Hartford Financial Services Group Inc Annual Shareholders Meeting

Company Participants

- Christopher Jerome Swift, Chairman & CEO
- David C. Robinson, Executive VP & General Counsel
- Donald C. Hunt, VP, Corporate Secretary & Assoc. General Counsel

Other Participants

- Jason Lebel, Analyst
- Marc Okun, Analyst

Presentation

Christopher Jerome Swift {BIO 3683719 <GO>}

Good afternoon, fellow Hartford shareholders. I'm Chris Swift, Chairman and CEO. On behalf of the Board, the executive leadership team and the employees of The Hartford, welcome to our 2019 Annual Meeting of Shareholders. Don Hunt, the company's Corporate Secretary, is secretary of today's meeting. (Patricia Hoffman), a representative from Broadridge, is the inspector of the election. She has already taken her oath and reported that we have a quorum here today. The Annual Meeting of the Shareholders of The Hartford is now convened.

To begin, let me introduce the members of the Board, each of whom, in addition to myself, is standing for reelection. I would ask to -- that each nominee stand when I call their name: Robert Allardice, Carlos Dominguez, Trevor Fetter, Kathryn Mikells, Michael Morris, Julie Richardson, Teresa Roseborough, Virginia Ruesterholz and Greig Woodring. All of you directors, please take your seat. It is an honor to work with each of these directors, each of whom is committed to ensuring that Hartford is a well-governed, shareholder-focused company with an exceptionally strong culture of ethics and compliance. Thank you for your support and your continued guidance.

In addition to the Board, many members of The Hartford's executive leadership team is here today as well as representatives of Deloitte & Touche, the company's independent auditor.

At this time, I'm going to ask David Robinson, The Hartford's General Counsel, to preside over the business portion of the meeting. Following that, I have some brief remarks about the company, our strategy and our overall financial results. David?

David C. Robinson {BIO 17868616 <GO>}

Thank you, Chris. Upon registration, you were provided with an agenda and rules of conduct for the meeting. In order to allow for an orderly meeting and permit sufficient time for any questions, we ask that you abide by these rules.

Today, we have 3 proposals to vote on, the details of which were included in the proxy statement. We have not received advance notice of any director nominations other than those included in the proxy nor any additional proposals for consideration at this meeting as required by our bylaws. Therefore, director nominations are closed and no other proposals can be presented today.

I'll list the 3 proposals to be voted on. And if anyone has a question or a comment about them, please raise your hand after the proposal is referenced and wait for a microphone so that people listening to the call can hear the question. Please state your name and identify yourself as a shareholder or shareholder representative before asking your question.

The first matter to be acted upon is to vote on each of the 10 director candidates just introduced. Background information on each director candidate was provided in the proxy statement.

The second matter is the ratification of the appointment of Deloitte & Touche as the company's independent registered public accounting firm for 2019.

And the third matter is a management proposal to approve on a nonbinding advisory basis the compensation of the named executive officers as disclosed in the proxy statement. Do you have a question?

Marc Okun {BIO 2363311 <GO>}

Mr. Chairman, I'm Marc Okun from the Carpenters Union. And I represent a fund that holds -- a collective fund that holds 332,000 shares of common company stock. As the Say-on-Pay vote is taken, I would like to raise an issue concerning the performance metrics used in the executive compensation plan. There is an increasing level of concern among investors about the growing number of companies that are trying to -- tying executive pay to adjusted earnings figures that are often -- overstate performance as measured by generally accepting accounting principles, GAAP. In both annual incentive and long-term components of the company's executive compensation plan, core earnings is used as a performance metric. And the core earnings metric is a non-GAAP metric. Can you or the Chair of the Compensation Committee discuss why the core earnings metric is used in both the annual and long-term incentive plans and why the non-GAAP measures are used?

