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PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for your patience. You've joined the Q2 2017 American Financial Group Earnings Conference Call. (Operator Instructions) As a reminder, this conference may be recorded. I would now like to turn the call over to your host, Assistant Vice President of Investor Relations, Ms. Diane Weidner. Ma'am, you may begin.

Diane P. Weidner - *American Financial Group, Inc. - Assistant VP of Investors Relations*

Thank you. Good morning, and welcome to American Financial Group's Second Quarter 2017 Earnings Results Conference Call. I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Jeff Consolino, AFG's CFO.

Our press release, investor supplement and webcast presentation are posted on AFG's website. These materials will be referenced during portions of the call.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on Slide 2 of our webcast.

Certain statements made during this call may be considered forward-looking statements as defined under the Private Securities Litigation Reform Act of 1995. These statements are not guarantees of future performance. Investors should consider the risks and uncertainties that could cause actual results and/or financial condition to differ materially from these statements. A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website.

We may include references to core net operating earnings, a non-GAAP financial measure, in our remarks or responses to questions. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release.

And if you are reading the transcript of this call, please note that it may not be authorized or reviewed for accuracy, thus it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

Now I am pleased to turn the call over to Carl Lindner III to discuss our results.

Carl H. Lindner - *American Financial Group, Inc. - Co-CEO, Co-President and Director*

Good morning. We released our 2017 second quarter results yesterday afternoon. Please turn to Slide 3 of the webcast slides for an overview.

AFG's results established new second quarter records for earnings. We were pleased to report core earnings per share of $1.61, a 26% increase from the prior year period. The improved results were attributable to higher year-over-year operating earnings in our Property and Casualty and Annuity segments.

Second quarter annualized core operating return on equity was 12.3% for 2017 compared to 10.5% last year. Net earnings per diluted share were also $1.61. This, too, established a new second quarter record for AFG. These results include noncore net realized gains on securities of $0.05 per share, which was offset by $0.05 per share related to the early retirement of debt. Craig and I thank God, our talented management team, our wonderful employees and our valued distribution partners for helping us to achieve these results.

Returning capital to our shareholders is an important component of our capital and management strategy and reflects our strong financial position and our confidence in AFG's financial future. We did pay a special cash dividend of $1.50 per share of AFG common stock at the end of May, which was in addition to our regular quarterly dividend. The payment of the special dividend won't preclude our consideration of additional actions with respect to our regular quarterly dividend, additional special dividends or opportunistic share repurchases, especially in the absence of a significant transaction. We'll evaluate our excess capital position again in the second half of 2017.

Based on results through the first 6 months of 2017, we have increased AFG's 2017 core operating earnings guidance to a range of $6.40 to $6.90 per share, up from the range of $6.20 to $6.70 per share announced previously. Craig and I will each discuss our guidance for each segment of our business later in the call.

On the tax front, we continue to be encouraged by what we believe to be favorable tax reform proposals stemming from both the Trump administration and congressional Republicans advocating a lower corporate tax rate. As we've mentioned previously, we also would like to see a level playing field for domestic insurers who compete with offshore companies operating with an unfair tax advantage. Eliminating the loophole provided by foreign affiliate reinsurance will help pay for comprehensive tax reform and slow the movement of U.S. insurance companies overseas.

Now if you'd turn to Slides 4 and 5, which include an overview of results in our Specialty Property and Casualty operations we'll discuss them.

Despite the competitive conditions we've faced this year, we have found meaningful opportunities to grow our business while maintaining solid underwriting margins that support our targeted returns.

On Slide 4, you'll see that gross and net written premiums increased 8% and 7%, respectively, in the 2017 second quarter compared to the same quarter a year earlier. Property and Casualty operating earnings were up 17% compared to the prior year period.

Specialty Property and Casualty underwriting profit was up 16% from the prior year period, with each of our Specialty Property and Casualty groups reporting higher year-over-year underwriting profit.

Second quarter 2017 combined ratio of 93.2% improved 0.7 points from the '16 second quarter and included 2.2 points of favorable prior year reserve development and 1.7 points in CAT losses. Overall, renewal pricing in our Specialty Property and Casualty group was up 1% during the second quarter.

