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Liberty Mutual Holding Company Inc.

FQ4 2017 Earnings Call Transcripts

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Liberty Mutual Insurance conference call on its fourth quarter and full year 2017 financial results. While this call is available online at the URL included in Liberty Mutual Insurance's press release, analysts should participate by phone in order to ask a question. To begin Liberty Mutual's presentation is Mr. Ed Peña, Vice President and Director of Investor Relations. Mr. Peña?

Edward Peña

Good morning, and welcome to Liberty Mutual's Fourth Quarter and Full Year 2017 Earnings Call. Hopefully, you have seen the fourth quarter and full year earnings release and financial statements posted last night on our website at libertymutualgroup.com. David Long, Chairman and Chief Executive Officer of Liberty Mutual Insurance, will provide updates on some of our recent announcement, followed by his opening remarks on the quarter and the year. Following David, Chris Peirce, Liberty's new Chief Financial Officer, will touch on our financial results. Also participating on today's call are Neeti Bhalla Johnson, Chief Investment Officer and President of Liberty Mutual Investments, Jim Kelleher, Chief Legal Officer; Tim Sweeney, President, Global Retail Markets; and Dennis Langwell, President, Global Risk Solutions.

Also as a reminder, today's discussions may contain forward-looking statements that represent the company's beliefs concerning future operations, strategies, financial results or other developments. Actual results may differ materially from those expressed or implied. Please refer to the Liberty Mutual website for a complete discussion of the risk factors related to this presentation and the company. The company does not intend and does not undertake any obligation to update these forward-looking statements which speak only as of today's date.

I will now turn the call over to David for his opening remarks.

David Henry Long
Chairman, President & CEO

Thanks, Ed, and good morning, everyone. I'd first like to discuss our recent sale of Liberty Life Assurance Company of Boston to Lincoln Financial for $3.3 billion. The transaction is pending regulatory approval and other customary closing conditions, but it is expected to close in the second quarter of 2018. The decision to sell LLAC, while difficult for us, allows our life employees to become a key strategic component of an organization that specializes in life and benefits and provides the opportunity for Liberty to focus exclusively on property and casualty insurance.

Also on the M&A front, we entered into an agreement to sell our Turkish insurance company, Liberty Sigorta to Talanx International, Germany's third largest insurance group. While Liberty Sigorta had made recent financial progress, we concluded that the company couldn't reach the scale required to have a meaningful market presence.

I'd also like to touch upon our recent realignment. Upon disclosing our agreement to sell LLAC, we immediately announced the coming together of our insurance operations into 2 major businesses: Global Retail Markets and Global Risk Solutions. Global Risk Solutions, GRS, will bring together global specialty, which included Ironshore; National Insurance, formerly in Commercial Insurance; and the Global Reinsurance Strategy Group; formally incorporated into one entity. Together, GRS will face the market as a unified force with global reach and a full complement of products, capabilities and scale needed to deliver top quality, competitively priced solutions to our customers. Dennis Langwell, the former Chief Financial Officer of Liberty Mutual, will lead this business.

And I do want to take the opportunity to thank Dennis for his 15-year run as CFO, and I'm confident he'll be equally successful in his new role. And as I've mentioned earlier, Chris Peirce will assume the role of CFO.

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Global Retail Markets, GRM, will combine the existing Global Consumer Markets with the Business Insurance and Accident and Health organizations formerly in Commercial. This will allow GRM to deliver a full suite of individual motor, property and A&H products to consumers while enhancing their ability to provide commercial products to small businesses in an easy to transact, streamlined, price-competitive manner. Tim Sweeney, President of Global Consumer Markets, will lead GRM. Neeti Bhalla Johnson, will continue to lead Liberty Mutual investments.

And now on to the financial results, which we will discuss under the 2017 operating structure. Net income from continuing operations was $153 million for the quarter, down $28 million from the fourth quarter of 2016. Net catastrophe losses increased $184 million to $450 million, largely as a result of the Northern California wildfires, which contributed approximately $300 million.

