

Equity Research

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Price Target Change — January 21, 2021

Commercial Lines Insurance

The Travelers Companies, Inc. (TRV)

TRV: Strong Start to P&C Earnings; Conference Call Round-Up

Our Call

TRV hosted a conference call on 1/21 to discuss Q4 results. The call focused on the impact from the ongoing pandemic, loss trends, pricing, and capital. Our 2021 EPS estimate rises to \$10.85 (from \$10.35) and 2022 rises to \$11.95 (from \$11.55) reflecting better underlying loss ratio trends (principally within Business Insurance and personal auto). We also made modest changes to our cat losses and premium growth assumptions. Our initial 2023 EPS estimate is \$12.80 and our price target rises to \$150 (from \$145) and is based on 1.15x our 2022E book value. TRV shares outperformed today thanks to its EPS beat and positive outlook around margins and their benefit from the hardening market, in our view.

TRV is the first company to report earnings under coverage, and provides several read-throughs for the group: **(1)** pricing momentum, **(2)** underlying margin improvement, **(3)** return to capital management, and **(4)** stronger alternative NII combined with an unchanged NII guide for 2021. We believe that TRV is poised to benefit from the hardening market given that 65% of its business comes from commercial lines. However, TRV has more smaller and medium account exposure than some peers (AIG and CB) and does have high workers comp exposure (which is the only line not seeing positive pricing). As we begin to see more margin improvement from increasing rates, we would expect valuation metrics to expand for the P&C sector. Against this backdrop, our top ideas are ones that we believe are best positioned to take advantage from the strong pricing environment, and see the greatest level of margin improvement. This includes stocks that we think could positively surprise with Q4 earnings including Overweight-rated primary writers **CB, ACGL and HIG**.

- Underlying margin improvement picked up and positive lateral for the group.** Rate exceeded loss trend in Business Insurance (BI) by 150-200 basis points. Moving forward, the company noted that it expects the favorable rate environment to persist and result in expanding margins in BI. We think this is one of the more important takeaways from TRV's earnings and a positive lateral for the commercial insurers (AIG, CB and HIG) and supports our overall thesis on the group for incremental margin improvement to show up in Q4 2020 numbers - for more see our recent note: [P&C Insurance: No Hard Market Love](#).
- Level of direct Covid-19 losses slowing.** TRV saw \$31 million of pre-tax direct losses (down from \$133 million in Q3) attributable to Covid-19, which was split evenly between BI and Bond & Specialty. However, these losses were more than offset by a lower level of auto claims which resulted in a net benefit of 2.5 points in the Q4. This benefit could wane, however, as driving returns to more normalized levels.
- Investment income headwinds seem to largely be in estimates.** TRV benefited from stronger alternative investment results (which we could see across the sector in the quarter). Further, the quarterly NII guide was unchanged for 2021 to us showing that the impact of lower interest rates is largely in estimates at this point (see our recent note: [P&C Insurance: Margin And NII Deep Dive](#)).
- A return to buyback is a positive.** TRV did return to share repurchases, buying back \$201 million in the Q4 after not repurchasing any shares in Q3 and Q2. We believe the return to buyback sends the signal that the worst of the Covid-19 uncertainty is behind us.

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Rating	Equal Weight
Ticker	TRV
Price Target/Prior:	\$150.00 / \$145.00
Upside/(Downside) to Target	0.9%
Price (01/21/2021)	\$148.72
52 Week Range	\$76.99 - 145.55
Shares Outstanding	253,308,761
Market Cap (MM)	\$37,672
Enterprise Value (MM)	\$43,501
Average Daily Volume	1,542,140
Average Daily Value (MM)	\$229
Dividend (NTM)	\$3.46
Dividend Yield	2.3%
Net Debt (MM) - last reported	\$5,829
ROIC - Current year est.	9%
3 Yr EPS CAGR from current year (unless otherwise noted)	7%

\$ EPS	2020A	2021E	2021E	2022E	2022E
	Curr.	Prior	Curr.	Curr.	Prior
Q1 (Mar)	2.62 A	3.35 E	3.13E	3.50 E	3.28E
Q2 (Jun)	(0.20) A	1.84 E	1.54E	1.94 E	1.80E
Q3 (Sep)	3.12 A	1.82 E	2.11E	2.38 E	2.62E
Q4 (Dec)	4.91 A	3.84 E	3.58E	4.14 E	3.85E
FY	10.48 A	10.85 E	10.35E	11.95 E	11.55E
P/E	14.2x	13.7x			12.4x

ROIC - Current year est. Q: Represents return on equity (ROE)
3 Yr EPS CAGR from current year (unless otherwise noted) Q: Using 2019-2022 for CAGR calculation
Source: Company Data, Wells Fargo Securities estimates, and Refinitiv.
NA = Not Available, Volatility = Historical trading volatility

Summary. TRV hosted a conference call on 1/21 to discuss Q4 results. The call focused on the impact from the ongoing pandemic, loss trends, pricing, and capital. Our 2021 EPS estimate rises to \$10.85 (from \$10.35) and 2022 rises to \$11.95 (from \$11.55) reflective better underlying loss ratio trends (principally within Business Insurance and personal auto). We also made modest changes to our expense ratio, cat loss, and premium growth assumptions. Most of other assumptions, including investment income, are unchanged. Our initial 2023 EPS estimate is \$12.80 and our price target rises to \$150 (from \$145) and is based on 1.15x our 2022E book value. TRV shares outperformed today thanks to its EPS beat and positive outlook around margins and their benefit from the hardening market. We were surprised other primary insurers did not respond favorably to TRV earnings but we believe part of this was due to the adverse [BL ruling against Zurich](#). The majority of cases to-date have sided with the industry and we continue to not be overly concerned from a BI perspective.

The Quarter In A Nutshell. This morning (1/21), TRV [reported](#) Q4 core EPS of \$4.91, beating both our \$3.85 estimate, and the \$3.18 consensus estimate. TRV's results beat on better underlying results and stronger favorable reserve development (a good portion from workers' comp) and extremely low cat losses. NPW rose by 2.7%, in-line with our estimate and the Q3. NII was \$677 million, better than our \$593 million estimate with the upside mostly due to other investments. The underlying combined ratio of 88.7% beat our 89.9% estimate with all segments beating us (the net Covid-19 impact is given on the conf call). Cats were only \$29 million, lower than our \$115 million estimate. TRV repurchased \$201 million shares, ahead of our \$150 million estimate and the first time the company has bought back shares since Q1 2020. Book value per share rose by 5.2% and the core ROE was 20.5%.

