Allied World Assurance Co Holdings, AG
Form 10-Q
April 26, 2017

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

Form 10-Q
(Mark One)
þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: March 31, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-32938
ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
(Exact Name of Registrant as Specified in Its Charter)

Switzerland	98-0681223
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

Gubelstrasse 24, Park Tower, 15th Floor, 6300 Zug, Switzerland
(Address of Principal Executive Offices and Zip Code)

41-41-768-1080
(Registrant's Telephone Number, Including Area Code)

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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer ¨
Non-accelerated filer ¨	(Do not check if a smaller reporting company)
	Smaller reporting company ¨
	Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new

or revised financial accounting standards provided
pursuant to Section 13(a) of the Exchange Act. ¨

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

As of April 19, 2017, 87,484,665 common shares were outstanding.

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PART I
FINANCIAL INFORMATION
Item 1. Financial Statements.
ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS
as of March 31, 2017 and December 31, 2016
(Expressed in millions of United States dollars, except share and per share amounts)

	As of March 31, 2017	As of December 31, 2016
ASSETS:		
Fixed maturity investments trading, at fair value (amortized cost: 2017: $6,535.6; 2016: $6,874.4)	$6,473.1	$ 6,737.7
Equity securities trading, at fair value (cost: 2017: $237.7; 2016: $235.0)	255.2	243.9
Other invested assets	966.6	960.7
Total investments	7,694.9	7,942.3
Cash and cash equivalents	1,284.9	720.9
Restricted cash	60.6	76.5
Insurance balances receivable	862.2	784.0
Funds held	297.1	466.8
Prepaid reinsurance	478.7	486.4
Reinsurance recoverable	1,725.6	1,625.0
Reinsurance recoverable on paid losses	119.9	104.4
Accrued investment income	32.2	36.0
Net deferred acquisition costs	148.9	121.1
Goodwill	388.6	389.7
Intangible assets	104.2	104.7
Balances receivable on sale of investments	23.9	114.7
Net deferred tax assets	34.8	38.7
Other assets	171.0	167.8
Total assets	$13,427.5	$ 13,179.0
LIABILITIES:		
Reserve for losses and loss expenses	$6,762.7	$ 6,639.2
Unearned premiums	1,813.2	1,688.1
Reinsurance balances payable	202.9	223.3
Balances due on purchases of investments	58.2	79.7
Senior notes:		
Principal amount	800.0	800.0
Less unamortized discount and debt issuance costs	5.6	5.8
Senior notes, net	794.4	794.2
Other long-term debt	22.6	22.0
Accounts payable and accrued liabilities	135.2	180.7
Total liabilities	$9,789.2	$ 9,627.2
SHAREHOLDERS' EQUITY:		
Common shares: 2017 and 2016: par value CHF 4.10 per share (2017: 93,586,418; 2016: 93,586,418 shares issued and 2017: 87,483,715; 2016: 87,098,120 shares outstanding)	378.8	378.8
Treasury shares, at cost (2017: 6,102,703; 2016: 6,488,298)	(223.6)	(233.8)
Accumulated other comprehensive loss	(5.9)	(11.6)
Retained earnings	3,489.0	3,418.4

Total shareholders' equity	3,638.3	3,551.8
Total liabilities and shareholders' equity	$13,427.5	$ 13,179.0

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE INCOME
for the three months ended March 31, 2017 and 2016
(Expressed in millions of United States dollars, except share and per share amounts)

	Three Months Ended March 31,	
	2017	2016
REVENUES:		
Gross premiums written	$860.9	$ 863.5
Premiums ceded	(184.8)	(159.5)
Net premiums written	676.1	704.0
Change in unearned premiums	(131.2)	(123.9)
Net premiums earned	544.9	580.1
Net investment income	52.3	53.3
Net realized investment gains	40.7	18.9
Other income	1.3	0.6
Total revenue	639.2	652.9
EXPENSES:		
Net losses and loss expenses	359.0	372.4
Acquisition costs	77.1	88.3
General and administrative expenses	104.1	96.4
Other expense	7.1	1.1
Amortization of intangible assets	2.3	2.5
Interest expense	10.4	20.0
Foreign exchange loss (gain)	1.4	(3.0)
Total expenses	561.4	577.7
Income before income taxes	77.8	75.2
Income tax (benefit) expense	(2.5)	1.1
NET INCOME	80.3	74.1
Other comprehensive income: foreign currency translation adjustment	5.7	3.1
COMPREHENSIVE INCOME	$86.0	$ 77.2
PER SHARE DATA:		
Basic earnings per share	$0.92	$ 0.82
Diluted earnings per share	$0.90	$ 0.81
Weighted average common shares outstanding	87,291,369	90,254,512
Weighted average common shares and common share equivalents outstanding	89,133,212	91,559,225
Dividends paid per share	$—	$ 0.260