Overall, net written premium was up 8%, excluding the impact of foreign exchange. The addition of Ironshore was the biggest driver, accounting for about half of this growth.

From an underwriting perspective, the combined ratio increased 3.5 points in the quarter to 100.5%. The core loss ratio increased 2.2 points, and I will discuss the loss ratio trends at the SBU level shortly. And the aforementioned catastrophe losses added 1.6 points.

Our continued expense focus resulted in a 1.3-point improvement in the expense ratio, with all of our businesses contributing to that reduction. In addition, 2016 benefited from about 1 point of favorable developments on reinsurance reserves, which did not repeat in 2017.

Looking at SBU results in the quarter, Global Consumer Markets grew 4.1% to just under $5.4 billion of net written premium. Domestically, growth was driven primarily by renewal rate increases of almost 8%, and we do expect this positive pricing momentum to continue into 2018. The core combined ratio though increased 20 basis points. The loss ratio increased 1.1 points due to the increase in auto loss trends we discussed over the course of 2017. And the expense ratio decreased 90 basis points as a result of improved operating leverage.

USCM was heavily impacted by the California wildfires, which contributed to the 15.5 points of catastrophe losses in the quarter, driving the total combined ratio up to 104.1%, 12.6 points higher than in 2016.

The GCM East-West, the combined ratio came in at 102.8%, an improvement of 1.6 points. The loss ratio decreased 3.1 points, largely as a result of improved experience in Brazil and Ireland. And partially offset, in the combined ratio improvement was 1.6 points of lower favorable prior year development compared to 2016.

In Commercial Insurance, we continue to see pressure on margins, particularly within commercial auto. And while we still have work to do, we did achieve renewal rate increases in the quarter of 3.8% across the entire book, with commercial auto the key driver at a 12-plus points of rate. All lines, except worker's compensation exhibited positive rate trends.

The expense ratio improved 2.3 points in the quarter. Unfortunately, current accident year loss ratios climbed 7 points, reflecting a reevaluation in property and casualty lines, resulting in a combined ratio in line with the fourth quarter of 2016 at 107.7%.

Looking at January renewals, in light of the catastrophes and auto loss trends, the market response was somewhat encouraging. We are seeing slight positive rates on our large national accounts and on the small commercial business segments, in total, around 4 points of rates, including well over 10% on commercial auto, with retention holding firm at 81%.

Before closing on Commercial Insurance, please note that until the transaction closes, the results of LLAC will be presented as discontinued operations and will no longer be included within Liberty Mutual Benefits in Commercial Insurance.

Moving to Global Specialty. Despite catastrophe losses nearly doubling in the quarter to $120 million and being adversely impacted by some large loss activity, the combined ratio was 99.7% compared to 95.7% a year ago. We are hopeful that price for specialty lines has reached an inflection point, as we saw renewal

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rates in the quarter turn positive at 0.5% across all of GS for the first time since 2013. While one quarter doesn't make a trend, we are happy, although not fully surprised, that January saw the continuation of these more favorable trends.

In investments, we continued to enjoy a run-up in private equity valuations. Net investment income, including partnerships, LLCs and other equity method investment income grew 26% in the quarter to $544 million. We also realized gains of $122 million compared to losses of $74 million in the prior year. And Chris will provide a little more color on the gains shortly.

With respect to the Tax Cuts and Jobs Act, in the quarter, we posted a onetime charge of $252 million. This was the result of deemed repatriation of foreign earnings and revaluing of our net deferred tax assets. That aside, we think the tax reform, particularly within the insurance industry, was long overdue and will be an ongoing financial benefit.

In closing, while our profitability in 2017 fell well short of our expectations, I'm optimistic heading into 2018. The operational actions discussed today will position the company to take full advantage of our scale, products and capabilities globally, will enable us to face the market in a simpler, more unified fashion and will allow us to deliver better outcomes to our customers. And outside of a few small pockets, rates are firming, and with a little help from Mother Nature, we won't have a repeat of the record catastrophes in 2017.

