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# EDITED TRANSCRIPT

Q4 2025 AMERICAN FINANCIAL GROUP INC EARNINGS CALL

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An LSEG Business



## CORPORATE PARTICIPANTS

- **Diane Weidner** American Financial Group Inc - Vice President, Investor Relations
- **Craig Lindner** American Financial Group Inc - Co-Chief Executive Officer, Director
- **Carl Lindner** American Financial Group Inc - Co-Chief Executive Officer, Director
- **Brian Hertzman** American Financial Group Inc - Chief Financial Officer, Senior Vice President

## CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Hristian Getsov** Wells Fargo Securities LLC - Equity Analyst
- **Gregory Peters** Raymond James - Analyst
- **Daniel Cohen** BMO Capital Markets - Analyst;
- **Paul Newsome** Piper Sandler - Analyst
- **Jing Li** Keefe, Bruyette, & Woods, Inc - Analyst
- **Andrew Andersen** Jefferies LLC - Analyst

## PRESENTATION

### Operator

Good day and thank you for standing by. Welcome to the American Financial Group 2025 fourth quarter results conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, Diane Weidner, Vice President, Investor Relations. Please go ahead.

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### **Diane Weidner American Financial Group Inc - Vice President, Investor Relations**

Thank you. Good morning, and welcome to American Financial Group's fourth quarter and full year 2025 earnings results conference call. We released our results yesterday afternoon. Our press release, investor supplement, and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call.

Joining me this morning are Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group, and Brian Hertzman, AFG's CFO.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause our 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 in responses to questions. A reconciliation of net earnings to core net operating earnings is included in our earnings release.

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

Now I'm pleased to turn the call over to Craig Lindner to discuss our results.

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## **Craig Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Good morning. I'll begin by sharing highlights of AFG's 2025 fourth quarter and full year results, after which Carl will walk through more details about our P&C operations and share AFG's business plan assumptions for 2026. We'll then open it up for Q&A, where Carl, Brian, and I will respond to your questions.

The fourth quarter marked a strong finish to a great year for AFG. Our compelling mix of specialty insurance businesses, entrepreneurial culture, disciplined operating philosophy, and highly skilled team of in-house investment professionals collectively have enabled us to outperform many of our peers and continues to position us well for the future.

Carl and I thank God, our talented management team, and our great employees for helping us to achieve these results.

As you'll see on slide 3, AFG's core net operating earnings were \$10.29 per share for the full year 2025, generating a core operating return on equity of 18.2%. This ROE is calculated using an average of the five most recent quarter end balances of shareholders' equity, excluding AOCI.

We closed out the year with an exceptionally strong fourth quarter. As you'll see on slides 4 and 5, core net operating earnings per share were \$3.65 per share, producing an annualized fourth quarter core return on equity of 25.2%.

Capital management is one of our highest priorities. Returning capital to our shareholders is a key component of our capital management strategy and reflects our strong financial position and our confidence in AFG's financial future.

In 2025, we returned over \$700 million to shareholders, which included \$334 million or \$4.00 per share in special dividends, \$274 million in regular common stock dividends, and \$99 million in share repurchases. Over the past five years, dividend payments and share repurchases have totaled \$6.3 billion. Additionally, we increased our quarterly dividend by 10% to an annual rate of \$3.52 per share beginning in October of 2025.

Now I'd like to turn to an overview of AFG's investment performance and share a few comments about AFG's financial position, capital, and liquidity. The details surrounding our \$17.2 billion portfolio are presented on slides 6 and 7.

Looking at results for the 2025 fourth quarter, Property and Casualty net investment income was approximately 12% lower than the comparable 2024 period as lower returns from alternative investments more than offset the impact of higher interest rates and higher balances of invested assets.

For the full year ended December 31, 2025, P&C net investment income, excluding alternative investments, increased 5% year over year. Approximately 65% of our portfolio is invested in fixed maturities. In the current interest rate environment, we're able to invest in fixed maturity securities at yields of approximately 5.25%. The duration of our P&C fixed maturity portfolio, including cash and cash equivalents, was 2.9 years at December 31, 2025.

