S&P Capital IQ

CONTENTS

Argo Group International Holdings, Ltd.

NasdaqGS:AGII

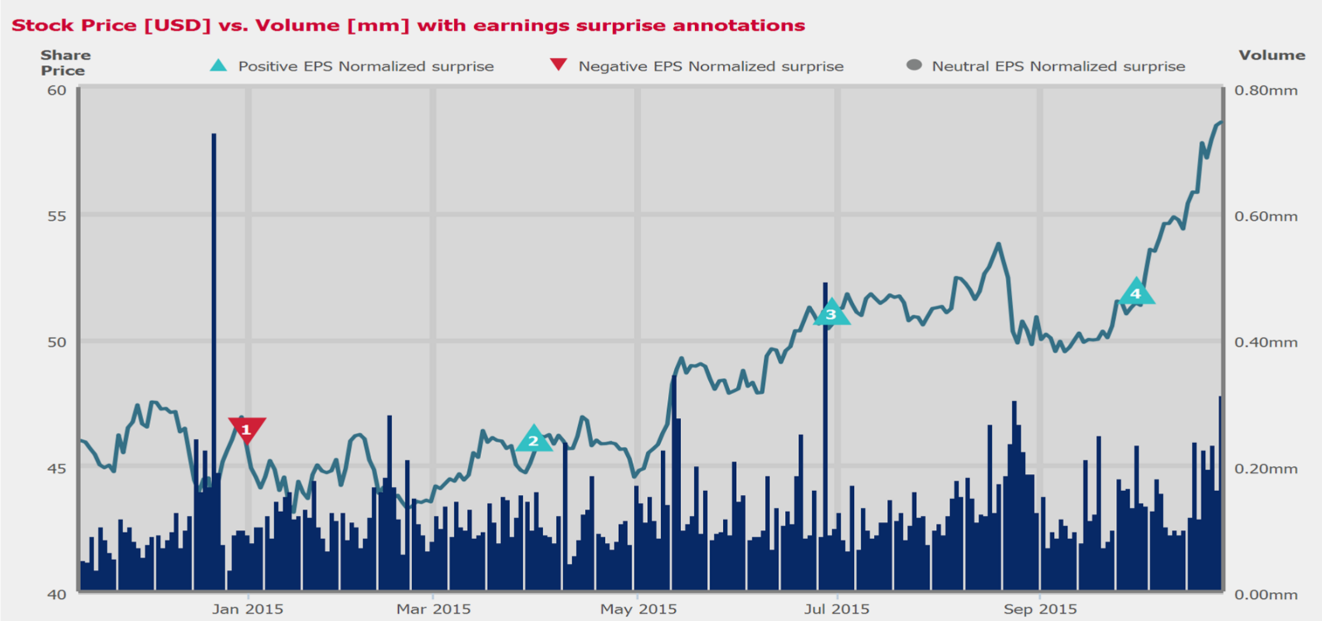
FQ4 2015 Earnings Call Transcripts

Tuesday, February 09, 2016 3:00 PM GMT

S&P Capital IQ Estimates

	-FQ4 2015-			-FQ1 2016-	-FY 2015-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.80	0.82	2.50	0.85	3.35	3.36
Revenue (mm)	360.07	369.10	2.51	373.33	1416.50	1484.60

Currency: USD
Consensus as of Feb-09-2016 12:16 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ4 2014	0.79	0.69	(12.66 %)
FQ1 2015	0.76	0.93	22.37 %
FQ2 2015	0.68	0.83	22.06 %
FQ3 2015	0.73	0.78	6.85 %

Call Participants

EXECUTIVES

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Mark E. Watson
Chief Executive Officer and Director

Susan Spivak Bernstein
Senior Vice President of Investor Relations

ANALYSTS

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Daniel D. Farrell
Piper Jaffray Companies, Research Division

Jeff Schmitt

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Argo Group International Holdings Fourth Quarter 2015 Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Susan Spivak Bernstein, Senior Vice President, Investor Relations. Please go ahead.

Susan Spivak Bernstein
Senior Vice President of Investor Relations

Thank you, and good morning. Welcome to Argo Group's conference call for the fourth quarter and calendar 2015 results. Last night, we issued a press release on earnings, which is available in the Investors section of our website at www.argolimited.com.

