Carl Lindner III: Good morning. It's always our pleasure to be able to talk about American Financial Group. AFG Specialty Insurance Operations are members of the Great American Insurance Group whose history goes back over 145 years, believe it or not. Listed are some of the brands that represent the deep specialty knowledge in our group. About 55% of our premiums within the specialty property and casualty group are produced by top 10 ranked businesses. We're also a top 10 provider of fixed annuities and are ranked number one in the sales of FIAs through financial institutions.

Diversified business model with property and casualty and annuity operations has worked well for us. Both businesses are among the top performers in their respective industries. We like the fact that our annuity business and our property and casualty businesses aren't closely correlated. A lot of our P&C businesses and annuity business aren't closely correlated to the general property and casualty pricing cycle. We think that means more consistent earnings over time.

In a year like last year, with larger than average industry catastrophe losses and significant volatility in the financial markets our ability to record, record core net operating earnings per share in 2018 I think speaks to the strength of the portfolio of diversified specialty property and casualty businesses and the mix of annuity. We're very proud to have a record year in core net operating earnings last year.

AFG we found out ranked number four in overall customer satisfaction according to J.D. Power in the 2018 large commercial insurance study. That study underscores our commitment also to provide the highest level of customer service and specialized expertise within the insurance industry. This slide gives you a feeling for our P&C business. We have 34 specialty property and casualty businesses reported in three major groupings. Results of businesses like crop and lender-placed property and equine mortality and our annuity business aren't closely correlated to other specialty property and casualty businesses or the general property and casualty business in general.

About 60%, we calculate about 60% of our GAAP equity is allocated to what we consider to be non-correlated businesses. In addition, as I kind of implied, we feel we're a company that has lower catastrophe volatility than the industry. Our business model is, we allow each of those 34 businesses to make their own decisions with regards to underwriting, claims, pricing, policy servicing. It really promotes agility and an entrepreneurial spirit to each of those businesses that we think are unique, though with heavy internal audit and financial and actuarial oversight.

I'd like to tell our investors that we have 34 CEOs. We have very little turnover. We created a culture that people enjoy working in. They're challenged and our guys that run our businesses feel like they're each the CEO of their individual business.

Our in-house team also oversees a $48 now, almost $49 billion investment portfolio that's produced returns that's consistently outperformed our industry benchmarks or peers. We feel that's a core competency of the company. When a company like AFG combines superior underwriting results with superior investing talent and results and intelligently deploy capital, in this business it means substantial value creation. Coupled with our culture, with our entrepreneurial business model, and our incentive compensation plan, we have a compelling structure and a philosophy and approach to build long term value for AFG shareholders.

It's our objective to grow book value per share by double digits annually over time. Our corporate values, we're proud of the culture that we've cultivated at AFG. Our values form the foundation of our business, shape our priorities, set our expectations on how we conduct our business, service our customers, and interact with each other, we believe that our culture and our values makes AFG a great company to work for, to do business with, in which to invest. We have a strong work ethic that for over 20 years we were ahead of our time and focused also on a strong work and family balance which kind of made us unique. Again, have much lower turnover than what our peers would have.

The Lindner family formed AFG in 1959. Our family continues to have a significant ownership in AFG with about 27% of AFG shares held by our family, employees, and our retirement plan, there's obviously strong alignment of interest with our shareholders over the long term.

In the past 20 or so years, we've focused on what we know best. We've done that through carefully selected acquisitions, starting up businesses, and occasionally a disposition of a non-core business that we just don't think is going to earn the right returns over long term. In November of 2018 AFG acquired ABA Insurance Services, ABIS from American Bankers Mutual. ABIS is now the 34th specialty property and casualty business. They provide an opportunity for us to expand our position in the financial services niche by leveraging a long serving, long standing position of ABIS in the banking industry. Their focus is on D&O and other complementary products and solutions for banks, small businesses, and non-profits. ABIS has a long track record of success on the underwriting side and profitability side, so another nice, natural fit to what we're doing.