I'd now like to introduce Chris Peirce as our new Chief Financial Officer. Chris has over 23 years of experience with the company and most recently served as President of Global Specialty. Chris?

Christopher Locke Peirce
Executive VP & CFO

Thanks, David and good morning, everyone. Turning to financial results for the year ended December 31, 2017, pretax operating income before catastrophes, prior year incurred losses and partnership, LLC and other equity method investment income, was $3.0 billion, down 2.7% from $3.1 billion in 2016. Our results were significantly affected by catastrophe losses, totaling $3.6 billion pretax in 2017 compared with $1.7 billion in 2016, making 2017 one of our worst years for catastrophe losses on record.

Additionally, as discussed on our Q3 call, we recognized $400 million of commercial auto strengthening last quarter, contributing to $434 million of prior year incurred losses in 2017. This resulted in a net operating loss before partnerships, LLC and other equity method investment income of $746 million compared to $1.1 billion of net operating income in 2016.

Our full year combined ratio before catastrophes and prior year incurred losses was 94.1%, up from 93.7% in 2016. The claims and claim adjustment expense ratio was 64.5%, up 1.8 points from 62.7% in the prior year, primarily driven by higher auto loss trends in both U.S. Consumer Markets and Commercial Insurance, and higher loss ratios in other commercial property and casualty lines, including higher losses within the corporate reinsurance segment. The increase in the loss ratio was partially offset by expense ratio improvement of 1.4 points, driven by the impact of premium rate increases and lower employee-related costs. Including the impact of catastrophes and prior year incurred losses, our combined ratio was 105.6%, up 7.3 points from 98.3% in the prior year, with catastrophes accounting for 5 points of the increase.

Our results benefited from pretax partnership, LLC and other equity method income of $570 million, which was up significantly from $2 million in 2016, driven by higher valuations within our private equity portfolio, primarily traditional private equity in energy. Net realized gains were $468 million in 2017 versus realized losses of $125 million in the prior year. These gains were largely the result of the repositioning of our U.S. equity portfolio from actively managed equities to a passive strategy and a $109 million gain from the sale of a company-owned building earlier in the year. 2017 was further impacted by lower impairments on direct investments in oil and gas wells, partially offset by higher impairments on internally-developed software within the year compared to 2016. Acquisition and integration costs related to the Ironshore acquisition were $86 million for the full year 2017.

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Our cash flow provided by continuing operations was $1.8 billion, down $388 million from 2016, reflecting a $550 million outflow for the Ironshore adverse development cover as well as higher catastrophe loss payments, partially offset by lower pension funding and higher growth driven premium collections.

We ended the year with financial leverage of 24.4%. This level is well within the requirements of our ratings. GAAP equity at the end of the year was approximately $20.7 billion, up just over $300 million from the prior year-end due to favorable changes in other comprehensive income impacted by the interest rate environment.
This concludes our prepared remarks, and we'll now open it up for questions.

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Question and Answer

Operator

[Operator Instructions] And we'll take our first question from Alex Obaza from T. Rowe Price.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

I was wondering if we could start on -- curious your thoughts or your plans on proceeds from the sale of the life business.

David Henry Long
Chairman, President & CEO

Thanks, Alex. Yes, we don't generally talk about what we're going to do with capital. I would just say that we're pretty happy to have it, and we have both investments and insurance options that we take a look at. But in the short term, we're just happy to take the inflow and have it in the balance sheet.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

Okay. That makes sense. And just so we're clear, when you say investments and insurance options, does that mean writing organic business?

David Henry Long
Chairman, President & CEO

Yes, I think we've got a number of options if we want to put capital in play. We could choose to grow organically. We could choose to invest in insurance operations through acquisition. And/or we could look at other investment options that might generate better returns for us. So we're always pretty disciplined in terms of where we want to put that in play, and those options are always on the table for us.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

All right, got it. And then when I look at your interest coverage -- holding company interest coverage overall, I think 5.6x versus 5.8 last year. But it looks like the -- service fees went up to $380 million from $294 million last year. Can you just walk through what are the drivers of that number?

