Third Point Reinsurance Ltd.
Form 10-Q
August 06, 2015
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q
(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2015
OR	
¨	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from to

Commission File Number 001-35039
THIRD POINT REINSURANCE LTD.
(Exact name of registrant as specified in its charter)

Bermuda	98-1039994
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

The Waterfront, Chesney House
96 Pitts Bay Road
Pembroke HM 08, Bermuda
+1 441 542-3300
(Address, including Zip Code and Telephone Number, including Area Code of Registrant's Principal Executive Office)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x
The registrant's common shares began trading on the New York Stock Exchange on August 15, 2013.
As of August 6, 2015, there were 105,262,341 common shares of the registrant's common shares issued and outstanding, including 1,262,020 restricted shares.

Third Point Reinsurance Ltd.
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PART I - Financial Information
ITEM 1. Financial Statements

THIRD POINT REINSURANCE LTD.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
As of June 30, 2015 and December 31, 2014
(expressed in thousands of U.S. dollars, except per share and share amounts)

	June 30, 2015	December 31, 2014
Assets		
Equity securities, trading, at fair value (cost - $1,200,233; 2014 - $1,078,859)	$1,332,489	$1,177,796
Debt securities, trading, at fair value (cost - $776,960; 2014 - $546,933)	801,725	569,648
Other investments, at fair value	72,699	83,394
Total investments in securities and commodities	2,206,913	1,830,838
Cash and cash equivalents	46,800	28,734
Restricted cash and cash equivalents	589,231	417,307
Due from brokers	263,440	58,241
Securities purchased under an agreement to sell	17,963	29,852
Derivative assets, at fair value	27,995	21,130
Interest and dividends receivable	5,508	2,602
Reinsurance balances receivable	291,226	303,649
Deferred acquisition costs, net	180,452	155,901
Unearned premiums ceded	1,226	—
Loss and loss adjustment expenses recoverable	184	814
Other assets	5,923	3,512
Total assets	$3,636,861	$2,852,580
Liabilities and shareholders’ equity		
Liabilities		
Accounts payable and accrued expenses	$12,356	$10,085
Reinsurance balances payable	32,662	27,040
Deposit liabilities	147,161	145,430
Unearned premium reserves	571,580	433,809
Loss and loss adjustment expense reserves	312,945	277,362
Securities sold, not yet purchased, at fair value	151,115	82,485
Securities sold under an agreement to repurchase	10,992	—
Due to brokers	681,280	312,609
Derivative liabilities, at fair value	19,139	11,015
Performance fee payable to related party	25,059	—
Interest and dividends payable	3,678	697
Senior notes payable, net of deferred costs	113,290	—
Total liabilities	2,081,257	1,300,532
Commitments and contingent liabilities		
Shareholders’ equity		
Preference shares (par value $0.10; authorized, 30,000,000; none issued)	—	—
Common shares (par value $0.10; authorized, 300,000,000; issued and outstanding, 105,262,341 (2014: 104,473,402))	10,526	10,447
Additional paid-in capital	1,073,369	1,065,489
Retained earnings	442,109	375,977
Shareholders’ equity attributable to shareholders	1,526,004	1,451,913
Non-controlling interests	29,600	100,135

Total shareholders’ equity	1,555,604	1,552,048
Total liabilities and shareholders’ equity	$3,636,861	$2,852,580

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

THIRD POINT REINSURANCE LTD.
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
For the three and six months ended June 30, 2015 and 2014
(expressed in thousands of U.S. dollars, except per share and share amounts)

