Jay: There are seats in the back, that would be great. We are very pleased to have the management of American Financial Group with us today. From the company are Co-CEOs Carl and Craig Lindner, along with CFO Jeff Consolino. Carl and Craig were appointed Co-CEOs 15 years ago? 16 years ago! So it's been quite a while. AFG share price during that time is up about five fold. I did rough math yesterday. So it's been a fantastic run.

In addition, in the last five years alone, the company has paid cash dividends of more than $16 a share. So they're giving money back to shareholders as well. The company continues to have excess capital, so it's always a good chance to hear what you might do with it. With those introductory remarks, it's my pleasure to turn the floor over to the team.

Carl: Thank you Jay and it's nice to be here with everyone. Always like to get a chance to talk about our favorite topic, American Financial Group. We feel we're one of the top specialty insurance groups, clearly in the United States and maybe in the world. Our primary brand, Great American, it goes back over 145 years. Listed there are a number of brands that represent our group.

Over 55% of the gross written premiums in our specialty property and casualty businesses are produced by top 10 ranked businesses. We're also a top 10 provider of fixed annuities and are ranked number two in sales of indexed annuities through financial institutions. We love the diversified model that we have and it works really well for us. Both of the businesses are top performers in their respective industries. We like the fact that actually, our annuity business and quite a few of our property and casualty businesses, like crop and equine mortality and force-placed property, they're not correlated to the general property and casualty cycle.

We think this has helped us achieve more consistent earnings over a long period of time. And I think our ability to report continued strong core net operating earnings per share last year, despite a poor crop year, really speaks to the strength of the diversification in our business.

We have 34 specialty property and casualty businesses reported in three major groupings. I think between the annuity business and the businesses I said were non-correlated, it probably makes up about 60% of our GAAP equity I would put in that category. We allow a strong business autonomy in each of our 34 businesses. I like to tell our investors that we have 34 CEOs, because they really have the ability to be opportunistic. They have the ability to make their own decisions with regards to underwriting, pricing and claims, though we have strong actuarial and financial oversight of all of our businesses.

So, when a company like AFG combines superior underwriting results with superior investing talent, and you intelligently deploy capital, it results in substantial value creation. It's our management team's objective to grow book value by double digits over time.

We're extremely proud of the culture that we've built up over many years. We think that's one of the cornerstones to our company's success. Those values that you see form the foundation of our business, they shape our priorities. We believe that it's part of what makes AFG such a great company to work for. We have much lower turnover I think than our peers, have very little management turnover over time. We have a strong work ethic; but we also have had a value of strong family work balance for probably about 20 years.

The Lindner family formed AFG in 1959. Our family continues to have significant ownership with about 25% of the AFG shares held by our family, executives and our retirement plan. There's a real strong alignment and interest between – with our shareholders over a long period of time.

Over the past 20 or so years we've sharpened our focus on the businesses that we know best. We've done that through carefully selected acquisitions, starting businesses up and disposing of businesses we think are non-core or really can't meet our long-term return on equity objectives. Neon, our Lloyd's business fit the category of the latter. We just failed to achieve the profit objectives that we'd set for ourselves since we were in that business; and we decided it was time to reallocate capital to more promising areas.

We did start a new accident and health division, which was our 34th specialty property and casualty business, and is an addition to our specialty casualty group.

As Co-CEOs, we view excess capital management as really one of our most important jobs. We take a balanced approach with a focus on deployment of capital towards areas that have the highest returns long term. Could include things like organic growth, acquisitions, startups. And when we have more excess capital than what we need, we then are pretty generous in certain times, of share repurchases or special dividends.

In fact, last year we returned $446 million to shareholders. We increased AFG's regular quarterly dividend in October of 2019. That was the 14th consecutive annual dividend increase. It's about a 12.5% increase in our regular dividend. We also paid $3.30 per share in special dividends last year. Excess capital at yearend was a little over a billion dollars; and I think as we've said before, as we go over a billion dollars in the absence of alternatives for deployment on acquisitions, we evaluate further opportunities to return capital to shareholders.

In terms of shareholder return, calculated here are cumulative price appreciation plus dividends. As you can see, AFG has performed very well with results over 5 and 10 year periods, exceeding those of the major indexes. As Co-CEOs and significant shareholders, we're obviously very pleased with the track record of success.

Taking a closer look at our specialty insurance operations, beginning with our specialty property and casualty group, this chart shows a view of the gross written premium, net written premium by the major property and casualty groups for 2019. Including the impact of the Neon runoff, guidance for net written premium for this year suggests that the mix will shift to specialty casualty being more like 46%; property and transportation will increase to 39%; and specialty financial will increase to 13%.