Christopher Jerome Swift {BIO 3683719 <GO>}

It's good to see you again. Thanks for coming. Yes. You are right. We adjust GAAP net income to something we call core earnings for obviously investor consumption and investor knowledge. And I would say that -- and I will report on it in my comments, 2018's net income was $1.8 billion and our core earnings were $1.6 billion. And the primary adjustment between those 2 numbers were what we call realized capital gains and losses generally produced by the investment portfolio. So we think it's wiser to not include investment results, positive or negative, in our definition of core earnings.

From there, that investor perspective of core earnings that is adjusted for 1 or 2 other items in compensation, core earnings and generally, it has to do with catastrophes, wildfires, hurricanes, tornado, hail, in excess of our annual budget or below. So we hold ourselves to long-term averages, which we think is a more appropriate mechanism for long-term shareholder value creation. Then there's one other generally minor adjustment over the last couple of years for asbestos and environmental exposures that go back, as you know, to the 40s, 50s and 60s. But we don't think it's fair to include that in compensation core earnings going forward. So I take your point. I think we have very few and minor adjustments that really line up to long-term value creation for shareholders.

David C. Robinson {BIO 17868616 <GO>}

So if there are no other questions on the 3 proposals, I now declare the polls open for voting. If you've already voted your proxy, please do not vote again unless you would like to change your vote. If you need to vote now and need a ballot, please raise your hand and one will be brought to you.

As all shareholders have been given an opportunity to vote, I now declare the polls closed and ask the Inspector of Elections to provide the Corporate Secretary with the results of the voting.

Donald C. Hunt {BIO 18043261 <GO>}

Thank you, David. The inspector of election has tabulated the votes cast. And based on that report, I can declare as follows: first, each director nominee received more for votes than against votes. Therefore, all nominees were elected directors of the company.

Second, the ratification of the appointment of Deloitte & Touche as the company's independent registered public accounting firm for 2019 received a majority of the votes cast.

And third, shareholders approved on an advisory basis the 2018 compensation of the company's named executive officers as disclosed in the proxy statement.

David C. Robinson {BIO 17868616 <GO>}

Thank you, Don. That concludes the business portion of the meeting. Just a few comments before turning the floor back to Chris for an update on The Hartford. Please note the information on the slide. Chris will be making some statements that should be considered forward-looking. Our actual results could differ materially for a number of reasons, including the risks and uncertainties described in the 2018 annual report on Form 10-K and other filings we make with the Securities and Exchange Commission.

His presentation will also include certain non-GAAP financial measures. Explanations of these measures are provided in The Hartford's investor financial supplement for the First Quarter 2019 available on our Investor Relations web page.

And with that, I'll turn the meeting back to Chris.

Christopher Jerome Swift {BIO 3683719 <GO>}

Thank you, David. 2018 was another great year for The Hartford. Our financial results and operating results were excellent despite another year of historically high catastrophe losses. This demonstrates the strength of our franchise to deliver results in challenging market conditions.

From a financial perspective, full year 2018 core earnings were $1.6 billion or $4.33 per diluted share, up 58%. The core earnings ROE for the year was 11.6%, well in excess of our cost of equity.

2018 was also a year that included many significant strategic accomplishments that position The Hartford for long-term success, including the close of the sale of Talcott Resolution, the smooth integration of Aetna's U.S. group life and disability business and the announcement of our agreement to acquire The Navigators Group. The Navigators acquisition will strengthen our competitive advantages and accelerate the next stage of our journey as a market-leading Commercial Lines company.

Our Aetna acquisition has been highly successful. With the integration on schedule, the acquisition is exceeding sales and expense targets while we continue to strengthen our market leadership position. In the same way, we're excited to realize the full potential of the Navigators acquisition and expect both transactions to generate attractive and accretive financial returns over the long term.

2018 was an excellent year, both in terms of operating performance and strategic progress. We are dedicated to building on that success and maintaining and expanding our momentum or progress as we head into 2019 and beyond. Our strategic actions last year consisted of both organic and inorganic investments required to meet the evolving needs and expectations of agents and customers. With our recent acquisitions, we have built or acquired the products and underwriting expertise we need to win in the marketplace. We are committed to realizing the combined potential, deepening distribution relationships and meeting a broader array of customer needs.