	Three months ended		Six months ended	
	June 30, 2015	June 30, 2014	June 30, 2015	June 30, 2014
Revenues				
Gross premiums written	$184,342	$145,508	$397,676	$233,095
Gross premiums ceded	(1,425)	—	(1,477)	—
Net premiums written	182,917	145,508	396,199	233,095
Change in net unearned premium reserves	(62,339)	(66,758)	(136,546)	(81,083)
Net premiums earned	120,578	78,750	259,653	152,012
Net investment income	38,611	40,485	103,529	90,520
Total revenues	159,189	119,235	363,182	242,532
Expenses				
Loss and loss adjustment expenses incurred, net	76,053	44,409	157,799	90,668
Acquisition costs, net	47,498	29,583	102,155	55,014
General and administrative expenses	14,267	9,549	25,975	19,574
Other expenses	2,315	1,020	5,016	1,807
Interest expense	2,052	—	3,088	—
Foreign exchange losses (gains)	139	—	(54)	—
Total expenses	142,324	84,561	293,979	167,063
Income before income tax expense	16,865	34,674	69,203	75,469
Income tax expense	(708)	(2,375)	(2,013)	(2,375)
Income including non-controlling interests	16,157	32,299	67,190	73,094
Income attributable to non-controlling interests	(495)	(1,007)	(1,058)	(2,023)
Net income	$15,662	$31,292	$66,132	$71,071
Earnings per share				
Basic	$0.15	$0.30	$0.63	$0.68
Diluted	$0.15	$0.29	$0.62	$0.66
Weighted average number of common shares used in the determination of earnings per share				
Basic	103,927,761	103,264,616	103,837,545	103,264,616
Diluted	106,696,874	106,433,881	106,425,347	106,505,715

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

THIRD POINT REINSURANCE LTD.
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)
For the six months ended June 30, 2015 and 2014
(expressed in thousands of U.S. dollars, except share amounts)

	2015	2014
Common shares		
Balance, beginning of period	104,473,402	103,888,916
Issuance of common shares	788,939	42,470
Balance, end of period	105,262,341	103,931,386
Common shares		
Balance, beginning of period	$10,447	$10,389
Issuance of common shares	79	4
Balance, end of period	10,526	10,393
Additional paid-in capital		
Balance, beginning of period	1,065,489	1,055,690
Issuance of common shares, net	2,082	(5)
Share compensation expense	5,798	4,498
Balance, end of period	1,073,369	1,060,183
Retained earnings		
Balance, beginning of period	375,977	325,582
Income including non-controlling interests	67,190	73,094
Income attributable to non-controlling interests	(1,058)	(2,023)
Balance, end of period	442,109	396,653
Shareholders' equity attributable to shareholders	1,526,004	1,467,229
Non-controlling interests		
Balance, beginning of period	100,135	118,735
Non-controlling interest in investment affiliate, net	(24,999)	(51,001)
Non-controlling interest in Catastrophe Fund	(46,886)	6,151
Non-controlling interest in Catastrophe Manager	292	—
Income attributable to non-controlling interests	1,058	2,023
Balance, end of period	29,600	75,908
Total shareholders' equity	$1,555,604	$1,543,137

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

THIRD POINT REINSURANCE LTD.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
For the six months ended June 30, 2015 and 2014
(expressed in thousands of U.S. dollars)