Presenting on the call today is Mark Watson, Chief Executive Officer; and Jay Bullock, Chief Financial Officer. Also with them is Axel Schmidt, Argo Group's Chief Underwriting Officer.

We're pleased to review the company's results for the quarter as well as provide you with management's perspective on the business. As the operator mentioned, this conference call is being recorded. Following management's opening remarks, you will receive instructions on how to queue in to ask questions.

As a result of this conference call, Argo Group management may make comments that reflect their intentions, beliefs and expectations for the future. Such forward-looking statements are qualified by the inherent risks and uncertainties surrounding future expectations generally, and may materially differ from actual future results involving any one or more of such statements. Argo Group undertakes no obligation to publicly update forward-looking statements as a result of events or developments subsequent to this conference call. For a more detailed discussion of such risks and uncertainties, please see Argo Group's filings with the SEC.

With that, I'll turn the call over to Mark Watson, Chief Executive Officer of Argo Group. Mark?

Mark E. Watson
Chief Executive Officer and Director

Thank you, Susan, and good morning, everyone. Welcome to -- I'd also like to welcome everyone to our Fourth Quarter and Year End 2015 Earnings Conference Call.

After the market closed yesterday, we reported 18.4% growth in operating earnings to $0.90 per share in the fourth quarter of 2015 compared to the fourth quarter of 2014, and 15% growth for the year through $3.70 per share for the calendar year 2015 versus the prior year.

We remain encouraged by our results, especially given the increasingly competitive landscape. Throughout the year, our focus has been on clearly identifying areas of business with the most significant opportunities for profitable growth in focusing our time and attention on realizing that potential. At the same time, we focused on simplifying the business and investing in technology. These combined efforts are contributing to our stronger underwriting results. During the year, underwriting income improved 28.5% to $66.2 million from $51.5 million in 2014 in a record level for our organization.

In the fourth quarter of 2015, our underwriting profit increased 45% to $15.8 million from $10.9 million in the same period of 2014, despite the higher level of large losses in certain businesses. Jay will provide some further details in his commentary on some of those things that happened in the fourth quarter.

As I mentioned in the last quarter, we're focused on simplifying how we run our business. The outcome of this should be: Increased efficiency; reduced expenses; and hopefully, if we get it right, scalability. Part of that effort involves some tough decisions, which reduced headcount in certain areas.

Another area of focus has been our ongoing investment in technology. As I mentioned on our last call, we improved the way we provide service to our clients. And in our E&S business for some classes of business, that's resulted in growth of more than 20% year-over-year.

For the year 2015, we posted a combined ratio of 95.2%. Not only was this a 1-point improvement over the 2014 result, it was the achievement of our often-stated goal of delivering 5 points of underwriting margin in 2015.

Continuing with the improvement in margins and consistent with my comments a moment ago, the expense ratio component of the underwriting result is showing favorable year-over-year comparisons. This improvement was achieved despite the impact of certain equity -- despite the impact that certain equity compensation has on the expense line related to the very strong performance of our stock in 2015.

Another favorable trend for 2015 was the continued strength we see in our reserving process. For the 19th consecutive quarter and the 11th consecutive year, we've seen positive reserve development this quarter in each of our ongoing operating segments.

Overall, from a growth standpoint, our top line was up 5% in the fourth quarter and up 5.6% in the -- for the year. This result reflects the market we find ourselves in, but as in past periods, masks the progress we were making in certain of our better businesses, including our E&S platform, new lines added in recent years to the Syndicate and parts of Commercial Specialty.

The top line result also reflects the challenging rate environment. In this environment, we continue to benefit from our specialization, deep market knowledge and account size selection.

Now let me briefly comment on each of our operating segments. In our Excess and Surplus Lines business, gross written premium was up 9.2% in the fourth quarter and 11.9% for the year. We're achieving growth in our casualty unit, our largest business by volume within E&S, of nearly 20%, as I mentioned a minute ago. And again, this reflects the benefit from our investment in technology and overall process improvement as well. We also benefited from growth initiatives in our professional lines business, an area we've been focusing on for the last few years. On average, rates were modestly down across the segment other than property.