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
for the three months ended March 31, 2017 and 2016
(Expressed in millions of United States dollars)

	Three Months Ended March 31,	
	2017	2016
Share capital		
Balance at the beginning of the year	$378.8	$386.7
Shares canceled	—	(11.6)
Balance at the end of the year	378.8	375.1
Treasury shares		
Balance at the beginning of the year	(233.8)	(155.1)
Stock compensation	10.2	8.8
Shares repurchased	—	(50.0)
Shares canceled	—	50.0
Balance at the end of the year	(223.6)	(146.3)
Accumulated other comprehensive loss		
Balance at the beginning of the year	(11.6)	(9.3)
Foreign currency translation adjustment	5.7	3.1
Balance at the end of the year	(5.9)	(6.2)
Retained earnings		
Balance at the beginning of the year	3,418.4	3,310.2
Net income	80.3	74.1
Dividends	—	(23.4)
Stock compensation	(9.7)	(9.7)
Shares canceled	—	(38.4)
Balance at the end of the year	3,489.0	3,312.8
Total shareholders' equity	$3,638.3	$3,535.4

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
for the three months ended March 31, 2017 and 2016
(Expressed in millions of United States dollars)

	Three Months Ended March 31, 2017	2016
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income	$80.3	$74.1
Adjustments to reconcile net income to cash provided by operating activities:		
Net realized losses (gains) on sales of investments	13.1	(12.0)
Mark to market adjustments	(52.8)	(27.1)
Stock compensation expense	5.5	3.9
Undistributed income of equity method investments	1.4	9.2
Changes in:		
Reserve for losses and loss expenses, net of reinsurance recoverables	22.9	86.9
Unearned premiums, net of prepaid reinsurance	132.7	125.5
Insurance balances receivable	(78.3)	(139.5)
Reinsurance recoverable on paid losses	(15.5)	13.8
Funds held	169.7	287.7
Reinsurance balances payable	(20.4)	7.3
Net deferred acquisition costs	(27.8)	(21.7)
Net deferred tax assets	3.9	(0.6)
Accounts payable and accrued liabilities	(45.5)	(50.1)
Other items, net	6.2	(9.9)
Net cash provided by operating activities	195.4	347.5
CASH FLOWS PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Purchases of trading securities	(779.8)	(1,530.0)
Purchases of other invested assets	(11.4)	(8.1)
Sales of trading securities	1,141.9	1,414.6
Sales of other invested assets	0.5	38.7
Purchases of fixed assets	(1.0)	(0.6)
Change in restricted cash	15.9	(26.8)
Net cash provided by (used in) investing activities	366.1	(112.2)
CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES:		
Dividends paid	—	(23.4)
Proceeds from the exercise of stock options, net of taxes paid	1.4	0.4
Repayment of other long-term debt	(0.1)	(0.1)
Share repurchases	—	(50.0)
Net cash provided by (used in) financing activities	1.3	(73.1)
Effect of exchange rate changes on foreign currency cash	1.2	1.8
NET INCREASE IN CASH AND CASH EQUIVALENTS	564.0	164.0
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	720.9	608.0
CASH AND CASH EQUIVALENTS, END OF PERIOD	$1,284.9	$772.0
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$0.2	$1.0
Cash paid for interest expense	$—	$18.8

See accompanying notes to the consolidated financial statements.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in millions, except share, per share, percentage and ratio information)

1. GENERAL

Allied World Assurance Company Holdings, AG, a Swiss holding company (“Allied World Switzerland”), through its wholly-owned subsidiaries (collectively, the “Company”), is a global provider of a diversified portfolio of property and casualty insurance and reinsurance. References to “$” are to the lawful currency of the United States and to “CHF” are to the lawful currency of Switzerland.

On December 18, 2016, the Company entered into a merger agreement with Fairfax Financial Holdings Limited (“Fairfax”), whereby Fairfax will acquire all of the outstanding ordinary shares of Allied World Switzerland. Under the terms of the merger agreement, Allied World Switzerland shareholders will receive a combination of Fairfax subordinate voting shares and cash having a value equal to $54.00 per Allied World Switzerland share (based on the closing price of Fairfax’s subordinate voting shares on December 16, 2016). The merger agreement has been unanimously approved by both companies’ Boards of Directors. The acquisition is expected to be consummated following the satisfaction of customary closing conditions. The acquisition is anticipated to close in the second quarter of 2017. There can be no assurances that the acquisition will occur.