As Co-CEOs we view capital management as one of our most important jobs, obviously. We have a balanced approach with a focus on deployment of capital that produces the best long-term returns. It may look different every year. It may include a combination of taking advantage of an unusual organic growth opportunity in a business or acquisitions, startups, dividends, share repurchases. In 2018 we returned $403 million to shareholders. We increased our annual dividend. I think we increased it 14% over five years compounded. That's 12.5% increase in our annual dividend. We paid $3 per share in special dividends last year. We even repurchased about $6 million of shares towards the end of 2018. We returned $1.8 billion to shareholders in the form of share repurchases or dividends over the past five years. Excess capital year end stands at $690 million. Craig and I feel like we want to keep $200 to $300 million of so-called dry powder to afford us financial flexibility going forward.

In terms of shareholder return, calculated here as cumulative price appreciation plus dividends, AFG has performed very well with results over five- and ten-year periods exceeding those of the major indices. As Co-CEOs and significant shareholders in AFG, we're obviously very pleased with that track record of success.

On taking a little closer look on the specialty property and casualty part of our business, this chart shows a view of the gross written premium and net written premium by major P&C group. For '19 the mix stays about the same as '18. A sampling of our specialty property and casualty businesses with top 10 market rankings include crop, equine, executive liability, fidelity and crime, financial institutional services, Florida workers' comp, non-profit, social services, that arena, passenger transportation, surety, trade credit, trucking. We love the nice spread and diversity of business that we have, again, which we feel helps give us consistent underwriting profits over time.

Another fact about our book, less than 10% of our 2018 gross written premium is produced by the top three US brokers, which we love a broad spread of business. We don't like huge concentrations with any particular distribution source. We think that's an advantage of long term.

Our deep specialty knowledge within those 34 specialty property and casualty businesses, we feel has allowed us to achieve superior underwriting results that have outperformed the commercial lines industry combined ratios by an average of 11 points over the past 10 years. The midpoint of guidance for our property and casualty businesses this year is on a GAAP basis is 93%.

Rewards based on underwriting profitability for individual business units with the annual bonus plans, as well as unique long-term incentive compensation plan is a real important part of what we do. The annual plan is paid out over two- to three-year period, includes some consideration of operating objectives as well as underwriting targets. A long-term incentive compensation, is based on cumulative accident-year underwriting profit over a five year measurement period and usually paid out the following four or five years. Required returns on equity are used to determine target accident-year combined ratios. Factors vary by business based on volatility, length of the tail of the business, and our expectations generally are for our businesses to earn 12 to 23% return on equity.

Earlier I said superior investment returns with superior underwriting returns and allocating and investing excess capital does good things in this business. Although we don't have a full set of data for 2018, we expect AFG to still be pretty close on top of a chart that would, that shows where we stand on pretax property and casualty returns over a 10-year period of time. You can see 2008 to '17, we were on the top with this group of peers. Pretty proud to be the top performer, and again, I think when all is said and done we ought to be pretty close to the top again.

Over the last five years, we achieved about a 9% compounded annual growth in net written premiums. We're estimating growth in 2019 to be in the range of 0 to 3%. As in 2018 though, we'll continue to identify opportunities to start businesses, acquire things, and so the 0 to 3% doesn't include any startups or acquisitions. I am encouraged by the pricing environment in the marketplace. During 2018, our average property and casualty renewal price increase was up about 1.5%. Though when you exclude the price declines that we're facing in Florida and California workers' comp, we had upward momentum on renewal pricing of about 3%, which we were very happy with. Property and Transportation Group reported rate increases of over 3%. Specialty Financial Group reported overall rate increase of nearly 5%. Renewal pricing for Specialty Casualty Group was down 1%, reflecting the comp decreases, but excluding comp they were up 3%. Very pleased with that. At this point I'm going to turn things over to Craig.

Craig Lindner: Thank you, Carl. Our Annuity business is focused on what we do best, sales of fixed and fixed indexed annuities. We enjoy a long history in the industry, have long term agent relationships, and a reputation for simple, consumer-friendly products. Disciplined product management and operations have enabled us to maintain a consistent crediting rate strategy at a low-cost structure. Our annuity products are simple, easy to understand, with lower upfront commissions and bonuses, which allows us to pay higher annual credited rates. Our products are sold in financial institutions, retail, registered indexed advisor, and education markets.

Our product focus also allows us to optimize our core competency and investing. Our in-house investment management team, American Money Management Corp., has consistently outperformed the market. We'll discuss more about AMMC later in the presentation. AFG continues to achieve top 10 rankings in the financial institutions and retail channels. If we continue to achieve the appropriate returns on our products, we plan to grow premiums by increasing market share in existing channels, adding new distribution partners and accounts, and creating opportunities in new channels.