Now I'd like to turn to Slide 5 to review a few highlights from each of our Specialty Property and Casualty business groups. Our Property and Transportation Group reported second quarter underwriting profitability of $21 million compared to $15 million in the prior year period. Higher underwriting profits in our agricultural and our property and inland marine businesses were the drivers of the improved results.

National Interstate's second quarter accident year combined ratio improved about 1 point year-over-year. And for the first 6 months of '17, it's just under 96%, with no adverse reserve development in 2017. I'm very pleased with these results.

Overall, 2017 is shaping up to be an average crop year, which is consistent with the assumptions embedded in our previous and our current earnings guidance.

Corn and soybean yields are expected to be at or slightly below 5-year trendline averages, with crops showing some signs of distress from drought conditions in the Dakotas and excess moisture in Ohio and Indiana.

Current commodity pricing is holding up well and is within 5% of spring discovery prices. Catastrophe losses in this group were $11 million in the second quarter of '17 compared to $12 million on last year's second quarter.

Second quarter 2017 gross and net written premiums in this group were 7% and 3% higher, respectively, than the comparable prior year period. The growth is primarily attributable to higher year-over-year premiums in our agricultural and transportation businesses and growth in our Singapore branch. This growth was partially offset by lower premiums, resulting from an exit from the customs bond business, which was part of our ocean marine operations.

Net premiums were also impacted by lower retentions in our National Interstate's captive business.

Overall, renewal rates in this group increased 2% on average for the second quarter of '17, with most of our price increases coming from commercial auto and non-crop agribusiness operations.

Specialty Casualty Group reported second quarter underwriting profit of $29 million compared to $23 million in the prior year period. Improved results in our excess and surplus lines businesses and Neon were partially offset by lower year-over-year profitability in our workers' compensation and executive liability businesses, primarily due to lower favorable prior year reserve development. Catastrophe losses for this group were $2 million and $3 million in the second quarters of 2017 and '16, respectively.

Although profitability is lower year-over-year in our workers' compensation lines, I'm very pleased that the diversity and mix of these operations has helped us to continue to achieve strong underwriting profitability and has enabled us to find opportunities to grow this important component of our business. Results in Neon are improving, but this business isn't yet profitable, however, the management team there is making progress, and we have a ways to go.

Gross and net written premiums for the Specialty Casualty Group for the second quarter of 2017 were up 10% and 12%, respectively, compared to the same period in '16. Nearly all the businesses in this group reported growth. A change in Neon's mix of business to include a greater concentration in property business was a driver of higher premiums in the second quarter, which is typically when this business is written. Higher premiums in our workers' comp business primarily the result of rate increases in the state of Florida and higher premiums in our targeted marketed -- our targeted markets businesses were the other drivers of the year-over-year growth. Renewal pricing for this group was flat in the second quarter. Renewal rate increases within Summit's Florida workers' comp business offset pricing decreases that continued in our other workers' compensation operations.

Underwriting profit in our Specialty Financial Group was $23 million in the second quarter of 2017 compared to $22 million in the second quarter of '16. Higher underwriting profitability in our surety business was partially offset by lower underwriting profitability on our financial institutions business, primarily the result of higher catastrophe losses in our lender-placed mortgage property insurance business.

Catastrophe losses for this group were $5 million and $3 million in the second quarters of '17 and '16, respectively. Nearly all the businesses in this group continued to achieve excellent underwriting margins.

Second quarter 2017 gross and net written premiums were up 1% and 3%, respectively, when compared to the prior year period, primarily as a result of higher premiums in our fidelity and crime business, which were partially offset by lower premiums in our financial institutions business. Renewal pricing in this group was down 2% for the quarter, primarily the result of decreases in our financial institutions business. Regulatory and competitive pressure are contributing to tougher pricing in our lender-placed mortgage property insurance book.

Now please turn to Slide 6 for a summary view of our '17 outlook for the Specialty Property and Casualty operations. We continue to expect a combined ratio between 92% and 94% and growth in net written premiums in the range of 3% to 7%. We've adjusted assumptions within our Specialty Property and Casualty group slightly.

Taking a look at each subsegment. We continue to estimate a combined ratio in the range of 91% to 95% in our Property and Transportation Group and growth in net written premiums in the range of 2% to 6%. We continue to expect our Specialty Casualty Group to produce a combined ratio in the range of 94% to 96%. Growth in net written premiums is now expected to be in the range of 7% to 11%, up from our previous estimate of 5% to 9%.