2. BASIS OF PREPARATION AND CONSOLIDATION

These unaudited condensed consolidated financial statements include the accounts of the Company and have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) for interim financial information and with Article 10 of Regulation S-X as promulgated by the U.S. Securities and Exchange Commission (the “SEC”). Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments that are normal and recurring in nature and necessary for a fair presentation of financial position and results of operations as of the end of and for the periods presented. The results of operations for any interim period are not necessarily indicative of the results for a full year.

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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates reflected in the Company’s financial statements, include, but are not limited to:

- The premium estimates for certain reinsurance agreements,
- Recoverability of deferred acquisition costs,
- The reserve for outstanding losses and loss expenses,
- Valuation of ceded reinsurance recoverables,
- Determination of impairment of goodwill and other intangible assets, and
- Valuation of financial instruments.

Intercompany accounts and transactions have been eliminated on consolidation and all entities meeting consolidation requirements have been included in the unaudited condensed consolidated financial statements.

These unaudited condensed consolidated financial statements, including these notes, should be read in conjunction with the Company’s audited consolidated financial statements, and related notes thereto, included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016.

3. NEW ACCOUNTING PRONOUNCEMENTS

In February 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update 2016-02, “Leases” (“ASU 2016-02”). ASU 2016-02 changes current U.S. GAAP for lessees to recognize lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous U.S. GAAP. ASU 2016-02 is effective for annual periods beginning after January 1, 2019, including interim periods. Early application is permitted. The Company is currently assessing the impact the adoption of ASU 2016-02 will have on future financial statements and disclosures.

Specifically, the Company is still evaluating its existing leases to determine the appropriate classification under the new standard and whether it will adopt the practical expedients allowed under ASU 2016-02.

In June 2016, the FASB issued Accounting Standards Update 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). ASU 2016-13 modifies U.S. GAAP related to the recognition of credit losses by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. ASU 2016-13 would apply to financial assets such as loans, debt securities, trade receivables, off-balance sheet credit exposures, reinsurance receivables, and other financial assets that have the contractual right to receive cash. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. The Company's invested assets are measured at fair value through net income, and therefore those invested assets would not be impacted by the adoption of ASU 2016-13. The Company has other financial assets, such as reinsurance recoverables, that could be impacted by the adoption of ASU 2016-13. ASU 2016-13 is effective for annual periods beginning after January 1, 2020, including interim periods. The Company is currently assessing the impact the adoption of ASU 2016-13 will have on future financial statements and disclosures. Specifically, the Company is developing a credit impairment methodology for its reinsurance recoverables based on the guidance in ASU 2016-13.

In August 2016, the FASB issued Accounting Standards Update 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments" ("ASU 2016-15"). ASU 2016-15 clarifies the classification of receipts and payments in the statement of cash flows. ASU 2016-15 provides guidance related to (1) settlement and payment of zero coupon debt instruments, (2) contingent consideration, (3) proceeds from settlement of insurance claims, (4) proceeds from settlement of corporate and bank-owned life insurance policies, (5) distributions from equity method investees, (6) cash receipts from beneficial interests obtained by a transferor, and (7) general guidelines for cash receipts and payments that have more than one aspect of classification. The only item above that will impact the Company is the guidance related to distributions from equity method investees. The Company currently utilizes the nature of distribution approach for classifying such distributions and will adopt ASU 2016-15 for reporting periods beginning January 1, 2018. As the nature of distribution approach is an acceptable method under ASU 2016-15, the Company does not expect the adoption of ASU 2016-15 to have a material impact on the statement of cash flows.

(Expressed in millions, except share, per share, percentage and ratio information)

4. INVESTMENTS

a) Trading Securities

Securities accounted for at fair value with changes in fair value recognized in the unaudited condensed consolidated statements of operations and comprehensive income (the "consolidated income statements") by category are as follows:

	March 31, 2017		December 31, 2016	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
U.S. government and government agencies	$1,410.5	$ 1,433.9	$1,426.0	$ 1,454.5
Non-U.S. government and government agencies	543.2	554.2	469.9	496.5
States, municipalities and political subdivisions	41.7	40.7	354.1	355.8
Corporate debt:				
Financial institutions	1,046.4	1,043.2	1,032.7	1,033.6
Industrials	1,379.2	1,375.8	1,321.3	1,322.3
Utilities	153.2	153.3	140.0	140.7
Mortgage-backed:				
Agency mortgage-backed	595.6	593.9	614.5	612.5
Non-agency residential mortgage-backed	23.4	22.0	23.9	22.7
Commercial mortgage-backed	467.1	491.5	598.0	636.1
Asset-backed	812.8	827.3	757.3	772.6
Total fixed maturity investments, trading	$6,473.1	$ 6,535.6	$6,737.7	$ 6,847.4