Consolidated Results Versus Wells Fargo Securities Estimates

	Q4 2020 Actual	Q4 2020 Estimate
Net premiums written (in millions)	\$7,269	\$7,259
Growth in net premiums written	2.7%	2.6%
Growth in net premiums earned	3.2%	1.3%
Investment income (in millions)	\$677	\$593
Combined ratio	86.7%	91.0%
Catastrophe losses (in millions)	\$29	\$115
Reserve releases (in millions)	(\$180)	(\$35)
Underlying Loss Ratio	59.3%	60.3%
Expense Ratio	29.4%	29.7%
Underlying combined ratio	88.7%	89.9%
Tax rate	19.4%	16.5%
Operating EPS	\$4.91	\$3.85
Growth in operating EPS	48.0%	15.9%
Book value per share	\$115.68	\$113.49
Segment Underwriting Income (in millions):		
Business Insurance	\$326	\$122
Bond & Specialty Insurance	\$136	\$89
Personal Insurance	\$435	\$393
Operating ROE	20.5%	13.8%

Source: Wells Fargo Securities, LLC estimates and Company reports

2021 Outlook

2021 outlook. Exhibit 2 below highlights TRV's commentary and expectations for 2021. TRV did not provide specific 2021 guidance, which is consistent with previous quarters in 2020 after TRV pulled its outlook in Q1 2020 for renewal premium change and its underlying margins as a result of the uncertainty associated with the potential impacts associated with Covid-19. TRV did provide an outlook for net investment income, and also provided helpful color around other line items in the model. TRV still expects 2021 **fixed income NII** to be in the \$420-430 million range per quarter on an after-tax basis in 2021. TRV did not call out any **alternative investment income** trends. For **catastrophe losses**, TRV highlighted it renewed its cat treaties for 2021 with some modest changes (more details below). TRV did not point to a specific level of **share repurchases** and noted that it cannot perpetually return 100% of earnings in the form of dividends and repurchases as it needs to hold some capital for growth. However, we believe the return to buyback sends the signal that the worst of the Covid-19 uncertainty is behind us. In **Business Insurance**, TRV highlighted about \$16 million of direct Covid-19 related losses (and only a very minimal frequency benefit), but did say that it expects the favorable rate environment to persist and result in expanding margins. For reference, rate exceeded by 150-200 basis points in Q4 for BI. **Bond and Specialty** expects to see its 2021 underlying combined ratio improve a little bit from the ~87% it saw in H2 2020. **Personal lines** results benefited from favorable frequency and the company continues to observe lower claim frequency as a result of fewer miles driven due to the ongoing impact from the pandemic, but margins are not likely to be as strong moving forward. We estimate that 8 of the 12 points of improvement in auto was related to favorable frequency. On the **expense ratio**, TRV highlighted that they are comfortable with the expense ratio being around the 30% range.

Exhibit 1 - 2020 And 2021 Outlook Provided By Travelers

		2020 Outlook		2020 And 2021 Outlook			
		Provided With Q3 2019 Earnings	Provided With Q4 2019 Earnings	Provided With Q1 2020 Earnings	Provided With Q2 2020 Earnings	Provided With Q3 2020 Earnings	Provided With Q4 2020 Earnings
Underlying Margins							
Business Insurance	Margins higher y-o-y for the first three quarters of 2020	Margins higher for 2020, but weaker in Q1 due to the adjustments taken in Q2-Q4 2019					
Bond and Specialty Insurance	Margins broadly consistent y-o-y for the first three quarters of 2020	Margins broadly consistent over all quarters of 2020					
Personal Insurance	Margins higher y-o-y for the first three quarters of 2020	Underlying combined ratio better in 2020 (in Q2-Q4 due to low non-cat weather)	TRV is not providing an outlook for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19.				
Personal auto	Margins broadly consistent y-o-y for the first three quarters of 2020	Broadly consistent underlying combined ratio					
Homeowners'	Margins higher y-o-y for the first three quarters of 2020	Underlying combined ratio better in 2020 (in Q2-Q4 due to low non-cat weather)					
Renewal Premium Growth							
Business Insurance	Positive and higher on average y-o-y for first three quarters of 2020	Positive and higher on average y-o-y for all of 2020					
Bond and Specialty Insurance	Management liability: Positive and higher on average y-o-y for first three quarters of 2020	Management liability: Positive and higher on average y-o-y for all of 2020					
Personal auto	Positive but lower on average y-o-y for first three quarters of 2020	Positive but lower on average y-o-y for all of 2020	The company expects the decreased economic activity to weigh on premium volumes for 2020. TRV is not providing an outlook for earned premiums, fee income, claims and claim adjustment expense, and general and administrative expenses for 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19.				
Homeowners'	Positive and higher on average y-o-y for first three quarters of 2020	Positive and higher on average y-o-y for all of 2020					
Investment Income (Fixed Income And Short-Term Investments)							
	\$10-\$15 million lower per quarter for the first three quarters of 2020	\$5-\$10 million lower per quarter for all quarters of 2020	Approx. \$20 million lower per quarter for the remainder of 2020 and "significantly negative" in Q2 2020.	Approx. \$35-40 million lower per quarter for the remainder of 2020.	Approx. \$35-40 million lower per quarter for the remainder of 2020. For 2021, NII to be between \$420-430 million per quarter	TRV still expects 2021 fixed income NII to be in the \$420-430 million range on an after-tax basis in 2021.	

Source: Wells Fargo Securities, LLC and Company data

Pricing momentum continuing in commercial lines. Business Insurance renewal rate change was +8.4%, improving from +8.1% in the Q3, +7.4% in the Q2 and +6.0% in the Q1. We had expected about 100 bps of improvement, although there was a good amount of improvement in Select and Middle Market, while National Property rates slowed in the quarter. Exposure growth was -1.1%, in-line with Q3. TRV also noted that it achieved higher rates in all business lines away from workers' comp. Further, TRV saw 3% premium growth in the quarter driven by strong renewal rate change across the book and continued strong retention in all three segments.

Takeaways For The Non-Life Insurance Group

The main takes that stand out from TRV to us and the laterals for the rest of the group are below. Net-net, the biggest take is confirmation in the positive pricing environment and the potential for the P&C group to see a good amount of underlying margin improvement in 2021.

Commercial lines pricing continues to firm and picked up in the Q4 with renewal rates up 8.4% in business insurance, improving from 8.1% in the Q3. TRV said that it continues to achieve higher rates broadly across its book as rate increases in all lines (away from workers' comp) were higher in Q4. **This continued rate firming is positive for the commercial insurers (AIG, CB and HIG) and specifically AIG and CB where workers' comp represent a smaller portion of their book, in our view.**

