Company Name: Hartford Financial
Company Ticker: HIG US
Date: 2018-04-27
Event Description: Q1 2018 Earnings Call

Market Cap: 19,547.24
Current PX: 54.58
YTD Change($): -1.70
YTD Change(%): -3.021

Bloomberg Estimates - EPS
Current Quarter: 1.032
Current Year: 4.465
Bloomberg Estimates - Sales
Current Quarter: 4644.000
Current Year: 18876.667

# Q1 2018 Earnings Call

## Company Participants

- Sabra Rose Purtill
- Christopher J. Swift
- Douglas G. Elliot
- Beth Ann Bombara

## Other Participants

- Jay A. Cohen
- Brian Meredith
- Kai Pan
- Elyse B. Greenspan
- Joshua D. Shanker
- Randy Binner
- Meyer Shields
- Jay Gelb
- Yaron Kinar
- Amit Kumar

## MANAGEMENT DISCUSSION SECTION

### Sabra Rose Purtill

#### *GAAP and Non-GAAP Financial Measures*

Our commentary today includes non-GAAP financial measures

Explanations and reconciliations of these measures to the comparable GAAP measure are included in our SEC filings, as well as in the news release and financial supplement, which are available on our website

### Christopher J. Swift

#### *Q1 Highlights*

##### *Earnings*

- Our results this quarter were excellent, with solid underwriting and investment performance
- Higher pre-tax results were the primary driver of earnings growth, with the added benefit of lower tax rates
- Core earnings per diluted share of $1.27 were up 67% over first quarter 2017, and up in each of our four major businesses

##### *P&C*

### *Combined Ratios and Catastrophe Losses*

- In P&C, underlying combined ratios improved for both Commercial Lines and Personal Lines, with better auto results in each segment
- In addition, lower catastrophe losses and favorable prior year development contributed to higher underwriting results

### *Markets and Commercial Lines*

- All of our markets remain competitive, but, that said, we are confident in our ability to execute and grow in this environment
- In Commercial Lines, the pricing trend is mostly positive, and we achieved higher rates in property and liability lines
  - However, workers' compensation renewal premium rates are generally flat to slightly down, reflecting the favorable loss experience of the last several years
- Doug will provide more insights into pricing trends

### *Group Benefits Core Earnings*

- Group Benefits core earnings more than doubled to $85mm this quarter, driven by improved disability results, earnings on the acquired business, and lower taxes, offset by higher mortality on the life business
- In addition, Q1 2017 had a guaranty fund assessment for Penn Treaty

### *Disability Trends and Mutual Funds*

- Disability trends continued to improve, but were offset somewhat by elevated mortality
- We think this variation was within a normal range of mortality experience, especially in Q1, which is historically more volatile
- Mutual Funds posted excellent growth in earnings and AUM, with positive net flows and healthy market appreciation from a year ago
- Net investment income was up 10%, mostly due to higher invested assets with virtually no net credit impairments
  - Limited partnership returns were very strong this quarter

### *Integration of Group Benefits Acquisition and Talcott Resolution*

- Lastly, we are hard at work on the integration of the Group Benefits acquisition and the separation of Talcott Resolution
- Both of these major projects are proceeding as planned, with dedicated multi-disciplinary teams working collaboratively and on schedule
  - We expect Talcott's sale to close by June 30

### *Small Business Formation*

- As a leading insurer of U.S. businesses and their employees, we benefited from increased employment in small business formation, particularly in Commercial Lines and Group Benefits, over the last few years
- We may see additional growth if the lower, more competitive U.S. corporate tax structure increases GDP growth and employment

### *Commercial Lines*

#### *Net Written Premium and Growht*

- With regard to the quarter, I am pleased with our top line growth in Commercial Lines
- Small Commercial new business grew 8%, with momentum in both our standard Commercial book and Maxum, our E&S specialist
- The top line was just shy of $1B of net written premium, putting $4B annual level within range and up from $3.2B in 2014
    - We expect Small Commercial's growth to continue this year, including the impact of the recent renewal rights agreement with Foremost, which will take effect in July

#### *Best-in-Class Technology and Group Benefits*

- This book is comprised of Small Commercial business segments that we know well and underwrite profitably
- Combined with our best-in-class technology, customer service, and claims capabilities, this deal will generate an attractive return for us
- Group Benefits earned premium grew 66% this quarter, from both the acquisition and strong new sales, along with solid persistency
- Our market presence across all customer segments has improved, particularly in national accounts, which we expect will help drive additional growth from expanded market opportunities

### *Investments*

- Looking forward, investing in our company remains the cornerstone of our strategy
- We want to achieve profitable organic growth, particularly where we have attractive margins and strong competitive advantages
    - This requires developing better data and analytical tools and expertise, including leveraging our new claims system, which some of you have seen in action
- We also want to become an easier company to do business with
- This requires investments, especially in technology
- The technology initiatives currently underway include a new Commercial Lines policy administration system, which is a multi-year project
- Another initiative is the integration of Aetna's disability claims system, across the combined Group Benefits book
    - This integration, which is on schedule for completion by year-end, will give our customers market-differentiating capabilities for absence management