The annualized return on alternative investments in our P&C portfolio was 0.9% for the fourth quarter of 2025, compared to 4.9% for the prior year quarter. Although the overall returns on our multi-family investments continue to be impacted by an excess supply of new properties in some of our targeted markets, we are seeing signs of recovery.

New starts have fallen nearly 50% since 2022, and completions peaked in 2024 and are rapidly declining. We continue to believe that in the last half of 2026, the tightening supply and significantly reduced pipeline will drive higher rental and occupancy rates.

Importantly, a sizable portion of our portfolio of multi-family properties is located in desirable geographies with strong job and wage growth. Longer term, we continue to remain optimistic regarding the prospects of attractive returns from our overall alternative investment portfolio, with an expectation of annual returns averaging 10% or better.

Please turn to slide 8, where you'll find a summary of AFG's financial position at December 31, 2025. During the fourth quarter, we returned \$240 million to our shareholders through the payment of a \$2.00 per share special dividend in November and our regular \$0.88 per share quarterly dividend.

In conjunction with our fourth quarter earnings release, we declared a special dividend of \$1.50 per share, payable on February 25, 2026, to shareholders of record on February 16, 2026. The aggregate amount of the special dividend will be approximately \$125 million. With this special dividend, the company has declared \$55.50 per share, or \$4.7 billion in special dividends since the beginning of 2021.

AFG ended the year in a strong capital position. Our leverage ratio was less than 28%, we have no debt maturities until 2030, and our insurance company financial strength ratings are at the "A+" level for AM Best and Standard & Poor's.

We expect our operations to continue to generate significant excess capital in 2026, which provides ample opportunity for acquisitions, additional special dividends, or share repurchases over the rest of the year. We evaluate the best alternatives for capital deployment on a regular basis.

We continue to view total value creation, as measured by growth in book value plus dividends, as an important measure of performance over the long term. For the year ended December 31, 2025, AFG's growth in book value per share excluding AOCI plus dividends was 17.2%. We're extremely proud of the value we've created for shareholders over time.

I'll now turn the call over to Carl to discuss the results of our P&C operations and our business plan assumptions for 2026.

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## **Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Thank you, Craig. Please turn to slides 9 and 10 of the webcast, which include an overview of our fourth quarter results. Fourth quarter underwriting profit set a new quarterly record for AFG, led by exceptionally strong profitability in our crop insurance operations.

Nearly all the businesses in our diversified Specialty P&C portfolio continue to meet or exceed targeted returns, and we continue to feel confident about the strength of our reserves. We've assembled a diversified portfolio of Specialty Property and Casualty businesses that helps us navigate the peaks and valleys of the insurance cycle and respond to changing economic conditions. The non-correlation of many of our businesses, both to each other and to the broader insurance market has been instrumental to AFG's strong and consistent performance over many years.

Turning to slide 9, you'll see that underwriting profit in our Specialty Property and Casualty insurance businesses grew 41% and generated an outstanding 84.1% combined ratio in the fourth quarter of 2025, an improvement of nearly 5 points from the prior year period.

Results for the 2025 fourth quarter include 0.2 points related to catastrophe losses, compared to 1.1 points in the 2024 fourth quarter. Fourth quarter 2025 results benefited from 1.6 points of favorable prior year reserve development, compared to 1.8 points of adverse prior year reserve development in the fourth quarter of 2024.

Fourth quarter 2025 gross written premiums were up 2% and net written premiums were down 1% when compared to the same period in 2024. For the full year, gross written premiums increased 2% and net written premiums were flat.

As noted, we continued to benefit from the diversification across our 36 businesses and achieved premium growth in many of them as a result of a combination of new business opportunities, a good renewal rate environment, and increased exposures, while remaining disciplined and focused on underwriting profitability in some of the more challenging markets.

Average renewal rates across our Property and Casualty Group, excluding workers' comp, were up approximately 5% for the quarter, in line with the previous quarter. Average renewal rates including workers' comp were up approximately 4% overall.

We've reported overall renewal rate increases for 38 consecutive quarters, and we believe we are achieving overall renewal rate increases in excess of prospective loss ratio trends, allowing us to meet or exceed targeted returns.