	2015	2014
Operating activities		
Income including non-controlling interests	$67,190	$73,094
Adjustments to reconcile income including non-controlling interests to net cash provided by operating activities		
Share compensation expense	5,798	4,498
Interest expense on deposit liabilities	1,983	1,044
Net unrealized (gain) loss on investments and derivatives	(48,211)	5,175
Net realized gain on investments and derivatives	(88,632)	(131,308)
Foreign exchange gains included in income including non-controlling interests	(54)	—
Amortization of premium and accretion of discount, net	1,276	1,292
Changes in assets and liabilities:		
Reinsurance balances receivable	12,311	(54,069)
Deferred acquisition costs, net	(24,551)	(39,667)
Unearned premiums ceded	(1,226)	—
Loss and loss adjustment expenses recoverable	630	(997)
Other assets	(2,411)	115
Interest and dividends receivable, net	75	(1,064)
Unearned premium reserves	137,771	81,084
Loss and loss adjustment expense reserves	35,749	50,296
Accounts payable and accrued expenses	2,271	(4,000)
Reinsurance balances payable	5,462	17,775
Performance fee payable to related party	25,059	22,002
Net cash provided by operating activities	130,490	25,270
Investing activities		
Purchases of investments	(1,669,124)	(1,462,226)
Proceeds from sales of investments	1,405,097	1,245,348
Purchases of investments to cover short sales	(184,966)	(97,112)
Proceeds from short sales of investments	278,170	101,861
Change in due to/from brokers, net	163,472	260,561
Decrease in securities purchased under an agreement to sell	11,889	4,297
Increase in securities sold under an agreement to repurchase	10,992	—
Change in restricted cash and cash equivalents	(171,924)	(28,547)
Net cash (used in) provided by investing activities	(156,394)	24,182
Financing activities		
Proceeds from issuance of common shares, net of costs	2,161	—
Proceeds from issuance of senior notes payable, net of costs	113,224	—
Increase (decrease) in deposit liabilities	178	(250)
Non-controlling interest in investment affiliate, net	(24,999)	(51,001)
Non-controlling interest in Catastrophe Fund	(46,886)	6,151
Non-controlling interest in Catastrophe Manager	292	—
Net cash provided by (used in) financing activities	43,970	(45,100)
Net increase in cash and cash equivalents	18,066	4,352
Cash and cash equivalents at beginning of period	28,734	31,625
Cash and cash equivalents at end of period	$46,800	$35,977
Supplementary information		

Interest paid in cash	$2,091	$944
Income taxes paid in cash	$2,018	$911

The accompanying Notes to the Condensed Consolidated Financial Statements are an integral part of the Condensed Consolidated Financial Statements.

Third Point Reinsurance Ltd.
Notes to the Condensed Consolidated Financial Statements (UNAUDITED)
(Expressed in United States Dollars)
1. Organization
Third Point Reinsurance Ltd. (together with its wholly and majority owned subsidiaries, the “Company”) was incorporated under the laws of Bermuda on October 6, 2011. Through its reinsurance subsidiaries, the Company is a provider of global specialty property and casualty reinsurance products. The Company operates through two licensed reinsurance subsidiaries, Third Point Reinsurance Company Ltd. (“Third Point Re”), a Bermuda reinsurance company that commenced operations in January 2012, and Third Point Reinsurance (USA) Ltd. (“Third Point Re USA”).
Third Point Re USA is a Bermuda reinsurance company that was incorporated on November 21, 2014 and commenced operations in February 2015. Third Point Re USA made an election under Section 953(d) of the U.S. Internal Revenue Code of 1986, as amended, to be taxed as a U.S. entity. Third Point Re USA will price and underwrite U.S. domiciled reinsurance business from an office in the United States. Third Point Re USA is a wholly owned subsidiary of Third Point Re (USA) Holdings, Inc. (“TPRUSA”), an intermediate holding company based in the U.S., which is a wholly owned subsidiary of Third Point Re (UK) Holdings Ltd. (“Third Point Re UK”), an intermediate holding company based in the United Kingdom. Third Point Re UK is a wholly owned subsidiary of Third Point Reinsurance Ltd.
On June 15, 2012, Third Point Reinsurance Opportunities Fund Ltd. (the “Catastrophe Fund”), Third Point Reinsurance Investment Management Ltd. (the “Catastrophe Fund Manager”), and Third Point Re Cat Ltd. (the “Catastrophe Reinsurer”) were incorporated in Bermuda. The Catastrophe Fund Manager, a Bermuda exempted company, is the investment manager of the Catastrophe Fund. In December 2014, the Company announced that it would no longer accept investments in the Catastrophe Fund, that no new business would be written in the Catastrophe Reinsurer and that the Company would be redeeming all existing investments in the Catastrophe Fund. The Catastrophe Fund Manager will continue to manage the run off of the remaining exposure in the Catastrophe Fund.
On August 2, 2012, the Company established a wholly-owned subsidiary in the United Kingdom, Third Point Re Marketing (UK) Limited (“TPRUK”). On May 20, 2013, TPRUK was licensed as an insurance intermediary by the UK Financial Conduct Authority.
On August 20, 2013, the Company completed an initial public offering (“IPO”) of 24,832,484 common shares at an offering price of $12.50 per share. The net proceeds of the offering were $286.0 million, after deducting offering costs. The Company’s common shares are listed on the New York Stock Exchange under the symbol “TPRE”.
These unaudited condensed consolidated financial statements include the results of the Company and its wholly and majority owned subsidiaries (together, the “Company”) and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 in Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In addition, the year-end balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. This Quarterly Report should be read in conjunction with the audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the U.S. Securities and Exchange Commission on February 27, 2015.
In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the Company’s financial position and results of operations as at the end of and for the periods presented. All significant intercompany accounts and transactions have been eliminated.
The results for the six months ended June 30, 2015 are not necessarily indicative of the results expected for the full calendar year.