In addition, we continue to expand our existing agent and customer-facing capabilities, increasing the use of digital assets to improve risk selection and using robotics and artificial intelligence to improve our speed and quality of execution. We continue to invest in our employees and take pride in our ability to attract, retain and develop the industry's best talent and having a diverse and inclusive workforce with a strong ethical culture. We are consistently recognized for leadership in these areas, including being designated a World's Most Ethical Company 11 times by Ethisphere and a member of the Bloomberg Gender-Equality Index for the fourth consecutive year. Recently, we were named as Best Employer for Women by Forbes in the first time they have done this ranking.

We also believe that making a sustainable and positive impact in society is an essential element of our long-term success. In 2018, we introduced a go-forward sustainability strategy built around measurable 5-year goals intended to contribute positively to the world around us while creating long-term shareholder value at the same time. Our strategy focuses on the environment, our workforce and the communities where we live and work.

To conclude, The Hartford had an excellent 2018. And we're off to a strong start in 2019. First quarter core earnings were $507 million, up 10%. Core earnings per diluted share were $1.39, up 9% over the First Quarter of 2018. All of our businesses performed well in the quarter. And we're seeing encouraging improvement in Commercial Line pricing trends and Group Benefits new business sales, which will help drive profitable growth for the full year. I am optimistic and confident about the future of our company and the opportunities that await us.

More importantly, we have achieved this progress while concurrently living our values. I take great pride in leading a company that is committed to operating with a focus on character, sustainability and doing what's right every day. I am confident that no company is better prepared to deliver on its commitments and to fully realize the opportunities that lie ahead. Thank you for your continued support.

I will now -- I'll be happy to answer any questions you may have about the company or our financial results. As a reminder, if you have a question, please raise your hand and we'll bring you a microphone. Also, please state your name and identify yourself as a shareholder or shareholder representative. Are there any questions?

Questions And Answers

Q - Jason Lebel

Yes, Mr. Chairman. My name is Jason Lebel. I am also a Carpenter representative. Our pension funds have 360,000 shares invested in the company. A topic that has received a growing interest in the business for us and at leading business schools is the growth in the size of the ownership interest held by mutual funds, particularly passive index funds. BlackRock, Vanguard, State Street and JPMorgan Chase each own in excess of 5% of the company's outstanding shares. Could you speak to your view of the growing concentration of institutional investor ownership and its impact on corporate governance? Specifically, does the increasing concentration of ownership by passive investors aggravate short term-ism in the market or alternatively, enable companies to take a longer-term strategic perspective?

A - Christopher Jerome Swift {BIO 3683719 <GO>}

Thank you for your question, Jason. It's good to see you both again this year. Oh. So it's your first time? Yes. So welcome.

Q - Jason Lebel

Thank you for the welcome.

A - Christopher Jerome Swift {BIO 3683719 <GO>}

I think your question really centered around governance with large institutional holders. And I would share with you, we enjoy good relationships and actively manage all our shareholder relationships. So we don't focus on any one particular group, large, small, active, passive. We try to build a line of communication and understanding with all investors. I would share personally that I think a lot of the passive investors act more like long-term shareholders from a point of view and doing the right thing over a longer period of time. But I would also say that I don't feel any stronger influence, any stronger voice, any stronger advocation if you're large or small. So I don't think it's an impact on us currently on any governance matters and/or thinking about investing for shareholders over the longer period of time. So if it changes, I guess, we could talk about it.

Well if there are no further questions, I want to conclude by emphasizing that we have a clear and consistent strategy. And I am confident that we will continue to create long-term value for our shareholders, customers, employees, distribution partners and communities. Thank you for your interest and your continued support. The meeting is adjourned. Thank you for coming. And we look forward to seeing you next year.