2015 was a year of improvement in most businesses within our Commercial Specialty segment. Overall, premium was up 5.7% in the quarter and 5.8% in the calendar year 2015. Growth was driven by our program in Public Entity businesses.

While we continued to see an improvement in our underwriting results, it's getting more challenging to achieve rate increases due to competition. As we have across much of our business in the U.S., we will continue to focus on profitable relationships in these areas and driving results through deeper and more engaged relationships.

Turning to Syndicate 1200. Pricing and competition remain robust across all the Lloyd's market. As a result, we only grew modestly, with our gross written premiums up 1.3% in the fourth quarter and 3.8% for the year. Most of the growth is being driven by the North American binder business and new classes of risk that we've added in recent years, such as our international casualty and the launch of our platform in Asia. The growth in these areas is offset by competition in nearly all other lines. In addition, the top line for this segment is affected by our slight decrease in the participation on Syndicate 1200 during 2015 versus 2014.

Lastly, gross written premium in our International Specialty segment was relatively flat in the fourth quarter and declined 3.9% in the yearly comparison with 2014. The decline in the quarter reflects a decline in Brazil, not surprising, given the more challenging economic environment and weakness in the local currency.

In response to market conditions and any business that was a startup just a few years ago, we've made selective changes to the business and are beginning to see positive results. As such, we continue to believe this business is positioned for growth towards a scaled platform in 2016.

In our Bermuda insurance businesses, we still see new business flow and high renewal retention. However, rates are off modest single digits across the book. At Argo Re, our profitability remains strong and we're happy with our renewal book on the 1st of January, 2016.

Turning to investments. While the fourth quarter started off with strong U.S. equity markets, up more than 8% in October, the positive sentiment was temporary. In both November and December, markets refocused and things went back the other way. Moving a lot of that was geopolitical tensions and global events all weighed on risk sentiment.

In December, coincident with the continued decline in oil prices, the equity market sold off and we had some impacts to our portfolio. In fact, specifically, weakness in the bonds and energy stocks have weighed on our relative performance. As you know, U.S. energy stocks within the S&P closed down 21% for the full year of 2015. Having said that, our exposure to high yield energy bonds remained small, and our exposure to energy equities is predominantly in large multinational companies.

Our portfolio was down 0.6% or $24 million in 2015, including foreign exchange, given the strengthening of the U.S. dollar. Our net investment income for the quarter was $21.7 million, bringing full year net investment income to $85.6 million, down roughly 1.2% versus the prior year.

Remember, the prior year comparison was impacted by the sale of a private property in 2014 that generated significant rental income. Opportunistically, we've added some income for higher-yielding corporate bonds to augment our book yield. The good news is that our investment income from our fixed income portfolio continues to grow, and it is overtaking all other items in net investment income, supporting growth in 2016.

Moving on to capital management. Our philosophy has not changed and it is not likely to. Our first use of capital is to support the balance sheet, second is to have capital available for opportunities as they arise, and third is to actively return excess capital to our shareholders in an effective manner.

In 2015, we repurchased 575,000 shares of stock at -- for $29.7 million at an average price of $51.58 per share. In total over the last 6 years, we've returned more than $427 million or 25% of the shares outstanding to shareholders, with $331 million returned through share repurchases and $96 million paid in cash dividends. We will continue to balance the return of capital to shareholders with our priority of building the Argo franchise and shareholder value in the long run.

In summary, our 2015 results demonstrate our focus on driving efficiency and improving performance through our platforms. The underwriting environment remains challenging, but with our focus on specialty niches, profitable lines and profitable relationships, we're producing improved and more consistent results that will generate more stable returns for our shareholders.

With that, I'll return -- I will turn the call over to our CFO, Jay Bullock. Jay?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Thanks, Mark, and good morning, everyone. I'll quickly provide some detail on the financials, and then we'll open it up for Q&A.

Echoing some of Mark's comments, 2015 represented a record top line result for the company, but more importantly, a record underwriting result as well. We achieved the key margin target we've discussed often, 5 points of underwriting margin, despite the challenges of the marketplace. In addition, we furthered the groundwork in 2015 for continued improvement.

As it relates to revenue, a couple of items to note. As Mark mentioned, we reduced our participation on Syndicate 1200, which has the effect, all other things being equal, of reducing the amount of premium we report in this segment. This was achieved through the expansion of the strategic relationships we have with our Syndicate trade capital providers. We believe these relationships are an important long-term element of our strategy in this segment.

