of our competitive advantages and our capital management philosophy and tactics are at the core of how we run our business. In 2015, we demonstrated significant speed, flexibility and conviction in managing our capital, deploying over $600 million of excess capital in the Platinum acquisition, buying back $260 million of our common shares, returning almost $500 million of capital to our joint venture partners and tapping the debt markets at opportune times. Despite this level of activity, our actions were carefully considered, and our capital and liquidity positions are as strong as they were just prior to the acquisition of Platinum. Our balance sheets remain solid and we continue to have industry-leading financial strength and claims-paying ratings.

There are two factors that we design into our risk portfolio and which inform our capital management strategy – low balance sheet leverage and the positive skew of our claims. Our property catastrophe portfolio is volatile and capital intensive, which makes it the primary driver of the size and structure of our balance sheets. This volatility is driven predominantly by natural catastrophe risk assumed from insurance companies around the world. As a result, we maintain low leverage and a high degree of liquidity to ensure we have the ability to pay valid claims whenever they arise and maintain our strong financial strength and claims-paying ratings. In addition, the risk portfolios we construct are subject to positive skew, which means, in most years, there is a higher probability that we will have lower claims and make a reasonable profit, which will occasionally be offset by a year with a large loss. This combination of low leverage and positive skew can result in significant excess capital that we may not be able to profitably redeploy in our business. Consequently, we feel that it is both rational and prudent for us to purchase our common shares when doing so is likely to be accretive to tangible book value per common share over an acceptable return period. Our track record on share buybacks has been strong and our policy has benefitted investors over the long term. Since our initial public offering in 1995, we have repurchased 62.9 million of our split-adjusted common shares for $3.1 billion, with a relatively short average payback period, resulting in our investors benefitting from this policy over the long term.

In general, we prefer share repurchases to other forms of capital management, as share repurchases reward long-term holders of our shares. Of course, we always consider other forms of capital management, which we implement from time to time when efficient. For example, we deployed $600 million in our acquisition of Platinum in 2015 and have raised our common share dividend every year since our public offering, now paying out over $50 million each year. But we believe that repurchasing shares with a reasonable payback period is our best capital management tool. It also offers our shareholders maximum flexibility from a U.S. income tax perspective, as they can choose when to harvest their capital gains rather than being taxed on a larger quarterly dividend that they will need to reinvest elsewhere.

It is also important to note that throughout the year, our financial strength, capitalization and excellent ratings remained non-negotiable constants in our approach. We seek to manage each of our balance sheets conservatively, with low leverage, and always with the goal of providing long-term financial security to our clients. Managing the interests of our shareholders, partners and clients is a complex and multi-faceted task, and RenaissanceRe's operational structure, management collaboration and intense focus on the business affords us a unique capability in matching efficient capital with well-priced risk.

## Economic Balance Sheet

While our business model and a third-party capital manager's approach to risk may appear relatively similar, at a fundamental level they are completely different. A third-party capital manager has a pool of capital that it needs to deploy. They start from the capital side and work back towards the risk side, essentially taking risk until they exhaust available capital. Their binding constraint is available capital and not attractive risk. We start on the risk side, writing a portfolio of attractive business and then work back to the capital side, determining how much capital we need to support that risk, which is really answering the question "How much capital do we need to support the risk we decided to take?"

This distinction may not be obvious because, as investors, you only see our consolidated financial statements prepared in accordance with generally accepted accounting principles ("GAAP"). Internally, we have the benefit of modelling our economic balance sheet as well. Our economic balance sheet takes into account possible future outcomes of our risk and capital allocation decisions and helps us understand the tradeoffs we are making between risk and capital. Simple questions such as "How often are we prepared to lose 1%, 10%, 20%, etc. of our shareholders' equity?" bring these tradeoffs into focus. We have spent over 20 years fine-tuning this approach and we believe it brings us greater value for each dollar that we deploy into risk.

Decisions to write a risk or not, to cede a risk or not, and where to manage the risk (an owned or managed balance sheet) are principally made based on our economic balance sheet approach to risk. The outcome of this process is reflected in our GAAP results. Our economic balance sheet approach is how we allocate capital and measure risk, and is a forward looking process. Our consolidated financial statements under GAAP are a historic representation of what transpired in the latest reporting period. For example, if we buy more reinsurance protection and there are no significant losses, our GAAP results reflect a higher combined ratio and lower net income. It is only if there is a significant loss, however, that our GAAP results reflect the benefit of our reinsurance purchases, reflecting a lower combined ratio and higher net income than if we had not purchased the reinsurance protection.

Our GAAP results for a particular short term period should not drive the underlying question as to whether our decision to purchase reinsurance protection was a good one or not. The real questions we need to answer at the underwriting portfolio level include "How much did the reinsurance protection we purchased lower our risk?" and "How much did it lower our expected profit?" Assuming we get good answers to those questions, you as our investor are better off if we buy that reinsurance protection, but our ability to communicate that benefit without giving away a road map for competitors to copy is limited. Of course, our economic balance sheet is proprietary and sharing it would reduce our ability to outperform as others would attempt to replicate what we are doing.

## Three Superiors

Throughout our 23 year history, our success has been underpinned by our three superiors: superior customer relationships, superior risk selection and superior capital management. Each of our three superiors are important, but over time we have varied our emphasis on each to compete most effectively in different markets.