### *Digital Service and Capabilities*

- With customers expecting us to provide digital service and capabilities similar to what they experience at other companies, like Amazon, we must continue to build better digital interfaces for agents and policyholders
- These investments will create faster turnaround times, reduce cost, improve ease of use, and increase efficiency and customer service satisfaction
  - For instance, our automated Certificate of Insurance capability, available 24/7, has dramatically decreased response times at a fraction of the cost from our prior process

### *Capital Management Strategy and Objectives*

- Finally, before turning the call over to Doug, I wanted to spend a few minutes on our capital management strategy and objectives
- With our businesses achieving returns well above our cost of capital, I want to be clear that we prefer to invest for profitable organic growth
  - However, we will not compromise our underwriting or pricing standards just to grow the top line
- We will remain disciplined

### *Acquisition*

- From a strategic perspective, we believe acquisitions can help build greater competitive advantages and accelerate earnings growth
- The Aetna acquisition is an example of that, and we're really pleased with its performance
  - However, acquisitions are often expensive, especially in today's market, and they have execution risks that need to be clearly understood
- Currently, our primary focus is in the commercial lines space, where we are building broader risk in underwriting expertise organically
  - We will consider financially-accretive acquisitions that accelerate these goals And, to-date, the deals that we have done in Commercial Lines have been smaller bolt-on transactions

### *Reinsurance*

- As to specific areas of interest, we are particularly focused on specialty lines and industry verticals
- There are, however, certain product lines or businesses, such as reinsurance, that we do not currently view as strategic
- That should not imply we would never buy a company that has a minor or small reinsurance portfolio, but it does mean that the majority of the business would need to align with or complement our Commercial Lines strategies
- And it has to meet our financial objectives, meaning that we expect an acquisition to deliver returns above our cost of equity capital in a reasonable period of time
  - We measure that return by future earnings power and capital efficiency, including expense savings, improved underwriting results, growth synergies, other benefits produced by the acquisition

### *Organic Growth and Goal*

- In addition to organic growth and acquisitions, capital management is an important tool for creating shareholder value
- We have been and continue to evaluate the best use of deployable capital, including the anticipated proceeds from the Talcott sale
- And we continue to weigh business opportunities against share repurchases and other capital management actions
- Our goal, consistent with our track record of a balanced approach to capital management, is to optimize deployable capital for shareholder value creation, while maintaining a strong balance sheet
- And, as a fellow shareholder, I assure you that we will continue to be thoughtful and disciplined in our approach
  - We will not make hasty decisions
- And we do not feel rushed to make long-term impactful choices; rather, we will be patient and thoughtful regarding these matters

### *Initiatives*

- To wrap up my comments, 2018 is off to a great start, with solid financial results and opportunity to grow in each of our businesses
- I'm excited about the many initiatives underway
- And I look forward to updating you on our progress

## Douglas G. Elliot

### *Financial Highlights*

#### *Property & Casualty and Group Benefits*

- First quarter results for Property & Casualty and Group Benefits were excellent, with each of our business units executing effectively against their priorities
- Commercial Lines posted a very strong quarter, as markets remain competitive
- In Personal Lines, auto margins continue to improve
- And Group Benefits had an outstanding quarter of strong core earnings growth, even after adjusting for the Penn Treaty guaranty fund assessment in first quarter 2017
  - All our businesses benefit this quarter from favorable net investment income results, and in P&C, lower catastrophe losses vs. prior year

#### *Business Unit Performance*

- Let me provide some details on our business unit performance
- The Commercial Lines first quarter combined ratio was 93.3, improving 2.7 points from 2017
- The decrease was primarily due to underlying margin improvement in auto, the result of pricing and underwriting actions taken in recent years, and a swing to favorable prior-year development vs. adverse development last year

- The prior-year development was primarily driven by workers' compensation, where our loss trends have been favorable
- Property and Commercial Auto also were slightly favorable
  - The underwriting combined ratio for Commercial Lines, which excludes catastrophes and prior-year development, remains very solid at 90.4, improving half a point from 2017

### *Market Conditions and Renewal Written Pricing*

- Market conditions showed some signs of price firming in the quarter, yet continued to remain competitive
- I remain pleased with our execution on the front line
- Renewal written pricing in standard Commercial Lines was 2.5% for Q1, down 30BPS from last quarter, primarily driven by Small Commercial workers' compensation
- Our margins on this book of business remain very healthy and renewal-written pricing remains positive, giving us a strong foundation for competing in the marketplace

### *Middle Market Business*

- In Middle Market, renewal pricing was very competitive in January, but February and March showed more positive signs, with prices increasing in all major lines in the back half of the quarter
- I expect further positive rate movement in the quarters ahead for Property and GL and continued strong pricing for auto, the lines most in need of margin improvement
- Our Middle Market business still needs more rate, and I suspect that we are not unique in that regard
  - We believe the appropriate path is to continue pushing for rate increases, consistent with long-term loss cost trends and to maintain underwriting discipline, even though retention has come under pressure

### *Written Premium*

- Small Commercial had an excellent first quarter, with an underlying combined ratio of 87.5
- Written premium grew 1% with $166mm of new business
- This is our largest new business quarter in history, up 8% from last year

### *Renewal Rights Deal*

- New business from the recently-announced Foremost renewal rights deal will begin in early third quarter
- And our team has been active in recent months working with agents to prepare for a successful transition
- We are excited about expanding our relationship with many of our current agents, while adding new partners through this transaction
  - This opportunity leverages the power of our Small Commercial platform to grow top and bottom line through inorganic consolidation, complementing the organic growth success we've achieved in recent years