Now I'd like to turn to slide 10 to review a few highlights from each of our Specialty Property and Casualty business groups. Details are included in our earnings release, so I'll focus on summary results here. The businesses in the Property and Transportation Group achieved an outstanding 70.6% calendar year combined ratio in the fourth quarter of 2025, an improvement of nearly 19 points from the comparable 2024 period.

Record yields for corn and soybeans and favorable commodity pricing trends throughout the growing season, which contributed to a very strong crop year, and lower year-over-year catastrophe losses in our property exposed businesses were drivers of these exceptional results.

Fourth quarter gross written premiums for 2025 in this group increased 5% from the comparable prior year period for the fourth quarter of 2025, while net written premiums were approximately 2% lower year over year. The increase in gross written premiums was due primarily to growth in our crop products that are heavily ceded, and to a lesser extent, growth in a transportation captive that has higher premium cessions.

Overall renewal rates in this group increased approximately 6% on average in the fourth quarter of 2025, consistent with pricing in the previous quarter. Pricing for the full year for this group was up approximately 7% overall. We continue to remain focused on rate adequacy, particularly in our commercial auto liability line of business, where rates were up approximately 15% in the fourth quarter and up 14% for the full year.

The businesses in our Specialty Casualty Group achieved a 96.7% calendar year combined ratio overall in the fourth quarter, 5.3 points higher than the 91.4% reported in the comparable period in 2024. Combined ratios at this level for these longer-tailed lines of business typically generate returns on equity in the high teens or better.

Fourth quarter 2025 gross and net written premiums increased 2% and 3%, respectively, when compared to the same prior year period. The primary drivers of growth included new business opportunities, favorable renewal pricing in our targeted markets business, new business opportunities in our mergers and acquisition business, growth in our workers' comp businesses, and new premiums from one of our start-up businesses.

Growth was tempered by lower year-over-year premiums in our executive liability and excess and surplus lines business, where we experienced heightened competitive pressures for both new and renewal business. Overall renewal pricing in this group was up about 5% during the fourth quarter. Average renewal pricing excluding workers' comp, was up 6% in the fourth quarter. For the full year, pricing excluding workers' comp was up about 8%. I continue to be pleased that we continue to achieve renewal rate increases of 10% or better during the quarter in several of our social inflation-exposed businesses, including our social services and excess liability businesses, with full year increases across these lines in the range of 13% to 15%. In addition, our workers' compensation businesses collectively achieved a modest pricing increase during the quarter, similar to our results in the third quarter.

Moving on to the Specialty Financial Group continued to achieve excellent underwriting margins and reported an excellent 83.0% combined ratio for the fourth quarter of 2025, 2.3 points higher than the prior year period. Fourth quarter 2025 gross and net written premiums in this group decreased by 4% and 10%, respectively, when compared to the same prior year period. Higher year-over-year premiums in our European operations were more than offset by lower premiums in our financial institutions business, which has produced very strong growth over the past several years. Net written premiums were tempered by our decision to cede more of the coastal exposed property business in our financial institutions business beginning in the second quarter of 2025.

Now as we look to 2026, in lieu of providing formal earnings guidance, we have provided several key assumptions underlying our 2026 business plan, which you'll see summarized on slide 11. We believe these assumptions are among the most relevant and helpful to analysts and investors in modeling AFG's business and in forming an investment thesis.

These assumptions for 2026 include growth in net written premiums of 3% to 5% from the \$7.1 billion reported last year, a combined ratio of approximately 92.5%, a reinvestment rate of approximately 5.25%, and an annual return of approximately 8% on our \$2.8 billion portfolio of alternative investments.

We expect that performance in line with these assumptions would result in core net operating earnings per share of approximately \$11.00 in 2026 and generate a core operating return on equity excluding AOCI of approximately 18%.

As we consider our outlook on growth, we're optimistic about several of our start-up businesses and the near completion of numerous underwriting actions taken in our Specialty Casualty businesses. However, we're mindful of pockets of softening rates and continued competitive conditions and we'll maintain our disciplined, bottom-line focus as we pursue opportunities to grow profitably in 2026. Our assumptions include an average crop year. So we believe that the combination of our reserve strength, a continued healthy rate environment, prudent growth, and the ability to invest at a rate that exceeds our current portfolio yield positions us well as we enter 2026.

