PARTNERRE LTD
Form 10-Q
October 30, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 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 1-14536

PartnerRe Ltd.
(Exact name of registrant as specified in its charter)

Bermuda	Not Applicable
(State of incorporation)	(I.R.S. Employer Identification No.)

90 Pitts Bay Road, Pembroke, HM08, Bermuda
(Address of principal executive offices) (Zip Code)
(441) 292-0888
(Registrant's telephone number, including area code)
Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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 ý 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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 the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	c
Non-accelerated filer	c	Smaller reporting company	c

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The number of the registrant's common shares (par value $1.00 per share) outstanding, net of treasury shares, as of October 26, 2015 was 47,908,360.

PartnerRe Ltd.
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PART I—FINANCIAL INFORMATION
Item 1. Financial Statements

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Shareholders of PartnerRe Ltd.
We have reviewed the accompanying condensed consolidated balance sheet of PartnerRe Ltd. and subsidiaries (the “Company”) as of September 30, 2015, and the related condensed consolidated statements of operations and comprehensive (loss) income for the three-month and nine-month periods ended September 30, 2015 and 2014, and of shareholders’ equity, and of cash flows for the nine-month periods ended September 30, 2015 and 2014. These condensed consolidated interim financial statements are the responsibility of the Company’s management.
We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
Based on our reviews, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.
We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of PartnerRe Ltd. and subsidiaries as of December 31, 2014, and the related consolidated statements of operations and comprehensive income, shareholders’ equity, and of cash flows for the year then ended (not presented herein); and in our report dated February 26, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2014 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Deloitte Ltd.
Deloitte Ltd.

Hamilton, Bermuda
October 30, 2015

PartnerRe Ltd.
Condensed Consolidated Balance Sheets
(Expressed in thousands of U.S. dollars, except parenthetical share and per share data)

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost: 2015, $12,810,504; 2014, $13,489,633)	$13,026,249	$13,918,745
Short-term investments, at fair value (amortized cost: 2015, $100,270; 2014, $25,699)	100,365	25,678
Equities, at fair value (cost: 2015, $938,826; 2014, $843,429)	1,004,116	1,056,514
Other invested assets	344,720	298,827
Total investments	14,475,450	15,299,764
Funds held – directly managed (cost: 2015, $589,385; 2014, $600,379)	595,677	608,853
Cash and cash equivalents	1,256,304	1,313,468
Accrued investment income	142,892	158,737
Reinsurance balances receivable	3,079,002	2,454,850
Reinsurance recoverable on paid and unpaid losses	329,834	246,158
Funds held by reinsured companies	671,572	765,905
Deferred acquisition costs	684,380	661,186
Deposit assets	83,729	92,973
Net tax assets	72,257	6,876
Goodwill	456,380	456,380
Intangible assets	139,301	159,604
Other assets	38,450	45,603
Total assets	$22,025,228	$22,270,357
Liabilities		
Unpaid losses and loss expenses	$9,522,225	$9,745,806
Policy benefits for life and annuity contracts	2,123,028	2,050,107
Unearned premiums	1,934,360	1,750,607
Other reinsurance balances payable	288,402	182,395
Deposit liabilities	42,336	70,325
Net tax liabilities	231,223	240,989
Accounts payable, accrued expenses and other	285,316	304,728
Debt related to senior notes	750,000	750,000
Debt related to capital efficient notes	70,989	70,989
Total liabilities	15,247,879	15,165,946
Shareholders' Equity		
Common shares (par value $1.00; issued: 2015 and 2014, 87,237,220 shares)	87,237	87,237
Preferred shares (par value $1.00; issued and outstanding: 2015 and 2014, 34,150,000 shares; aggregate liquidation value: 2015 and 2014, $853,750)	34,150	34,150
Additional paid-in capital	3,971,974	3,949,665
Accumulated other comprehensive loss	(68,827)	(34,083)
Retained earnings	6,019,786	6,270,811
	(3,269,183)	(3,258,870)

Common shares held in treasury, at cost (2015, 39,335,464 shares; 2014, 39,400,936 shares)		
Total shareholders’ equity attributable to PartnerRe Ltd.	6,775,137	7,048,910
Noncontrolling interests	2,212	55,501
Total shareholders’ equity	6,777,349	7,104,411
Total liabilities and shareholders’ equity	$22,025,228	$22,270,357

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.
Condensed Consolidated Statements of Operations and Comprehensive (Loss) Income
(Expressed in thousands of U.S. dollars, except share and per share data)
(Unaudited)

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Revenues				
Gross premiums written	$1,267,961	$1,361,280	$4,448,907	$4,695,327
Net premiums written	$1,190,393	$1,342,690	$4,165,912	$4,499,849
Decrease (increase) in unearned premiums	221,737	213,924	(191,235)	(336,384)
Net premiums earned	1,412,130	1,556,614	3,974,677	4,163,465
Net investment income	117,054	118,176	341,877	365,010
Net realized and unrealized investment (losses) gains	(133,017)	(34,420)	(273,107)	273,468
Other income	3,056	2,223	7,584	11,892
Total revenues	1,399,223	1,642,593	4,051,031	4,813,835
Expenses				
Losses and loss expenses and life policy benefits	804,196	959,543	2,390,394	2,592,847
Acquisition costs	346,520	321,756	905,774	888,937
Other expenses	415,818	108,615	670,334	327,149
Interest expense	12,249	12,241	36,742	36,719
Amortization of intangible assets	6,768	7,003	20,303	21,007
Net foreign exchange losses (gains)	22,413	(8,206)	15,657	(10,900)
Total expenses	1,607,964	1,400,952	4,039,204	3,855,759
(Loss) income before taxes and interest in (losses) earnings of equity method investments	(208,741)	241,641	11,827	958,076
Income tax expense	17,170	45,617	82,990	186,363
Interest in (losses) earnings of equity method investments	(3,231)	5,294	1,564	16,283
Net (loss) income	(229,142)	201,318	(69,599)	787,996
Net loss (income) attributable to noncontrolling interests	5	(4,920)	(2,531)	(9,914)
Net (loss) income attributable to PartnerRe Ltd.	(229,137)	196,398	(72,130)	778,082
Preferred dividends	14,184	14,184	42,551	42,551
Net (loss) income attributable to PartnerRe Ltd. common shareholders	$(243,321)	$182,214	$(114,681)	$735,531
Comprehensive (loss) income				
Net (loss) income attributable to PartnerRe Ltd.	$(229,137)	$196,398	$(72,130)	$778,082
Change in currency translation adjustment	(39,533)	1,412	(33,936)	3,209
Change in unfunded pension obligation, net of tax	1,163	989	(164)	979
Change in unrealized losses on investments, net of tax	(213)	(221)	(644)	(668)
Total other comprehensive (loss) income, net of tax	(38,583)	2,180	(34,744)	3,520
Comprehensive (loss) income attributable to PartnerRe Ltd.	$(267,720)	$198,578	$(106,874)	$781,602
Per share data attributable to PartnerRe Ltd. common shareholders				
Net (loss) income per common share:				
Basic net (loss) income	$(5.08)	$3.68	$(2.40)	$14.58