1. *Underlying margin in Business Insurance benefited from rate exceeding trend.* TRV said that earned rate exceeded loss trend in the range of 1.5-2.0 points in Business Insurance, which is a good level of improvement from 1 point in Q3 2020 and trails the past hard market levels. This supports our thesis that the margin improvement/earnings estimates across the street will pick up with earnings (see our recent note: [P&C Insurance: No Hard Market Love](#)). TRV also said that it expects the favorable rate environment to persist and result in expanding margins in Business Insurance. To us, this points to strong underlying margins for the group in the Q4, with the potential for greater improvement in 2021 as higher rates are earned in. **This would be a positive as well for the commercial lines insurers, including AIG, CB and HIG.**
2. *Covid-19 losses slowed and were more than offset by favorable frequency trends.* TRV's saw \$31 million of pre-tax gross losses attributable to Covid-19 (down from \$133 million in Q3), which was split evenly between BI and Bond & Specialty. TRV noted that the net impact from Covid-19 was a 2.5 point benefit to its underlying combined ratio primarily coming from Personal Insurance, as it experienced a lower level of auto claims in both Personal Insurance, and also saw a frequency benefit within BI. For full-year 2020, Covid-19 benefited underlying margins by about 1 point. TRV did note that Bond & Specialty's underlying margin deteriorated by 3.7 points and was attributable to the impact of higher loss estimates for management liability coverages which were primarily losses attributable to Covid-19 related economic conditions. However, TRV expects to see its 2021 Bond & Specialty underlying combined ratio improve a little bit from the ~87% it saw in H2 2020. **Overall, this should be a benefit to commercial insurers as we expect to see additional Covid-19 related losses for these names but the potential for improved underlying margins from lower claims frequency could help offset ongoing pandemic related losses.**
3. *Personal auto continues to see favorable benefits from the ongoing pandemic, but margins could normalize.* TRV's Personal Auto book saw continued benefits to its margin from lower claims frequency as a result of fewer miles driven. The Personal Auto segment's underlying margin came in at 88%, improving by almost 12 points with about 1/3 of that related to favorable re-estimates for prior quarters in 2020 and the remaining 8 points likely due to favorable frequency benefits from Covid-19. However, TRV said that it would not expect margins to be as strong moving forward and is reflected in its recent pricing actions. **We think this is a positive lateral for the personal auto insurers (ALL and PGR, and HIG within its auto business) for Q4 results who should continue to benefit from favorable frequency trends in auto, but a negative lateral longer-term as TRV doesn't expect margins to be as good in 2021 as miles driven normalizes.**
4. *Net investment income guide is unchanged, which points to the impact of lower rates stabilizing.* TRV maintained its 2021 quarterly fixed income related NII guidance and still expects to report between \$420-430 million per quarter on an after-tax basis, which to us shows that the decline in interest rates is largely captured within numbers right now. This forecast assumes the benefit of higher average levels of invested assets to be more than offset by a lower average yield given the lower rate environment. **We expect the low rate environment to be a headwind to all insurers (life and non-life), although we think this is largely captured in estimates at this point (see our recent note: [P&C Insurance: Margin And NII Deep Dive](#)).**
5. *Strong alternative investment quarter.* Alternative related investment income totaled \$182 million in the Q4, up from \$173 million in Q3 2020 and \$77 million in Q4 2019. This result is impressive, particularly given the fact that alt returns were much better in the Q3 than the Q4 (for example private equity returns were up 2% in Q4 compared to 24% in the Q3). **We think alternative related investment income could surprise to the upside, for both P&C and life insurers, based on TRV's strong results.**
6. *Repurchases returned in the Q4 for TRV but still expect more cautious approach from the group.* TRV repurchased \$201 million shares in the Q4 after not repurchasing any in both Q3 or Q2, but it did still sound a bit more cautious on repurchases as some of its capital will be used for growth. **We**

expect all insurers, P&C and life, to pick up their level of buyback activity in the Q4, especially given the lower valuations across both the P&C and life insurance sectors.

Covid-19 Thoughts

TRV's Q4 Covid-19 losses offset by favorable frequency. TRV's Q4 results included \$31 million of pre-tax losses attributable to Covid-19, which was split evenly between Business Insurance and Bond & Specialty. We are forecasting \$40 million of Covid-19 related losses (not including the frequency offsets) in both the Q1 2021 and Q2 2021 with losses split evenly between BI and Bond & Specialty. TRV noted that the net impact from Covid-19 was a 2.5 point benefit to its underlying combined ratio primarily coming from Personal Insurance as it experienced a lower level of auto claims in both Personal Insurance and Business Insurance. There was only a small favorable (in the tenths of points) frequency benefit for Business Insurance in the Q4 from Covid-19.