Craig and I are pleased to report these exceptionally strong results for the fourth quarter and full year, and we're proud of our proven track record of long-term value creation. Our insurance professionals have exercised their specialty property and casualty knowledge and experience to skillfully navigate the marketplace, and our in-house investment team has been both strategic and

opportunistic in the management of our \$17.2 billion investment portfolio.

We look forward to continuing to build long-term value for our shareholders this year and beyond.

We will now open the lines for the Q&A portion of today's call. Craig and Brian and I would be happy to respond to your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Hristian Getsov from Wells Fargo.

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### Hristian Getsov Wells Fargo Securities LLC - Equity Analyst

Hi. Good morning. My first question is on the 2026 business plan. I guess, what does that business plan assume in terms of rates relative to the 5% P&C renewal pricing ex-comp we saw in the Q4? And is there any assumption of prior period releases in the 92.5% combined ratio target?

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### Brian Hertzman American Financial Group Inc - Chief Financial Officer, Senior Vice President

So when we're looking at our combined ratio overall, we're really not necessarily specifically identifying any amount for prior year development. But as you can see historically for AFG, overall, we've tended to be conservative and had favorable development in most periods. Not that we're immune from adverse development, but we're hopeful that our reserving strategy set us up for a likelihood of favorable development, more than adverse development.

That being said, we would expect, if you look at what's happened in 2024, going into 2025 -- '24 and '25 going into '26, in '24 and '25, we continued to have a lot of unexpected favorable development out of workers' comp, but that was offset by some adverse development in social inflation-exposed businesses.

Going into 2026, not that we have a crystal ball, but we would expect that the workers' comp will not continue to develop as favorably as it has in the past. But we also, given rate actions and reserving actions that we've taken, would not expect the adverse development from the casualty lines to reoccur.

As far as pricing goes, I think we feel confident that we'll be still able to continue to get good price increases where we need them. There are other businesses, like our financial institutions business, where rate increases have moderated, but these are very profitable and manageable at the levels that they are.

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### Hristian Getsov Wells Fargo Securities LLC - Equity Analyst

Got it. Thank you. And then, for the quarter, we saw a pretty meaningful uptick in the Casualty underlying loss ratio. Was there any change in loss picks, or was that more reflective of just being conservative given continued elevated loss trends? Or was there something you saw in the quarter that led to the change? And I guess, is that pick something that we could run rate going forward? Or any other color there would be appreciated.

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### Brian Hertzman American Financial Group Inc - Chief Financial Officer, Senior Vice President

Sure. So when you look at the -- so when you look at the accident year loss ratio, excluding cats for the Casualty Group in the quarter, what you'll see there is continued caution around our social inflation-exposed businesses, like our social services business, public entity business, and certain excess liability businesses where you've seen intermittent small pockets of adverse development in recent periods. So we are being cautious there in our current picks.

Also, when you look at our relatively small book of California workers' compensation insurance, with the legal environment and things like cumulative trauma in that area, we are also being cautious in our accident year pick there. When you couple that with the rate increases that we have achieved and are achieving, we're hopeful that those loss picks will set us up for a better chance of favorable development in future periods.

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### **Hristian Getsov Wells Fargo Securities LLC - Equity Analyst**

Got it. Thank you.

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### **Operator**

Our next question comes from the line of Gregory Peters from Raymond James.

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### **Gregory Peters Raymond James - Analyst**

Good morning, everyone. I guess I just wanted to follow up on the workers' comp comments, Brian. Was there something unusual in the frequency or medical trend in a particular state this year that led to the results you reported or was this across the book?

And I was interested in your comment about cumulative trauma. I know that's popped up and is on the radar for other workers' comp companies. I wonder if you could provide some color on how you're viewing that risk right now.

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### **Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

For the most part, Greg, our loss ratio trends continue to be pretty benign. Positive trends around frequency, severity, not being abnormal. So again, our workers' comp business, our overall results for workers' comp, both on a calendar year and an accident year basis in 2025 continued to be excellent.