These charts show the change in premium mix and the annuity industry over the last six years. In 2012, variable annuity premiums accounted for almost two-thirds of total premiums with fixed and fixed indexed annuities accounting for the balance. Through the first nine months of 2018, variable premiums have accounted for 42% of total premiums, while fixed and fixed indexed annuities accounted for more than half. Because our business is focused on fixed and fixed indexed annuities, we participated in the growth of these market segments. The reasons for the shift in the market includes principal preservation available with fixed and fixed indexed annuities and a growing awareness of the high fees with variable annuities.

Our specialty knowledge and focus on the fixed market has allowed us to build a compelling business model. We've achieved an 18% compounded annual growth rate in annuity assets since the beginning of this business in 1974. We projected annuity investments and reserves will each grow by 8 to 10% in 2019. Based on this guidance, we'd expect annuity assets to grow to approximately $43 billion by year end 2019.

You can see on this slide the transformation of our annuity business as we focused on our core competency of fixed and FIAs and away from lines of business without critical mass were a competitive advantage. We've also reduced unit costs and significantly improved ROEs. Since the end of the recession, we've nearly tripled earning, tripled premiums, and tripled assets. Results in 2018 included full year GAAP pretax annuity earnings of $361 million. In 2018, accounting for fair value accounting resulted in a $33 million unfavorable impact on core pretax annuity earnings. This was largely due to the downturn in the stock market and higher interest credited on the embedded derivative as compared to prior year periods. These drivers were personally offset by higher than expected increases in interest rates. AFG achieved record sales in 2018 while maintaining pricing discipline. Annuity premiums of $5.4 billion were 25% higher than the prior year period. We're very pleased with these strong results. Production in the retail and broker/dealer markets were particularly strong due the launch of several new products and efforts to expand our distribution within each of these channels.

Our compounded annual growth rate in premiums over the time period shown is 16%. We're pleased with our premium growth and we continue to earn our targeted returns despite a competitive environment. Our earnings continue to benefit from growth in annuity assets as well as a favorable impact of stronger than usual investment results. These items were partially offset by the impact of lower investment yields on the run-off of our portfolio.

We have significant protection from rising interest rates with 87% of the in-force annuities having some surrender penalty and many other product features that should encourage persistency and discourage lapses. 18% of the reserves have 3% GMIR or higher. 24% has an MVA or longevity rider. Over 45% of new sales elect some form of trail or multi-year commission when available. Our asset duration is slightly shorter than liability duration; about a half year shorter at year end. The bond portfolio was slightly above water at year end; well above water today. We also have significant protection from falling interest rates with the ability to lower creditor rates by 119 basis points on $28 billion of reserves, which excludes immediate annuities and FIAs with riders. This would produce an extra $331 million of pretax income at minimum, so we have significant room to lower rates in a falling interest rate environment, and the fact that we have lower upfront costs to recover makes a big difference.

This gives you a view of our $48.5 billion investment portfolio. Fixed income investments make up approximately 92% of the portfolio; 91% of our fixed maturity portfolio is rated investment grade with 98% with NAIC ratings of one and two, the two highest levels. Our in-house team of investment professionals has consistently produced returns over time that outperform industry indices and provides a competitive advantage to our insurance operations by keeping investment management fees low, approximately five basis points in 2018.

We achieved $2 billion of total return out performance in our fixed income portfolio over the 10-year period ending 12/31/17. This time period captures the beginning of the global financial crisis. The industry results shown on the slide reflect actual industry life and annuity and P&C returns which are weighted by AFG's annuity and P&C portfolio mix. These results are particularly compelling given that most life company peers do not have a similar mix of business because of our focus on fixed annuities and FIAs. The duration of our fixed income portfolio is somewhat shorter than that of the life industry overall.

This chart gives you a 2019 guidance summary. Our core earnings guidance assumes an effective corporate tax rate for 2019 of 20%. With that, we'd be happy to take any questions you might have.