Exhibit 2 - Covid-19 Industry Losses To Date

Ticker	Q1 '20 Impact			% Impact On Q1 '20 To Q1 '20 EPS			Q2 '20 Impact			% Impact On Q1 '20 To Q2 2020 EPS			Q3 '20 Impact			% Impact On Q2 '20 To Q3 2020 EPS			Q4 '20 Impact			% Impact On Q3 '20 To Q4 2020 EPS			Cumulative \$M Impact						
	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share	Pre-Tax	After-Tax	Per Share				
ACGL	\$87	\$77	\$0.19	0.7%	29.2%	\$152	\$38	1.4%	90.2%	\$12	\$10	\$0.03	0.1%	8.1%	\$0	\$0	\$0.00	0.0%	\$272	\$272	0.1%	\$915	\$713	0.1%							
AGC	\$272	\$211	\$0.24	0.4%	68.3%	\$158	\$355	0.41	0.6%	38.2%	\$185	\$146	\$0.17	0.3%	17.3%																
All	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
Alleghany	\$153	\$141	\$0.88	1.4%	62.6%	\$135	\$105	1.3%	89.5%	\$51	\$40	\$2.79	0.5%	46.3%																	
Allianz	\$770	\$655	\$1.57	0.9%	30.2%	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$95							
American Financial Group	\$26	\$22	\$0.64	1.2%	64.2%	\$17	\$15	\$0.43	0.9%	148.7%	\$17	\$15	\$0.43	0.9%	NM										\$61	\$52	4.3%				
Argo	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-								
Arpeen	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$107							
Arthur	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$13							
Aviva	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$215							
AXA/XL	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$1,755							
AXS	\$235	\$232	\$2.69	4.8%	NM	\$0	\$0	\$0.00	0.0%	0.0%	-	-	-	-	-	\$125	\$115	\$1.34	2.4%	-	\$360	\$347	4.9%								
Axelle	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$68							
Beezley	\$170	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$170	-	-	-	-	-	-	-	\$340							
Berkshire	\$225	\$179	\$0.11	0.0%	0.0%	\$350	\$279	\$0.17	0.0%	0.0%	\$113	\$90	\$0.06	0.0%	0.0%										\$688	\$548					
CB	\$13	\$11	\$0.02	0.0%	0.9%	\$1,365	\$1,157	2.56	2.2%	128.0%	-	-	-	-	-										\$1,378	\$1,168	0.6%				
CCR Re	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$57							
CNA	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$171							
CNA	\$15	\$12	\$0.05	0.1%	10.1%	\$182	\$148	\$0.55	1.4%	60.5%	-	-	-	-	-	-	-	-	-	-	-	-		\$197	\$161	0.2%					
Estar	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$47							
Fairfax	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$536							
GenRe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$115							
Hanover Re	\$238	\$183	\$1.51	1.6%	36.0%	\$447	\$343	-	-	-	\$117	\$90	-	-	-									\$802	\$615						
Helvetica	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$98							
HIG	\$50	\$40	\$0.11	0.3%	7.7%	\$251	\$198	\$0.55	1.3%	31.2%	\$37	\$28	\$0.08	0.2%	5.2%										\$338	\$238	0.2%				
Hiscox	\$150	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$357							
ICG	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$439							
Lancashire	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$42	\$39						
Legal & General	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$168							
Liberty Mutual	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$560							
Ubovitz	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$1,936							
Held	\$325	\$257	\$18.58	2.3%	NM	-	-	-	-	-	-	-	-	-	-	\$47	\$37	\$2.67	0.3%	7.9%											
Hadre Held	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$372	\$294						
Hobstar	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$270							
Munich Re	\$865	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$947	-	-	-	-	-	-	-								
MS Amlin	\$186	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$320						
Partner Re	\$18	-	-	-	-	-	-	-	-	-	-	-	-	-	-	\$28	-	-	-	-	-	-	-								
PGR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$0	\$0					
Prudential Assurance	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$10						
QBE	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$400						
QIC	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$104						
RE	\$150	\$132	\$3.30	1.5%	45.0%	\$160	\$141	\$3.52	1.6%	62.9%	\$125	\$110	\$2.75	1.2%	53.2%										\$435	\$383	24.5%				
RLI	charges: \$23M premium return and \$5M put up for cost of investigating	\$104	\$101	\$2.35	2.0%	75.5%	\$0	\$0	\$0.00	0.0%	\$9	\$8	\$0.17	0.8%	28.4%									\$15	\$6	0.3%					
RM	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$274	\$266	14.1%				
RSIA	\$53	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$156						
SCOR	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$601						
Selective	\$24	\$19	\$0.32	1.0%	27.6%	\$12	\$10	\$0.16	0.5%	28.5%	-	-	-	-	-									\$37	\$29						
Starmont	\$140	\$120	\$0.94	6.6%	NM	\$12	\$10	\$0.09	0.7%	NM	-	-	-	-	-									\$152	\$131						
Storebrand	\$28	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$77						
Suncorp	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$28						
Swiss Re	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$142						
Talixex	\$368	\$287	\$11.14	2.5%	53.9%	-	-	-	-	-	-	-	-	-	-										\$3,000						
TCI	\$13	\$11	\$0.38	0.4%	11.2%	-	-	-	-	-	-	-	-	-	-										\$360	\$287					
Third Point Re	\$10	\$10	\$0.10	0.7%	-5.5%	\$10	\$10	\$0.11	0.8%	7.4%	\$16	\$16	\$0.17	1.2%	18.7%									\$13	\$11	0.7%					
Tokio Marine	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$368						
TransRe	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$268						
Trig	\$86	\$59	\$0.27	0.2%	9.3%	\$114	\$90	\$0.41	0.4%	197.1%	\$133	\$105	\$0.18	0.5%	13.4%	\$31	\$24	\$0.10	0.1%	2.0%	\$364	\$288	0.4%								
Watford	\$6	\$5	\$0.10	-	NM	\$5	\$5	\$0.25	0.9%	2.6%	-	-	-	-	-									\$5	\$5						
WB	\$65	\$50	\$0.28	0.8%	28.8%	\$85	\$66	\$0.36	1.1%	85.9%	-	-	-	-	-									\$150	\$116	0.4%					
Zurich	\$70	-	-	-	-	-	-	-	-	-	-	-	-	-	-										\$70						
Total	\$1,404	\$1,156	\$4.46	1.1%	\$1,264	\$1,000	\$700	\$2,007	\$1,000	\$700	\$1,446	\$1,264	\$0.00	0.0%	0.0%	\$0	\$0	\$0.00	0.0%	\$272	\$272	0.1%	\$915	\$713	0.1%						

Source: Company reports, HyperionX and Wells Fargo Securities, LLC

Note: \$ in millions, except per share data. Note: The Covid-19 loss per share impact is the tax effected loss over each companies' respective share count. NM indicates values that were not meaningful as their respective operating earnings were negative. Not all companies provided the quarterly breakdown of Covid-19 losses and their Covid-19 losses to-date are reflected as a total in the cumulative impact column on the far right columns of the table. The average book value and EPS impact for the group reflects the average of those companies that provided quarterly Covid-19 data. TRV's overall results have seen frequency benefits that have served to offset the Covid-19 losses.

Highlights Of Our Estimate Changes

Overview of our estimate changes. Exhibit 4 highlights the changes we made to our earnings model following Q4 2020 earnings. Our 2021 EPS estimate rises to \$10.85 (from \$10.35) and 2022 rises to \$11.95 (from \$11.55) reflective of better underlying loss ratio trends (principally within Business Insurance and personal auto). We are also introducing our 2023 EPS estimate of \$12.80. We also made modest changes to our expense ratio, cat loss, and premium growth assumptions. Most of other assumptions, including investment income, are unchanged. See below for more details on our margin assumptions by segment.

- Within **Business Insurance**, we are expecting approximately 180 points of rate rate over trend in 2021 and another 1.3 points in 2022. In 2021, we are assuming a net benefit from Covid-19 of 0.2 in H1 2021 (as gross losses are offset by frequency benefits) with no additional Covid-19 adjustments in H2 2021.
- Within **Bond & Specialty**, we are assuming a 2021 an underlying margin of 84.5% for the full-year with a margin of 87.1% in H1 2021 and 82.2% in H2 2021
- Within **Personal lines**, our personal auto margin assumes a 7 point frequency benefit in Q1 2021 and 5 point benefit in Q2 2021 with no additional frequency benefits in H2 2021.