That said, the calendar year combined ratio for overall comp business in '25, was a few points higher than last year. And I've been pointing that out probably every quarter. And we probably would expect the same to happen into '26.

But the good news is the results continue to be excellent. We would expect workers' comp to continue to be a very profitable line. California comp would be the exception. California, as you know, the industry probably has a combined ratio in excess of 120%. There was an approval of a rate increase in September of about 8.7%, a guideline rate that was put out there.

When you look at pricing in California, we're getting probably a healthy 10% price increase in the fourth quarter. So it seems like there's beginning to be a bit more of a backbone in the competitive environment in California, which I'm happy to see and happy to see us get some rate. Our combined ratio isn't 120% plus, but we're unhappy with it and working hard to improve it. So California is probably the one state that would be the exception.

The cumulative trauma, sure that impacts Republic our California comp subsidiary. I think we've been taking into account in our loss reserve picks that aspect for years. That's not something that's a big surprise to us. So I think we've already been taking that into account.

Last year, our workers' comp business overall grew about 1%. When you look at overall pricing trends, I think I mentioned in comp, we actually had a modest price increase in the fourth quarter. I think from a growth standpoint, I would think we would probably see some growth this year, maybe 3% to 5% overall growth or something in workers' comp, which is a positive.

I hope that gives you some insight into your questions.

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### **Gregory Peters Raymond James - Analyst**

Yeah.

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**Brian Hertzman American Financial Group Inc - Chief Financial Officer, Senior Vice President**

I'll just add on that same subject, just to size that California workers' comp focused business is less than \$200 million in net written premiums for the year.

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**Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Yes. It's less than 15%.

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**Brian Hertzman American Financial Group Inc - Chief Financial Officer, Senior Vice President**

It's not a real big portion of our workers' comp business, let alone our overall business, but we do react to what we're seeing in the environment overall, both in setting our reserve picks and also, more importantly, informing us what we need to do from rate increases, leading to things like the near 10% in the fourth quarter.

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**Gregory Peters Raymond James - Analyst**

Got it. Thanks for that detail. Hey, during your comments, you also highlighted start-up businesses. And maybe if could just spend a minute and just share with us some information -- more information about what's behind the start-up businesses and your expectation, especially considering I think we're -- admittedly, the broader P&C market is -- the rate environment seems to be softening up. So just curious about the areas of the market where you think there's opportunity.

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**Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Yeah. Every year, we make investments and we start up businesses. And I think after making some investments and grinding through the early start-ups and a few things that we're beginning to see some success and progress. Things like specialty construction. We have E&S binding business, we would expect to see some more premium in that area. So areas like that, we have four or five different start-ups that I think will begin to show more progress. And the embedded solutions area, I think, is a new area for us that we're excited about, and we think will bear some fruit this year.

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**Gregory Peters Raymond James - Analyst**

Thank you. My final question, and I know you've commented on this before, but the crop business, is there any spillover into the first half of '26 from the results of the '25 year crop year?

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**Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Yeah. There always is based off of area coverage results for a reinsurance year or some citrus and that type of thing. We obviously had a very strong year. So usually, there's always a true-up in the first quarter. And I think we'd be positive that there will probably be some positive true-up as the crop reinsurance here. And as you know, we're in the February discovery period for commodity prices.

And I mean, so far, as it relates to spring discovery, if the prices remain where they've been looks like corn's discovery futures price is down maybe 3%, soybeans up 2%, but that would mean good things as far as stability on the premium base. I think if we have that kind of a scenario, I think we'd be looking at seeing the crop business maybe even grow a little bit, assuming spring discovery prices stay in the range that they are right now.

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**Gregory Peters Raymond James - Analyst**

Thank you very much for the answers.

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## Operator

Our next question comes from the line of Michael Zaremski from BMO.

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## Daniel Cohen *BMO Capital Markets - Analyst;*

Hey. It's Dan on for Mike. My first one, just sticking with the Property and Transportation segment. So is the current accident year improvement this quarter just driven by favorable crop or what are you seeing in the other businesses in that segment? I understand maybe those are performing a little bit better, too. I'm just trying to get a better sense of the run rate there. Thanks.