Q: I'll throw out a couple questions. On the property and casualty side, really two questions. The first is workers' compensation been one of the more talked about controversial lines. Question I have is what is your expectations for claims trends in 2019? That's question number one. The other one, a business that does not get a lot of attention that is a great business for you guys is the specialty financial business. I know those are a collection of different businesses, but can you talk about the key drivers, the opportunities, and the risks in that segment of your business?

Carl Lindner III: We love the different niches that we have in the specialty financial part of our business, very consistent returns over time. Our lender-placed property part of that business is a pretty large part and very consistent performer over a long period of time. Some of the expense ratio part of that or agent compensation slides a little bit with the loss ratio. We kind of have some built in protection. If there's higher catastrophes or a higher loss ratio in a given year, our expense ratio adjusts down for that. We chose different than some of our competitors. Rather than getting greedy and charging too big a prices and that type of thing and getting into regulatory hassles, we decided to focus on making a solid margin, so I think we like our approach in that business.

Our fidelity and crime operation is a top, one of the top five in their industry. We have been very successful over time. They know their business very well. We have specialties within a specialty there and things like armored cars, casinos, where we're known within the industry to be the go-to guys in those areas. A very talented team. On the surety side, it's more miscellaneous surety and small to medium size contract type of surety. Again, it's been a very consistent part of our business and that. We continue to be enthusiastic, obviously, with the guidance that we have on combined ratio there in the 86% to 90%.

On the workers' comp side, the loss cost trends have been very stable, pretty benign. We do actuarial reviews on all of our businesses including comp quarterly, so we're keeping a close watch on anything, any trends and that that would have us believe something different, but at this juncture I don't think we're really projecting any different, any significantly changed loss cost trends on the workers' comp side. Reform, California reform seems to be holding very solidly. Reforms in other states like Florida and that seem to be in good shape. I think in our workers', baked into our guidance for specialty casualty, the 91 to 95% baked into that, it assumes that we'll continue to earn a small accident year underwriting profit on our overall workers' comp business and we'll continue to earn the healthy calendar year underwriting profit in our overall workers' comp businesses, albeit some smaller margins than in the past. But again, our take on our workers' comp business is built into our specialty casualty combined ratio guidance. Does that make sense?

Q: Yeah, no, it's good.

Carl Lindner III: Our workers' comp premiums would be down a little bit. Again, it'll probably be down single digit workers' comp because of the rate declines in California and Florida, in particular. Again, that's baked into the written premium guidance, the down two to up two in the specialty casualty segment. That's baked into that.

Q: A couple of annuity questions. First one is regulation. Obviously with the DOL issue going away, that was a positive. Still I guess contending with the SEC. And also, if you could comment on any state regulations that are emerging that could have an impact on sales.

Craig Lindner: First of all, doing away with the noise related to the Department of Labor rule resulted in very healthy sales for us and the industry. I think because of our model, we were pretty well-positioned to operate and do just by fine, even if the rule had been implemented. I believe there is going to be some kind of oversight, some kind of regulation. Too early to tell what kind we're going to see. My own opinion is some type of oversight is necessary. There have been abuses in the industry, and some type of oversight is necessary. You sure have read about some of the potential oversight with the SEC and so forth. I don't have any great insight into how that's going to evolve, but clearly there will be some oversight and some regulation, which I think is a positive thing if done properly.

Q: Let me sneak in the last question then. Maybe it's for Jeff, but whoever wants to answer it. Neon, a lot of changes there in the past three years. Can you give us an update and kind of how that's baked into your expectations for 2019?

Jeff Consolino: Sure. Thanks, Jay. Nice to be back here at Merrill Lynch. We think this is a wonderful conference. As Carl was talking about, our Specialty Casualty segment for net written premium guidance, it's bracketed as negative two to positive two percent for 2019, in growth in net written premium. Neon will have a lower premium level on a net basis in 2019. That reflects the fact that we're continuing to manage the business to maintain a low net catastrophe exposure. Also, on a year of account business planning basis, we would plan for the 2019 year of account to be flat in terms of gross premium versus 2018. We've been engaged in a turnaround there, reshaped the business, managed to bring the business to a top quartile performer in 2017. Still, the catastrophe environment has been challenging as we all know in '17 and '18, and so we want to maintain our very low net exposure as a corporation, as the reinsurance stands with Neon.

Moderator -: Jay Cohen, BAML: That is all the time we have. Great update. Thank you guys for being here.

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