Exhibit 3 - Summary Of Estimate Changes

Income Statement (\$M, except per share data)	Current				Prior Estimates				Delta (Absolute)			
	2020A	2021E	2022E	2023E	2020E	2021E	2022E	2023E	2020E	2021E	2022E	2023E
Gross premiums written	31,763	32,830	34,308	35,865	31,721	33,069	34,555	-	42	(239)	(247)	-
% growth (yr/yr)	2.3%	3.4%	4.5%	4.5%	2.1%	4.2%	4.5%	-	0.1%	(0.9%)	0.0%	-
Net premiums written	29,732	31,104	32,726	34,445	29,722	31,291	32,825	-	10	(187)	(100)	-
% growth (yr/yr)	2.0%	4.6%	5.2%	5.3%	2.0%	5.3%	4.9%	-	0.0%	(0.7%)	0.3%	-
Increase in unearned premiums	(688.0)	(1,043.6)	(992.9)	(1,047.0)	(815.6)	(837.4)	(941.0)	-	127.6	(206.2)	(51.9)	-
Net premiums earned	29,044	30,061	31,733	33,398	28,906	30,453	31,884	-	138	(393)	(152)	-
% growth (yr/yr)	2.7%	3.5%	5.6%	5.2%	2.2%	5.4%	4.7%	-	0.5%	(1.9%)	0.9%	-
Net investment income	2,227	2,222	2,220	2,238	2,143	2,228	2,230	-	84	(6)	(10)	-
Fee income	429	429	429	429	436	436	436	-	(7)	(7)	(7)	-
Other income	279	327	335	343	262	263	271	-	17	64	64	-
Total revenue	31,979	33,039	34,717	36,408	31,747	33,380	34,821	-	232	(342)	(104)	-
Losses and loss adjustment expenses	19,123	19,902	20,904	22,018	19,325	20,458	21,298	-	(202)	(556)	(394)	-
Amortization of deferred acquisition costs	4,773	4,888	5,156	5,425	4,755	4,952	5,185	-	18	(64)	(29)	-
General and administrative expenses	4,509	4,674	4,892	5,111	4,487	4,568	4,726	-	22	106	166	-
Interest expense	339	328	334	337	340	331	337	-	(1)	(3)	(3)	-
Total expenses	28,744	29,792	31,286	32,890	28,906	30,309	31,546	-	(162)	(517)	(260)	-
Pretax operating income	3,235	3,246	3,430	3,517	2,840	3,071	3,275	-	395	175	155	-
% growth (yr/yr)	6.9%	0.3%	5.7%	2.5%	(6.1%)	8.1%	6.6%	-	13.0%	(7.8%)	(1.0%)	-
Income tax expense/(benefit)	549	536	566	580	438	507	540	-	111	29	26	-
After-tax core income	2,686	2,711	2,864	2,937	2,402	2,564	2,735	-	284	146	130	-
% growth (yr/yr)	5.9%	0.9%	5.7%	2.5%	(5.3%)	6.8%	6.6%	-	11.2%	(5.8%)	(1.0%)	-
Company income tax rate (%)	17.0%	16.5%	16.5%	16.5%	15.4%	16.5%	16.5%	-	1.5%	0.0%	0.0%	-
Weighted average number of diluted shares	254	248	238	228	254	246	235	-	0	2	3	-
Participating share-based awards - allocated income	22	16	16	16	16	16	16	-	6	0	0	-
After-tax core income	\$10.48	\$10.85	\$11.95	\$12.80	\$9.40	\$10.35	\$11.55	-	\$1.08	\$0.50	\$0.41	-
Profitability Metrics												
Loss and loss adjustment expense ratio	65.1%	65.7%	65.3%	65.4%	66.3%	66.7%	66.2%	-	-1.2%	-1.0%	-0.9%	-
Underwriting expense ratio	29.9%	29.6%	29.5%	29.4%	30.0%	29.3%	29.1%	-	-0.1%	0.3%	0.4%	-
Combined ratio	95.0%	95.3%	94.8%	94.7%	96.3%	96.0%	95.3%	-	-1.3%	-0.7%	-0.6%	-
Points on the combined ratio	5.5%	4.5%	4.6%	4.5%	5.9%	4.4%	4.4%	-	-0.4%	0.1%	0.2%	-
Points on the combined ratio	-1.2%	0.2%	0.1%	0.1%	-0.7%	0.4%	0.2%	-	-0.5%	-0.2%	-0.1%	-
Current accident year combined ratio	90.7%	90.6%	90.1%	90.1%	91.1%	91.2%	90.7%	-	-0.4%	-0.6%	-0.6%	-
Underlying loss ratio	60.8%	61.0%	60.6%	60.8%	61.1%	61.9%	61.6%	-	-0.3%	-0.9%	-1.0%	-
Segment Underwriting Income (in millions):												
Business Insurance	(\$287)	(\$80)	\$113	\$433	(\$491)	(\$38)	\$73	-	\$204	(\$42)	\$41	-
Bond & Specialty Insurance	\$340	\$449	\$588	\$537	\$293	\$389	\$512	-	\$47	\$61	\$76	-
Personal Insurance	\$1,046	\$691	\$542	\$338	\$1,004	\$595	\$561	-	\$42	\$96	(\$18)	-
Book value per share	\$115.68	\$121.97	\$129.47	\$137.94	\$113.49	\$121.04	\$130.34	-	\$2.19	\$0.93	(\$0.87)	-
ROE	9.7%	9.1%	9.5%	9.6%	8.7%	8.8%	9.2%	-	0.9%	0.3%	0.3%	-

Source: Company data and Wells Fargo Securities, LLC estimates

Pricing Accelerating In Commercial Lines

Business Insurance Rating Environment –TRV Rates Increased As Expected, While Exposure Declined

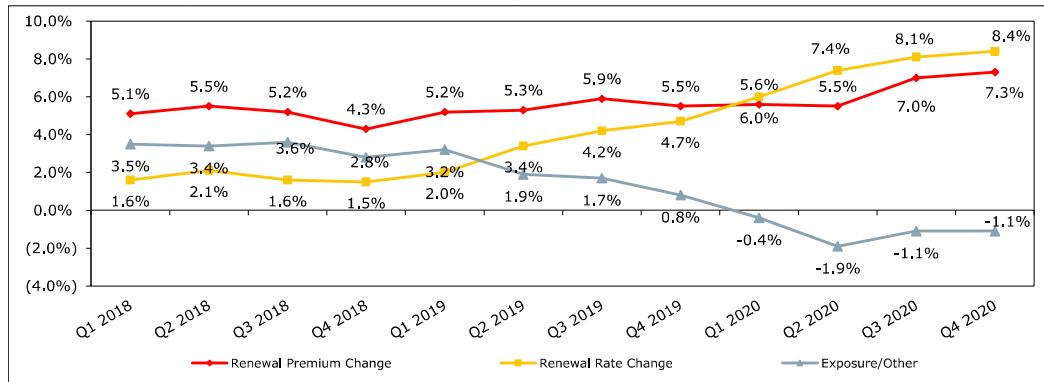
- In the Q4, the *Business Insurance* renewal rate change was +8.4% accelerating 30 bps from the +8.1% (revised lower) in Q3 2020, +7.4% in Q2 2020, and the +6.0% in Q1 2020. Exposure growth was -1.1%, unchanged from Q3 2020 (revised up from -1.9%) and better than the -1.9% in Q2 2020 (revised up from -2.7%) and the -0.4% in Q1 (revised up from -0.8%). See Exhibits 4 and 5 below, which shows the recent trends in TRV's quarterly domestic Business Insurance (BI) renewal rate change.
- TRV stopped providing forward guidance on its RPC as the company is unsure of how the economy will be impacted from Covid-19. Our assumption is the exposure bucket of the RPC remains negative in the Q1.