2. Significant accounting policies

There have been no material changes to the Company’s significant accounting policies as described in its Form 10-K for the year ended December 31, 2014, except as noted below.

Prior year changes in the presentation of condensed consolidated statements of cash flows

The Company had previously excluded income attributable to non-controlling interests from cash flows provided by operating activities and included these amounts in cash flows used in investing activities and provided by financing activities. The Company began including income from non-controlling interests in cash flows provided by operating activities for the year ended December 31, 2014. In addition, cash flows related to the non-controlling interest in investment affiliate were previously included in net cash used in investing activities and is now being included in net cash provided by financing activities. Lastly, the Company now includes interest expense on deposit liabilities and the change in fair value of embedded derivatives in deposit liability contracts as non-cash adjustments in operating activities. These changes did not impact the condensed consolidated balance sheets or condensed consolidated statements of income for the prior periods. The Company modified the presentation of its condensed consolidated statement of cash flows for the six months ended June 30, 2014 to conform to the current year presentation.

Recently issued accounting standards

Issued and effective as of June 30, 2015

In April 2014, the FASB issued Accounting Standards Update 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity (ASU 2014-08). ASU 2014-08 changes the requirements for reporting discontinued operations, such that a disposal of a component of the Company’s operations is required to be reported as discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on the Company’s operations and financial results. ASU 2014-08 is effective for all disposals that occur after January 1, 2015, with early adoption permitted. This new pronouncement did not have a material impact on the Company’s condensed consolidated financial statements.

Issued but not yet effective as of June 30, 2015

In February 2015, the FASB issued Accounting Standard Update 2015-02, Consolidation (Topic 810) Amendments to the Consolidation Analysis (ASU 2015-02). ASU 2015-02 requires management to evaluate whether limited partnerships and similar legal entities are variable interest entities (VIEs) or voting interest entities. ASU 2015-02 eliminates the presumption that a general partner should consolidate a limited partnership and affects the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships. ASU 2015-02 also provides a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. The amendments in ASU 2015-02 are effective for interim and annual periods beginning after December 15, 2015. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company’s condensed consolidated financial statements.

In April 2015, the FASB issued Accounting Standards Update 2015-03, Interest - Imputation of Interest (ASU 2015-03). ASU 2015-03 simplifies the presentation of debt issuance costs and requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by ASU 2015-03. The amendments in ASU 2015-03 are effective for financial statements issued for fiscal years beginning after December 31, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company early adopted ASU 2015-03 effective with its debt issuance in February 2015.

In May 2015, the FASB issued Accounting Standards Update 2015-07, Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (ASU 2015-07). ASU 2015-07 will eliminate the requirement to categorize certain investments in the fair value hierarchy if their fair value is measured at net asset value (NAV) per share (or its equivalent) using the practical expedient in the FASB’s fair value measurement guidance. The

amendments in ASU 2015-07 are effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements.