David Henry Long
Chairman, President & CEO

Yes. Hang on a sec. We got folks looking at numbers here, Alex.

Christopher Locke Peirce
Executive VP & CFO

Alex, we'll get back to you on that number.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

Okay. Got it. Okay. And then just a couple of other quick ones I had. And there is -- your GAAP equity backing out AOCI was about flat for the year. But stat surplus did go lower by about a couple of billion dollars, I think. Could you walk through what are the different drivers that drove down stat surplus but not GAAP equity?

Christopher Locke Peirce
Executive VP & CFO

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Sure, Alex. This is Chris. We did have some bigger impacts from the stat surplus number from the tax reform and also additional goodwill coming in from Ironshore, and then also some of the unrealized activity that doesn't get reflected for stat. So that did result in the stat surplus number coming down to about $17.5 billion.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

Sorry. Okay, if we could just drill down on this -- so tax reform is the DTA?

Christopher Locke Peirce
Executive VP & CFO

Yes, exactly.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

And then what -- and then you said goodwill from Ironshore?

Christopher Locke Peirce
Executive VP & CFO

Yes. So we had additional goodwill that came on the books from Ironshore not fully reflected on stat. And then, also, some of the unrealized gains that get reflected in GAAP equity are not in stat.

Alexander S. Obaza
T. Rowe Price Associates, Inc.

Right, okay. But even -- yes. I mean even backing out the AOCI, GAAP equity was flat for the year. So it sounds like you're saying the 2 main differences were the DTA and then the goodwill from Ironshore hit GAAP but not stat?

Christopher Locke Peirce
Executive VP & CFO

Agreed.

Operator

[Operator Instructions] And we'll take our next question from Marc Cohen with Guggenheim Partners.

Marc Cohen

I'd like to drill down on the current year loss trends in the Commercial Insurance and Global Specialty segments that were highlighted in the presentations last night. Specifically, I guess, with the auto liability loss trends in the fourth quarter, following the $400 million reserve strengthening, I just was wondering what occurred in the fourth quarter that wasn't seen in the third quarter on that reserve strengthening. And maybe if you could talk about the other business lines' general liability and the higher noncap property that you've highlighted in both the fourth quarter and the full year results. Is there something in respect to loss cost trends that's catching up? What exactly is the current year accident loss trend that's affecting the company that needed to be -- that resulted in the higher underlying loss number?

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Yes, the fourth quarter reestimation was pretty much split between commercial auto and GL. It was really just a -- relative to reserves, a fairly minor adjustment overall. So auto is booked up to roughly slightly higher than what we think the industry loss ratio is, so it's not unique to us. It's an industry event. As far as general liability goes, we've seen deterioration in that versus the prior year. We've taken a fair amount of strengthening this year and it booked up the current accident year ratio to where we think it should be.

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I know you had a couple of other questions in there, Alex (sic) [Marc]. Maybe you could repeat them if I didn't answer them.

Marc Cohen

No, I appreciate that. I just wanted to know in respect to the higher non-GAAP property and, I guess, the general liability. I know you highlighted there were small catch-ups. But I think the underlying, -- if I'm reading this correctly, the underlying claims and claims adjustment expense prior to catastrophes was -- was 70.4% versus 63.4% the previous year, or 66.7% versus 62% for the full year on the Commercial Insurance side. There seems to be a bigger divergence than the small reestimation that you've highlighted in terms of commercial auto and general liabilities. So I just want to make sure I'm understanding this correctly, and this of course is prior to cats.

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Okay. So you're on property, and property can have large, noncatastrophe-related losses that are just fortuitous. And there were some of those. I think, also, in general liability, we had a few a large unusual losses that we considered outside of the attritional loss ratio, so those were recorded as well.

Marc Cohen

And what about Global Specialty? It seems like there's the same issues in that segment as well.