Higher premium in our Public Sector division, primarily the result of new business opportunities, was the primary driver of this change. We continue to estimate a combined ratio in our Specialty Financial group in the range of 84% to 88%. Based on results for the first 6 months of 2017, we now expect net written premiums to be flat to up 4%, which is a decrease from our original range of 2% to 6%. A stronger economy and new regulations are expected to temper premium growth in the second half of the year.

We continue to expect overall Property and Casualty renewal pricing to be flat to up 1%. Additionally, we now expect our Property and Casualty investment income to grow between 4% and 6%. This is an increase from the 2% growth estimated previously and primarily due to higher partnership income in the second quarter of 2017.

I'll now turn the discussion over to Craig to review our results in our Annuity segment and discuss AFG's investment performance.

S. Craig Lindner - *American Financial Group, Inc. - Co-CEO, Co-President and Director*

Thank you, Carl. I'll start with a review of our Annuity results for the second quarter, beginning on Slide 7.

The Annuity segment reported $85 million in pretax operating earnings in the 2017 second quarter compared to $76 million in the second quarter of 2016, an increase of 12% year-over-year. Under fair value accounting, variances from expectations of certain items such as projected interest rates, hedge costs and surrenders, as well as changes in the stock market, have an impact on the accounting for fixed indexed annuities. Although these accounting adjustments have been recognized through AFG's reported core earnings, many of these adjustments are not economic in nature, but rather impact the timing of reported results.

In the second quarter of 2017, the benefit of a higher stock market was more than offset by lower interest rates, resulting in a $16 million unfavorable impact to Annuity operating earnings. In comparison, during the second quarter of 2016, a relatively large decrease in interest rates resulted in an unfavorable impact on earnings of $26 million.

Annuity earnings before the impact of fair value accounting were $101 million in the second quarter of 2017, slightly lower than the $102 million reported in the second quarter of 2016.

As you'll see on Slide 8, AFG's quarterly average annuity investments and reserves grew by approximately 11% and 12%, respectively, year-over-year. The benefit of this growth was offset by the run-off of higher yielding investments.

AFG's Annuity segment reported statutory premiums of $1.3 billion in the second quarter of 2017 compared to $1.1 billion in the second quarter of 2016. Although all major channels reported year-over-year growth, the increase was due primarily to growth in traditional fixed annuity sales in the financial institutions channel.

We're especially pleased to report year-over-year growth in premiums when industry sales for the second quarter and first half of 2017 were lower. We believe that our strong premium production in the first 6 months of 2017 reflects new products, additional staffing and increased market share within financial institutions. Additional information can also be found in AFG's Quarterly Investor Supplement posted on our website.

Please turn to Slide 9 for a summary of the 2017 outlook for the Annuity segment. Based on results through the first 6 months of 2017, we now expect 2017 earnings before fair value accounting for fixed indexed annuities to be in the range of $385 million to $405 million, an increase from the $380 million to $400 million previously estimated. This is the second increase this year of our pre-fair value guidance. Our forecast assumes modest increases in interest rates and the stock market.

Due to the decrease in market interest rates to date in 2017, our estimate for 2017 pretax annuity operating earnings is now expected to be in the range of $370 million to $390 million compared to our original guidance of $375 million to $395 million.

With regard to premiums, we announced decreases in crediting rates and rider benefits on the majority of our Annuity products in the second quarter of 2017 in response to decreases in market interest rates. As a result, we've seen a slowdown in premiums. We now expect 2017 annuity premiums to be relatively flat when compared to the $4.4 billion reported in 2016, a decrease from our previous estimate of flat to up 10%.

Large changes in interest rates and/or the stock market as compared to our expectations could lead to additional positive or negative impacts on the Annuity segment's results.

The Department of Labor Fiduciary Rule became effective on June 9, 2017, although the DOL delayed certain requirements until January 1, 2018. As a result, insurance-only agents are able to continue selling fixed indexed annuities through the end of 2017, provided the agent acts in the consumer's best interests, makes no misleading statements and receives only reasonable compensation. There is considerable uncertainty as to whether the rule will take effect in its current form on January 1, 2018, or if there will be an additional delay or adjustments to the rule. We continue to believe the implementation of the rule in its current form and on the current schedule will impact annuity premiums throughout the remainder of 2017 and into 2018. Nonetheless, we do not believe the new rule will have a material impact on AFG's results of operations. We believe that our business model, which we adopted many years ago, positions us well in a changing regulatory environment.