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## Brian Hertzman *American Financial Group Inc - Chief Financial Officer, Senior Vice President*

Sure. So definitely, the big driver of the lower loss ratio as well as the lower expense ratio in Property and Transportation is coming from the very strong crop results. The rest of the businesses in that segment have performed very well and are pretty stable. I think when you get to looking at our annual statements that we file, I think you'll see that we continue to be cautious in our loss picks on commercial auto liability as well, for the same reasons we talked about in Casualty. But overall, very, very strong results across the whole segment. And even in commercial auto liability, where I mentioned that we're being cautious on the loss picks, we still have a small underwriting profit for the year, for overall commercial auto.

So I think if you're trying to normalize things, I think the big driver of the strong results is the above-average crop year versus 2024 being more of an average crop year. And then looking to 2026, As Carl mentioned, our models would build in an average crop year versus the very strong crop year this year.

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## Daniel Cohen *BMO Capital Markets - Analyst;*

Okay. That's helpful. Thanks. Then switching gears maybe to Specialty Financial and specifically on the lender-placed business there. Just curious about what drove the inflection in pricing a little bit sequentially to plus 1 from minus 2 in the prior quarter. And then bigger picture just with increased political focus on personal lines profitability. Is there any concern about that business just from a political lens on the lender-placed? Thanks.

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## Carl Lindner *American Financial Group Inc - Co-Chief Executive Officer, Director*

No, I don't think we have concerns on the political front. I think the Farm Bill actually got extended into September 2026. And it's supported by both sides, both Republicans and Democrats generally. As far as the pricing goes, our customers are large groupings of properties and so it depends quarter by quarter based off of, say, what a client might have in the way a coastal property and that may require a greater price versus an account that doesn't. So you can always expect some lumpiness around pricing.

That said, this business is extremely profitable. And I think that rates have plateaued. I think there still is an effort to continue to move the biggest part of the business to insuring on a replacement cost value versus unpaid mortgage balance. So I think that continues to be a positive for this business.

I think, as I mentioned, in the second quarter of last year, we did make a decision to cede more of the coastal-exposed property business, which did have some impact mainly towards the last half of the year. I think this year, we would expect low single-digit growth in this business, all things considered.

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## Operator

Our next question comes from the line of Paul Newsome from Piper Sandler.

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## Paul Newsome *Piper Sandler - Analyst*

Hello. Thanks for the call. I was hoping you could give us a little bit more color about some of the social inflation-related businesses that you're remediating in the last year or so. It sounds like those businesses are maybe stabilized. Are you in a position where you can now grow those businesses? Or are they just stabilized? So maybe little bit of thoughts on that and whether those businesses may take a little longer before they go back to a growth potential?

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### **Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Yeah. I think as we've mentioned in the past that we feel that we've worked through a cycle of corrective steps in our nonprofit business and in our excess liability business, restructuring to lower average limits and et cetera, et cetera, as well as price.

I think if you noticed in the third quarter -- I mean, in the fourth quarter, Specialty Casualty grew. We had low single-digit growth in that quarter, which is a positive. And I think when you look at, say, the excess liability business overall, it grew overall.

So I think that points towards this year, I think, an opportunity to see some mid-single-digit growth potentially in both excess liability or nonprofit business. So I think we would see, again, as I mentioned before, those businesses returning and having some growth opportunities and Specialty Casualty in general.

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### **Paul Newsome Piper Sandler - Analyst**

Makes sense. I wanted to ask a little bit of an extra question on the alternative investment portfolio. You're obviously hoping for or expecting a higher return this next year, but maybe not quite as high as it's historically been. Are there certain maybe macroeconomic things or particular things about the portfolio that as an outsider, we should be looking towards that would signal that extra couple of percent back to normal?

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### **Craig Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Yeah, Paul, this is Craig. As I think you know, around 50% of the alternative portfolio is in multi-family. And there has been a big oversupply the last couple of years of new multi-family properties that have been delivered. And the absorption rate is actually very strong, but we think it's probably going to take another couple of quarters to get back to a more normal environment.