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Well, Global Specialty reflects some large loss activity where we write large limits, and we get large losses periodically. Additionally, the Ironshore loss ratio runs higher than what the traditional Global Specialty did. So the -- in the energy sector for example, the ADNOC loss was a large loss that impacted us this year, noncatastrophe but just a large loss occurrence.

Marc Cohen

And -- I'm sorry. If my memory serves me correct, wasn't there a coverage with, I guess, Berkshire Hathaway in respect to the previous reserves of Ironshore? So this is not legacy Ironshore reserves, this is, I guess, the business that was written post the acquisition of Ironshore?

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Yes, that's -- the Ironshore mix of business has a higher loss ratio than the historical Global Specialty. So that resulted in a higher loss ratio. Just the math of it, however, the expense ratio is significantly lower because Ironshore runs a lower expense ratio, coupled with growth in our reinsurance business.

Marc Cohen

And given that mix of business, are we supposed to, I guess, estimate that, that Global Specialty will run at this higher claims ratio going forward given the Ironshore mix of business?

Dennis James Langwell
Executive VP & President of Global Risk Solutions

Well, again, there was a large loss activity this year that may not recur this year. So I think as a working estimate, you could use this year's. But again, it has large loss activity.

Operator

[Operator Instructions] We'll go to our next question from Rob Hauff from Wells Fargo.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

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I had a couple of questions here. The first is, if we just look back over 2017, I mean, it looks like 2 major drags on your results were of course the auto books, which you guys had talked about pretty extensively, and then the second is on catastrophes. So just at a very high level, I know you guys are taking rate in auto and, actually, the commercial rate you're taking sounds pretty impressive right now. But over what time frame should we start thinking about these books turning the corner and becoming bottom line contributors again? So that's my first question. And then on the catastrophes, the $3.6 billion in 2017 is noted as a record. The MD&A made it sound like you guys were purchasing a bit more reinsurance than in the past. If that is true, how would you compare the 2017 losses under any revisions you made to the -- your reinsurance program? I mean, would losses be 10%, 20% lower under any revisions you've made? Or have you really not made any changes to your program at all? Any color there would be helpful.

David Henry Long
Chairman, President & CEO

So Rob, this is Dave. Thanks for the questions. I would say we'd have to go kind of line by a line in terms of contributing to the bottom line. On the USCM side, I'll let Tim comment. It's still -- we're still more -- it's strange to say after this catastrophe year, but we're still more concerned about auto pricing than we are homeowners pricing. And I'll let Tim comment on that in a second. On the specialty lines and in commercial, I think that on specialty in particular, there's still a lot of capital out there. So while we haven't seen anything other than price decreases over the past number of years, we have sort of leveled out and seen a slight positive, which is encouraging, but it's hardly a tailwind. So I think risk selection is going to be critically important as we move forward. And I'll let Dennis comment a little bit on that. On the reinsurance side, I would say we were a little cautious this year given that we knew that we were going to make the Ironshore acquisition and given that, early in the year, we've seen some pretty significant hail activity. And so we probably purchased a little bit more reinsurance than we ordinarily would. Fortunately or unfortunately, depending upon how you want to interpret it, we gained some significant recoveries this year. But philosophically, I would say that we don't spend real money to protect risks that we think we can take. So the structure last year was a little bit more given the circumstances. And so on an ongoing basis, if the business that we write in is priced properly, we wouldn't run away to protect earnings. So really, the reinsurance strategy this year was much more of a preserve capital play given the activity that we've seen and given the activity that we knew was coming. So I wouldn't anticipate more purchases in '18. I think we're protected adequately, but we're not changing philosophically in terms of what we choose to protect. And so I wouldn't do any magical math around reinsurance for 2018. Tim, you want to talk a little bit about lines?