Now please turn to Slide 11 for a few highlights regarding our $45 billion investment portfolio. AFG recorded second quarter 2017 net realized gains on securities of $5 million after tax and after deferred acquisition costs compared to net realized losses on securities of $10 million in the comparable prior year period. As of June 30, 2017, unrealized gains on fixed maturities were $481 million after tax, after DAC; and unrealized gains on equities were $158 million after tax. As you'll see on Slide 12, our portfolio continues to be high quality with 90% of our fixed maturity portfolio rated investment grade and 98% with an NAIC designation of 1 or 2, its highest 2 categories. We have provided additional detailed information on the various segments of our investment portfolio in the Quarterly Investor Supplement on our website.

I will now turn the discussion over to Jeff, who will wrap up our comments with an overview of our consolidated second quarter 2017 results and share a few comments about capital and liquidity.

Joseph E. Consolino - *American Financial Group, Inc. - CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd*

Thank you, Craig. We're very pleased with the year-over-year growth in core EPS, which is a record for our second quarter.

Slide 13 shows our core net operating earnings per share of $1.61 and summarizes the operating results that Carl and Craig have covered. That $1.61 is $0.33 higher than the year ago core net operating earnings per share of $1.28. The year-over-year improvement is broad-based. Property and Casualty operating earnings contributed $0.18 of improvement, of which $0.07 was from underwriting, $0.06 from net investment income and $0.05 from other. Annuity improved by $0.07 year-over-year. These are partially offset by $0.05 of parent company expense, net of runoff long-term care and life earnings.

In the year ago second quarter, we had an extraordinarily high effective tax rate of 36%. In the 2017 second quarter, our core net operating earnings were $145 million after tax. When you calculate our effective tax rate on core pretax operating earnings for our 2017 second quarter, it's 29%.

A tax benefit related to stock-based compensation reduced AFG's effective tax rate by 3 percentage points in the quarter. This is related to higher-than-normal levels of stock option exercises in the 2017 second quarter. In addition, a tax deduction is available for AFG common share dividends paid on ESOP shares within AFG's 401(k) retirement and savings plan. Dividends paid on these shares reduced AFG's effective tax rate by 1 percentage point in the second quarter.

AFG's effective tax rate through the first 6 months of the year was 30%. Our full year earnings guidance for 2017 now assumes an effective tax rate of approximately 31% on core pretax operating earnings.

Slide 14 provides a reconciliation of core net operating earnings to net earnings attributable to shareholders. The $5 million or $0.05 per share after-tax loss on the early retirement of debt is related to unamortized debt issue costs associated with the June redemption of AFG's 6 3/8% senior notes.

Moving to Slide 15. AFG's adjusted book value per share was $54.97 as of June 30, 2017. Growth in adjusted book value per share during the quarter was tempered by the $1.50 per share special cash dividend paid in May as well as our regular quarterly cash dividend.

Adding back dividends paid in the quarter, annualized growth in adjusted book value per share was approximately 13%.

Our adjusted tangible book value per share was $52.36 per share at June 30, 2017. Our capital adequacy, financial condition and liquidity remain strong. We issued $350 million of 4 1/2% 30-year senior notes in May. The net proceeds from this offering were used in the second quarter to redeem AFG's $230 million 6 3/8% senior notes. We've also called for redemption, on August 25, our $125 million 5 3/4% senior notes. We estimate the early redemption of the 5 3/4% senior notes will result in after-tax expenses of $2 million, or $0.02 per share, during the third quarter of 2017 related to unamortized debt issue costs. The redemption of the 6 3/8% and 5 3/4% senior notes and the issuance of the 4 1/2% senior notes will result in pretax interest savings to AFG of $6 million per year or $0.04 per share after tax beginning in 2018.

Parent company cash was $425 million at June 30, 2017. A portion of this will be used to redeem the $125 million of our 5 3/4% senior notes later this month. We maintain sufficient capital in our insurance businesses to meet our commitments to the rating agencies and our excess capital stood at approximately $1.1 billion at June 30, 2017. As Carl mentioned earlier, the payment of the special dividend during the second quarter will not preclude AFG's consideration of a special dividend later in the year. In other words, should our capital position and projected uses of capital will justify it, we remain open to a special dividend later in 2017 in the absence of a significant transaction.