Diluted net (loss) income	$(5.08)	$3.60	$(2.40)	$14.26
Weighted average number of common shares outstanding	47,866,040	49,514,980	47,722,833	50,461,749
Weighted average number of common shares and common share equivalents outstanding	47,866,040	50,681,325	47,722,833	51,566,134
Dividends declared per common share	$0.70	$0.67	$2.10	$2.01

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.
Condensed Consolidated Statements of Shareholders’ Equity
(Expressed in thousands of U.S. dollars)
(Unaudited)

	For the nine months ended September 30, 2015	September 30, 2014
Common shares		
Balance at beginning of period	$87,237	$86,657
Issuance of common shares	—	485
Balance at end of period	87,237	87,142
Preferred shares		
Balance at beginning and end of period	34,150	34,150
Additional paid-in capital		
Balance at beginning of period	3,949,665	3,901,627
Stock compensation expense, net of taxes paid	22,309	17,245
Issuance of common shares	—	17,524
Balance at end of period	3,971,974	3,936,396
Accumulated other comprehensive loss		
Balance at beginning of period	(34,083)	(12,238)
Currency translation adjustment		
Balance at beginning of period	(7,915)	977
Change in foreign currency translation adjustment	(36,298)	3,209
Change in net unrealized gain on designated net investment hedge	2,362	—
Balance at end of period	(41,851)	4,186
Unfunded pension obligation		
Balance at beginning of period	(29,576)	(17,509)
Change in unfunded pension obligation, net of tax	(164)	979
Balance at end of period (net of tax: 2015, $8,343; 2014, $4,780)	(29,740)	(16,530)
Unrealized gain on investments		
Balance at beginning of period	3,408	4,294
Change in unrealized losses on investments, net of tax	(644)	(668)
Balance at end of period (net of tax: 2015 and 2014: $nil)	2,764	3,626
Balance at end of period	(68,827)	(8,718)
Retained earnings		
Balance at beginning of period	6,270,811	5,406,797
Net (loss) income	(69,599)	787,996
Net income attributable to noncontrolling interests	(2,531)	(9,914)
Reissuance of common shares	(36,190)	—
Dividends on common shares	(100,154)	(101,453)
Dividends on preferred shares	(42,551)	(42,551)
Balance at end of period	6,019,786	6,040,875
Common shares held in treasury		
Balance at beginning of period	(3,258,870)	(2,707,461)
Repurchase of common shares	(59,266)	(368,404)

Reissuance of common shares	48,953	—
Balance at end of period	(3,269,183)	(3,075,865)
Total shareholders’ equity attributable to PartnerRe Ltd.	$6,775,137	$7,013,980
Noncontrolling interests	2,212	52,276
Total shareholders’ equity	$6,777,349	$7,066,256

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.
Condensed Consolidated Statements of Cash Flows
(Expressed in thousands of U.S. dollars)
(Unaudited)

	For the nine months ended	
	September 30, 2015	September 30, 2014
Cash flows from operating activities		
Net (loss) income	$(69,599)	$787,996
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Amortization of net premium on investments	70,552	82,519
Amortization of intangible assets	20,303	21,007
Net realized and unrealized investment losses (gains)	273,107	(273,468)
Changes in:		
Reinsurance balances, net	(703,147)	(565,187)
Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable	53,086	32,421
Funds held by reinsured companies and funds held – directly managed	81,465	138,659
Deferred acquisition costs	(52,580)	(83,758)
Net tax assets and liabilities	(68,588)	(27,792)
Unpaid losses and loss expenses including life policy benefits	298,428	144,663
Unearned premiums	191,234	336,384
Other net changes in operating assets and liabilities	13,368	(10,207)
Net cash provided by operating activities	107,629	583,237
Cash flows from investing activities		
Sales of fixed maturities	6,097,135	6,227,896
Redemptions of fixed maturities	548,688	527,367
Purchases of fixed maturities	(6,258,905)	(6,990,492)
Sales and redemptions of short-term investments	50,497	70,750
Purchases of short-term investments	(126,756)	(95,168)
Sales of equities	552,880	464,212
Purchases of equities	(596,401)	(202,322)
Other, net	(129,440)	(4,822)
Net cash provided by (used in) investing activities	137,698	(2,579)
Cash flows from financing activities		
Dividends paid to common and preferred shareholders	(142,705)	(144,004)
Repurchase of common shares	(71,376)	(374,557)
Reissuance of treasury shares and issuance of common shares, net of taxes paid	3,139	12,639
Distribution to noncontrolling interests	(55,820)	(14,265)
Net cash used in financing activities	(266,762)	(520,187)
Effect of foreign exchange rate changes on cash	(35,729)	(37,669)
(Decrease) increase in cash and cash equivalents	(57,164)	22,802
Cash and cash equivalents—beginning of period	1,313,468	1,496,485
Cash and cash equivalents—end of period	$1,256,304	$1,519,287

Supplemental cash flow information:		
Taxes paid	$178,830	$243,396
Interest paid	24,630	24,630

See accompanying Notes to Condensed Consolidated Financial Statements.

PartnerRe Ltd.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization

PartnerRe Ltd. (PartnerRe or the Company) predominantly provides reinsurance and certain specialty insurance lines on a worldwide basis through its principal wholly-owned subsidiaries, including Partner Reinsurance Company Ltd., Partner Reinsurance Europe SE, Partner Reinsurance Company of the U.S. and, effective April 1, 2015, Partner Reinsurance Asia Pte. Ltd (PartnerRe Asia). Risks reinsured include, but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty, multiline and other lines, mortality, longevity, accident and health and alternative risk products. The Company’s alternative risk products include weather and credit protection to financial, industrial and service companies on a worldwide basis.

In January 2015, the Company announced that PartnerRe Asia was licensed by the Monetary Authority of Singapore (MAS) to operate as a non-life and life reinsurer in Singapore. As of April 1, 2015, PartnerRe Asia became the principal reinsurance carrier for the Company’s business underwritten in the Asia Pacific region. The establishment of PartnerRe Asia has enabled the Company's Asian reinsurance operations to be consolidated into one regional, well-capitalized entity and will support its growing underwriting presence in the region.

On January 25, 2015, the Company entered into an Agreement and Plan of Amalgamation (as subsequently amended, the Amalgamation Agreement) with Axis Capital Holdings Limited, a Bermuda exempted company (AXIS), pursuant to which the Company would amalgamate with AXIS (Amalgamation), and the two companies would continue as a single Bermuda exempted company.

On April 14, 2015, the Company announced receipt of an unsolicited proposal from EXOR S.p.A. (EXOR), a European investment company controlled by the Agnelli family, to acquire 100% of the common shares of the Company for $130 per share in cash.

On May 3, 2015, the Company and AXIS amended the Amalgamation Agreement to allow the Company to pay a one-time special dividend of $11.50 per share to PartnerRe common shareholders in connection with the closing of the Amalgamation (one-time special dividend) and to increase the termination fee from $250 million to $280 million.