In May 2015, the FASB issued Accounting Standards Update 2015-09, Disclosures about Short-Duration Contracts (ASU 2015-09). ASU 2015-09 amends ASC 944 (Financial Services - Insurance) to expand the disclosures that an insurance entity must provide about its short-duration insurance contracts. Under ASU 2015-09, the FASB focused on targeted improvements to provide users with additional information about insurance liabilities, including the nature, amount, timing, and uncertainty of future cash flows related to insurance liabilities. The amendments in ASU 2015-09 are effective for annual periods beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements.

In June 2015, the FASB issued Accounting Standards Update 2015-10, Technical Corrections and Improvements (ASU 2015-10). ASU 2015-10 amends a number of Topics in the FASB Accounting Standards Codification and is part of an ongoing project on the FASB's agenda to facilitate Codification updates for non-substantive technical corrections, clarifications and improvements that are not expected to have a significant effect on accounting practice or create a significant administrative cost to most entities. The amendments in ASU 2015-10 are effective for annual periods beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact of this guidance on the Company's condensed consolidated financial statements.

3. Restricted cash and cash equivalents

Restricted cash and cash equivalents as of June 30, 2015 and December 31, 2014 consisted of the following:

	June 30, 2015	December 31, 2014
	($ in thousands)	
Restricted cash securing collateralized reinsurance contracts written by the Catastrophe Reinsurer (1)	$22,515	$108,544
Restricted cash securing letter of credit facilities (2)	286,662	218,963
Restricted cash securing other reinsurance contracts (3)	280,054	89,800
	$589,231	$417,307

(1) Restricted cash securing collateralized reinsurance contracts written by the Catastrophe Reinsurer cannot be released until the contract's exposure has expired. The remaining exposures collateralized by these amounts expired in July 2015 and the cedents agreed to release the collateral.

(2) Restricted cash securing letter of credit facilities pertain to letters of credit issued to clients and cash securing these obligations that the Company will not be released from until the underlying reserves have been settled. The time period for which the Company expects these letters of credit to be in place varies from contract to contract, but can last several years.

(3) Restricted cash securing other reinsurance contracts pertain to trust accounts securing the Company's contractual obligation under certain reinsurance contracts that the Company will not be released from until all underlying risks have expired or have been settled. The time period for which the Company expects these trust accounts to be in place varies from contract to contract, but can last several years.

4. Investments

The Company's investments are managed by its investment manager, Third Point LLC ("Third Point LLC" or the "Investment Manager"), under long-term investment management contracts. The Company directly owns the investments that are held in separate accounts and managed by Third Point LLC. The following is a summary of the separate accounts managed by Third Point LLC:

	June 30, 2015	December 31, 2014
Assets	($ in thousands)	
Total investments in securities and commodities	$2,181,728	$1,828,761
Cash and cash equivalents	25,221	3
Restricted cash and cash equivalents (1)	566,716	308,763
Due from brokers	263,440	58,241
Securities purchased under an agreement to sell	17,963	29,852
Derivative assets	27,995	21,130
Interest and dividends receivable	5,505	2,590
Other assets	—	325
Total assets	3,088,568	2,249,665
Liabilities and non-controlling interest		
Accounts payable and accrued expenses	846	464
Securities sold, not yet purchased, at fair value	151,115	82,485
Securities sold under an agreement to repurchase	10,992	—
Due to brokers	681,280	312,609
Derivative liabilities	19,139	10,985
Performance fee payable to related party	25,059	—
Interest and dividends payable	657	697
Capital contributions received in advance	25,214	—
Non-controlling interest	16,317	40,241
Total liabilities and non-controlling interest	930,619	447,481
Total net investments managed by Third Point LLC	$2,157,949	$1,802,184

(1) Includes amounts advanced to Third Point Re to fund collateral held in trust accounts.