Second, our business in Brazil was up year-over-year, but the growth in dollars is masked by the devaluation of the local currency during the year.

Of note, related to loss trends, in the fourth quarter and calendar year 2015 -- sorry, the fourth quarter in calendar year 2015 continued to demonstrate overall favorable reserve development from prior accident years. For the quarter, we experienced net favorable development of $17.1 million compared to $11.3 million reported in the fourth quarter of 2014.

In the 2015 fourth quarter, we had favorable development in all of our ongoing business segments. The largest component of this quarter's positive development were from our Syndicate and E&S businesses. For calendar year 2015, favorable development in total was $32.4 million compared to $37.7 million in 2014. As always, all the relevant figures on loss development are displayed in the table in the press release.

In addition to that continued positive -- to that continued trend in positive reserve development and as significant, we saw an improvement in our current accident year non-CAT loss ratio, from 56.4% to 57.3% in 2014. This result was achieved despite the impact in the fourth quarter of a few large losses impacting both our E&S and Syndicate 1200 segments. Such losses totaled $4 million and $9 million, respectively by segment, and were the main contributors to the modest increase in the current accident year loss ratio for the quarter. The E&S loss was in our property business and the losses in the Syndicate stemmed from energy-related losses.

Catastrophe losses that impacted our business for the quarter were $5.2 million compared to $3.8 million in the fourth quarter of 2014. The quarter's CAT losses were primarily due to U.S. storm activity. For the year 2015, CAT losses were $23.7 million versus $17.7 million in 2014. Losses for the 2015 year stem largely from U.S. storms, the Tianjin explosion and several smaller international events.

Of note, related to expenses. For the year, the trend in our expense ratios continue to show improvement. As mentioned in the quarter, expenses were once again impacted by the effect of the increase in the stock price on certain equity-related compensation. Such effect accounted for approximately $7 million of expense above what would have been expected in the quarter. And we've made certain changes to our equity compensation program that should have the effect of lessening the volatility related to movements in the stock price in the future.

Two other items of note. Realized gains in the quarter were modest, reflective of the turbulent conditions in the investment markets. You will recall last year's quarterly result included a significant gain from the sale of the investment property in California. In addition, currency gains for the year are reflective of the significant increase in the value of the dollar relative to the British pound, euro and Canadian dollar. Generally speaking, there is an equal decline in the value impacting our equity account related to investments held in such currencies.

For the fourth quarter of 2015, the effective tax rate for the group was 6.8%, lower than our assumption of 20%. In the quarter, the lower tax reflects foreign exchange translation adjustments at the Syndicate that are not recognized locally and not taxed in the U.K.

For the year, the tax rate was 8.1%. In addition to the non-taxable foreign exchange items in the U.K., the lower effective rate was impacted by certain foreign tax credits, a state tax refund in the first quarter and to a larger portion of our earnings in 2015 attributable to the Bermuda platform.

Finally, on the balance sheet. We ended the quarter with a pretax unrealized embedded gain of $84 million, down from $100 million at September 30, 2015. This decline was largely related to wider spreads in U.S. corporates and municipals, movements in foreign exchange related to [ph] currency derivatives and the realization of previously unrealized gains from the sales on equity position.
Operator, that concludes our prepared remarks and we're now ready to take questions.

Question and Answer

Operator

[Operator Instructions] The first question comes from Greg Peters with Raymond James.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Jay, in your comments, you spoke about the tax rate. And I think this is the second or third year where the tax rate for the full year has come in below sort of the bogey we've used in our model, which is 20%. And I'm wondering if you're prepared to -- as we look to 2016 and '17, if you're prepared to lower that assumption from 20% to something less than that.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Greg, we look at this often and do consider if the model was changing, but there have been some one-offs in the last 2 years. And I think we'll stick with our 20% assumption for now. When you kind of look at the math across the platform, it still seems to be a reasonable position to come out.