On May 12, 2015, the Company announced receipt of a revised proposal from EXOR to acquire all of the outstanding common shares of the Company for $137.50 per share in cash. EXOR requested that the Board declare EXOR's proposal to be "reasonably likely a superior proposal" as a pre-condition to any further negotiations, which was rejected by the Company's Board.

On July 7, 2015, EXOR enhanced the terms of its proposal by providing (i) a 100 basis points increase in the preferred share dividend rate, (ii) call protection until 2021, and (iii) a commitment to limit distributions to common shareholders to an amount not greater than 67% of net income until December 31, 2020.

On July 16, 2015, the Company and AXIS amended the Amalgamation Agreement further to increase the one-time special dividend to be paid by the Company to its common shareholders to $17.50 per share and, subject to certain conditions, to match the economic terms proposed by EXOR on July 7, 2015 in relation to the Company's preferred shares.

On July 20, 2015, EXOR announced an increase in its proposal to acquire 100% of the common shares of the Company for $137.50 per share in cash by adding a special dividend of $3.00 per share to be paid by the Company to its common shareholders pre-closing.

On July 21, 2015, the Company announced that it had determined that EXOR's enhanced proposal of July 20, 2015 would reasonably be likely to result in a superior proposal in accordance with the Amalgamation Agreement. As a result, the Board sought to engage in negotiations with EXOR, and offered EXOR the opportunity to conduct due diligence, to determine whether EXOR's proposal could be improved both in price and terms.

On August 3, 2015, the Company announced that it had reached a definitive agreement with EXOR under which EXOR would acquire all of the outstanding common shares of PartnerRe for an all-cash consideration of $137.50 per share and a special pre-closing dividend of $3.00 per share. The transaction would be effected by a merger of Pillar Ltd., a wholly owned subsidiary of EXOR N.V., with and into the Company, with the Company continuing as the surviving company and a wholly owned subsidiary of EXOR N.V. Pursuant to the terms of the merger agreement (Merger Agreement), each PartnerRe common share issued and outstanding immediately prior to the effective time of the merger shall (i) automatically be canceled and converted into the right to receive the acquisition consideration and (ii) be entitled to receive the special dividend. The declaration of the special dividend will occur prior to the effective time of the merger and is subject to compliance with the Bermuda Companies Act 1981 and will be conditional and contingent upon the issuance of the certificate of merger by the Bermuda Registrar of Companies (referred to as the effective time of the merger). The Merger Agreement is subject to approval by the Company's shareholders on November 19, 2015, regulatory clearance and other customary closing conditions.

In connection with the execution of the Merger Agreement, the Company and AXIS terminated the Amalgamation Agreement. On August 3, 2015, in accordance with the terms of the Amalgamation Agreement, the Company paid a termination fee and reimbursement of expenses to AXIS of $315 million which is included within Other expenses in the Condensed Consolidated Statements of Operations for the three months and nine months ended September 30, 2015.

2. Significant Accounting Policies

The Company’s Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) for interim financial information and with the instructions for Form 10-Q and Article 10 of Regulation S-X. The Condensed Consolidated Financial Statements include the accounts of the Company and its subsidiaries. Intercompany accounts and transactions have been eliminated. To facilitate comparison of information across periods, certain reclassifications have been made to prior period amounts to conform to the current year's presentation.

The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While Management believes that the amounts included in the Condensed Consolidated Financial Statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Company’s principal estimates include:

- Unpaid losses and loss expenses;
- Policy benefits for life and annuity contracts;
- Gross and net premiums written and net premiums earned;
- Recoverability of deferred acquisition costs;
- Recoverability of deferred tax assets;
- Valuation of goodwill and intangible assets; and
- Valuation of certain assets and derivative financial instruments that are measured using significant unobservable inputs.

In the opinion of Management, all adjustments (which include normal recurring adjustments) necessary for a fair presentation of results for the interim periods have been made. As the Company’s reinsurance operations are exposed to low-frequency, high-severity risk events, some of which are seasonal, results for certain interim periods may include unusually low loss experience, while results for other interim periods may include significant catastrophic losses. Consequently, the Company’s results for interim periods are not necessarily indicative of results for the full year. These Condensed Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

3. Recent Accounting Pronouncements

In February 2015, the Financial Accounting Standards Board (FASB) issued updated guidance on the consolidation of voting interest entities and variable interest entities. The guidance is effective for interim and annual periods beginning after December 15, 2015, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this guidance on its Consolidated Financial Statements and disclosures.

In May 2015, the FASB issued updated guidance on disclosures related to short-duration insurance contracts. The update expands required disclosures in order to increase the transparency of significant estimates made in measuring the liability for unpaid losses and loss expenses, improve comparability and facilitate financial statement users' analysis of the cash flows arising from re/insurance contracts and the development of loss reserve estimates. The guidance is effective for annual periods beginning after December 15, 2015 and interim periods within annual periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this guidance on its disclosures.

In May 2015, the FASB issued updated guidance on disclosures for investments in certain entities that calculate net asset value (NAV) per share (or its equivalent). The update eliminates the requirement to categorize investments measured using the NAV practical expedient in the fair value hierarchy table. The guidance is applicable retrospectively and is effective for annual periods beginning after December 15, 2015 and interim periods within those annual periods, with early adoption permitted. The Company is currently evaluating the impact of the adoption of this guidance on its disclosures.

4. Fair Value

(a) Fair Value of Financial Instrument Assets

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value by maximizing the use of observable inputs and minimizing the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement.

The Company determines the appropriate level in the hierarchy for each financial instrument that it measures at fair value. In determining fair value, the Company uses various valuation approaches, including market, income and cost approaches. The hierarchy is broken down into three levels based on the observability of inputs as follows:

- Level 1 inputs—Unadjusted, quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

The Company's financial instruments that it measures at fair value using Level 1 inputs generally include: equities and real estate investment trusts listed on a major exchange, exchange traded funds and exchange traded derivatives, including futures that are actively traded.

- Level 2 inputs—Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and significant directly or indirectly observable inputs, other than quoted prices, used in industry accepted models.

The Company's financial instruments that it measures at fair value using Level 2 inputs generally include: U.S. government issued bonds; U.S. government sponsored enterprises bonds; U.S. state, territory and municipal entities bonds; non-U.S. sovereign government, supranational and government related bonds consisting primarily of bonds issued by non-U.S. national governments and their agencies, non-U.S. regional governments and supranational organizations; investment grade and high yield corporate bonds; asset-backed securities; mortgage-backed securities; short-term investments; certain equities traded on foreign exchanges; certain preferred equities; certain fixed income mutual funds; foreign exchange forward contracts and over-the-counter derivatives such as foreign currency option contracts, credit default swaps, interest rate swaps and to-be-announced mortgage-backed securities (TBAs).

- Level 3 inputs—Unobservable inputs.

The Company's financial instruments that it measures at fair value using Level 3 inputs generally include: inactively traded fixed maturities including U.S. state, territory and municipal bonds; special purpose financing asset-backed bonds; unlisted equities; real estate and certain other mutual fund investments; inactively traded weather derivatives; notes and loan receivables, notes securitizations, annuities and residuals, private equities and longevity and other total return swaps.