The Company's Investment Manager has a formal valuation policy that sets forth the pricing methodology for investments to be used in determining the fair value of each security in the Company's portfolio. The valuation policy is updated and approved at least on an annual basis by Third Point LLC's valuation committee (the "Committee"), which is comprised of officers and employees who are senior business management personnel of Third Point LLC. The Committee meets monthly. The Committee's role is to review and verify the propriety and consistency of the valuation methodology to determine the fair value of investments. The Committee also reviews any due diligence performed and approves any changes to current or potential external pricing vendors.

Investments are carried at fair value. The fair values of investments are estimated using prices obtained from either third-party pricing services or broker quotes. The methodology for valuation is generally determined based on the investment's asset class per the Company's Investment Manager's valuation policy. For investments where fair values from pricing services or brokers are unavailable, fair values are estimated using information obtained by the Company's Investment Manager.

Securities and commodities listed on a national securities or commodities exchange or quoted on NASDAQ are valued at their last sales price as of the last business day of the period. Listed securities with no reported sales on such date and over-the-counter ("OTC") securities are valued at their last closing bid price if held long by the Company, and last closing ask price if held short by the Company. As of June 30, 2015, securities valued at $498.2 million (December 31,

2014 - $434.4 million), representing 22.5% (December 31, 2014 – 23.5%) of investments in securities and derivative assets, and $1.4 million (December 31, 2014 - $1.3 million), representing 0.8% (December 31, 2014 – 1.4%) of securities sold, not yet purchased and derivative liabilities, are valued based on broker quotes or other quoted market prices for similar securities.

Private securities are not registered for public sale and are carried at an estimated fair value at the end of the period. Valuation techniques used by the Company may include market approach, last transaction analysis, liquidation analysis and/or using discounted cash flow models where the significant inputs could include but are not limited to additional rounds of equity financing, financial metrics such as revenue multiples or price-earnings ratio, discount rates and other factors. In addition, third party valuation firms may be employed to conduct separate valuations of such private securities. The third party valuation firms provide written reports documenting their recommended valuation as of the determination date for the specified investments.

As of June 30, 2015, the Company had $16.4 million (December 31, 2014 - $2.3 million) of private securities, representing less than 1% of investments in securities and derivative assets, of which $15.2 million was fair valued by a third party valuation firm using information obtained from the Company’s Investment Manager and $1.2 million was fair valued by the Company’s Investment Manager. The actual value at which these securities could be sold or settled with a willing buyer or seller may differ from the Company’s estimated fair values depending on a number of factors including, but not limited to, current and future economic conditions, the quantity sold or settled, the presence of an active market and the availability of a willing buyer or seller.

The Company’s free standing derivatives are recorded at fair value, and are included in the condensed consolidated balance sheets in derivative assets and derivative liabilities. The Company values exchange-traded derivatives at their last sales price on the exchange where it is primarily traded. OTC derivatives, which include swap, option, swaption, forward, future and contract for differences, are valued by third party sources when available; otherwise, fair values are obtained from broker quotes that are based on pricing models that consider the time value of money, volatility, and the current market and contractual prices of the underlying financial instruments.

As an extension of our underwriting activities, the Catastrophe Reinsurer has sold derivative instruments that provide reinsurance-like protection to third parties for specific loss events associated with certain lines of business. These derivatives are recorded in the condensed consolidated balance sheets at fair value, with changes in the fair value of these derivatives recorded in net investment income in the condensed consolidated statements of income. These contracts are valued on the basis of models developed by us, which approximates fair value.

The Company also has derivatives embedded in non-derivative host contracts that are required to be separated from the host contracts and accounted for at fair value with changes in fair value of the embedded derivative reported in other expenses. The Company’s embedded derivatives relate to interest crediting features in certain reinsurance and deposit contracts that vary based on the returns on the Company’s investments managed by Third Point LLC. The Company determines the fair value of the embedded derivatives using models developed by the Company.