### *Commission Expense*

- Middle Market delivered an underlying combined ratio of 92.2 for Q1, improving 1.6 points from 2017, mainly due to lower commission expense this quarter and slightly better margins in several lines
- Written premium increased 4%, based on solid retentions and strong new business production of $141mm
- The increase in written premium vs. last year is coming primarily from our specialized practice teams, including our expanding construction and energy verticals
  - Written premium in our traditional block of business was essentially flat to 2017, impacted by continued soft pricing and excess market capacity

### *Specialty Commercial and Personal Lines*

- In Specialty Commercial, the underlying combined ratio of 97.5 was flat to 2017, as slight margin deterioration in financial products and national accounts was offset by lower commissions, driven by the mix of business
  - Written premium was down 2% for the quarter, largely due to a decrease in bond, which had a very strong Q1 2017
- Personal Lines continues to show progress, with an underlying combined ratio of 89.8 for first quarter, improving 1.4 points from a year ago
- In Personal Lines auto, the underlying combined ratio was 94.2, 2.4 points better than 2017
- Loss cost trends remain within our expectations in the low single-digit range

### *AARP Direct Auto and Initiatives*

- I'm increasingly positive about our improving financial performance in recent quarters
- Returning to written premium growth for Personal Lines remains a priority for us
- Our higher expense ratio in the quarter reflects our increased marketing efforts in AARP Direct Auto
- Early response rates have been strong, but our conversion ratios are not where they need to be for us to grow
- We have a number of initiatives underway to lift our close rate
  - And I expect new business to increase over the course of 2018, as our price increases continue to moderate, as well

### *Group Benefits*

- In Group Benefits, core earnings for the quarter were $85mm with a margin of 5.6%, driven by favorable disability results, the recently-acquired book of business from Aetna, and lower tax rates, offset by higher mortality in our life book of business
- The lower disability loss ratio reflects better than expected incidents and recovery trends across multiple accident years
  - This favorability was offset by a higher life loss ratio
- There are two drivers here
- The most significant factor, accounting for approximately two-thirds of the increase, is the mix of the group life book toward larger accounts, resulting from the Aetna book of business

- We expected these large accounts have a lower expense ratio and run a higher loss ratio, consistent with our own historical national accounts experience

- The second factor is slightly higher mortality this quarter across the entire life book
- At the moment, we see this as normal volatility
  - And we will monitor it carefully to ensure that we react appropriately, if necessary
- Persistency on the combined employer group block of business was approximately 90%
- Fully insured ongoing sales were very strong at $454mm
- It was an excellent sales quarter across all market segments and product lines, with an especially strong start to the year in voluntary

### *Aetna Group Life and Disability Business*

- As Chris shared, we are very pleased with the pace of our integration on the Aetna group life and disability business
- Our go-forward leadership team is in place
- We're currently installing Aetna's disability claim platform on our infrastructure and plans to begin converting business in early 2019 are on track
  - On an annualized run rate basis, we've achieved $60mm of the $100mm target for expense reductions, consistent with our goals
- A large portion of this comes from the corporate costs in IT, finance, and marketing
- We have also solidified our line of sight to the balance of our target reductions in claim, product, underwriting, and other business functions
- All-in, the integration has been very successful thus far
  - The teams have become one and we are executing effectively, both internally and in the marketplace

### *Summary*

In summary, we were off to a very solid start in first quarter 2018 across all our businesses

We remain focused, disciplined, and balanced in our execution to deliver profitable growth

## Beth Ann Bombara

### *Highlights*

I'm going to briefly cover first quarter results for the investment portfolio, Mutual Funds, and corporate and provide an update on the Talcott sale before taking your questions

#### *P&C and Group Benefits Businesses*

##### *Earnings and Investment*

- Core earnings for our P&C and Group Benefits businesses included continued excellent investment results, both from an income and credit perspective
- For the quarter, net investment income totaled $451mm, up 10% over the prior year quarter, primarily due to Q4 2017 Group Benefits acquisition, which added about $3.4B in invested asset to the portfolio
  - In addition, LP investment income was up $15mm, with annualized returns of about 19% compared with 16% in first quarter 2017

### *Expectation*

- As you may recall, our outlook for LP returns is about 6%, reflecting a longer-term view and the expectation that returns may moderate as the cycle progresses
  - Excluding LPs, investment income was up 7% and the portfolio yield was 3.7%, down slightly from first quarter 2017, due to the impact of the Group Benefits acquisition
- As a reminder, the acquired investment portfolio was mark-to-market on the date of the acquisition, reducing the portfolio yield in Group Benefits, excluding LPs, from 4.3% in third quarter 2017 to 3.8% in first quarter 2018
- P&C investment yields, excluding LPs, were essentially flat over the last year, averaging 3.7% in first quarter 2018, which is also consistent with reinvestment rates in the quarter
- Looking forward, we expect before-tax yields over the balance of 2018 to be relatively consistent with 2017
- My final note on the investment portfolio is that credit performance remains strong, with no net impairments in the quarter and only $8mm before tax over the last four quarters
  - The low level of impairments reflects an overall benign credit environment and the careful underwriting of our portfolio