Mark E. Watson
Chief Executive Officer and Director

If I can just add to that, I think that a lot of it will also have to do where -- from where growth comes prospectively. If you see our business [indiscernible] more rapidly outside of the U.S., so in the Syndicate and/or International Specialty in particular, then that might impact the tax rate. But right now, I think growth is pretty balanced across the whole group. So I think 20% is probably still the right number.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Thanks for the clarity there. You mentioned some energy investments, I guess minimal exposure in the high-yield complement for energy and then some energy equities. I suppose when you add those 2 components up, still, your energy exposure is immaterial relative to the total portfolio.

Mark E. Watson
Chief Executive Officer and Director

Yes. I mean, look, we invest in large cap companies, some of which are energy companies. We are slightly overweight energy and have been for several years, and so that's only reason that we mentioned it. But it's -- when you add it all up, it's -- it is immaterial relative the entire portfolio.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Can you -- Mark, maybe can you spend a minute and just talk about the other side of the energy business, which would be that on your insurance book? Where you might have some exposures or premium coming from energy-related coverages and how that might be affected as we think about 2016?

Mark E. Watson
Chief Executive Officer and Director

Well, I think the primary exposure is just an unwillingness on our part to insure businesses where the rate continues to decline. We're comfortable with how the businesses are -- that we ensure are performing, it's just that the market has gotten very soft. So we haven't really added much energy exposure. Perhaps, there are a couple of accounts in London, but for the most part, our exposure has been flat to down because of market competition. The only place that I can think of, and Jay can comment more about this, is surety. But we just got through going back to through the entire portfolio again, and I think we're all pretty comfortable with the accounts that we insure there as well.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

I think that's right, Mark. I mean, that's been a focus of our surety team for the last 18 months. And I think that speaking for -- on behalf of the team, I think they're recognized as a pretty smart group of people when it comes to that business relative to surety exposure.

Mark E. Watson
Chief Executive Officer and Director

Yes. And in fact, if I had to pick the one place where I think we will grow our energy exposure this year, it probably is the surety business. And as Jay said, that's in large part because we have such a good team.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

And Mark, just a follow-up on that. When I think about that component of your business relative to the total premium, are we talking single digits? Or is there something bigger than that in terms of percentage?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Sorry. Greg, are you referring to the entire organization?

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Yes. I mean, we have 4 business segments, we have -- I assume you have some energy running through Excess and Surplus, the surety business, I believe runs through Specialty -- yes.

Mark E. Watson
Chief Executive Officer and Director

When you add it all -- yes. When you add it all up, it's less than 10% of our premium.

Charles Gregory Peters
Raymond James & Associates, Inc., Research Division

Yes. That's what I imagine. So you're now generated some very strong results improvement year-over-year for a couple of years now. So Mark, maybe you can spend a minute outlining what kind of objectives we should use as a benchmark of your performance, whether it's in terms of combined ratio improvement or ROE improvement as we think about 2016.

Mark E. Watson
Chief Executive Officer and Director

Yes. So we've improved our underwriting results and our operating results for the last 4 years in a row. The beginning of -- at the beginning of 2015, our target was to get to a combined ratio of 95%. And both Jay and I were very particular about saying that we weren't going to focus on just expense ratio improvement, but we wanted to see underwriting improvement as well. And if you look at our loss ratio for 2015 ex CAT and prior year development, I believe it was 100 basis points better than the year before. So we actually did see improvement in both the expense ratio and the loss ratio on an accident year basis. I think that, as I said in my remarks earlier, that a lot of the investments that we've been making over the last few years are now starting to pay off, both in terms of product development, how we run our business, the technology supporting our business. And so we believe that we've got a better product set today than we had a year ago or 3 years ago. We certainly have a better team today than we did 3 years ago. We have better systems to support the teams and the products. And given that a lot of what we do, particularly the investments that we made recently, have been focused on smaller accounts that are less price sensitive, we think that we're in a really good spot to keep moving ahead and improving our margin. So we'd like to think we can get another 100 basis improvement in combined ratio year-over-year between 2015 and 2016 in the market that we're in today. And so we think there is an opportunity to keep improving margin. We think we can grow the top line in places where we want in 2016. And I'm actually in a better frame of mind today than I've been in the last 5 or 6 years.