A sampling of some of the businesses that are top 10 in market rankings include crop, equine, executive liability, our D&O operation, fidelity and crime, our financial institution services business, Florida workers' comp, a nonprofit social services business, passenger transportation, etcetera, etcetera. Again, as I mentioned before, we have what I think is a nice, a great spread in diversity across our book of business, which I think helps us have more consistent underwriting profits over time.

I think another thing that's significant is we have a very broad distribution platform among agents and brokers. And when you take a look at the top three big brokers, they make up less than 7% of our overall business.

Our deep knowledge within each of those 34 different P&C businesses has allowed us to achieve superior underwriting results, outperforming the commercial lines industry combined ratios over time by about 10 points. And you can see over the past 10 years, our midpoint of guidance for our specialty property and casualty combined ratio this year is 93%.

I think one secret to our culture and the way we approach business is the significant incentives and rewards that are heavily based on underwriting profitability for the individual business units. Individual guys running our businesses have annual bonus plans and the annual plans are paid out over two to three year periods and include a few operating objectives, as well as underwriting targets.

We also have long-term incentive compensation plans for each business, each group of business leaders. They're measured over five years, again, primarily based off of underwriting profits. We're tough on the required returns on equity that we require. Factors vary business by business. Businesses with higher volatility, we require higher returns. With businesses with longer tail, we might look at a little bit longer before we pay out 100%. But our expectations, depending on the business, is to earn after tax returns on equity of 12% to 23%.

As I mentioned before, when you have superior underwriting results and you add superior investing results, together with good allocation of capital and investment of capital, good things happen. And you can see this in the period ended ’18. We don’t have the ’19 stats yet. But over a one and a five and 10 and a 15-year period of time against our peers, AFG had the highest pretax property and casualty returns. This is an industry exhibit.

So we’re estimating net written premium to be 1% to 5% lower than the $5.3 billion reported in 2019, primarily due to the runoff in Neon. When you exclude the runoff of our Lloyd’s operation, net written premiums will grow more like 3% to 7%.

Very excited about this particular market. As a company that has an opportunistic culture that has 34 business heads that all are looking at opportunities with the pricing changes going on in the market now, I can’t be more excited as we go into 2020 about our organization’s opportunity to continue to outperform.

We’re going to see continued strong renewal pricing momentum I think this year. Average renewal pricing across our entire property and casualty group was up 5% for the fourth quarter of 2019, but excluding our comp business, was up 7%. Nearly one-third of our non-workers’ comp businesses achieved double-digit rate increases during the quarter. Renewal pricing in our overall specialty property and casualty group and in specialty casualty was the highest that we’ve achieved probably in five years.

Given the broad-based improvements in renewal pricing across many of our businesses, we’re expecting our overall pricing to be up 3% to 5% overall. And when you exclude comp, that’s going to look more like 5% to 7%.

I’m going to turn things over to Craig here for a minute.

Craig: Thanks Carl. I’m going to take a few minutes and review our annuity business and our investment operations. In our annuity business we focus on what we do best, selling fixed and 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, broker/dealer, registered investment adviser 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 a top 10 ranking in the financial institutions channel and is a top 10 provider of traditional fixed and indexed annuities overall. In the current interest rate environment, we're focused on earning the appropriate returns on products we sell, rather than growing our premiums.

Outlined above are our primary annuity distribution channels. Our strategy includes profitable growth in fixed and indexed annuities, increasing market share, adding new distribution partners and accounts, and creating opportunities in new channels.

These charts show the change in premium mix in the annuity industry over the last six plus years. In 2012, variable annuity premiums accounted for almost two-thirds of total premiums with fixed and indexed annuities accounting for the balance. In the first nine months of 2019, industry variable premiums have accounted for 39% of total premiums, while fixed and indexed annuities accounted for nearly 60%.

Because our business is focused on fixed and indexed annuities, we participated in the growth of these market segments. The reasons for the shift in the market include principal preservation available with fixed and indexed annuities, and a growing awareness of the high fees associated 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 project that annuity investments and reserves will each grow by 7% to 9% in 2020. Based on this guidance, we would expect annuity assets to grow to approximately $49 billion by yearend 2020.

You can see on this slide the transformation of our annuity business as we focused on our core competency of fixed and indexed annuities, and away from lines of business without critical mass or competitive advantage. We've also reduced unit costs and significantly improved ROEs. Since the end of the recession, since the end of the last recession, we've more than tripled earnings, premiums and assets.

Results in 2019 included full year GAAP pretax annuity core operating earnings of $398 million. Annuity sales of $5 billion for the full year in 2019 were the second highest level in our history. We believe we're well positioned to continue to profitably grow our business and capitalize on our consumer-centric model.