## *Mutual Funds*

### *Earings, Investments and Assets Under Management*

- Turning to Mutual Funds, first quarter core earnings were $34mm, up almost 50% from last year, through the combination of lower tax rate and higher investment management fees
- Income before taxes was up 23%, reflecting a 17% increase in investment management fees, driven by higher average assets under management

## *Investment Performance and Net Flows*

- Investment performance remains strong, with 68% of Hartford funds beating their peers on a five-year basis
- Net flows totaled $678mm in the quarter, including particularly strong flows in exchange-traded products, which totaled $194mm this quarter, compared with $22mm in Q1 2017

## *Core Losses*

- Core losses for the corporate category totaled $66mm, up from $52mm in first quarter 2017, due to the impact of lower tax rates

  - The loss from continuing operations before income taxes in corporate was actually $10mm lower than last year, but the offsetting tax benefit was $21mm lower due to the reduction in tax rates

### *Debt Transactions*

- During March, we completed two debt transactions, repaying $320mm of 6.3% senior notes, and issuing $500mm of 30-year senior notes at a coupon of 4.4%
- Looking forward, this June, we will call at par $500mm of hybrids with a coupon of 8.125%
- As a result of these transactions, interest expense will decrease by about $2mm before tax sequentially in Q2, and then decrease by an additional $8mm before tax per quarter beginning in Q3
  - Taken together, these actions will reduce outstanding debt by about $320mm by the end of Q2 and reduce our average coupon rate and total annual fixed charges

### *Debt-to-Capital Ratio*

- At March 31, 2018, our rating agency adjusted debt-to-capital ratio, which takes into account pension liabilities, equity credit for hybrids and AOCI, was 29.9%, up from 28.8% at year-end
- The increase was primarily due to the impact of higher interest rates reducing AOCI.
- Total debt-to-capitalization, excluding AOCI, was essentially flat at 27.9% compared with 28% at year-end
  - Through earnings and debt repayment over time, we expect to reduce our rating agency debt-to-total capital to our target in the low to mid-20s
- In total, first quarter core earnings were $461mm, up $173mm from first quarter 2017
  - Core earnings benefited from higher P&C, Group Benefits, and Mutual Funds pre-tax earnings, as well as the lower corporate tax rate

### *Core Earnings*

- On a pre-tax basis, core earnings rose about 48% or $183mm, while income taxes only increased $10mm, as the effective tax rate on income from continuing operations decreased from 24% in first quarter 2017 to about 18% in first quarter 2018
- The core earnings ROE was 7.8% this quarter, compared with 5.1% a year ago
- Keep in mind that this is a trailing 12-month calculation, not an annualized return for the quarter
  - So, it includes the impact of high catastrophe losses in the last three quarters of 2017, as well as the higher corporate tax rates last year
- As we have stated previously, we expect the 2018 core earnings ROE to be in the 11% to 12% range

### *AOCI*

- Book value per diluted share, excluding AOCI, was $36.71, up 4% from December 31, 2017, due to the impact of earnings less dividends
- Book value per diluted share was $36.06, down 3% from December 31, 2017, as higher interest rates reduced AOCI.

- I know many look at all-in book value for P&C companies, so, as a reminder, our March 31, 2018 shareholders' equity includes $892mm of AOCI for assets that are part of Talcott

### *Book Value per Diluted Share and Regulatory Approval Process*

- Therefore, we would expect June 30, 2018, book value per diluted share to be reduced by about $2.45 from March 31, 2018, upon the closing of the sale
- As an update, the Talcott sales process remains on schedule to close by June 30
- As part of the regulatory approval process, the Connecticut Insurance Commissioner has scheduled a hearing for May 17, after which the state has up to 30 days to issue a ruling
- Aside from the regulatory approval, the work to separate Talcott is well underway
- Under the terms of the sale, we will continue to provide certain transition services to Talcott for up to two years
- And we have a five-year contract to manage their investment portfolio
  - The fees and expenses for those services will be included in our Corporate segment going forward

### *Expenses*

- After expenses, we expect that the Talcott sale will generate net cash proceed to the holding company of approximately $1.7B, including $300mm of pre-closing dividends
- In addition, the holding company will retain total tax benefits of about $700mm, including NOLs and AMT credits

### *Underwriting & Investment and Capital Markets*

- To conclude, Q1 was a good start to the year, with underwriting and investment results remaining quite strong, despite catastrophe losses higher than our outlook
- While the capital markets have been more volatile recently, like most insurance companies, our investment income will benefit from a higher rate environment over time, so long as inflation trends are modest
  - In addition, equity market values remain high, helping generate strong returns on our private equity limited partnership portfolio

# QUESTION AND ANSWER SECTION

**<Q - Jay A. Cohen>**: As you think about M&A in the Commercial business, I'd love to get a sense of past deals; well, specifically Maxum. I guess that's among the larger ones you've done in the Commercial business and it kind of disappears within your organization. Can you give us a sense of the kind of returns you've been able to generate since you've acquired that? And then secondly, the smaller question, with Foremost, I think the premiums there were roughly $200mm. Any sense of how much you expect to keep on renewal?

**<A - Christopher J. Swift>**: On both these, we'll tag team between Doug and myself. On Foremost, it is about $200mm block of premiums. And a lot of it depends on the persistency in the rollover. I think we feel very good about signing up the agents and getting their authorization and, more importantly, data to easily quote this. So, it's hard to predict, but I suspect we'll keep 75% of the overall book long term.