When we began as a company, we initially focused on superior risk selection. We believed that risk was frequently misunderstood and therefore mispriced, and felt that we could generate superior returns by investing heavily in improving models and understanding risk so we could construct more efficient risk portfolios. In the early 2000s, we increased our emphasis on superior capital management. At that time capital was scarce, which rewarded innovations we pioneered to bring new capacity to our markets. We formed Top Layer Re, bringing highly rated, efficient capital to our customers to protect their more remote risks. We created similar value for clients and investors when we created DaVinci in the immediate aftermath of the 9/11 tragedy. Our creation and development of the managed joint venture platform diversified our capital sources and brought new capacity to our customers in a "traditional" product.

In the current market, we are emphasizing superior customer relationships, which are even more important today as many buyers of reinsurance are centralizing their purchases and increasing their reliance on a core group of reinsurers. The way risk is being transferred is also evolving, with good risk increasingly having its choice of attractively priced capital. While we believe that our understanding of risk is still industry-leading, it is now less likely to drive the level of relative outperformance it has in the past. We believe we will continue to have access to efficient forms of capital as a result of our unique third-party capital platforms. In addition, our focus on client relationships in a market with flat demand is crucial to building an attractive portfolio of risk. Our focus on each of our three superiors remains critical to our commitment to pursue superior returns for our shareholders and joint venture partners over the long term.

## Platinum Acquisition

Closing the acquisition of Platinum in 2015 was a major milestone for RenaissanceRe. We purchased a well-known company and had a high degree of confidence in our ability to integrate both the team and the book of business. We moved early relative to the consolidation trend in our industry and feel we paid a fair price for a great franchise. As outlined below, we established what we wanted to achieve as a result of the acquisition and shared those objectives with the market:

- Benefit our clients;
- Accelerate the growth of our U.S. platform;
- Create efficiencies in our property portfolio;
- Increase our operating leverage and capital efficiency;
- Be accretive to shareholder value; and
- Integrate well with our risk management culture.

In addition to achieving each of these objectives, the transaction enabled us to expand our footprint, become a stronger market for casualty and specialty business and enhance our underwriting capabilities in those areas. As a result, we added over $100 million of premium from new business that neither entity would have had access to on a stand-alone basis. In effect, we believe the whole is larger than the sum of the parts. Post-acquisition, we are one company, with one vision, and a fully integrated approach to underwriting and risk management. I am pleased with our execution of the acquisition and proud of our progress in integrating Platinum into our operations.

## Lloyd's Platform

Our investment in building our presence at Lloyd's continues to bear fruit. We experienced good growth in 2015, finding new opportunities to source risk. We have built a strong operating platform and one that can continue to service more premium without the need to increase scale leading to further operating efficiencies.

When we first began building our Lloyd's platform in 2009, we estimated that it would have been profitable by now, but profitability has been delayed for principally two reasons. First, the regulatory framework required to operate in Lloyd's has been more expensive to build than we originally anticipated. Second, the Lloyd's market has experienced ongoing price competition over this period. However, while establishing Syndicate 1458 has proved more costly than initially anticipated, having the Lloyd's platform offers benefits beyond the local underwriting performance. There is significantly more value in our Lloyd's franchise than we originally forecast, and we remain confident that our decision to enter this market was sound and one which will provide long-term value to our shareholders.

## Bermuda Platform

In 2015, we strengthened our position as the leading property catastrophe desk in the world. Ross Curtis returned to Bermuda and assumed the role of Global Chief Underwriting Officer. We reorganized our underwriting leadership reporting to Ross to focus on the needs of clients in worldwide property, as well as casualty and specialty, where we have clearly emerged as a first call market and leading franchise for complex and innovative products.

We are pleased that Bermuda has been granted full equivalency under Solvency II. In our view, this is well deserved. The Bermuda regulatory system is robust, world class, sophisticated and appropriately designed to provide the highest level of transparency and policyholder protection. This development is only one of many reasons Bermuda remains the best place for RenaissanceRe to be headquartered. Bermuda is a vibrant market and an environment that affords us the flexibility to manage capital effectively and build structures to efficiently deploy capital against the best risk.

## Board Leadership

As we previously announced, we will transition to a new Non-Executive Chair of our Board of Directors in May 2016. I would like to thank Ralph Levy for his outstanding service as our prior Chair and welcome James Gibbons to the role. Ralph has led the Board for eight years and has helped make RenaissanceRe a better company. Ralph also led the Board in the selection of James, knowing Non-Executive Chair rotation improves overall governance. Our Board has never been stronger and we look forward to benefitting from their continued guidance under James' leadership. I also join Ralph in thanking Nick Trivisonno, who will be retiring from the Board in May 2016, for his distinguished service on our Board since 2004. He has been a valued adviser and mentor. We welcome Carol Sanders, who has been nominated to join our Board in May 2016, and I look forward to working with her and my other colleagues on our Board to provide the highest standards of governance and transparency.

## Industry Position

We believe we have the necessary tools to execute our strategy and are prepared for the challenges and opportunities of 2016 and beyond. However, we remain flexible and open to tactical and strategic opportunities that support the execution of our strategy. Our industry is rapidly evolving and changing. We have always been a company that is open to new ideas and can quickly adapt to market realities, a quality that has allowed us to be industry leaders in several market environments. Some things, however, will not change: our commitments to our customers and investors to pursue superior customer relationships, superior risk selection and superior capital management. Our team is focused, prepared and energized by the challenges and opportunities ahead, and I am confident that we will continue to generate industry-leading returns for our shareholders and partners over the long term.

Sincerely,

**Kevin J. O'Donnell**
President and Chief Executive Officer