Exhibit 4 - Domestic Business Insurance Renewal Pricing Results By Quarter

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
RPC	5.1%	5.5%	5.2%	4.3%	5.2%	5.3%	5.9%	5.5%	5.6%	5.5%	7.0%	7.3%
RRC	1.6%	2.1%	1.6%	1.5%	2.0%	3.4%	4.2%	4.7%	6.0%	7.4%	8.1%	8.4%
Exposure/other	3.5%	3.4%	3.6%	2.8%	3.2%	1.9%	1.7%	0.8%	-0.4%	-1.9%	-1.1%	-1.1%
% of BI NPW in Workers' Comp	29.8%	24.7%	24.3%	23.4%	28.6%	23.1%	23.3%	22.1%	26.2%	20.7%	20.2%	20.2%

Source: Company data and Wells Fargo Securities, LLC

Exhibit 5 - Pricing And Exposure Growth Seen By Travelers



Source: Company data and Wells Fargo Securities, LLC

Personal Auto - TRV Continues to Secure Rate, Although The Level Is Slowing

- Within *Personal Insurance*, TRV continues to secure rate increases in auto (but the level is slowing as they pointed to filing for a handful of modest declines in a handful of states during the quarter). The RPC in auto was 0.6% in the Q4 versus 1.4% in the Q3, 1.7% in Q2, 2.4% in Q1, and 3.0% in Q4 2019. Homeowners' pricing did accelerate to 8.2% in the Q4 versus 8.1% in the Q3, 7.6% in Q2, 7.5% in Q1, 7.3% in Q4 2019.
- Travelers saw its new business in auto grow for the tenth consecutive quarter. Auto new business premium was \$251 million in the Q4 versus \$257 million in the Q3, \$233 million in Q2, \$227 million in Q1, and \$224 million in Q4 2019.

Exhibit 6 - Personal Insurance Business Statistics

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Agency Automobile												
Retention	83%	83%	84%	84%	84%	84%	84%	85%	85%	84%	84%	84%
Renewal Premium Change	10.7%	9.6%	8.0%	6.7%	5.5%	4.8%	3.8%	3.0%	2.4%	1.7%	1.4%	0.6%
Policies-In-Force (PIF, in thousands)	2,519	2,517	2,518	2,518	2,516	2,517	2,524	2,532	2,540	2,570	2,596	2,614
PIF Yearly Change	1%	0%	(0%)	(0%)	0%	0%	1%	1%	2%	3%	3%	3%
PIF Sequential Change	(0%)	(0%)	0%	0%	(0%)	0%	0%	0%	1%	1%	1%	1%
New Business (\$ in millions)	\$193	\$212	\$219	\$202	\$206	\$217	\$236	\$224	\$227	\$233	\$257	\$251
New Business yearly change	(21%)	(6%)	2%	2%	7%	2%	8%	11%	10%	7%	9%	12%
Agency Homeowners & Other												
Retention	86%	86%	86%	87%	85%	86%	86%	85%	85%	85%	85%	85%
Renewal Premium Change	3.2%	3.7%	3.6%	3.7%	5.2%	6.6%	6.8%	7.3%	7.5%	7.6%	8.1%	8.2%
Policies-In-Force (PIF, in thousands)	4,453	4,530	4,601	4,652	4,726	4,825	4,927	5,016	5,111	5,155	5,365	5,432
PIF Yearly Change	5%	6%	6%	6%	7%	7%	8%	8%	9%	9%	8%	8%
PIF Sequential Change	1%	2%	2%	1%	2%	2%	2%	2%	3%	2%	1%	1%
New Business (\$ in millions)	\$125	\$170	\$173	\$154	\$163	\$215	\$237	\$219	\$212	\$252	\$288	\$264
New Business yearly change	6%	13%	9%	23%	30%	26%	37%	42%	30%	17%	22%	21%

Source: Company data and Wells Fargo Securities, LLC

Margins Benefited From Lower Cats And Favorable PYD

Underlying Results Beat With Strong Results In Business Insurance And Personal Auto

- The consolidated combined ratio was 86.7%, beating our 91.0% estimate largely reflective of a higher level of favorable reserve releases and lower cat losses. Cats of \$29 million were well below our \$115 million estimate (and included a release of \$40 million from cats from earlier in 2020), while favorable reserve development of \$180 million beat our \$35 million estimate as it experienced favorable development in all segments (with the majority from workers' comp within Business Insurance). The underlying combined ratio of 88.7% beat our 89.9% estimate, and improved 3.3 points from last year and included a 2.5 point benefit from Covid-19. Underlying results beat us in Bond and Specialty, Business Insurance, and Personal Insurance
- Catastrophe losses of \$29 million and were primarily related to Hurricane Zeta. Recall, TRV's Q4 2019 cat losses included a \$101 million benefit from recoveries under its aggregate cat treaty, however, the coverage this year was exhausted in Q3 2020 and resulted in no recoveries under the treaty in Q4 2020. The Q4 2020 cats included ~\$40 million of favorable development from loss estimates for events that occurred earlier in the year.
- Reserve releases were \$180 million, better than our \$35 million estimate due to higher releases in Business Insurance and Bond & Specialty. Most of the upside came from Business Insurance which saw favorable development of \$124 million (significantly better than our \$2.5 million and the highest quarterly level for the segment in three years) as releases in workers' comp were only partially offset by strengthening for GL for a runoff book of business (for policies from more than 20 years ago).

Exhibit 7 - Underlying Combined Ratio – Deterioration In Loss Ratio, But Improvement In Expense Ratio

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Reported Combined Ratio	95.5%	98.1%	96.6%	97.5%	93.7%	98.4%	101.5%	92.4%	95.5%	103.7%	94.9%	86.7%
Catastrophe Losses, net of reinsurance	5.4%	7.3%	3.8%	8.8%	2.8%	5.3%	3.4%	1.2%	4.6%	12.3%	5.3%	0.4%
Prior Year Reserve Development (Favorable)/Unfavorable	(2.3%)	(2.8%)	(0.2%)	(2.4%)	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)	(0.0%)	(1.9%)	(2.4%)
Underlying Combined Ratio	92.4%	93.6%	93.0%	91.1%	91.6%	94.9%	94.1%	92.1%	91.3%	91.4%	91.5%	88.7%
Underlying (improvement) deterioration	0.7%	0.1%	0.2%	(1.3%)	(0.8%)	1.3%	1.1%	0.9%	(0.3%)	(3.5%)	(2.5%)	(3.3%)
Underlying Loss Ratio	61.8%	62.9%	63.3%	61.6%	61.9%	64.7%	64.5%	63.0%	61.3%	60.4%	62.2%	59.3%
Change from last year	0.8%	0.5%	0.9%	(0.1%)	0.1%	1.8%	1.3%	1.3%	(0.6%)	(4.3%)	(2.3%)	(3.6%)
Underlying Expense Ratio	30.6%	30.7%	29.7%	29.5%	29.7%	30.2%	29.5%	29.1%	30.0%	31.0%	29.3%	29.4%
Change from last year	(0.1%)	(0.4%)	(0.7%)	(1.2%)	(0.9%)	(0.5%)	(0.2%)	(0.4%)	0.3%	0.8%	(0.2%)	0.3%