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

Sure I -- this is Tim Sweeney. On U.S. personal auto, we're -- we did in 2017 start to see loss trends moderate a little bit more to the 5% range that had been elevated beyond that. So that's kind of what we expect as a run rate loss trend on auto, in that 4% to 5% range. We're taking high single-digit rate continuing into 2018. We're looking to take probably about 4 points out of our auto combined ratio in the U.S. so we feel like we've got a pretty clean line of sight to do that. It's not a Herculean task, rate ahead of trend through 2018, should get us to where we need to be. So that's the auto line. So some rate. Most of our competitors are taking rates. Despite the rate we took last year, our retention actually exceeded our expectations, which to me is a suggestion that our competitors are hitting rate hitting hard too, which is confirmed by other external sources. On the property side, we feel pretty good about ex cap property in the U.S., homeowners on the personal lines side. If you actually look at our personal lines catastrophe losses from 2017, we're actually pretty close to our expectation on severe storm. It was the wildfires in California that was the big bump for us. And for various reasons, we do think that, that was just a very bad year. So feeling okay about our ability to anticipate the severe storm activity over a 5-year period. We've been pretty close to picking our catastrophe losses in the personal lines side, and the wildfire was the big kind of hiccup last year. So property feeling okay. We're going to take some more conservatism in how we're pricing for catastrophes even though we feel pretty good about our ability to predict the severe storms. Nonetheless, we're going to hit rate a little higher than we normally would have. Given last year in the auto side kind of just a little bit ahead of trend on the rate side, we'll get to our target combined ratio within the next 12, 14 months.

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Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

And -- I'm sorry, where did domestic auto end 2017 from a combined ratio perspective?

Timothy Michael Sweeney
Executive VP & President of Global Retail Markets

In the -- right in the 100% to 101% range, and we want to be around 97%.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Got it. Good to know. Okay. And then I know Alex asked about the Liberty Life deal. I wanted to take a step back though and just think about everything else going on, which there's been some press releases out there that you guys are looking to sell $1 billion of your private equity investments. You mentioned the sale of the Turkish book. It looks like you guys sold a renewal rights deal to Allianz. Dave, what -- as you step back and think about all these things as an investor, it sounds like a lot is going on. You guys are -- is it simply about refining the business, looking ahead? Are some of these actions linked to Ironshore where maybe you had some overlap? Are they independent of Ironshore coming into the mix? If you could just talk strategically about all these things coming through in a very short period of time, what are your top strategic goals for the company over the next 1 to 2 years when we piece all this stuff together?

David Henry Long
Chairman, President & CEO

Yes. So I'll separate -- Rob, I'll separate the big stuff from the little stuff. Like by far the biggest sort of strategic issue for us is the divestiture of life and getting out of the life business and taking that capital and redeploying it into P&C. And that paved the way for us to be -- to focus in the way that we did and realign the organization in the way that we have. And so that -- I'm pretty enthusiastic about what we have here and -- on a go-forward basis. The second, and I'll let Neeti talk to it, the second, that was more of a strategic play as repositioning the portfolio and getting out. The timing was good to get out of some of those private deals through a secondary sale, and she can comment on that in a second. The other stuff to me is just peripheral, right. So the Turkish operation was small. The getting out of -- the renewal rights that we sold Allianz was even smaller. That's sort of cleaning up around the edges. I think as we move forward, we're talking about Ironshore in particular and moving forward, we'll have the opportunity to tuck some of the Ironshore international operations into Liberty's operations, and we'll probably make some announcements on that this week. And -- but I'm pretty excited about where we're where sitting. I think we have the scale and scope on both the retail, personal lines and small commercial lines to expand not only in the U.S. but give our international countries the opportunity to write some more balanced books of business with small commercial. So we're pretty happy about that. I think we can bring together the specialty products of Ironshore and the standard products of National Insurance and face the market and face our customers with a full complement of full-touch underwriting products, which we haven't been able to do in the past. In particular here in the U.S., I think we have a huge opportunity to bring something to the market that there's very little of, which is a full scale of commercial products. So yes, I feel pretty excited. I was a little concerned that it looks a bit like fire sale. You have a bad year and, all of a sudden, you're selling stuff. But this is all proactive on our part. I would anticipate that you will see minimal divestitures going forward. I think we have the footprint that we want in the short-term, internationally. We might choose to double down in some of those places to establish more critical mass in the markets that we're in but unlikely will enter new markets. I think we have the scale and the products to be successful on both the personal lines side and the commercial side, both in the U.S. and abroad. So we might have bombarded you with a number of announcements, but I think it might be quiet for a while. But I'll let Neeti comment about repositioning the portfolio a little bit and that should complete this detail.