Operator

The next question comes from the line of Dan Farrell with Piper Jaffray.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

Jay, I apologize if I missed this in your comments. I think you highlighted some large loss activity in the quarter, I couldn't hear if you had quantified what that impact might have been relative to a normal [indiscernible] to the year ago. Is that something you'd be able to do?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Well, yes, I did say that the large losses in E&S were about $4 million and the large losses in Syndicate 1200 were about $9 million. One was -- the first was property-related, the second was energy-related. And so that was part of what drove the change in the current quarter, but we had some improvement in some other areas. So relative to last year, it was a smaller component of large losses and -- sorry, a larger component of large losses this calendar year than last year, but not really that significant for the overall year. I think the more important thing to focus on is the improvement over 12 months, which as Mark pointed out, was 100 basis points for the year. It's -- the large losses are going to happen when they happen. And for the year, obviously, came in line with our expectations. Otherwise, we wouldn't have seen that improvement in the current accident year.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

Okay. Great. I was wondering if you could expand a little bit more on some of the efficiency efforts that you made. You've obviously been spending some stuff on talent, people as well, actually. How should those benefits flow through the results? Do we start to see it as further expense improvement? Does it impact loss ratio through lower loss adjustment expense? Just how should that be flowing through, the benefits of all of the things that you've been doing?

Mark E. Watson
Chief Executive Officer and Director

So it's a combination of things. We've made it easier for our clients to do business with us. So that's increasing the top line. We have a much better line of sight today on risk selection, so that's improving pricing where we [indiscernible]. To say it differently, I think we're more accurately pricing our risk today than we were a few years ago. So I think that shows up in a better loss ratio, both in terms of price and risk selection and also portfolio mix. It doesn't take as much resource to run our business today as it did before, so that's a benefit to the expense ratio. And I think you started -- we've started to see some of things -- these things play out in 2015, and I think we'll see a little more of that in 2016. So in summary, I think we'll have an improvement in top line for some businesses. I think we'll have an improvement in both the loss ratio and the expense ratio as we continue to do a better job of selecting risk and do it more efficiently.

Daniel D. Farrell
Piper Jaffray Companies, Research Division

Great. Just one last sort of numbers question. Fixed income NII seems to have stabilized, and is improving slightly. Wonder if you could just talk about new money [ph] levels, how you think about the trajectory of that line as we head forward?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Yes. Well, you're right. It has stabilized. And I was thinking about this yesterday. If I hadn't pulled up the screen and seen the 10-year at 1.75%, I would have said it's stabilized and starting to move up. It should start to move up incrementally based on an increase in investment balances. But you tell me what yields are going to do. They seem to be retreating back to crazy low levels. So I think you'll see it. I expect to see it maintain sort of a flat level for now with very modest increases as we start to see investment balances. As Mark mentioned in his comments, we have -- there have been some efforts to put some higher-yielding -- and not necessarily that much lower in credit quality, higher-yielding investments into the portfolio, but in very modest amounts relative to the overall size of the portfolio.

Operator

The next question comes from the line of Meyer Shields with KBW.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Can I start in the Syndicate, where underwriting expenses sort of jumped up sequentially despite the fact that there were the large energy losses and therefore higher loss ratios? I was hoping you could clarify that a little.

Mark E. Watson
Chief Executive Officer and Director

Well, the energy losses and the expense ratio aren't related. The energy losses were just a frequency of large events, more than we would normally expect. And as you know, things can be lumpy from one quarter to the next in -- at Lloyd's and in our Syndicate. The expense ratio was higher because we have a different mix of business this year than we did a year ago. We have [indiscernible], so we're paying more acquisition expense. We have a little less open-market brokerage and which comes at a lower acquisition expense. You are correct in assuming that we should expect a correspondingly lower loss ratio, but with the preponderance of large losses in the quarter, it went the other [indiscernible]. Jay, do you want to add anything?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

No. The other thing I'd add is that the expenses in the Syndicate can be a little lumpy because the timing of certain Lloyd's cost is -- I won't call it unpredictable, but it can come in different quarters. And there was a bit of that effect in the fourth quarter as well.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. But there was no incentive comp impacts from the higher large losses. I guess that's what I was alluding to early on.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

Well, there was some -- well, there -- the incentive comp relative to large losses -- the incentive comp is related to share price, not large losses. And yes, there was some -- there was more equity compensation expense this year than a year ago, both for the quarter and for the year. That's a good point.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And if you take a step back, obviously, you've had very, very strong underwriting improvement for a few years. How is that impacting required capital?