Source: Company data and Wells Fargo Securities, LLC

Exhibit 8 - Underlying Combined Ratio By Segment – Deterioration In All Segments

	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Business Insurance	95.5%	96.5%	95.4%	95.4%	95.0%	97.4%	95.9%	96.4%	97.3%	97.0%	94.0%	93.6%
Underlying (improvement) deterioration	1.1%	1.7%	(1.0%)	1.5%	(0.5%)	0.9%	0.5%	1.0%	2.3%	(0.4%)	(1.8%)	(2.8%)
Bond & Specialty	80.7%	80.5%	78.3%	78.1%	81.1%	81.0%	83.6%	81.3%	85.7%	88.1%	89.0%	85.0%
Underlying (improvement) deterioration	(1.2%)	(1.5%)	0.6%	(13.0%)	0.4%	0.5%	5.3%	3.2%	4.6%	7.1%	5.5%	3.7%
Personal Insurance	90.5%	92.6%	92.9%	87.8%	89.1%	94.6%	94.0%	88.4%	84.0%	84.0%	88.7%	83.1%
Underlying (improvement) deterioration	0.4%	(1.9%)	1.9%	(2.6%)	(1.4%)	2.0%	1.1%	0.5%	(5.1%)	(10.7%)	(5.3%)	(5.3%)
Personal Insurance:												
Agency Automobile	96.3%	95.5%	92.6%	96.9%	92.1%	93.8%	92.7%	99.6%	89.2%	84.2%	81.0%	87.7%
Underlying (improvement) deterioration	(2.3%)	(6.9%)	(6.2%)	(7.2%)	(4.2%)	(1.7%)	0.1%	2.7%	(2.9%)	(9.6%)	(11.7%)	(11.9%)
Agency Homeowners & Other	80.2%	85.2%	88.5%	72.5%	82.6%	92.9%	93.5%	73.6%	74.9%	81.4%	96.4%	78.5%
Underlying (improvement) deterioration	2.6%	2.4%	10.4%	2.3%	2.4%	7.7%	5.0%	1.1%	(7.7%)	(11.5%)	3.0%	4.9%

Source: Company data and Wells Fargo Securities, LLC

Investment Income And Other

Investment Income Beats Us; 2021 Guidance Unchanged

- Net investment income was \$677 million pre-tax, better than our \$593 million estimate. Travelers' after-tax book yield on its investment portfolio was 2.8%, modestly below the 2.9% yield for Q3 2020. Fixed income investments added \$500 million pre-tax, higher than our \$487 million estimate, while alts were \$182 million, also higher than our \$100 million estimate. Short-term investments added \$3 million, below our \$15 million estimate.
- TRV continues to expect its fixed income investment income to total \$420-430 million after-tax for each quarter of 2021 as it is forecasting the benefit of higher average levels of invested assets to be more than offset by a lower average yield given the lower interest rate environment.

Capital Management – Still Seems Cautious

- TRV repurchased \$201 million for 1.4 shares in the Q4, better than our estimate for \$150 million of share repurchases. Dividends were 218 million, bring to total capital return to \$419 million, which compares to the \$1.3 billion of core earnings. Total capital return to shareholders was 55% of core earnings in 2020 and we are currently forecasting 87% and 82% in 2021 and 2022, respectively.

Premium Growth In Line

- Net premiums written rose 2.7%, similar to our 2.6% estimate and in line with the Q4 2020. Results were ahead of us Bond & Specialty, but missed us in Business Insurance and Personal Lines. Gross premiums written growth of 3.2% was ahead of our 2.7% estimate and accelerated from 2.8% last quarter.
- Business insurance net premiums written were down 1.9% versus our down 1.5% estimate and down 1.4% in the Q3. Bond & Specialty new premiums written were +12.0% versus our +4.0% estimate and the +3.6% last quarter. Personal Insurance net premiums written were +7.6% versus our +6.1% estimate and +6.5% last quarter. Within Personal Insurance, auto net premiums written of 1.9% missed our +5.0% estimate and decelerated from 4.1% last quarter, while home net premiums written growth of 13.0% was ahead of our 10.0% estimate but was lower relative to 14.0% last quarter.

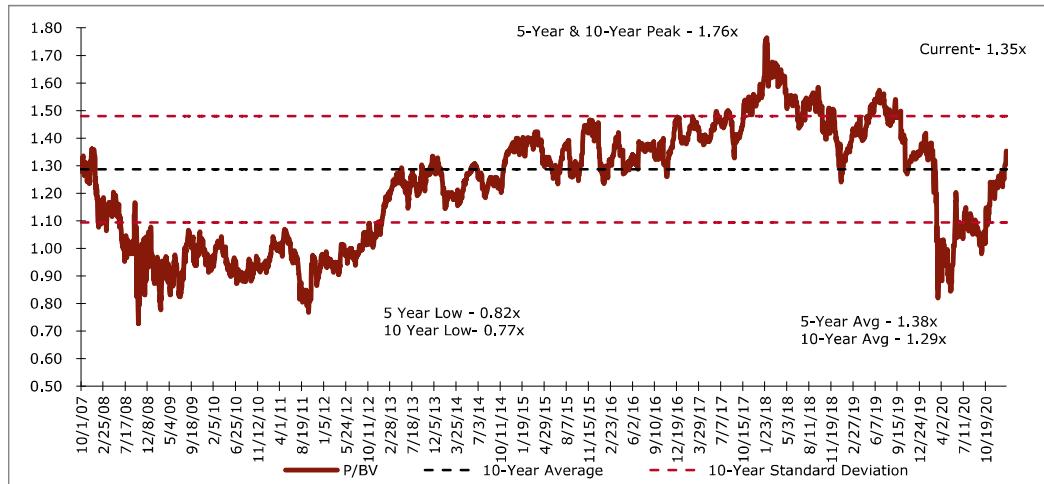
Cat Treaty Renewed

- TRV renewed its cat XOL treaty on terms in line with its expiring treaty and continues to provide coverage for both single cat events and the aggregation of losses from multiple cat events. TRV also renewed its underlying property aggregate catastrophe XOL treaty that it first purchased in 2019, and noted this treaty will continue to address qualifying PCS-designated events in North America for which it incurs losses of \$5 million or more, however, the 2021 renewal includes a \$5 million deductible per event. In prior years, PCS designated events that cost more than \$5 million counted towards the treaty from dollar one. TRV's treaty covers \$500 million (of which \$350 million of qualifying losses are covered by the treaty and \$150 million are retained by TRV) in excess of its aggregate retention of \$1.9 billion. The aggregate retention for 2021 increased from \$1.55 billion in 2020 largely reflecting recent years experience and anticipated growth in its property book.
- TRV noted that hurricane and earthquake events both have a \$250 million per occurrence cap consistent with prior years. In addition, for 2021 wildfires are also capped at \$250 million per event.
- Based on its assumptions around cat and non-cat weather for 2021, TRV expects the full year impact of the aggregate treaty on its underlying combined ratio to be roughly 0.5 points, and anticipates only a minimal impact on the total combined ratio. Both of these impacts are consistent with the assumptions made in each of the past two years.