The Company’s holdings in asset-backed securities (“ABS”) for the periods presented are substantially invested in residential mortgage-backed securities (“RMBS”). As of June 30, 2015, the greatest concentration of the Company’s U.S. RMBS was in subprime RMBS positions, which collectively constituted approximately 49% (December 31, 2014 - 49%) of the Company’s ABS holdings. As of June 30, 2015, approximately 27% (December 31, 2014 - 33%) of the Company’s ABS were invested in mezzanine portions of the re-securitized real estate mortgage investment conduits (“re-REMIC”) structure of U.S. Alternative A-paper (“Alt-A”) and prime securities. Non-U.S. RMBS positions constituted approximately 7% (December 31, 2014 - 9%) of the Company’s ABS holdings, with a majority in Europe, as of June 30, 2015. The balance of the Company’s investment in ABS as of June 30, 2015, or 17%, was held in U.S. Alt-A positions, commercial mortgage-backed securities, collateralized debt obligations and student loan ABS. These investments are valued using broker quotes or a recognized third-party pricing vendor. All of these classes of ABS are sensitive to changes in interest rates and any resulting change in the rate at which borrowers sell their properties, refinance, or otherwise pre-pay their loans. As an investor in these classes of ABS, the Company may be exposed to the credit risk of underlying borrowers not being able to make timely payments on loans or the likelihood of borrowers defaulting on their loans. In addition, the Company may be exposed to significant market and liquidity risks.

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The Company values its investments in limited partnerships at fair value, which is estimated based on the Company's share of the net asset value of the limited partnerships as provided by the investment managers of the underlying investment funds. The resulting net gains or net losses are reflected in the condensed consolidated statements of income.

On December 18, 2014, the Company entered into a subscription agreement with the Kiskadee Diversified Fund Ltd. ("Kiskadee Fund") to invest up to $25.0 million in Hiscox Insurance Company (Bermuda) Limited's ("Hiscox") separately managed insurance-linked securities platform, Kiskadee Re Ltd. The Kiskadee Fund is a fund vehicle managed by Hiscox. The Kiskadee Fund invests in property catastrophe exposures through collateralized reinsurance transactions and other insurance-linked investments. On January 2, 2015 and June 1, 2015 the Company funded $5.0 million and $20.0 million, respectively, and there are no remaining commitments. The Company has elected the fair value option for this investment, which is recorded on the condensed consolidated balance sheets at fair value as a Level 3 asset. The fair value is estimated based on the Company's share of the net asset value in the Kiskadee Fund, as provided by the investment manager. The resulting net gains or losses are reflected in the condensed consolidated statements of income.

The Company performs several processes to ascertain the reasonableness of the valuation of all of the Company's investments comprising the Company's investment portfolio. These processes include (i) obtaining and reviewing weekly and monthly investment portfolio reports from the Investment Manager, (ii) obtaining and reviewing monthly Net Asset Value ("NAV") and investment return reports received directly from the Company's third-party fund administrator, which are compared to the reports noted in (i), and (iii) monthly update discussions with the Company's Investment Manager regarding the investment portfolio, including, their process for reviewing and validating pricing obtained from third party service providers.

For the six months ended June 30, 2015 and 2014, there were no changes in the valuation techniques as it relates to the above.

U.S. GAAP disclosure requirements establish a framework for measuring fair value, including a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability. The three-level hierarchy of inputs is summarized below:

- Level 1 – Quoted prices available in active markets/exchanges for identical investments as of the reporting date.
- Level 2 – Observable inputs to the valuation methodology other than unadjusted quoted market prices for identical assets or liabilities in active markets. Level 2 inputs include, but are not limited to, prices quoted for similar assets or liabilities in active markets/exchanges, prices quoted for identical or similar assets or liabilities in markets that are not active and fair values determined through the use of models or other valuation methodologies.
- Level 3 – Pricing inputs unobservable for the investment and include activities where there is little, if any, market activity for the investment. The inputs applied in the determination of fair value require significant management judgment and estimation.

Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability based on market data obtained from sources other than those of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and considers factors specific to the investment.