Mark E. Watson
Chief Executive Officer and Director

Well, my esteemed colleague sitting beside me, and I always have a different point of view. If you look at our capital model, our internal capital models, we -- I didn't mention the use of capital as an efficiency, but actually, we've been able to grow our portfolio and not really need any more capital, which is why we've been giving back capital over the last few years. I think we've done a very good job of efficiently using our capital for underwriting purposes. And I didn't mention this earlier. But in my opening remarks, I talked about how much capital we've given back, but I didn't actually talk about return on capital. In 2013, our return on capital was 9%. Last year, it was 11.5% and this year, it was just shy of 10%. So I think that we had a little excess capital. And so we -- now we will figure out what to do with it.

Meyer Shields
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then a final question for Jay, if I can. I know it's very complicated, but in the past, you've provided rule of thumb relating change in the share price to compensation expense. Is there an updated number based on the changes that you've made?

Jay S. Bullock
Executive Vice President and Chief Financial Officer

So my rule of thumb in the past had been every dollar yields $1.5 million to $2.5 million of additional expense in a quarter. And we sort of had always anticipated the stock going up by 2%, 2.5% a quarter, that's from a planning standpoint. The changes will be incremental over time, but what I would expect is that we'll land sort of at levels that look kind of like less than the $9 million that we saw on the quarter, but more than what was planned. Kind of somewhere in the middle relative to the changes that we've made. So that's the dampening of the effect. Obviously, the expense doesn't go away. It's important to point out as well that there's no economic impact to the ultimate recipient of the securities. It just we've changed some of the structure that allows us to account for it differently, and that should give us more of a middle-of-the-road kind of outcome.

Mark E. Watson
Chief Executive Officer and Director

Yes. I think at the end of the first quarter, we can give you more visibility on what that number's really going to look like. But let's say it's half of what it was in 2015.

Operator

[Operator Instructions] The next question comes from the line of Jeff Schmitt with William Blair.

Jeff Schmitt

The E&S segment, obviously, showed a lot of good growth. Are you seeing any drop-off in the first part of the year from lower economic activity or construction activity?

Mark E. Watson
Chief Executive Officer and Director

We're not seeing any drop-off in -- sorry, let me answer that in 2 ways. Our E&S segment continues to grow. It continues to grow in the segments where we've been focused, and actually one of them is construction. But I think that has more to do with our team and how they approach the market rather than the economic conditions. As I mentioned earlier, that I think the energy business is the biggest place where we're not seeing growth. If I kind of move away from E&S and think about Brazil or the Syndicate, then the economy, and engineering and construction in particular, are declining portfolios for us by choice.

Jeff Schmitt

Okay. And the Commercial Specialty segment, obviously, shown a lot of improvement over the last couple of years. The expense ratio down 350 basis points, is that -- to 32%. Is that a sustainable level? Or was last year just high for some reason?

Mark E. Watson

Chief Executive Officer and Director

I would say that there was a onetime tax benefit that we had in Commercial Specialty during the year. I think that for 2016, that will -- our expense ratio for the year will be a bit better than it was in 2015, but I don't think we should expect it to be as good as the fourth quarter because we had a onetime tax benefit that helped the expense ratio.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

One other item that's been affecting Commercial Specialty, that is where our surety business sits. Surety, as a rule of thumb, is going to run an expense ratio of somewhere between 55% and 60%.

Mark E. Watson
Chief Executive Officer and Director

Correct.

Jay S. Bullock
Executive Vice President and Chief Financial Officer

A loss ratio of 20% to 30%. And so as that becomes a larger component, it -- that will creep up. All of other things being equal, we're going to generate more underwriting income, which is what we're really focused on.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Mark Watson for any closing remarks.

Mark E. Watson
Chief Executive Officer and Director

Thank you. I would just, in closing, like to thank all of my colleagues at Argo for 2015. They've put in a lot of hard work and it's starting to pay off in certain parts of our company. And I'd like to encourage them to keep moving on. And if we can show the same progress in 2016 that we did in 2015, I think we will build a terrific company. And I look forward to talking with you all at the end of the first quarter about our progress in 2016.

Operator, that concludes my remarks.

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