In response to the continued drop in interest rates in 2019, we implemented numerous crediting rate decreases to maintain appropriate returns on annuity sales, which impacted premium volume. We expect full year 2020 premiums to be between $4.5 billion and $5.2 billion, compared to $5 billion reported in 2019.

As you saw in the previous slide, AFG's annuity segment has more than tripled in size over the last 10 years. Over the same timeframe, our annuity segment's cumulative net earnings exceeded our cumulative core operating earnings with net earnings at 105% of core operating earnings over this period. In addition, the annuity segment has paid over $1 billion of dividends, or nearly 50% of GAAP net earnings to AFG parent. We believe these two statistics demonstrate the quality of the annuity segment's earnings and the quality of business written over the last 10 years.

Let's talk for a minute about protection from rising interest rates and falling interest rates. The risk of rising interest rates hasn't been around for a while, but let's talk about the protection that we have in our in-force. 86% of the in-force annuities have some surrender protection. Other product features that should encourage persistence here or discourage lapses -- 16% of the business has a guaranteed minimum interest rate of 3% or higher; 33% of the reserves have a market value adjustment, an MVA, or a longevity rider. Approximately 40% of new sales elect some form of trail or multiyear commission when available. The asset duration is shorter than the liability duration by a little over a year, and the unrealized gains in the bond portfolio were $1.8 billion pretax, pre-DAC, or 105% of book value.

Now let's talk about protection that we have from falling interest rates. And this is something that truly does differentiate us from most companies in the annuity business. We have the ability to lower credited rates by 119 basis points on $31 billion of reserves. That number excludes immediate annuities and FIAs with riders. This would produce an extra $368 million of pretax income per year if we were forced to pull that lever. No upfront cost -- we have very low upfront cost to recover because we pay lower commissions than competitors, and low or no bonuses. The deferred acquisition costs on our books are actually less than 4% of reserves.

Now let's take a look at the AFG investment portfolio. This gives you a view of our $55.3 billion investment portfolio. Fixed income investments make up approximately 91% of the portfolio. 91% of our fixed maturity portfolio is investment grade and 98% with an NAIC 1 or 2 rating, 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.

We achieved $2 billion of total return out-performance in our fixed income portfolio over the 11-year period ending 12/31/18. 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 our business is focused on fixed and indexed annuities. The duration of our fixed income portfolio is shorter than that of the industry overall.

Now let's take a look at the guidance for 2020 for AFG. Looking at 2020, our core operating earnings guidance for AFG is in the range of $8.75 to $9.25 per share. The midpoint of this range would result in 5% growth in operating EPS and an operating return on equity of approximately 15%. This guidance reflects the premiums and combined ratio assumptions shown on the slide. It also assumes a 20% effective tax rate, as well as an assumed 10% yield on AFG's $2 billion of investments that are required to be marked to market through operating earnings, and is similar to the return earned in 2019.

Now Carl, Jeff and I would be happy to take any questions you might have.

Jay: I'll throw out a couple. One of the businesses that's actually under a bit of pressure is workers' compensation. I have two questions on it. The first is, given the sense of what you see from both a pricing and a claims standpoint in workers' comp, but in addition, maybe as importantly, I think the uniqueness of your workers' comp business is not fully appreciated. People just think workers' comp is one policy or one line of business, but I know you guys do things somewhat differently. What are you seeing and then talk about the uniqueness of your business?

Carl: Sure. Well, to start with, our overall workers' comp business between multiple units, was about 18% of our overall gross written premium last year. Obviously our '19 results were very good, healthy accident year combined ratios, very healthy calendar year combined ratios. 2020 margins will be lower, but I still think we're going to make a small accident year underwriting profit in workers' comp; and we're going to make, because of a strong reserve position, we'll continue to have a healthy calendar year underwriting profit.

Net written premiums will be down, my guess is probably low single digits for this year. Pricing I think for this year will probably be down mid single digits. I'm hoping that in some states like California where there's been lots of rate decline over a period of time, you begin to see a bottoming out. But not only there, but nationally.

Our overall reserve position is very strong. Loss ratio trends on our overall comp business are flat to down one percent, if you put our businesses together. Basically, any kind of loss cost increase is offset by positive changes in exposure. So I continue to be very bullish about our workers' compensation business. And I think it will continue to be a good contributor to our earnings this year. Again, our comp business is built into our specialty casualty premium and combined ratio range guidance.

Jay: What are some of the ways that makes that business different than other companies?

Carl: I think the specialization versus others. It's not a one line among many for a lot of companies. In California we've been one of the longest running specialty writers there. Our head of our claims understands, he's been there probably 30 years, understands the claims environment geographically, region by region, probably better than anybody. And I think we've begun to build that knowledge into the use of predictive analytics, both on the ratings pricing side, but we've begun to build it into the loss, the claims side some also.