The key inputs for corporate, government and sovereign bond valuation are coupon frequency, coupon rate and underlying bond spreads. The key inputs for ABS are yield, probability of default, loss severity and prepayment.

Key inputs for over-the-counter ("OTC") valuations vary based on the type of underlying security on which the contract was written:

- The key inputs for most OTC option contracts include notional, strike price, maturity, payout structure, current foreign exchange forward and spot rates, current market price of underlying and volatility of underlying.
- The key inputs for most forward contracts include notional, maturity, forward rate, spot rate, various interest rate curves and discount factor.
- The key inputs for swap valuation will vary based on the type of underlying on which the contract was written. Generally, the key inputs for most swap contracts include notional, swap period, fixed rate, credit or interest rate curves, current market or spot price of the underlying and the volatility of the underlying.

The following tables present the Company's investments, categorized by the level of the fair value hierarchy as of June 30, 2015 and December 31, 2014:

	June 30, 2015			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets	($ in thousands)			
Equity securities	$1,262,727	$53,314	$—	$1,316,041
Private common equity securities	—	2,012	962	2,974
Private preferred equity securities	—	—	13,474	13,474
Total equities	1,262,727	55,326	14,436	1,332,489
Asset-backed securities	—	498,925	1,843	500,768
Bank debts	—	—	7,404	7,404
Corporate bonds	—	166,300	2,772	169,072
Sovereign debt	—	124,463	18	124,481
Total debt securities	—	789,688	12,037	801,725
Investments in limited partnerships	—	8,287	6,156	14,443
Options	14,538	6,770	—	21,308
Rights and warrants	1,672	—	—	1,672
Trade claims	—	10,093	—	10,093
Investment in Kiskadee Fund	—	—	25,183	25,183
Total other investments	16,210	25,150	31,339	72,699
Derivative assets (free standing)	798	27,197	—	27,995
Total assets	$1,279,735	$897,361	$57,812	$2,234,908
Liabilities				
Equity securities	$94,645	$—	$—	$94,645
Sovereign debt	—	17,509	—	17,509
Corporate bonds	—	17,252	—	17,252
Options	12,596	9,113	—	21,709
Total securities sold, not yet purchased	107,241	43,874	—	151,115
Derivative liabilities (free standing)	1,332	16,787	1,020	19,139
Derivative liabilities (embedded)	—	—	9,817	9,817
Total liabilities	$108,573	$60,661	$10,837	$180,071

	December 31, 2014			
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets	($ in thousands)			
Equity securities	$1,158,428	$15,207	$—	$1,173,635
Private common equity securities	—	2,718	1,443	4,161
Total equities	1,158,428	17,925	1,443	1,177,796
Asset-backed securities	—	395,514	4,720	400,234
Bank debts	—	2,395	—	2,395
Corporate bonds	—	56,795	3,799	60,594
Municipal bonds	—	3,094	—	3,094
Sovereign debt	—	103,331	—	103,331
Total debt securities	—	561,129	8,519	569,648
Investments in limited partnerships	—	55,756	6,354	62,110
Options	3,205	3,791	—	6,996
Rights and warrants	1,843	—	—	1,843
Trade claims	—	10,368	—	10,368
Catastrophe bond	—	2,077	—	2,077
Total other investments	5,048	71,992	6,354	83,394
Derivative assets (free standing)	380	20,750	—	21,130
Total assets	$1,163,856	$671,796	$16,316	$1,851,968
Liabilities				
Equity securities	$33,222	$—	$—	$33,222
Sovereign debt	—	29,350	—	29,350
Corporate bonds	—	13,312	—	13,312
Options	3,755	2,846	—	6,601
Total securities sold, not yet purchased	36,977	45,508	—	82,485
Derivative liabilities (free standing)	505	9,548	962	11,015
Derivative liabilities (embedded)	—	—	9,289	9,289
Total liabilities	$37,482	$55,056		