	March 31, 2017		December 31, 2016	
	Fair Value	Original Cost	Fair Value	Original Cost
Equity securities	$255.2	$ 237.7	$243.9	$ 235.0
Other invested assets	902.7	842.6	897.8	831.2
	$1,157.9	$ 1,080.3	$1,141.7	$ 1,066.2

Other invested assets, included in the table above, include investments in private equity funds and hedge funds that are accounted for at fair value, but excludes other private securities described below in Note 4(b) that are accounted for using the equity method of accounting.

ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in millions, except share, per share, percentage and ratio information)

b) Other Invested Assets

Details regarding the carrying value, redemption characteristics and unfunded investment commitments of the other invested assets portfolio as of March 31, 2017 and December 31, 2016 were as follows:

Investment Type	Carrying Value as of March 31, 2017	Investments with Redemption Restrictions	Estimated Remaining Restriction Period	Investments without Redemption Restrictions	Redemption Frequency(1)	Redemption Notice Period(1)	Unfunded Commitments
Private equity	$ 281.5	$ 281.5	1 - 15 Years	$ —			$ 208.8
Levered credit	211.2	211.2	3 - 9 Years	—			189.2
Real estate	68.9	68.9	6 - 8 Years	—			191.6
Distressed	4.8	4.8	1 Year	—			3.8
Total private equity	566.4	566.4		—			593.4
Distressed	173.3	—		173.3	Quarterly	60 Days	—
Relative value credit	87.4	—		87.4	Quarterly	60 Days	—
Equity long/short	65.1	—		65.1	Quarterly	45 Days	—
Fund of funds	10.5	—		10.5	Quarterly	60 Days	—
Total hedge funds	336.3	—		336.3			—
Total other invested assets at fair value	902.7	566.4		336.3			593.4
Other private securities	63.9	—		63.9			—
Total other invested assets	$ 966.6	$ 566.4		$ 400.2			$ 593.4

Investment Type	Carrying Value as of December 31, 2016	Investments with Redemption Restrictions	Estimated Remaining Restriction Period	Investments without Redemption Restrictions	Redemption Frequency(1)	Redemption Notice Period(1)	Unfunded Commitments
Private equity	$ 281.0	$ 281.0	1 - 15 Years	$ —			$ 219.3
Levered credit	204.9	204.9	3 - 9 Years	—			190.8
Real estate	68.9	68.9	6 - 8 Years	—			191.6
Distressed	5.0	5.0	1 Year	—			3.8
Total private equity	559.8	559.8		—			605.5
Distressed	175.3	—		175.3	Quarterly	60 Days	—
Relative value credit	84.8	—		84.8	Quarterly	60 Days	—
Equity long/short	67.9	—		67.9	Quarterly	45 Days	—
Fund of Funds	10.0	—		10.0	Quarterly	60 Days	—
Total hedge funds	338.0	—		338.0			—
Total other invested assets at fair value	897.8	559.8		338.0			605.5
Other private securities	62.9	—		62.9			—
Total other invested assets	$ 960.7	$ 559.8		$ 400.9			$ 605.5

(1) The redemption frequency and notice periods only apply to the investments without redemption restrictions.

In general, the Company has invested in hedge funds that require at least 30 days' notice of redemption and may be redeemed on a monthly, quarterly, semi-annual, annual or longer basis, depending on the fund. Certain hedge funds have lock-up periods ranging from one to three years from initial investment. A lock-up period refers to the initial amount of time an investor is contractually required to invest before having the ability to redeem. Funds that provide for periodic redemptions may, depending on the funds' governing documents, have the ability to deny or delay a redemption request, called a "gate." The fund may implement this restriction if the aggregate amount of redemption requests as of a particular date exceeds a specified level, generally ranging from 15% to 25% of the fund's net assets. The gate is a method for executing an orderly redemption process to reduce the possibility of adversely affecting investors in the fund. Typically, the imposition of a gate delays a portion of the requested redemption, with the remaining portion settled in cash sometime after the redemption date. Certain funds may impose a redemption fee on early redemptions. Interests in private equity funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the fund.