We have returned $160 million to our shareholders through dividends during the quarter. Approximately 4.1 million shares remain under our repurchase authorization as of August 1. Please remember, we plan to hold approximately $200 million to $300 million as dry powder to maintain flexibility for opportunities that may arise. We review all opportunities for deployment of capital on a regular basis.

In closing, you will find a single page summary of our 2017 core earnings guidance on Page 16. Let me remind you that AFG's expected 2017 core operating results exclude non-core items such as realized gains and losses and other significant items that may not be indicative of ongoing operations.

Now we're pleased to open the lines for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Greg Peters of Raymond James.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Carl, in your comments, you talked about rate increases in commercial auto. Just curious if you could provide some additional color around the performance of National Interstate. And also, I noted in your comments around Neon, it sounded like you might be somewhat disappointed in their performance. I just don't want to infer anything that isn't the case, so maybe you can clarify what your expectations are around that operation as well.

Carl H. Lindner - *American Financial Group, Inc. - Co-CEO, Co-President and Director*

Sure, we can address some of those things, Greg. I might let Jeff address Neon and after I make a comment. But let's talk about commercial auto. I'm pleased with the progress on our commercial auto business in our Property and Casualty group. As we talked about it, it's primarily made up of National Interstate's business as well as the Great American business, which is focused on owner operators and primarily auto physical damage with some other collateral types of coverages in that. Let me talk about National Interstate first. Through 6 months of '17, the National Interstate accident year combined ratio and calendar year combined ratio improved year-on-year by a little more than 1 point to be just under 96%, under a 96% combined. I think in the past, as we bought in the remainder of the shares we didn't own, I mentioned that it would be our objective to operate the business at 95% or under, and that's what it would take to get a healthy double-digit return on the incremental investment that we have made in National Interstate. So I'm pleased with the progress there. Our objective is to run that business by 2018 at a combined ratio of 95% or better. The rate increase at National Interstate was 4% overall in the quarter. I think the significant pieces of that on the non-captive commercial auto liability business, we were up high single digits in rate increase in that. Workers' comp kind of -- with only being up 1%, kind of pulls the overall down in National Interstate, though we continue to get rate. I'm hoping that we see some opportunities in that. There have been -- Westfield has pulled out of the trucking business, for instance, so they're right in our backyard, hoping to get some opportunities at National Interstate on some market disruption like that. On the Great American business, we've had great calendar year and accident year underwriting results in the first half. So very pleased with that very focused business on owner-operators in that. On Neon, I didn't mean to imply that I was unhappy. I'm pleased with the progress that they're making. Though with the high standards we have on underwriting profitability in that, that has a ways to go to please me even more long term and get to the right long-term returns. Jeff, do you have any comments?

Joseph E. Consolino - *American Financial Group, Inc. - CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd*

I really don't, Greg, unless you have more specifics about Neon. So hopefully Carl gave you a sense of his attitude and his profit-driven evaluation of our various business units.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

No. I don't have a follow-up as it relates to Neon. I just -- it was just based on the commentary, I wanted clarification on that. Craig, if you don't mind, and I appreciate the color you were providing regarding the competitive environment. I was hoping to get some additional color both on your views of what's going on in the bank channel and in the independent channel. And how, given the uncertainty of DOL, how the competitive behavior might change over the course of the next couple of quarters.

S. Craig Lindner - *American Financial Group, Inc. - Co-CEO, Co-President and Director*

Sure, Greg. It is a very competitive environment right now. Obviously, interest rates have not moved up the way most people were expecting them to this year. And our response to that has been to adjust the credited rates. We're pretty disciplined in pricing, and that is resulting in a bit of a slowdown of premiums. There are some companies out there that have not adjusted credited rates. And unless we're doing something that we're not able to do on the investment side, hard to see how they're making the rate returns frankly on new business. The industry premiums were a bit soft in sales of traditional and indexed annuities in the first 6 months. It's our understanding that the industry was down 10% or so in sales. We have heard from distribution that July was somewhat soft also. Hard to know what the rest of the year will look like, but I suspect for the balance of the year that premiums are going to be a bit sluggish.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Okay, great. Thanks. Finally, I think you guided to a tax rate of 31% for the year. And I'm curious if that's sort of the run rate we should think about on a normalized basis.