On Maxum, I would say that was relatively a small deal. If you remember, it was approximately $200 million-ish we spent. We went through some level of restructuring and shutting down certain aspects of their business model, really to build the new Small Commercial E&S model, which we're very, very, very pleased with. I think kind of on an earnings basis, you ought to think about it, we make about $10mm to $15mm after-tax in core earnings. We've avoided some businesses that were unprofitable and we're really excited about the opportunity to integrate E&S into our quoting platform. Doug, what would you add?

**<A - Douglas G. Elliot>**: On the Foremost piece, Jay, mid-70s would include some shock loss from our normal run rate retention in Small. So, we're anticipating that we will not run as strong as we run our normal retention, very excited about that. And as we talk about early third quarter, just so you're all aware, we're quoting 90 days out in advance, so we're actually right now in market quoting July activity, but the premium won't hit the books for a couple of months.

On the Maxum side, very strategic opportunity for us, we didn't have E&S talent in this organization. We didn't have relationships on the distribution side. And we clearly wanted to challenge ourselves with a product breadth opportunity in the small commercial and middle market arena. So, just getting started. Many of you know that we now have expanded our product capability in Small, including an E&S opportunity on our ICON quoting platform. Very excited about the early days, but we'll be talking more about it over time, because I think it bodes well and has a big opportunity for us to be a broader, deeper player in small commercial over time.

**<Q - Brian Meredith>**: Just a first quick one for Beth. Can you remind us what is the stranded kind of cost from Talcott and how much that was in the quarter and kind of how that kind of is going to be running off here over the course of the next 12 to 18 months?

**<A - Beth Ann Bombara>**: When we think about cost and, again, stranded cost, we think about as costs that were allocated to Talcott, kind of overhead costs that obviously would not go with the transaction. And on an annualized basis, we see that in sort of the $35mm to $40mm range, and that's pretty even across the quarters. And our expectation is over the next 12 to 18 months, we'll see those costs reduce. Again, we will be providing some transition services to Talcott over that period, as well, and being reimbursed for some of those costs as they continue to use some of our infrastructure, so we'll have a slight offset to that, but it's in that range.

**<Q - Brian Meredith>**: And those are sitting in your Corporate line item right now?

**<A - Beth Ann Bombara>**: We have them included in the Corporate category and they're included in core earnings.

**<Q - Brian Meredith>**: Just wanted to clarify. And then, Chris, I'm wondering if you could talk a little bit more about just the competitive environment out there. What's happening with workers' comp insurance? Clearly an area that you're seeing some pressure on pricing. Is it worse than kind of you'd anticipated? Is it at all questioning maybe where your underlying combined ratio guidance is for the year for the Commercial space?

**<A - Christopher J. Swift>**: I'll quickly and then I'll get out of the way and let Doug share with you his thoughts. But as we sit here today, as I said in my comments, we got off to a terrific start. And we feel really good about our ability to execute in a competitive, complex environment. So, all the guidance that we've provided for drivers, we still feel very good about and, in fact, if you saw on certain drivers, whether it be combined ratios in Personal Lines or Commercial Lines, we're outperforming, but there will be a little bit of a reversion to the mean over the next nine months. But I'm really pleased with the team, how we're standing up new capabilities, new product sets, and being disciplined while we're pushing for more business with our distribution partners. But, Doug, what would you add technically?

**<A - Douglas G. Elliot>**: A few things; start with very pleased with the way Q1 pricing trends ended. So, Brian, a bit disappointed in our January performance on pricing. Made some adjustments, looked at our book harder, and feel really good about progress we made in February and March, and I expect that progress to continue into Q2. Secondly, I would always ask you to continue to think about Small Commercial vs. Middle vs. our other markets. So, different dynamics, different pricing issues across those books and different mixes for us in those areas.

And then, obviously, there's a workers' comp vs. a non-workers' comp. So, we're pleased with our February, March pricing and see some lift in property, GL, continued in auto. And I expect that to continue. I expect that to continue over the next three quarters, particularly, as I said in my script, in Middle Market. We need rate in that book. Our non-specialty Middle book needs more rate and we intend to go after it and chase it and do the right things.

Relative to comp, our numbers across our markets, but especially in Small Commercial and workers' comp, are very good, very good. And they're also very good across the industry, in general. And so, this is leading to the pressure on bureau rates. It's leading to experience factors for insurers that are looking more favorable and because of that, I think we have a more competitive marketplace.

The other thing, just in closing, we are watching loss trends very carefully and they have been consistently in a very good spot for an extended period with workers' comp. A little bit of frequency uptick, back to more zero range in the last couple of quarters. And clearly, there are inflationary pressures around that we're watching medical carefully. So, when I put them together, yes, I think there are some things that probably will cause some compression in the workers' comp line, but relative to where we are, I feel like we are working our levers, being thoughtful about our territories, and doing everything we can to understand the dynamics of the line and make good choices going forward.

**<Q - Kai Pan>**: My first question is on personal auto. You have made great improvements in the margin side. Is that increased spending to show your confidence you'll fill your margin at the target levels. You want to grow top line a little bit faster? And will that spending, not just you, but also some of your peers, as well have the potential state mandate rate reductions post the tax reform, actually erode some of the margin improvement you have made?