Neeti Bhalla Johnson
Executive VP, President & Chief Investment Officer of Investments

Yes, Rob. What I would say is, I think it's one of these things where you start to plan things strategically well in advance, and then sort of everything happens around the same time. And that's really what

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you're seeing. But strategically for the investment portfolio, we've talked to you all about how we've been thinking very closely about the exposures that we have, why we have them, what purpose do they serve and are they correctly sized. And some of the things that we've been looking at very closely is not only to buy discipline but the sell discipline across the entire portfolio and how do to really start to capitalize on secondary markets that are becoming more liquid or some alternative assets and, of course, in the public markets as well. And so really, it's the culmination of all of those things coming together. So you know we repositioned the public equity portfolio because we felt that the sizing of it didn't really merit us doing that in an active way and so we've gone to a passive strategy and sized it differently. We've looked at our commodity-oriented book, be it energy or metals and mining, and have refocused the strategy there as well as sized it differently. And private equity, we've been in the private equity business for over 13 years. We're very committed to private assets. If anything, I'd argue that we should be able to capitalize on the liquidity premium, more so going forward. However, the secondary market in private equity is pretty active at this point in time. And to deploy the sell discipline just means that the timing is fortuitous to take some of that and think about putting it to work somewhere else. So really, it's just all aggregate portfolio and capital management discipline, and it's all just happens to have come together at the same time.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

And the -- I saw in your statements, it looks like you guys still have about $1.5 billion of commitments to fund private equity investment. Should we expect that to come down as well? Or do you think you'll hold steady there?

Neeti Bhalla Johnson
Executive VP, President & Chief Investment Officer of Investments

No. As I said, we're looking -- we're committed to the private equity business overall. And when I think of private equity, I think of it as funds co-investments, energy direct investing, agriculture and timber private credit. And so really, I think of it broadly as illiquid risk. So I wouldn't look to see the forward commitments come down in any aggressive way.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay, so it sounded to be a little more opportunistic than anything with where the market is.

Neeti Bhalla Johnson
Executive VP, President & Chief Investment Officer of Investments

That's exactly right. That's exactly right.

Robert Glenn Hauff
Wells Fargo Securities, LLC, Research Division

Okay. Okay, great. And last one for me, just coming at the stat surplus question a little differently here. LMIC ended the year in an RBC of 354%. If I look back over the past 10, 15 years, LMIC has historically run about 475% or so on average. So you're running a little over 100 points light. Should we expect through 2018 -- it sounds like you guys might be a little bit quieter. Should we expect to see capital rebuild down there? Is some of the capital earmarked from either the private equity sale or the Liberty Life deal? Should we expect some of that to be pushed down to shore up the RBC down at LMIC? How should we think about that ratio trending from this level?

Christopher Locke Peirce
Executive VP & CFO

Yes, this is Chris. Yes, I think -- so obviously, we're -- we watch RBC ratio very closely. And there were some significant impacts in '17 from, obviously, the catastrophe results and the reserves going up in the Ironshore acquisition and tax reform and the new cap charge in there, so a lot of activity on the RBC front. So I think we're very comfortable with our capital levels for our ratings and RBC, but we will watch closely

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and certainly would expect based on plans for 2018 that, that capital would rebuild. So we will watch that very closely.

Operator

[Operator Instructions] There appear to be no further questions. I would like to turn the floor back over to Ed Peña for any closing remarks.

Edward Peña

Thank you, everybody for joining us this morning. If you have any other questions, please follow up with us at our website, libertymutual.com. Thank you.

Operator

And this concludes the Liberty Mutual insurance fourth quarter and full year 2017 financial results presentation. Thank you for participating.

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