Joseph E. Consolino - *American Financial Group, Inc. - CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd*

Greg, this is Jeff. We've historically been a full rate taxpayer with the statutory federal rate of 35%. I think we do a reasonable job in our financial footnotes. I think it's Note L to our financials, of reconciling our effective rate to the statutory rate. But in terms of the positives and the negatives there. We benefit from tax-exempt interest in our muni portfolio. We benefit from the dividends received reduction through our common stock and other equity investments. Those generally have benefited our effective tax rate by 3 to 4 percentage points in any given period. And then there have been some givebacks. National Interstate, which we've talked about in the past, they were consolidated for GAAP but not in our consolidation for tax. The double taxation penalized our effective tax rate. That's gone, effective with the November merger, so that no longer could be a drag on our effective tax rate. In Neon, we maintain a full valuation allowance against our deferred tax. Their losses historically have not benefited to shield our U.S. income. And as Neon's losses moderate, that drag that drives our effective tax rate up, which has been, call it, 3 points in past periods, should shrink. And then there's one more kind of changer here, which I alluded to in our comments, which is there's a new accounting pronouncement out there. It's called ASU 2016-09. We early adopted it in the fourth quarter of '16, but it requires that the excess tax benefits you get from share-based payments be recorded through your income statement tax line, whereas, previously, it was through equity. And that benefited our tax rate in the quarter by 3 points. Any projection is inherently uncertain, and AFG doesn't control when people are going to exercise stock options or things of that nature, but we do think that will lower our effective tax rate in addition to the 4 other factors that I talked about there. That's how we wind up at that 31% for the full year versus the 30% we've had kind of year-to-date. I guess, the last thing I would throw on in the quarter, which I mentioned in the script, was we do get a deduction for the special dividend and other dividends we make on shares held for our employee 401(k), which is in the form of an ESOP, so that had an effect on Q2. So those are the factors, Greg, that really going into the tax rate.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Excellent detail, thank you. Congratulations on the quarter.

Operator

Our next question comes from Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen - *BofA Merrill Lynch, Research Division - Research Analyst*

Thanks also for that detail in the tax rate. That was really helpful. My question's on the Florida workers' comp market. Can you give us an update on what you're seeing there post-these changes from a rating standpoint? And then the second part of that question. We are hearing about increased competition, broadly speaking, in workers' comp from a pricing standpoint. So given, I guess, expected improvement in Florida but potential for pressure elsewhere due to competitive conditions, net-net, do you see your comp business getting better or worse from a margin standpoint?

Carl H. Lindner - *American Financial Group, Inc. - Co-CEO, Co-President and Director*

Hi, Jay. This is Carl. Maybe it's -- maybe I can talk about each of the major pieces and that type of thing. National Interstate really is a pretty significant writer of workers' comp. Their rates have been kind of flattish, up a little bit in this past quarter, down a little bit in other quarters, but overall, kind of flattish here recently. In the Summit book of business, I'm very pleased with Summit's results and the caliber of our management team there. They reclaimed the #1 writer in Florida last year. We've had good underwriting profitability since we acquired Summit last 3 years. And with the Florida rate increase that is in effect, it's become a growth business this past year. I think Summit is up double digit in net premium. So I think with the Florida rate increase, we feel good about Summit's prospects for a solid underwriting profit this year. And it also makes us feel good about going forward. In Summit, there had been, as in the rest of the country, driven by NCCI rate changes, there have been some rate decreases in many of the other states in that. I think for Summit, the Florida rate increases kind of offset some of that -- some of the decreases in some of the other states in that. Pricing overall in Summit will be up mid-single digits this year, 6%. And that kind of reflects my previous comments here just a minute or so ago, double-digit heavy increases in Florida, offset by some decreases elsewhere. We feel good about our overall reserve position at Summit. So I think that Summit should continue to have solid stable profitability in that. Republic, our California workers' comp writer, we've had healthy underwriting results and double-digit returns the last 4 years. I think our outlook for California comp this year is positive also. I think looking forward with -- we're running at about a -- we figure we'll probably, for the rest of the year, have 9% renewal rate decline. So with a high single-digit rate decrease projected for all of this year, I think next year, we'll see smaller underwriting profits there on an accident year basis than what we've seen in the past. So I do think that our projections with the rate declines that have happened and in our projected rate decrease in California is that we'll have small underwriting profits next year. Though that business will still be earning solid double-digit returns on equity. The market continues to be competitive. Even though we're growing a little bit through the first 6 months, I think through the end of the year, we're projecting more of a high single-digit decline in premiums in that. We feel good about Republic's reserve position. We still feel very positive about the claims environment. We think reform is holding in California. We don't see much change in the stable claims environment at least through maybe the next 3 years or so in that. So yes, lower profitability probably going forward but still good solid returns and an underwriting profit in California. In our strategic comp business, which is our high deductible part of our business, prices have been declining there this year. Though we still feel really good about this year's profitability, our prospects going forward for that business, as it's been, highly profitable for us. I hope that kind of gives some color for you.