The Company's policy is to recognize transfers between the hierarchy levels at the beginning of the period.

The Company's financial instruments measured at fair value include investments and the segregated investment portfolio underlying the funds held – directly managed account. At September 30, 2015 and December 31, 2014, the Company's financial instruments measured at fair value were classified between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

September 30, 2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	$ —	$ 2,195,753	$—	$2,195,753
U.S. states, territories and municipalities	—	634,874	125,480	760,354
Non-U.S. sovereign government, supranational and government related	—	1,288,188	—	1,288,188
Corporate	—	5,366,280	—	5,366,280
Asset-backed securities	—	681,758	400,831	1,082,589
Residential mortgage-backed securities	—	2,281,275	—	2,281,275
Other mortgage-backed securities	—	51,810	—	51,810
Fixed maturities	$ —	$ 12,499,938	$526,311	$13,026,249
Short-term investments	$ —	$ 100,365	$—	$100,365
Equities				
Real estate investment trusts	$ 180,387	$ —	$—	$180,387
Consumer noncyclical	115,462	—	—	115,462
Finance	74,552	4,698	21,861	101,111
Insurance	94,523	5,250	—	99,773
Energy	72,880	—	—	72,880
Industrials	55,322	8,751	—	64,073
Technology	45,364	—	8,416	53,780
Communications	43,024	—	2,568	45,592
Consumer cyclical	44,401	—	—	44,401
Utilities	24,616	—	—	24,616
Other	16,005	—	—	16,005
Mutual funds and exchange traded funds	179,195	—	6,841	186,036
Equities	$ 945,731	$ 18,699	$39,686	$1,004,116
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$ —	$ 12,880	$—	$12,880
Insurance-linked securities	—	—	8,523	8,523
Total return swaps	—	—	1,487	1,487
TBAs	—	2,159	—	2,159
Other				
Notes and loan receivables and notes securitization	—	—	91,386	91,386
Annuities and residuals	—	—	10,044	10,044
Private equities	—	—	70,070	70,070
Derivative liabilities				
Foreign exchange forward contracts	—	(2,939)	—	(2,939)
Foreign currency option contracts	—	(4,614)	—	(4,614)
Futures contracts	(16,382)	—	—	(16,382)
Total return swaps	—	—	(2,609)	(2,609)
Interest rate swaps	—	(25,518)	—	(25,518)
Other invested assets	$ (16,382)	$ (18,032)	$178,901	$144,487
Funds held – directly managed				
U.S. government and government sponsored enterprises	$ —	$ 165,297	$—	$165,297

Non-U.S. sovereign government, supranational and government related	—	124,294	—	124,294
Corporate	—	107,826	—	107,826
Short-term investments	—	6,063	—	6,063
Other invested assets	—	—	11,877	11,877
Funds held – directly managed	$ —	$ 403,480	$ 11,877	$ 415,357
Total	$ 929,349	$ 13,004,450	$ 756,775	$ 14,690,574

December 31, 2014	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities				
U.S. government and government sponsored enterprises	$ —	$ 2,315,422	$ —	$2,315,422
U.S. states, territories and municipalities	—	380,875	149,728	530,603
Non-U.S. sovereign government, supranational and government related	—	1,976,202	—	1,976,202
Corporate	—	5,604,160	—	5,604,160
Asset-backed securities	—	681,502	449,918	1,131,420
Residential mortgage-backed securities	—	2,306,476	—	2,306,476
Other mortgage-backed securities	—	54,462	—	54,462
Fixed maturities	$ —	$ 13,319,099	$ 599,646	$13,918,745
Short-term investments	$ —	$ 25,678	$ —	$25,678
Equities				
Real estate investment trusts	$ 213,770	$ —	$ —	$213,770
Insurance	140,916	4,521	—	145,437
Energy	123,978	—	—	123,978
Consumer noncyclical	100,134	—	—	100,134
Finance	70,621	7,354	20,353	98,328
Technology	52,707	—	8,555	61,262
Communications	51,829	—	2,640	54,469
Industrials	49,983	—	—	49,983
Consumer cyclical	39,002	—	—	39,002
Utilities	31,748	—	—	31,748
Other	11,571	—	—	11,571
Mutual funds and exchange traded funds	118,246	—	8,586	126,832
Equities	$ 1,004,505	$ 11,875	$ 40,134	$1,056,514
Other invested assets				
Derivative assets				
Foreign exchange forward contracts	$ —	$ 20,033	$ —	$20,033
Futures contracts	846	—	—	846
Insurance-linked securities	—	—	3	3
Total return swaps	—	—	485	485
TBAs	—	154	—	154
Other				
Notes and loan receivables and notes securitization	—	—	44,817	44,817
Annuities and residuals	—	—	13,243	13,243
Private equities	—	—	59,872	59,872
Derivative liabilities				
Foreign exchange forward contracts	—	(7,446)	—	(7,446)
Foreign currency option contracts	—	(1,196)	—	(1,196)
Futures contracts	(467)	—	—	(467)
Insurance-linked securities	—	—	(339)	(339)
Total return swaps	—	—	(2,007)	(2,007)
Interest rate swaps	—	(16,282)	—	(16,282)
TBAs	—	(240)	—	(240)
Other invested assets	$ 379	$ (4,977)	$ 116,074	$111,476

Funds held – directly managed				
U.S. government and government sponsored enterprises	$ —	$ 153,483	$ —	$153,483
U.S. states, territories and municipalities	—	—	132	132
Non-U.S. sovereign government, supranational and government related	—	128,233	—	128,233
Corporate	—	177,347	—	177,347
Other invested assets	—	—	13,398	13,398
Funds held – directly managed	$ —	$ 459,063	$ 13,530	$472,593
Total	$ 1,004,884	$ 13,810,738	$ 769,384	$15,585,006

At September 30, 2015 and December 31, 2014, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were $200.2 million and $187.3 million, respectively, which related to the Company's investments that are accounted for using the cost method of accounting or equity method of accounting.

In addition to the investments underlying the funds held – directly managed account held at fair value of $415.4 million and $472.6 million at September 30, 2015 and December 31, 2014, respectively, the funds held – directly managed account also included cash and cash equivalents, carried at fair value, of $64.2 million and $42.3 million, respectively, and accrued investment income of $5.4 million and $5.7 million, respectively. At September 30, 2015 and December 31, 2014, the aggregate carrying amounts of items included in the funds held – directly managed account that the Company did not measure at fair value were $110.7 million and $88.3 million, respectively, which primarily related to other assets and liabilities held by Colisée Re related to the underlying business, which are carried at cost (see Note 5 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014).

At September 30, 2015 and December 31, 2014, substantially all of the accrued investment income in the Condensed Consolidated Balance Sheets relate to the Company's investments and the investments underlying the funds held – directly managed account for which the fair value option was elected.

During the three months and nine months ended September 30, 2015 and 2014, there were no transfers between Level 1 and Level 2.

Disclosures about the fair value of financial instruments that the Company does not measure at fair value exclude insurance contracts and certain other financial instruments. At September 30, 2015 and December 31, 2014, the fair values of financial instrument assets recorded in the Condensed Consolidated Balance Sheets not described above, approximate their carrying values.

The reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the three months ended September 30, 2015 and 2014, were as follows (in thousands of U.S. dollars):

For the three months ended September 30, 2015	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net loss	Purchases and issuances (1)	Settlements and sales (2)	Net transfers into/(out of) Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$112,221	$ 13,399	$—	$ (140)	$—	$125,480	$ 13,398
Asset-backed securities	411,649	30	78,244	(89,092)	—	400,831	552
Fixed maturities	$523,870	$ 13,429	$78,244	$ (89,232)	$—	$526,311	$ 13,950
Equities							
Finance	$20,964	$ 897	$—	$ —	$—	$21,861	$ 897
Technology	9,215	(799)	—	—	—	8,416	(799)
Communications	2,580	(12)	—	—	—	2,568	(12)
Mutual funds and exchange traded funds	8,923	136	—	(2,218)	—	6,841	(595)
Equities	$41,682	$ 222	$—	$ (2,218)	$—	$39,686	$ (509)
Other invested assets							
Derivatives, net	$(2,410)	$ 9,811	$—	$ —	$—	$7,401	$ 9,811
Notes and loan receivables and notes securitization	65,450	(1,594)	28,893	(1,363)	—	91,386	(3,112)
Annuities and residuals	11,096	(226)	—	(826)	—	10,044	148

Private equities	71,543	(2,015)	1,553	(1,011)	—	70,070	(2,015)
Other invested assets	$145,679	$ 5,976	$30,446	$ (3,200)	$—	$178,901	$ 4,832
Funds held – directly managed							
Other invested assets	$12,348	$ (471)	$—	$—	$—	$11,877	$ (471)
Funds held – directly managed	$12,348	$ (471)	$—	$—	$—	$11,877	$ (471)
Total	$723,579	$ 19,156	$108,690	$ (94,650)	$—	$756,775	$ 17,802

(1) There were no issuances for the three months ended September 30, 2015.

(2) Settlements and sales of mutual funds and exchange traded funds and private equities include sales of $2.2 million and $0.2 million, respectively.

For the three months ended September 30, 2014	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances (1)	Settlements and sales (1)	Net transfers into/(out of) Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$123,617	$3,636	$5,695	$(2,205)	$ —	$130,743	$3,747
Asset-backed securities	489,106	(4,439)	11,085	(37,577)	—	458,175	(4,403)
Fixed maturities	$612,723	$(803)	$16,780	$(39,782)	$ —	$588,918	$(656)
Equities							
Finance	$19,564	$(428)	$—	$—	$ —	$19,136	$(428)
Communications	2,067	(101)	—	—	—	1,966	(101)
Technology	7,645	(327)	—	—	—	7,318	(327)
Other	7	—	—	—	—	7	—
Mutual funds and exchange traded funds	8,246	129	—	—	—	8,375	129
Equities	$37,529	$(727)	$—	$—	$ —	$36,802	$(727)
Other invested assets							
Derivatives, net	$(852)	$(1,255)	$57	$560	$ —	$(1,490)	$(1,255)
Notes and loan receivables and notes securitization	38,603	(1,379)	29,286	(21,114)	—	45,396	(1,379)
Annuities and residuals	17,134	(475)	—	(1,779)	—	14,880	(474)
Private equities	54,928	(1,348)	248	(809)	—	53,019	(1,348)
Other invested assets	$109,813	$(4,457)	$29,591	$(23,142)	$ —	$111,805	$(4,456)
Funds held – directly managed							
U.S. states, territories and municipalities	$305	$6	$—	$—	$ —	$311	$6
Other invested assets	15,800	(1,467)	220	—	—	14,553	(1,467)
Funds held – directly managed	$16,105	$(1,461)	$220	$—	$ —	$14,864	$(1,461)
Total	$776,170	$(7,448)	$46,591	$(62,924)	$ —	$752,389	$(7,300)

(1) There were no issuances or sales for the three months ended September 30, 2014.

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The reconciliations of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the nine months ended September 30, 2015 and 2014, were as follows (in thousands of U.S. dollars):

For the nine months ended September 30, 2015	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net loss	Purchases and issuances [1]	Settlements and sales [2]	Net transfers into/(out of) Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$149,728	$ 3,148	$ 16,440	$(43,836)	$ —	$125,480	$ 3,140
Asset-backed securities	449,918	(6,420)	138,946	(181,613)	—	400,831	(6,094)
Fixed maturities	$599,646	$ (3,272)	$ 155,386	$(225,449)	$ —	$526,311	$ (2,954)
Equities							
Finance	$20,353	$ 1,640	$ —	$(132)	$ —	$21,861	$ 1,640
Technology	8,555	(139)	—	—	—	8,416	(139)
Communications	2,640	(72)	—	—	—	2,568	(72)
Mutual funds and exchange traded funds	8,586	473	249,340	(251,558)	—	6,841	(259)
Equities	$40,134	$ 1,902	$ 249,340	$(251,690)	$ —	$39,686	$ 1,170
Other invested assets							
Derivatives, net	$(1,858)	$ 9,259	$ —	$—	$ —	$7,401	$ 9,259
Notes and loan receivables and notes securitization	44,817	(1,030)	51,575	(3,976)	—	91,386	(1,030)
Annuities and residuals	13,243	95	—	(3,294)	—	10,044	469
Private equities	59,872	(463)	13,491	(2,830)	—	70,070	(611)
Other invested assets	$116,074	$ 7,861	$ 65,066	$(10,100)	$ —	$178,901	$ 8,087
Funds held – directly managed							
U.S. states, territories and municipalities	$132	$ 68	$ —	$(200)	$ —	$—	$ —
Other invested assets	13,398	(1,521)	—	—	—	11,877	(1,521)
Funds held – directly managed	$13,530	$ (1,453)	$ —	$(200)	$ —	$11,877	$ (1,521)
Total	$769,384	$ 5,038	$ 469,792	$(487,439)	$ —	$756,775	$ 4,782

(1) There were no issuances for the nine months ended September 30, 2015.
(2) Settlements and sales of mutual funds and exchange traded funds and private equities include sales of $2.2 million and $0.2 million, respectively.