The following describes each investment type:

- Private equity (primary and secondary): Primary equity funds include funds that may invest in companies and general partnership interests, as well as direct investments. Secondary funds buy limited partnership interests from existing limited partners of primary private equity funds. As owners of private equity, funds may seek liquidity by selling their existing interests, plus any remaining commitment, to secondary market participants. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- Levered credit (including mezzanine debt): Levered credit funds invest across the capital structures of upper middle market and middle market companies in connection with leveraged buyouts, mergers and acquisitions, recapitalizations, growth financings, refinancings and other corporate purposes. The most common position in the capital structure of mezzanine funds will be between the senior secured debt holder and the equity; however, the funds in which we are invested may include secured debt, subordinated debt, preferred stock and/or private equity. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- Real estate funds: Private real estate funds invest directly (through debt and equity) in commercial real estate (multifamily, industrial, office, student housing and retail) as well as residential property. Real estate managers have diversified portfolios that generally follow core, core-plus, value-added or opportunistic strategies. These funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- Distressed funds: In distressed debt investing, managers take positions in the debt of companies experiencing significant financial difficulties, including bankruptcy, or in certain positions of the capital structure of structured securities. The manager relies on the fundamental analysis of these securities, including the claims on the assets and the likely return to bondholders. Certain funds cannot be redeemed because the investments include restrictions that do not allow for redemption until termination of the funds.
- Relative value credit funds: These funds seek to take exposure to credit-sensitive securities, long and/or short, based upon credit analysis of issuers and securities and credit market views.
- Equity long/short funds: In equity long/short funds, managers take long positions in companies they deem to be undervalued and short positions in companies they deem to be overvalued. Long/short managers may invest in countries, regions or sectors and vary by their use of leverage and by their targeted net long position.
- Fund of funds: Fund of funds allocate assets among multiple investment managers unaffiliated with the fund of funds sponsor employing a variety of proprietary investment strategies. Fund of funds strategies will invest in a portfolio of funds that primarily pursue the following investment strategies: equity, macro, event driven and credit.
- Other private securities: These securities mostly include strategic non-controlling minority investments in private asset management companies and other insurance related investments that are accounted for using the equity method of accounting.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in millions, except share, per share, percentage and ratio information)

c) Net Investment Income

	Three Months Ended March 31,	
	2017	2016
Fixed maturity investments	$44.9	$48.0
Equity securities	2.9	1.8
Other invested assets: hedge funds and private equity	7.0	4.7
Other invested assets: other private securities	1.0	3.1
Cash and cash equivalents	0.9	0.5
Expenses	(4.4)	(4.8)
Net investment income	$52.3	$53.3

d) Components of Realized Gains and Losses

	Three Months Ended March 31,	
	2017	2016
Gross realized gains on sale of invested assets	$23.8	$54.0
Gross realized losses on sale of invested assets	(32.3)	(41.9)
Net realized and unrealized losses on derivatives	(4.0)	(22.9)
Mark-to-market gains (losses):		
Fixed maturity investments, trading	46.7	62.3
Equity securities, trading	12.9	(15.1)
Other invested assets, trading	(6.4)	(17.5)
Net realized investment gains	$40.7	$18.9

e) Pledged Assets

As of March 31, 2017 and December 31, 2016, $2,719.8 million and $2,687.7 million, respectively, of cash and cash equivalents and investments were deposited, pledged or held in trust accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions, insurance laws and other contract provisions.

In addition, as of March 31, 2017 and December 31, 2016, a further $575.3 million and $587.6 million, respectively, of cash and cash equivalents and investments were pledged as collateral for the Company’s letter of credit facilities. See Note 11(g) to the Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 for details on the Company’s credit facilities.

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ALLIED WORLD ASSURANCE COMPANY HOLDINGS, AG
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in millions, except share, per share, percentage and ratio information)

5. DERIVATIVE INSTRUMENTS

As of March 31, 2017 and December 31, 2016, none of the Company's derivatives were designated as hedges for accounting purposes. The following table summarizes information on the location and amounts of derivative fair values on the consolidated balance sheets:

	March 31, 2017				December 31, 2016			
	Asset Derivative Notional Amount	Asset Derivative Fair Value	Liability Derivative Notional Amount	Liability Derivative Fair Value	Asset Derivative Notional Amount	Asset Derivative Fair Value	Liability Derivative Notional Amount	Liability Derivative Fair Value
Foreign exchange contracts	$1.8	$ —	$ 57.9	$ 0.3	$103.2	$ 10.4	$ 4.1	$ 0.1
Interest rate swaps	—	—	100.0	0.2	—	—	—	—
Insurance contracts	225.0	6.5	—	—	225.0	7.4	—	—
Reinsurance contracts	—	—	120.0	3.4	—	—	110.0	4.0
Total derivatives	$226.8	$ 6.5						