Jay Adam Cohen - *BofA Merrill Lynch, Research Division - Research Analyst*

Yes, yes. That's really good. You actually answered some of my follow-up questions, too, on claims. So very helpful. Good run down. Thanks, Carl.

Operator

Our next question comes from Paul Newsome of Sandler O'Neill.

Jon Paul Newsome - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior Insurance Analyst*

One of the feedback I've gotten recently from investors is concern that, just generally speaking, you're growing your premiums in the property casualty side in what is still a pretty soft market. And that, that will sort of inevitably lead towards lower margins. Could you perhaps address that concern?

Carl H. Lindner - *American Financial Group, Inc. - Co-CEO, Co-President and Director*

This is Carl. I think when you look at our overall loss ratio trend, that's kind of loss cost offset by positive inflation or exposure changes to your premium base. Our overall loss ratio trends about 1.6%, and I think we mentioned our overall rate in the second quarter was up 1%. We're not -- our overall pricing's pretty flat so our guidance of 0% to 1% is probably a fair -- it's probably a fair way to look at those things. I think that in the businesses where we feel loss cost trends are exceeding, are going to harm us, I think those are the areas that we focused on, on getting rate. For instance, I talked about National Interstate's rate and the focus there. So in businesses where we need it, whether it's commercial auto or New York contractors as we've talked about, I believe we have been making the right decisions and getting rate above loss costs. National Interstate, frankly, is in their fifth year, Jeff, of -- sixth year of rate increase in that. In other businesses, we're reaching our profitability targets and loss cost trends are stable. With the use of predictive analytics and segmenting our business, I think we've been more flexible in pricing the business in that. So I think when you look at our book of business, one other thing I'd maybe say is, is between our Annuity business and maybe 1/3 of our Property and Casualty business, those businesses don't really correlate to the general Property and Casualty cycle. So I do think that maybe makes us a little different. Businesses like crop really kind of move under their own cycle in that. And the prices are pretty fixed in that business set by the government. So I hope that maybe gives you a little color.

Joseph E. Consolino - *American Financial Group, Inc. - CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd*

Just one more, if you will, rebuttal to that. When you look at our guidance and the movement in our guidance, really, where we're not growing because of rate, there is opportunity because of market disruption. I just want to remind you of the benefit of being a very stable organization with an accountability-based model in our Property and Casualty business, with an A+ rating from A.M. Best. As there are opportunities that emerge from other carriers who might be in a little bit of turmoil or other market exits, we're a pretty attractive place to bring the business. And the places where we're growing, especially in the Specialty Casualty subsegment, I think our results year-to-date and our expectations going forward reflect some element to that as well.

Carl H. Lindner - *American Financial Group, Inc. - Co-CEO, Co-President and Director*

Yes. Specifically, we mentioned an opportunity in our public sector business in the second half of this year. So due to market disruption with some, a few competitors in that. So yes, Jeff, good point.

Jon Paul Newsome - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research and Senior Insurance Analyst*

Fantastic, that's all from me. Appreciate the helpful comments.

Operator

(Operator Instructions) Our next question comes from Larry Greenberg of Janney.

Lawrence David Greenberg - *Janney Montgomery Scott LLC, Research Division - MD of Insurance*

So I was just hoping to get a little bit more color on Neon. And if you could just give us some idea of where underwriting results stand right now? And what some of the fixes are that you're putting in place? And whether or not you need to get smaller or bigger to get better? And then if you can give us some idea of the timing to get to profitability there.