For the nine months ended September 30, 2014	Balance at beginning of period	Realized and unrealized investment gains (losses) included in net income	Purchases and issuances (1)	Settlements and sales (2)	Net transfers into/(out of) Level 3	Balance at end of period	Change in unrealized investment gains (losses) relating to assets held at end of period
Fixed maturities							
U.S. states, territories and municipalities	$108,380	$ 10,488	$14,220	$(2,345)	$ —	$130,743	$ 10,483
Asset-backed securities	446,577	4,698	138,538	(131,638)	—	458,175	4,993
Fixed maturities	$554,957	$ 15,186	$152,758	$(133,983)	$ —	$588,918	$ 15,476
Equities							
Finance	$20,207	$ (1,071)	$—	$—	$ —	$19,136	$ (1,071)
Communications	2,199	(233)	—	—	—	1,966	(233)
Technology	7,752	(434)	—	—	—	7,318	(434)
Other	—	(1)	8	—	—	7	(1)
Mutual funds and exchange traded funds	7,887	488	—	—	—	8,375	488
Equities	$38,045	$ (1,251)	$8	$—	$ —	$36,802	$ (1,251)
Other invested assets							
Derivatives, net	$(788)	$ (391)	$(871)	$560	$ —	$(1,490)	$ (391)
Notes and loan receivables and notes securitization	41,446	2,188	32,202	(30,440)	—	45,396	3,707
Annuities and residuals	24,064	(84)	—	(9,100)	—	14,880	(44)
Private equities	39,131	(3,179)	20,792	(3,725)	—	53,019	(3,210)
Other invested assets	$103,853	$ (1,466)	$52,123	$(42,705)	$ —	$111,805	$ 62
Funds held – directly managed							
U.S. states, territories and municipalities	$286	$ 25	$—	$—	$ —	$311	$ 25
Other invested assets	15,165	(1,087)	475	—	—	14,553	(1,087)
Funds held – directly managed	$15,451	$ (1,062)	$475	$—	$ —	$14,864	$ (1,062)
Total	$712,306	$ 11,407	$205,364	$(176,688)	$ —	$752,389	$ 13,225

(1) Purchases and issuances of derivatives include issuances of $0.9 million.
(2) There were no sales for the nine months ended September 30, 2014.

The significant unobservable inputs used in the valuation of financial instruments measured at fair value using Level 3 inputs at September 30, 2015 and December 31, 2014 were as follows (fair value in thousands of U.S. dollars):

September 30, 2015	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	$125,480	Discounted cash flow	Credit spreads	2.5% – 11.1% (5.8%)
Asset-backed securities	400,831	Discounted cash flow	Credit spreads	4.1% – 11.2% (7.5%)
Equities				
Finance	15,426	Weighted market comparables	Net income multiple	14.4 (14.4)
			Tangible book value multiple	1.5 (1.5)
			Liquidity discount	25.0% (25.0%)
			Comparable return	5.9% (5.9%)
Finance	6,435	Profitability analysis	Projected return on equity	14.0% (14.0%)
Technology	8,416	Weighted market comparables	Revenue multiple	1.2 (1.2)
			Adjusted earnings multiple	10.7 (10.7)
Communications	2,568	Weighted market comparables	Adjusted earnings multiple	9.4 (9.4)
			Comparable return	0% (0%)
Other invested assets				
Total return swaps, net	(1,122)	Discounted cash flow	Credit spreads	3.8% – 24.7% (17.2%)
Longevity swaps	8,413	Discounted cash flow	Credit spreads	2.6% (2.6%)
Notes and loan receivables	47,870	Discounted cash flow	Credit spreads	6.1% – 27.6% (8.7%)
Notes and loan receivables	12,140	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.3 – 1.6 (1.6)
Notes securitization	31,376	Discounted cash flow	Credit spreads	3.7% – 7.1% (6.9%)
Annuities and residuals	10,044	Discounted cash flow	Credit spreads	5.8% – 11.6% (10.1%)
			Prepayment speed	0% – 15.0% (2.4%)
			Constant default rate	0.3% – 17.5% (4.5%)
Private equity – direct	9,323	Discounted cash flow and weighted market comparables	Net income multiple	9.4 (9.4)
			Tangible book value multiple	2.2 (2.2)
			Recoverability of intangible assets	0% (0%)
Private equity funds	26,321	Reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-17.9% – -0.5% (-10.1%)
Private equity – other	34,426	Discounted cash flow	Effective yield	5.8% (5.8%)
Funds held – directly managed				
Other invested assets	11,877	Reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-15.3% – 0% (-13.4%)

December 31, 2014	Fair value	Valuation techniques	Unobservable inputs	Range (Weighted average)
Fixed maturities				
U.S. states, territories and municipalities	$149,728	Discounted cash flow	Credit spreads	2.2% – 10.1% (4.6%)
Asset-backed securities	449,918	Discounted cash flow	Credit spreads	4.0% – 12.1% (7.1%)
Equities				
Finance	14,561	Weighted market comparables	Net income multiple	19.0 (19.0)
			Tangible book value multiple	1.3 (1.3)
			Liquidity discount	25.0% (25.0%)
			Comparable return	7.3% (7.3%)
Finance	5,792	Profitability analysis	Projected return on equity	14.0% (14.0%)
Technology	8,555	Weighted market comparables	Revenue multiple	1.6 (1.6)
			Adjusted earnings multiple	10.2 (10.2)
Communications	2,640	Weighted market comparables	Adjusted earnings multiple	9.4 (9.4)
			Comparable return	-10.6% (-10.6%)
Other invested assets				
Total return swaps, net	(1,522)	Discounted cash flow	Credit spreads	3.6% – 19.3% (16.3%)
Notes and loan receivables	8,068	Discounted cash flow	Credit spreads	12.6% (12.6%)
Notes and loan receivables	13,237	Discounted cash flow	Credit spreads	17.5% (17.5%)
			Gross revenue/fair value	1.5 – 1.7 (1.7)
Notes securitization	23,512	Discounted cash flow	Credit spreads	3.5% – 6.6% (6.4%)
Annuities and residuals	13,243	Discounted cash flow	Credit spreads	4.9% – 9.6% (7.8%)
			Prepayment speed	0% – 15.0% (4.3%)
			Constant default rate	0.3% – 17.5% (6.3%)
Private equity – direct	8,536	Discounted cash flow and weighted market comparables	Net income multiple	9.0 (9.0)
			Tangible book value multiple	2.0 (2.0)
			Recoverability of intangible assets	0% (0%)
Private equity funds	18,494	Reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-7.6% – 11.0% (-1.6%)
Private equity – other	32,842	Discounted cash flow	Effective yield	5.8% (5.8%)
Funds held – directly managed				
Other invested assets	13,398	Reported market value	Net asset value, as reported	100.0% (100.0%)
			Market adjustments	-15.4% – 0% (-14.5%)

The tables above do not include financial instruments that are measured using unobservable inputs (Level 3) where the unobservable inputs were obtained from external sources and used without adjustment. These financial instruments include mutual fund investments (included within equities) and certain derivatives.

The Company has established a Valuation Committee which is responsible for determining the Company's invested asset valuation policy and related procedures, for reviewing significant changes in the fair value measurements of securities classified as Level 3 from period to period, and for reviewing in accordance with the invested asset valuation policy an independent internal peer analysis that is performed on the fair value measurements of significant securities that are classified as Level 3. The Valuation Committee is comprised of members of the Company's senior management team and meets on a quarterly basis. The Company's invested asset valuation policy is monitored by the Company's Audit Committee of the Board of Directors (Board) and approved annually by the Company's Risk and Finance Committee of the Board.

Changes in the fair value of the Company's financial instruments subject to the fair value option during the three months and nine months ended September 30, 2015 and 2014 were as follows (in thousands of U.S. dollars):

	For the three months ended		For the nine months ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Fixed maturities and short-term investments	$(19,375)	$(75,537)	$(196,322)	$167,696
Equities	(94,869)	(31,093)	(147,408)	(14,447)
Other invested assets	(4,072)	(3,497)	(1,359)	60
Funds held – directly managed	1,674	(540)	(2,084)	937
Total	$(116,642)	$(110,667)	$(347,173)	$154,246

Substantially all of the above changes in fair value are included in the Condensed Consolidated Statements of Operations under the caption Net realized and unrealized investment (losses) gains.