Historically, even with the poor returns in the recent past, over the last five years, we've still earned between 10% and 11% total return on our multi-family investments and good years significantly above that. So to get back to the historical levels of returns on the alternatives, it is going to require the multi-family properties to have a better rate environment, which as I said in the conference call script, we're seeing clearly a bottoming, and we're seeing some favorable signs in terms of absorption and new starts at a 10- or 12-year low.

So we think sometime in the last half of the year, we're going to see a better environment. Then 2027 and going forward for some number of years, we think is going to be a pretty favorable environment for multi-family, but that's what is going to be required to get back to our historical return levels on alternatives.

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### **Paul Newsome Piper Sandler - Analyst**

Thanks for the insights.

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### **Craig Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

So the group here is mentioning that on the question about lender-placed property and the political exposure, I think I was talking about the crop business. On the lender side, I think when you look at the regulation of that business, it's been more state by state. But I don't see lots of political risk with regards to lender-placed property.

I think it's to the lenders, I think it's providing a service, particularly when a lot of the business is due to cancellation of a homeowner's insurer by homers insurer. So it really provides a healthy backstop to financial institutions to make sure that there's coverage. So I don't see much political risk there.

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**Paul Newsome Piper Sandler - Analyst**

Appreciate the help, guys.

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**Operator**

Our next question comes from the line of Meyer Shields from KBW.

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**Jing Li Keefe, Bruyette, & Woods, Inc - Analyst**

Hi. Good morning. This is Jing on for Meyer. My first question is on the premium growth business plan assumption of 3% to 5%. Just curious if you guys could elaborate on which specific business lines are seeing the most favorable pricing heading into 2026? And what you see as the greatest opportunities for profitable growth within your 3% to 5% premium growth assumption?

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**Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Yeah. I think the good news is that at this point for the vast majority of our businesses, we think that we have an opportunity for premium growth this year. I think also when you look at the profitability of our businesses, almost all of our businesses are really meeting or exceeding the targeted returns that we require. So I think we'd love to have as much opportunity as we can get within pretty much all of our businesses.

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**Jing Li Keefe, Bruyette, & Woods, Inc - Analyst**

Got it Thank you. My second question will be on the Specialty Financial Group. You guys reported a decline in net written premium due to the increase on ceding of coastal-exposed property business in the financial institutions. Just curious if you can provide more color on the reinsurance strategy change made there and whether this level of cession is expected going forward in 2026?

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**Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Yeah. We started that in the second quarter '25. So that book would have rolled on a different reinsurance basis through the first half of this year. If you're familiar with us, historically, we're a company that's had a relatively lower catastrophe exposure than our peers and we've had a lower appetite, right or wrong, or otherwise, for coastal property, pure earthquake risk, et cetera, et cetera.

So I think we carefully manage, FIS is probably the business that has our biggest property exposure. So we very carefully manage that to what our -- the coastal exposures to what our overall company philosophy is. And when you look at our 1 in 250 or 1 in 500 exposure to capital. Brian, 1 in 500 exposure today for hurricane?

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**Brian Hertzman American Financial Group Inc - Chief Financial Officer, Senior Vice President**

Yeah. It's less than 3%. So compared to industry numbers that might be closer to double digit.

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**Jing Li Keefe, Bruyette, & Woods, Inc - Analyst**

Got it. Thank you for the details.

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**Operator**

(Operator Instructions) Our next question comes from the line of Andrew Andersen from Jefferies.

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**Andrew Andersen Jefferies LLC - Analyst**

Hey. Good morning. You had previously been doing some re-underwriting on Casualty around social services and I think within some pockets of E&S. Are you done with these underwriting actions as we head into 2026 and they're no longer a headwind?

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**Carl Lindner American Financial Group Inc - Co-Chief Executive Officer, Director**

Yeah. For the most part, we might have a couple of million dollars of business that still to be non-renewed this year, particularly in the daycare side of things, we're pretty much through the non-renewal actions in housing accounts. So last year, the premium was down. I think this year, as I think I mentioned earlier, I think we would expect some modest premium growth in this business.