**<A - Douglas G. Elliot>**: We are feeling good about the progress we're making with personal lines auto. And yes, you see the impact of some of our leaning in on the marketing side because our expense ratios are up in the quarter. So, our loss improvement is greater than the aggregate, the sum total of the change in the line of auto. So, feeling very good about that. Still more work to be done, and we think we will improve our close ratios over the latter half of the year as our pricing moderates, because our rate adequacies are getting better and better by the month. So, we finished 2017 with roughly two-thirds of our book in a very solid position relative to rate adequacy. And as we move through the next four quarters, we'll complete that journey and are going to feel very good. So, you'll see more moderated rates in our pricing profile with personal lines auto. And, as such, I expect our new business levels to grow accordingly.

**<Q - Kai Pan>**: My second follow-up question, probably for Chris, thank you so much for very clear on your capital management priorities. I just want to drill down a little bit more specific. With the closing of Talcott, there's some investor anxieties on a potentially large deal. Could you discuss under what circumstances you would use stock to do acquisitions? What are the financial hurdles you will need for large deals vs. the small cash acquisitions?

**<A - Christopher J. Swift>**: That's complex. I hope we have enough time to, you know, talk through it, but what I would share with you is, as I said in my commentary, capital management is important. You know our priorities as far as organic growth, M&A and then, you know, returning deployable capital to shareholders. But as it relates to M&A, I would share with you a couple of themes that we've talked about in the past. We tend to think in terms of more bolt-on activities or extensions into, you know, adjacent markets. We've talked about premium levels in $1B, maybe even up to $2B of premium that a target would have. You know, we have a good team. We have models that watch market activity. So, I could tell you, as we sit here today, we don't think about using stock in a transaction, because generally, a lot of the things that we think about that could be actionable at some point in time in the future, are probably less than the $4B range.

So that tends to be our sweet spot. And, as I said, you know, we're patient about exploring opportunities. We're thoughtful about exploring opportunities. There's a lot of things that we see that just the numbers don't work, the math can't work based on expectations of value. So, all I could tell you is that we'll continue to be thoughtful and disciplined about deploying capital to create shareholder value.

**<Q - Elyse B. Greenspan>**: My first question, there has been some headlines about the NCCI pushing for basically price cuts within comp following on tax reform. How does that factor into your pricing and margin outlook on your comp business for this year also and as you think into 2019?

**<A - Douglas G. Elliot>**: As we shared last quarter, we largely see tax reform kind of working its way through the P&L in 2018, but over time, we and others, I'm sure, are adjusting inside our pricing models for the new tax rates. And as such, as we go through filings, we'll appropriately make sure that we have the right tax rates in our filings, as well. I look at the last three to four years of comp experience and I think of how favorable basically the aggregate environment has been for comp as a line. And I think that's the real fuel driving this loss cost trend that is dropping through these filings.

So, we have worked, and continue to work, hard on our claim competencies, our underwriting profile, understanding our segments, et cetera, but I wouldn't sit here today and suggest to you that there isn't downward pressure on pricing in workers' comp. There is. I would say to you that when I think about it relative to our markets, we have a bit more flexibility at the risk level in Middle. And so, based on the characteristics of the risk, there's a bit more underwriter judgement involved. Clearly, our Small Commercial world is a bit more slot rated. So, there are a number of competing dynamics across, but the line, in total, had a good first quarter for us. We're watching our trends, but it wouldn't surprise me if there is some compression in the line over the next – latter half of the year into 2019.

**<A - Beth Ann Bombara>**: The only thing I'd add to that is you always start with the fact that overall we see workers' compensation as a very profitable line for us. So even with some of that pressure, we're still very comfortable writing business in that line and growing in comp.

**<Q - Elyse B. Greenspan>**: And my second question, Chris, in terms of your M&A comments, very thorough. You did say that you guys would, depending upon the deal and what it could bring to you, be willing to take on a small amount potentially of reinsurance exposure, just wanted to clarify that comment. Would that mean small amount in terms of the pro forma business when you think about Hartford after a deal or do you mean you would consider a deal of acquiring something and the property that you would acquire would only have a small amount of reinsurance?

**<A - Christopher J. Swift>**: More the latter.

**<Q - Joshua D. Shanker>**: I promise no follow-ups. First, the 10-Q used some materially different language to talk about buybacks compared to the 10-K. The 10-K from February said that The Hartford does not expect to authorize an equity repurchase plan in 2018, while the 10-Q filed yesterday merely said the company does not have an equity purchase plan yet in 2018. Have you changed your stance on 2018 buybacks which, of course, I think you should do? And, secondly, the press and investors have sort of commented that you appear to have been interested in XL. I'm not going to ask about that, but the ultimate buyer of XL told everyone a year earlier that they were only interested in smaller bolt-on deals and did a large transaction that surprised the market. How much flexibility are you giving yourself in regards to deviating from your self-imposed rules around acquisitions?

**<A - Beth Ann Bombara>**: The language that is in our 10-Q was an intentional change. And, as Chris said, share repurchases can be an effective use of excess capital. So, stating the fact that we do not have an authorization in place today does leave open the possibility that we could have an authorization in place at some point in 2018.