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument recorded in the Condensed Consolidated Balance Sheets. There have been no material changes in the Company's valuation techniques during the periods presented.

Fixed maturities

- U.S. government and government sponsored enterprises—U.S. government and government sponsored enterprises securities consist primarily of bonds issued by the U.S. Treasury and corporate debt securities issued by government sponsored enterprises and federally owned or established corporations. These securities are generally priced by independent pricing services. The independent pricing services may use actual transaction prices for securities that have been actively traded. For securities that have not been actively traded, each pricing source has its own proprietary method to determine the fair value, which may incorporate option adjusted spreads (OAS), interest rate data and market news. The Company generally classifies these securities in Level 2.
- U.S. states, territories and municipalities—U.S. states, territories and municipalities securities consist primarily of bonds issued by U.S. states, territories and municipalities and the Federal Home Loan Mortgage Corporation. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored enterprises above. The Company generally classifies these securities in Level 2. Certain of the bonds that are issued by municipal housing authorities and the Federal Home Loan Mortgage Corporation are not actively traded and are priced based on internal models using unobservable inputs. Accordingly, the Company classifies these securities in Level 3. The significant unobservable input used in the fair value measurement of these U.S. states, territories and municipalities securities classified as Level 3 is credit spreads. A significant increase (decrease) in credit spreads in isolation could result in a significantly lower (higher) fair value measurement.
- Non-U.S. sovereign government, supranational and government related—Non-U.S. sovereign government, supranational and government related securities consist primarily of bonds issued by non-U.S. national governments and their agencies, non-U.S. regional governments and supranational organizations. These securities are generally priced by independent pricing services using the techniques described for U.S. government and government sponsored enterprises above. The Company generally classifies these securities in Level 2.
- Corporate—Corporate securities consist primarily of bonds issued by U.S. and foreign corporations covering a variety of industries and issuing countries. These securities are generally priced by independent pricing services and brokers. The pricing provider incorporates information including credit spreads, interest rate data and market news into the valuation of each security. The Company generally classifies these securities in Level 2. When a corporate security is inactively traded or the valuation model uses unobservable inputs, the Company classifies the security in Level 3.
- Asset-backed securities—Asset-backed securities primarily consist of bonds issued by U.S. and foreign corporations that are predominantly backed by student loans, automobile loans, credit card receivables, equipment leases, and special purpose financing. With the exception of special purpose financing, these asset-backed securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2. Special purpose financing securities are generally inactively traded and are priced based on valuation models using unobservable inputs. The Company generally classifies these securities in Level 3. The

significant unobservable input used in the fair value measurement of these asset-backed securities classified as Level 3 is credit spreads. A significant increase (decrease) in credit spreads in isolation could result in a significantly lower (higher) fair value measurement.

- Residential mortgage-backed securities—Residential mortgage-backed securities primarily consist of bonds issued by the Government National Mortgage Association, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, as well as private, non-agency issuers. These residential mortgage-backed securities are generally priced by independent pricing services and brokers. When current market trades are not available, the pricing provider or the Company will employ proprietary models with observable inputs including other trade information, prepayment speeds, yield curves and credit spreads. The Company generally classifies these securities in Level 2.
- Other mortgage-backed securities—Other mortgage-backed securities primarily consist of commercial mortgage-backed securities. These securities are generally priced by independent pricing services and brokers. The pricing provider applies dealer quotes and other available trade information, prepayment speeds, yield curves and credit spreads to the valuation. The Company generally classifies these securities in Level 2.

In general, the methods employed by the independent pricing services to determine the fair value of the securities that have not been actively traded primarily involve the use of "matrix pricing" in which the independent pricing source applies the credit spread for a comparable security that has traded recently to the current yield curve to determine a reasonable fair value. The Company generally uses one pricing source per security and uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. When fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Most of the Company's fixed maturities are priced from the pricing services or dealer quotes. The Company will typically not make adjustments to prices received from pricing services or dealer quotes; however, in instances where the quoted external price for a security uses significant unobservable inputs, the Company will classify that security as Level 3. The methods used to develop and substantiate the unobservable inputs used are based on the Company's valuation policy and are dependent upon the facts and circumstances surrounding the individual investments which are generally transaction specific. The Company's inactively traded fixed maturities are classified as Level 3. For all fixed maturity investments, the bid price is used for estimating fair value.

To validate prices, the Company compares the fair value estimates to its knowledge of the current market and will investigate prices that it considers not to be representative of fair value. The Company also reviews an internally generated fixed maturity price validation report which converts prices received for fixed maturity investments from the independent pricing sources and from broker-dealers quotes and plots OAS and duration on a sector and rating basis. The OAS is calculated using established algorithms developed by an independent risk analytics platform vendor. The OAS on the fixed maturity price validation report are compared for securities in a similar sector and having a similar rating, and outliers are identified and investigated for price reasonableness. In addition, the Company completes quantitative analyses to compare the performance of each fixed maturity investment portfolio to the performance of an appropriate benchmark, with significant differences identified and investigated.

Short-term investments

Short-term investments are valued in a manner similar to the Company's fixed maturity investments and are generally classified in Level 2.

Equities

Equity securities include U.S. and foreign common and preferred stocks, real estate investment trusts, mutual funds and exchange traded funds. Equities, real estate investment trusts and exchange traded funds are generally classified in Level 1 as the Company uses prices received from independent pricing sources based on quoted prices in active markets. Equities classified as Level 2 are generally mutual funds invested in fixed income securities, where the net asset value of the fund is provided on a daily basis, common stocks traded in inactive markets and certain preferred equities. Equities classified as Level 3 are generally mutual funds invested in securities other than the common stock of publicly traded companies, where the net asset value is not provided on a daily basis, and inactively traded common stocks. The significant unobservable inputs used in the fair value measurement of inactively traded common stocks classified as Level 3 include market return information, weighted using management's judgment, from comparable selected publicly traded companies in the same industry, in a similar region and of a similar size, including net income multiples, tangible book value multiples, comparable returns, revenue multiples, adjusted earnings multiples and projected return on equity ratios. Significant increases (decreases) in any of these inputs could result in a significantly higher (lower) fair value measurement. Significant unobservable inputs used in measuring the fair value measurement of inactively traded common stocks also include a liquidity discount. A significant increase (decrease) in the liquidity discount could result in a significantly lower (higher) fair value measurement.

To validate prices, the Company completes quantitative analyses to compare the performance of each equity investment portfolio to the performance of an appropriate benchmark, with significant differences identified and investigated.

Other invested assets

The Company’s exchange traded derivatives, such as futures, are generally classified as Level 1 as their fair values are quoted prices in active markets. The Company’s foreign exchange forward contracts, foreign currency option contracts, credit default swaps, interest rate swaps and TBAs are generally classified as Level 2 within the fair value hierarchy and are priced by independent pricing services.