Joseph E. Consolino - *American Financial Group, Inc. - CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd*

Hi, Larry. It's Jeff Consolino. Thanks for that. In terms of Neon, I think that we have expressed on past calls the impact Neon's had on our business and the need to make a significant change. Effectively, our new management team there has been in place since the beginning of 2016. Now you said something I thought was pretty perceptive, which was the need to get smaller before you get bigger. And a year ago, about this time, we were talking about an exited lines situation with Neon and getting out of a lot of lines of business at Neon that frankly were the core of the old Marketform. But upon strategic review by the new management team, didn't stand up to the scrutiny of the ability to make money in today's environment. So between 2015 and 2016, Neon shrunk their gross premium income by about a quarter, and now we're building that back up. As it's being built back up, it's being built in a way that's more diversified, in a way that looks more like the Lloyd's market and in a way where we think that we're going to have a lead-type position in those product lines. And the news flow of various hires that have been made over time. We've brought in a team we think that's one of the best in the M&A liability market, and they run a book for Neon and have a consortium behind them so people respect their underwriting and are willing to follow. We also announced this year bringing in the cyber team, led by a highly credentialed individual, who was one of the market leaders and the head of the London market association in that product line and has the opportunity to write in our behalf but also for us to build capacity behind that person in a lead-type role. So when you cut through it, I think a lot of our success here in the U.S. has been around the people that we have in the business, and we're trying to put in place a team there that has the same kind of capability that our U.S. operations have. The goal would be to start to achieve the market type of result and then better at Lloyd's, which is our expectation. We've outperformed the P&C market by a wide margin in our U.S. operations for a very long time, and we need to get to the point where we can say the same thing about Lloyd's.

Lawrence David Greenberg - *Janney Montgomery Scott LLC, Research Division - MD of Insurance*

Thanks, appreciate the color.

Operator

Our next question comes from Jay Cohen of Bank of America Merrill Lynch.

Jay Adam Cohen - *BofA Merrill Lynch, Research Division - Research Analyst*

Yes, just one follow-up. On the property casualty side, investment income. It does look like the fixed maturity income has stayed relatively consistent. I'm wondering if you could talk about where the new money yields are relative to your portfolio? And should we expect, really, as we get into next year, more pressure on that -- downward pressure on that line item?

Joseph E. Consolino - *American Financial Group, Inc. - CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd*

Jay, there are some countervailing things that work, right. Our P&C business continues to grow, and I'm working off of Page 22 of our supplement, just in case you want to back trace that. But we present our average cash and investments for the P&C Group there. So if you look year-over-year, we have basically 5% growth in average P&C investments. So all else equal, that would drive the fixed maturities income higher. That said, our average portfolio yields in the quarter was a little under 2.9%, which you can see, and our new money rate for fixed maturities is a little under 3.3% in the most recent quarter. So there would be an offset to that growing portfolio of averaging down with the net investment income. I look at that chart and I see it's quite stable, and so our forward guidance in terms of growth in P&C net investment income is predicated on that line being fairly stable with the growing piece mainly related to the contribution you saw this quarter from equity investee -- in investees.

Jay Adam Cohen - *BofA Merrill Lynch, Research Division - Research Analyst*

Yes, I guess, that spread between new money yields and the portfolio yields has narrowed over the past couple of years as well.

Joseph E. Consolino - *American Financial Group, Inc. - CFO, Executive VP, Director and Chairman of the Board of Neon Capital Ltd*

It has and we're talking gross rate revenue and the tax equivalent. I think our tax equivalent rate would be closer to 3.5.

Jay Adam Cohen - *BofA Merrill Lynch, Research Division - Research Analyst*

Got it, that's helpful commentary. Thanks.

Operator

Thank you. At this time, I'd like to turn the call back over to Ms. Weidner for any closing remarks. Ma'am?

Diane P. Weidner - *American Financial Group, Inc. - Assistant VP of Investors Relations*

Thank you, Lateef. And thank you all for joining us this morning to review AFG's second quarter results.

Operator

Thank you, ma'am. Ladies and gentlemen, that does conclude your program. Thank you for your participation and have a wonderful day. You may disconnect your lines at this time.