**<Q - Joshua D. Shanker>**: And the second part about rules and flexibility.

**<A - Christopher J. Swift>**: I would say, again, here, as we sit here today, we are focused in on the bolt-on category. I can't predict what may or may not develop in the future. So, as long as there is an understanding about the strategic and the financial hurdles and discipline that we have with our shareholders, if we flex up in size in any way, just know that we'll continue to have high bars for performance, high bars for alignment on strategy. But, yeah, I can't foreshadow a scenario right now where we would do something in that major transformational area. There's not that much that's actionable.

**<Q - Randy Binner>**: I wanted to ask about sales in Group, which were good and kind of better than expected. And one of the risks of the integration with Aetna is kind of losing shelf space with distribution. So, the question is kind of how is that distribution communication and interaction process going? And is there a potential here for you not to have these premium lapse assumptions kick in if sales continue to kind of trend better than expected?

**<A - Christopher J. Swift>**: Again, the strategic logic of putting these two benefit business together has never been stronger or more confirmed with our activities over the last four or five months, whether it be feedback from distributors, whether it be using their claim system, whether it being creating a team that is really motivated to lead the market and create new opportunities to serve customers. I think we have got great alignment around the organization. I would also tell you that our distribution partners, what they share with us, is they have a high degree of confidence in our ability to integrate and continue to serve their existing customers. And, Doug, I think you and I see that we're being shown a lot of new opportunities that maybe in the past a standalone Hartford would not have seen, but, Randy, that's my perspective. Doug, what would you share?

**<A - Douglas G. Elliot>**: A super sales quarter for us and I would first comment that both The Hartford and Aetna had very strong sales quarters. So, on a standalone basis, HIG would have had a terrific start to the year. But also, Aetna likewise, particularly in the face of what they were going through last year, had a good sales quarter. So, you put the two together and we really start 2018 strong. Secondly, our pipeline has never been stronger. So, we are active and working on proposals now. Obviously, there's a lot of activity around the latter half of 2018 effective, and 2019 deal dates.

So, Chris and I participate in many of them, but our team upstairs is fully engaged. Number one, on the sales side, new sales, and secondly, I think there was a piece of the end of your question about retention. So, we're also working on our renewal strategy. And we are out in market with several renewal quotes on our 1/1/2019 national account jumbo deals, as well, so feel very good about it. I will be with the team in Colorado in a few weeks at EBLF engaging locally. I love what our sales and support teams are doing. We have a lot of work in front of us, but we feel really good about the last 100 days of progress.

**<Q - Randy Binner>**: And so, I guess my follow-up on those bullish comments, I guess I'd characterize them as, is new products. So, does this new platform position you to introduce new and different products into the Group market, maybe move more toward supplemental? Is that something that this might enable?

**<A - Douglas G. Elliot>**: There was a word at the end of one of my sentences in the script that I want to make sure I highlight here, we're very pleased with our growing momentum in voluntary products. So, we've worked hard to build out our voluntary suite, and in 1/1/2019 had terrific success. And if you look in our supp, you look at the other sales row below disability and group life and see a little bit of that momentum. Now, it's small, so we're just starting against $5 billion-plus base. It's not something that is going to be huge any time soon, but the interest in that product, our ability to launch and service the generation of new demand, we're very excited about. And I think it'll be an opportunity across both books of business, including Aetna's.

**<A - Christopher J. Swift>**: The simple fact is, again, we have 20mm customers in the book of business now. So, what we've talked about what, as Doug referred to what we've been building patiently, voluntary products, additional A&H products, other services that we could bring to that product set, including leave management on a more integrated basis. Know all that has been on our vision, and we're really beginning to execute to it, that I think will really accelerate our growth and our profitability.

**<Q - Meyer Shields>**: Two quick questions, first, obviously P&C results were very strong, but I'm wondering whether you also saw some adverse impact from non-catastrophe weather in the quarter.

**<A - Douglas G. Elliot>**: Our non-cat weather, pretty consistent with prior trends. So, we didn't have the same dynamic maybe others have spoken to. But there was clearly a lot of weather in the month of March and we've looked across our footprint. We feel good about our cat calls. But nothing that I would call out extraordinarily right now.

**<Q - Meyer Shields>**: And then second, sort of bigger picture, could you walk us through the strategy for getting the underlying combined ratio in specialty down? Is that an expense issue, a scale issue?

**<A - Douglas G. Elliot>**: Largely, it's a mix issue, Meyer, because our national account book is in that segment. The duration on our liabilities, on our workers' comp excess product are in the 12 to 15 category. So that book is going to tend to run at very different combined ratios than our normal Middle and Small. So, it's all about mix. Our national account book is performing well, strong ROEs. I just think you have to keep in mind what's in the segment, very different than the other markets.

**<Q - Jay Gelb>**: A couple of clarifying questions, first on M&A, I believe the range of premium volume mentioned was $1B to $2B. Would that be gross or net?

**<A - Christopher J. Swift>**: Again, when we think about it and look at it, we think in terms of gross, because then we think of our own reinsurance strategies and appetite, Jay.

**<Q - Jay Gelb>**: And then, I think it might be helpful just to understand The Hartford's excess capital position, given the net of announced acquisitions vs. dispositions. How much excess capital does Hartford currently have, adjusted for deals that are about to close?