Our Summit subsidiary, it's a specialty writer, probably the third largest in the Southeast. Summit is clearly one of our best acquisitions that we've ever made. Probably earning 20% returns on equity over the cumulative period since we've made the acquisition. Again, they specialize in the states that they focus in the Southeast. So I think specialization is very key.

And again, yeah, their claims executives understand the tricky environment of Florida, for instance, probably better than anybody. We're the largest writer of worker' comp in the Florida marketplace. We have a business we don't talk about a whole lot called strategic workers' comp that does business in 30 some states.

They tackle tougher to write classes of business; and they work very closely with insureds from a loss prevention standpoint and with a unique pricing model. And that business has been a significant contributor, become a significant part of our comp business, as well as a significant contributor to the profitability. I guess that's maybe a little color.

Jay: Yeah, that's helpful. Carl, you also mentioned about allocating capital to businesses of the highest returns. But in addition, it feels as if you've done a good job of managing risk. So it's not just highest returns, but it's kind of risk adjusted returns. How does the level of risk factor into your capital allocation decisions?

Carl: Well, I think the level of risk plays directly into our return on equity expectations and we feel, right or wrong or otherwise, if you're going to play in the catastrophe reinsurance, catastrophe cover, you should theoretically require a higher return over time. So with alternative capital, that's certainly is not – it doesn't seem to be the case these days. Or on businesses like public D&O that has more volatility, excess liability where large jury awards create volatility in that line.

We require higher returns in those businesses. So I think that directly plays into allocations of capital business by business. But the good news is when you look at the 34 businesses, probably outside of our aviation business, which we're taking heavy rate making heavy changes in terms right now. And in Singapore, almost all of our businesses are really performing well. Crop had a bad year, but the nature of crop is, one year out of seven or eight, there's either going to be too little rain or too much rain. And that's just part of the business. That business has had a great return on equity over a long period of time. I hope that answers your question.

Jay: That's helpful. Any other – had a question in the back there. Just waiting for the mic.

Q: Thanks. Hello. Can you guys hear me okay? Can you guys hear me? [yes] You had a slide up there about outperformance on the fixed income portfolio I think, about 100 basis points, compared to the blended life insurance returns. Could you explain why that benchmark you're using is appropriate? And second question is, how did you generate the outperformance?

Craig: I'll answer the first question, it was generated by taking the major companies in the life and annuity business and the major companies in the P&C business, looking at their returns. And then doing the same mix as our business. So I think something in the neighborhood of 70% of our assets are in the annuity business, 30% on the P&C side. So that's how we weighted that.

Q: Let me just make sure I understand. But your book is – is your book typical of life and P&C or atypical? I mean from the presentation I got the sense that you are kind of a different style. Am I wrong about that, or?

Craig: I don't know that our investment style is different, to be honest. I'd say at this point in time where we don't see loads of opportunities on the investment side and we don't think you get paid to take risk in a lot of segments, I think you'd see that our high risk assets are a lower percent of total.

Answering your question on how we've outperformed over time, frankly, it is to be opportunistic. It's in times like this when we don't think you get paid to take a lot of risk. We're very patient and we're willing to give up some income. And then when you have periods of great opportunities, typically people are retrenching because of losses that they're taking, that gives us an opportunity then to be very opportunistic and take more risk on the portfolio when we get paid to do that.

We always like to keep a significant amount of excess capital on hand, so that when those times come around, we have enough capital to, frankly, be very opportunistic. And when everybody else is – a lot of other companies are forced to sell, we become buyers. That's certainly what we did back in the 2008, '09, '10 period and we're still benefiting from some of the great values that were available at that time.

Carl: Yeah, another example, when Meredith Whitney kind of tanked the munis' market, we had practically no munis in the portfolio and we went from practically none to being overweight during a period of time that we thought the whole market was undervalued. And that turned out to be a real intelligent move.

Q: That's great. But what I'm really driving at is, if I had to explain it, would it be security selection, would it be duration, would it be your portfolio is more risky than others? I mean if I had to – if you had to decompose that, how would you put it in the different buckets?

Craig: So certainly portfolio selection is an important factor, but it's, in my opinion, really, what I was just talking about, it's being patient in times like this and not reaching for yield. If you look at our portfolio today, I'd say it's certainly on the annuities side, far less risky than many that we compete against. And when the market is presenting great opportunities and everybody else is retrenching, that's when we will become meaningful investors in risk assets when we really get paid to take the risk. That's how we've outperformed over time.

Jay: We've got to end it there. Guys, thank you very much, great presentation as usual.

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