Included in the Company’s Level 3 classification, in general, are certain inactively traded weather derivatives, notes and loan receivables, notes securitizations, annuities and residuals, private equities and longevity and other total return swaps. For Level 3 instruments, the Company will generally (i) receive a price based on a manager’s or trustee’s valuation for the asset; (ii) develop an internal discounted cash flow model to measure fair value; or (iii) use market return information, adjusted if necessary and weighted using management’s judgment, from comparable selected publicly traded equity funds in a similar region and of a similar size. Where the Company receives prices from the manager or trustee, these prices are based on the manager’s or trustee’s estimate of fair value for the assets and are generally audited on an annual basis. Where the Company develops its own discounted cash flow models, the inputs will be specific to the asset in question, based on appropriate historical information, adjusted as necessary, and using appropriate discount rates. The significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 include credit spreads, prepayment speeds, constant default rates, gross revenue to fair value ratios, net income multiples, effective yields, tangible book value multiples and other valuation ratios. Significant increases (decreases) in any of these inputs in isolation could result in a significantly lower (higher) fair value measurement. Significant unobservable inputs used in the fair value measurement of other invested assets classified as Level 3 also include an assessment of the recoverability of intangible assets and market return information, weighted using management’s judgment, from comparable selected publicly traded companies in the same industry, in a similar region and of a similar size. Significant increases (decreases) in these inputs in isolation could result in a significantly higher (lower) fair value measurement. As part of the Company’s modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company’s counterparties are investment grade rated institutions and the failure of any one counterparty would not have a significant impact on the Company’s consolidated financial statements.

To validate prices, the Company will compare them to benchmarks, where appropriate, or to the business results generally within that asset class and specifically to those particular assets.

Funds held – directly managed

The segregated investment portfolio underlying the funds held – directly managed account is comprised of fixed maturities, short-term investments and other invested assets which are fair valued on a basis consistent with the methods described above. Substantially all fixed maturities and short-term investments within the funds held – directly managed account are classified as Level 2 within the fair value hierarchy.

The other invested assets within the segregated investment portfolio underlying the funds held – directly managed account, which are classified as Level 3 investments, are primarily real estate mutual fund investments carried at fair value. For the real estate mutual fund investments, the Company receives a price based on the real estate fund manager’s valuation for the asset and further adjusts the price, if necessary, based on appropriate current information on the real estate market. A significant increase (decrease) to the adjustment to the real estate fund manager’s valuation could result in a significantly lower (higher) fair value measurement.

To validate prices within the segregated investment portfolio underlying the funds held – directly managed account, the Company utilizes the methods described above.

(b) Fair Value of Financial Instrument Liabilities

At September 30, 2015 and December 31, 2014, the fair values of financial instrument liabilities recorded in the Condensed Consolidated Balance Sheets approximate their carrying values, with the exception of the debt related to senior notes (Senior Notes) and the debt related to capital efficient notes (CENts).

The methods and assumptions used by the Company in estimating the fair value of each class of financial instrument liability recorded in the Condensed Consolidated Balance Sheets for which the Company does not measure that instrument at fair value were as follows:

- the fair value of the Senior Notes was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding of $250 million from

PartnerRe Finance A LLC and $500 million from PartnerRe Finance B LLC at September 30, 2015 and December 31, 2014; and

• the fair value of the CENts was calculated based on discounted cash flow models using observable market yields and contractual cash flows based on the aggregate principal amount outstanding of $63 million from PartnerRe Finance II Inc. at September 30, 2015 and December 31, 2014.

The carrying values and fair values of the Senior Notes and CENts at September 30, 2015 and December 31, 2014 were as follows (in thousands of U.S. dollars):

	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Debt related to Senior Notes (1)	$750,000	$849,887	$750,000	$853,792
Debt related to CENts (2)	63,384	63,999	63,384	62,309

(1) PartnerRe Finance A LLC and PartnerRe Finance B LLC, the issuers of the Senior Notes, do not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $750 million in its Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014.

(2) PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $71 million in its Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014.

At September 30, 2015 and December 31, 2014, the Company’s debt related to the Senior Notes and CENts was classified as Level 2 in the fair value hierarchy.

Disclosures about the fair value of financial instrument liabilities exclude insurance contracts and certain other financial instruments.

5. Derivatives

The Company’s derivative instruments are recorded in the Condensed Consolidated Balance Sheets at fair value, with changes in fair value recognized in either net foreign exchange gains and losses or net realized and unrealized investment gains and losses in the Condensed Consolidated Statements of Operations or accumulated other comprehensive income or loss in the Condensed Consolidated Balance Sheets, depending on the nature of the derivative instrument. The Company’s objectives for holding or issuing these derivatives are as follows:

Foreign Exchange Forward Contracts

The Company utilizes foreign exchange forward contracts as part of its overall currency risk management and investment strategies. From time to time, the Company also utilizes foreign exchange forward contracts to hedge a portion of its net investment exposure resulting from the translation of its foreign subsidiaries and branches whose functional currency is other than the U.S. dollar.

Foreign Currency Option Contracts and Futures Contracts

The Company utilizes foreign currency option contracts to mitigate foreign currency risk. The Company uses exchange traded treasury note futures contracts to manage portfolio duration and equity futures to hedge certain investments.

Credit Default Swaps

The Company purchases protection through credit default swaps to mitigate the risk associated with its underwriting operations, most notably in the credit/surety line, and to manage market exposures.

The Company also assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. The counterparties on the Company’s assumed credit default swaps are all investment grade rated financial institutions, however, the Company would be required to perform in the event of a default by the underlying issuer.

Insurance-Linked Securities

The Company enters into various weather derivatives and longevity total return swaps for which the underlying risks reference parametric weather risks for the weather derivatives and longevity risk for the longevity total return swaps.

Total Return and Interest Rate Swaps and Interest Rate Derivatives
The Company enters into total return swaps referencing various project, investments and principal finance obligations. The Company enters into interest rate swaps to mitigate the interest rate risk on certain of the total return swaps and certain fixed maturity investments. The Company also uses other interest rate derivatives to mitigate exposure to interest rate volatility.
To-Be-Announced Mortgage-Backed Securities
The Company utilizes TBAs as part of its overall investment strategy and to enhance investment performance.
The net fair values and the related net notional values of derivatives included in the Company's Condensed Consolidated Balance Sheets at September 30, 2015 and December 31, 2014 were as follows (in thousands of U.S. dollars):

September 30, 2015	Asset derivatives at fair value	Liability derivatives at fair value	Net derivatives Net notional exposure	Fair value
Derivatives designated as hedges				
Foreign exchange forward contracts (net investment hedge)	$2,362	$—	$392,523	$2,362
Total derivatives designated as hedges	$2,362	$—		$2,362
Derivatives not designated as hedges				
Foreign exchange forward contracts	$10,518	$(2,939)	$1,858,513	$7,579
Foreign currency option contracts	—	(4,614)	88,362	(4,614)
Futures contracts	—	(16,382)	3,896,112	(16,382)
Insurance-linked securities [1]	8,523	—	134,288	8,523
Total return swaps				