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**Andrew Andersen Jefferies LLC - Analyst**

Thanks. And then, Brian, if we go back to Specialty Casualty and the underlying loss ratio there, I'm just trying to understand the 69% in the quarter. Was there an intra-year catch-up in the fourth quarter? I suppose I'm just trying to get better color on what was the true underlying trend and what is maybe the kicking-off point for '26 underlying?

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**Brian Hertzman American Financial Group Inc - Chief Financial Officer, Senior Vice President**

Sure. So we look at our loss picks every quarter and make adjustments throughout the year. So in some of those units, things haven't been adjusted all year, the one that probably had a larger adjustment in the fourth quarter was the California workers' comp. But again, that's on the business that for the full year is less than \$100 million of premium. So I wouldn't say that that's a run rate. I think the California workers' comp adjustment probably elevates the loss ratio a little bit. I think if you look at the full year loss ratio for Casualty, that's probably a better indication of like a run rate type of number.

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**Andrew Andersen Jefferies LLC - Analyst**

Okay. Thanks. And then maybe one more. Just looking at the expense ratio, I think as we came into '25, there was maybe some business mix shift headwind and some commission changes. Have those find their level now and perhaps we could see some improvement into '26?

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**Brian Hertzman American Financial Group Inc - Chief Financial Officer, Senior Vice President**

Yeah. There will always be a mix of impact -- mix of business impact there. Like Carl mentioned something like our embedded insurance that could lead to some growth in that when we look at businesses, we look at the ROEs overall and the combined ratios to drive those ROEs. So if we grow in a business with a higher expense ratio, that would have a negative impact.

What I would say in terms of the other things that might affect that, we continue to invest in the future for the company. So we continue to have some initiatives around customer experience, data analytics, which would include things like AI and machine learning, as well as IT security that can have a negative impact in the current period, but it's setting us up for strong ROEs in the long run. So I think that we should be good there. Not that you wouldn't see some upticks or downticks. And I think another thing I guess to know if you're looking at the expense ratio overall, is to remind you that in some of our businesses, we receive ceding commissions that vary with the profitability of the business. So like in the fourth quarter, the expense ratio for Property and Transportation looks very low. That's because with the very strong crop year, the ceding commission is higher, and since ceding commissions reduce underwriting expenses, the expense ratio looks very strong there. And then on the other side, in the Financial segment, where we have the very profitable lender-placed business, some of the commissions that we pay to brokers and agents vary with profitability over a long period of time. So as you add on collective strong performance quarter after quarter in that business, those profit-based commissions go up. So you see improved loss ratios in that business, but then because the broker commission goes up, it can cause the expense ratio to be a little higher.

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**Andrew Andersen *Jefferies LLC - Analyst***

Thank you.

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**Operator**

Our next question comes from the line of Michael Zaremski from BMO.

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**Daniel Cohen *BMO Capital Markets - Analyst;***

Hi. Just one more for me on capital management. I see the special dividend announcement. But just curious why there are no buybacks or material amount this quarter. You've done buybacks at similar valuation levels in previous quarters. Just wondering, should we be thinking about share repurchases to resume in 2026? Or how should we be thinking about that?

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**Craig Lindner *American Financial Group Inc - Co-Chief Executive Officer, Director***

Yeah. Mike, this is Craig. I wouldn't read too much into no share repurchases in the fourth quarter. As we've said previously, we're opportunistic in terms of repurchase programs. And when our shares are trading at a meaningful discount, we like to keep enough dry powder on hand to be in a position to buy a significant amount of shares.

I would comment that we did make a decision to reduce the special dividend that we're paying in the first quarter by \$0.50 versus the previous year to save a little more dry powder for other alternatives, including the potential for share repurchases.

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**Operator**

Thank you. At this time, I would now like to turn the conference back over to Diana Weidner for closing remarks.

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**Diane Weidner *American Financial Group Inc - Vice President, Investor Relations***

Thank you all for joining us this morning and for the great opportunity to answer your questions and share a little bit more about AFG's story. So we look forward to chatting with you all again next quarter when we share our first quarter results. Hope you all have a great day.

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**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.

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