**<A - Beth Ann Bombara>**: A couple things, when you look at sort of holding company resources at the end of the quarter, we've got about $1.1B of resources there; remind you, we are planning on paying down $500mm of hybrids in June. We then have the net proceeds that will come in from the Talcott sale, which is about $1.7B, as I said in my remarks. And so that's sort of in the short term.

Again, when we did the acquisition of Aetna last year, we had talked about the fact that we expected lower dividends this year from our operating subsidiary, so no dividends from the Group business. So, really, as we go into 2019, we'd expect to see dividends increasing again, both from P&C and from Hartford Life and Accident, which is the Group business.

And then, the other thing to keep in mind is that we will be generating cash flows at the holding company as it relates to monetizing our tax assets. And we'll start to see some of that in 2019, as we get refunds of our AMT credits, and then utilize those NOLs. So, those are like the sources that I think about, kind of over time, if that's helpful.

**<Q - Jay Gelb>**: It is, but based on my simplistic knowledge of this, how does that all translate relative to what Hartford would typically desire to have in terms of holding company resources and what does that mean for excess?

**<A - Beth Ann Bombara>**: So as is it relates to kind of our target at the holding company, we typically look to 1 to 1.5 times interest and dividend requirements. But we also want to maintain flexibility. So as we have in the past, we've used our excess capital, kind of ratably over a period. So, those are the kind of parameters that we think about, but, again, as Chris said, we do want to make sure that we maintain a strong balance sheet. And any capital that we would deploy, we would look at doing that over a period of time.

**<Q - Jay Gelb>**: And is there a tie-in to that, in terms of when the decision may be made whether to resume share buybacks?

**<A - Christopher J. Swift>**: I would decouple some things, in terms of there's no bright line or date on the calendar to sort of say these are what we're trying to make decisions on. Some of it, obviously, particularly as it relates to M&A, is the fluidity of the marketplace and the dynamics there. We want to be able to react to opportunities that make strategic and financial sense, but we also realize we're not going to be able to, and should not, hold excess capital forever.

So, I think what Beth was describing is that we are going to build a healthy position of deployable capital. We'll continue to be aware of marketplace opportunities. But at some point in time, we would have to begin a return program in the form of either increased dividends or buybacks.

**<Q - Yaron Kinar>**: One maybe nitpicky question with regards to Commercial, so I think you've highlighted record new business growth in Small Commercial, where you've also have achieved more significant rate increases than in Middle Market. And yet, net premiums in Small Commercial have actually slowed, which I'm taking to mean that maybe there's maybe some erosion in retention levels in that business. So, would that mean that there's increased shopping behavior among customers, as you push for rate and that there's still abundant capacity willing to offer lower, maybe even unattractive, rates in order to win business out there in the market?

**<A - Douglas G. Elliot>**: I don't feel that yet. I feel two factors relative to the core of your question. One is that we've been rather aggressive on our auto repricing and re-underwriting. And so, our auto retentions are down significantly. And that's definitely causing a bit of a drag on our overall top line in Small. And then, the second thing is that, although we're positive on the pricing side for comp, we're slightly positive. And so, you know, we're not getting any significant lift on a good segment of our Small Commercial book in our comp pricing. So, all-in, you know, I'm more focused around the auto book, that we've taken action that we think we needed to take to correct that. I see the progress in our loss ratios. It's why we are continuing to post terrific numbers there. I don't feel a lot different in the marketplace yet.

**<Q - Yaron Kinar>**: And then, the second question I have is with regards to the Group Benefits business. And I apologize if I missed that, but when you talk about the group disability improved incidence trends and now better recoveries, is that across both the legacy Hartford business and the new Aetna block or is it coming more from one than the other?

**<A - Douglas G. Elliot>**: Both disability books, Yaron, are exhibiting solid behavior. So, we feel good on both disability sides.

**<Q - Amit Kumar>**: Two very quick questions, number one, going back to the discussion on consolidation, would your answer on the business mix as it relates to reinsurance, would that have been different if the tax cut act would not have been passed and implemented?

**<A - Christopher J. Swift>**: In terms of strategies first and alignment of the businesses you want to be in, and then the finance and the math has to work, but pre or post tax reform, we wouldn't have had a different view.

**<Q - Amit Kumar>**: Because I was wondering about the redomicile aspect. That's where I was going with the question. The second question, I guess the final question I have is, again going back to the comp numbers. If I look at the Schedule P and compare The Hartford Schedule P with the industry's Schedule P, and if you look at the development of loss picks, why has the development been lower? I guess, why have you taken down the loss picks on a lower basis vs. the industry? Is there something in the book or is it just conservatism here vs. the industry trends?

**<A - Beth Ann Bombara>**: As we said before, as we think about our comp book and the long-tailed nature of that, we're very thoughtful about some of the trends that we build into the reserve, specifically around severity and medical cost severity. So, we have seen over the last few years, very favorable trends there, but we really think about it more for the long term. And so, as we evaluate our reserves each quarter, we look at how things are developing and take action accordingly. But we're not prepared to take down our long-term view of those trends and those factors that affect the reserves.

**<A - Douglas G. Elliot>**: We have made some slight adjustments, Beth, but we've reacted, candidly, more to the frequency side of it over the last couple of years, because we now feel like we've got a pretty solid look at those last couple of accident years, particularly 2015 and 2016. So, Amit, thanks for the question.