Valuation

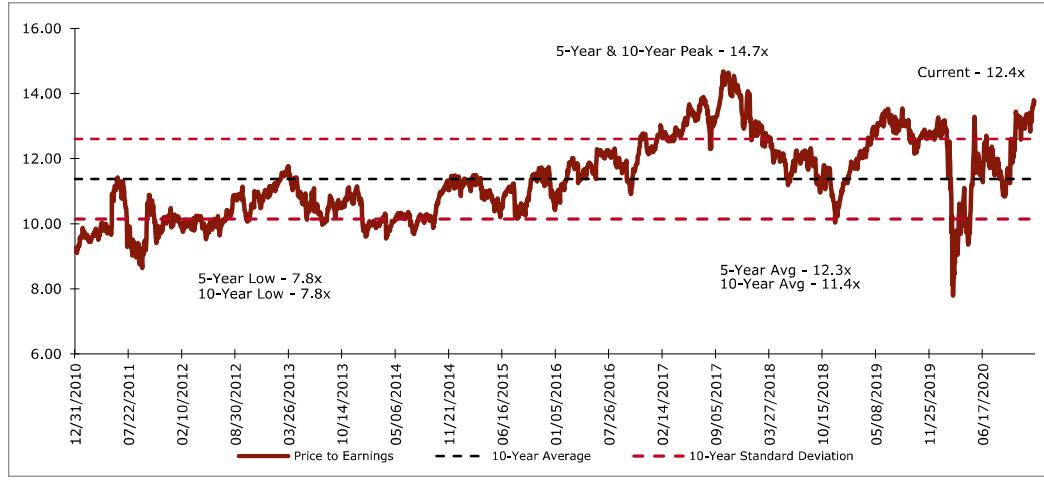
Current Valuation. The TRV shares are now trading at 1.35x book value, just below its 5-year (1.38x) average and its 10-year (1.29x) average multiple. The shares are trading well below peak levels of 1.76x. On a price-to-earnings basis, the shares are trading at 13.7x our 2021 EPS estimate and 12.4x our 2022 EPS estimate versus the 10-year average of 11.4x and 10-year peak of 14.7x

Exhibit 9 - TRV Historical Price-To-Book Multiples



Source: FactSet and Wells Fargo Securities, LLC

Exhibit 10 - TRV Historical Price-To-Earnings Multiples



Source: FactSet and Wells Fargo Securities, LLC

Consolidated Earnings Model

Exhibit 11 - Travelers Model - Consolidated

The Travelers Companies, Inc.
Earnings Projections and Operating Results
(\$ in millions, except per share data)

Consolidated Income Statement	2018	2019	Q1	Q2	Q3	Q4	2020	Q1	Q2	Q3	Q4	2021E	Q1	Q2	Q3	Q4	2022E	Q1	Q2	Q3	Q4	2023E
Gross premiums written	\$26,500	\$26,500	\$1,152.9	7,519.0	8,543.4	7,517.3	\$26,500	3,115.6	7,508.9	8,534.4	7,500.0	\$26,500	3,082.0	7,501.7	8,511.9	8,509.9	\$26,500	8,525.5	8,530.3	8,537.7	8,540.9	\$26,500
% growth (y/y)	5.8%	6.2%	4.0%	(0.9%)	2.8%	3.7%	2.5%	2.0%	2.7%	4.1%	4.8%	3.4%	4.3%	4.5%	4.6%	4.5%	4.5%	4.4%	4.6%	4.6%	4.5%	
% retained	94.7%	93.8%	90.1%	94.8%	94.3%	95.4%	93.8%	90.8%	95.8%	95.4%	97.3%	94.7%	91.6%	96.2%	97.8%	95.4%	92.4%	96.7%	96.6%	98.5%	96.0%	
Net premiums written	27,690.0	29,151.0	7,346.0	7,346.0	7,771.0	7,209.0	29,732.0	7,553.6	7,614.4	8,191.8	7,744.3	31,104.1	7,951.1	8,003.6	8,622.8	8,148.0	32,725.6	8,372.9	8,416.0	9,079.8	8,876.1	34,444.8
% growth (y/y)	5.6%	5.3%	4.1%	(1.4%)	2.7%	2.7%	2.0%	2.6%	3.7%	5.4%	6.9%	4.8%	5.3%	5.3%	5.2%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	
Proportion of net premiums	(22.1)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	(22.0)	
Net premiums earned	27,580.0	28,372.0	7,289.0	7,289.0	7,380.0	7,480.0	29,944.0	7,391.5	7,279.9	7,603.2	7,799.9	30,005.5	7,786.7	7,674.7	8,176.7	8,060.0	31,732.7	8,194.4	8,089.3	8,682.2	8,648.4	33,397.8
% growth (y/y)	5.4%	4.5%	5.6%	(0.5%)	2.8%	3.2%	2.7%	2.2%	4.6%	3.0%	4.2%	3.5%	5.4%	5.4%	8.0%	5.4%	5.3%	5.2%	5.3%	5.2%	5.2%	
Net investment income	2,474.0	2,468.0	611.0	288.0	671.0	677.0	2,227.0	558.2	566.2	594.3	553.3	2,222.0	554.3	554.3	555.3	556.2	2,220.0	557.2	558.2	560.2	562.1	2,237.8
% growth (y/y)	3.2%	(0.2%)	5.0%	(58.8%)	7.9%	9.8%	(6.8%)	(6.8%)	107.8%	(74.7%)	(0.2%)	(0.7%)	(0.4%)	(0.5%)	(0.5%)	(0.1%)	(0.5%)	0.5%	0.7%	0.9%	1.1%	0.8%
Fee income	450.0	460.0	100.0	100.0	100.0	100.0	429.0	100.0	100.0	100.0	100.0	429.0	100.0	100.0	100.0	100.0	429.0	100.0	100.0	100.0	100.0	429.0
% growth (y/y)	(3.4%)	6.3%	(0.9%)	(1.7%)	(19.5%)	(8.6%)	(8.6%)	(8.6%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Other income	203.0	296.0	56.0	51.0	86.0	84.0	278.0	83.0	71.0	84.0	89.0	327.0	85.0	73.0	86.0	91.0	335.0	87.0	75.0	88.0	93.0	343.0
% growth (y/y)	27.7%	32.5%	(19.4%)	(10.5%)	26.5%	16.7%	3.7%	43.1%	39.2%	(23.3%)	6.0%	17.2%	2.4%	2.8%	2.2%	2.4%	2.7%	2.3%	2.2%	2.4%	2.4%	2.4%
Total revenue	30,168.0	31,468.0	8,066.0	8,388.0	8,347.0	8,197.0	8,136.7	8,017.1	8,342.5	8,542.2	8,038.5	8,536.4	8,412.0	8,799.7	8,986.1	8,951.6	8,816.0	9,231.4	9,408.1	8,307.6		
% growth (y/y)	5.2%	4.3%	5.1%	(5.4%)	3.6%	3.0%	1.6%	1.6%	2.3%	3.7%	4.9%	5.0%	4.9%	5.0%	5.0%	5.0%	5.0%	4.9%	4.8%	4.9%	4.9%	
Losses and loss adjustment expenses	18,200.0	19,100.0	4,700.0	4,500.0	4,886.0	4,310.0	19,023.0	4,872.3	5,023.5	5,131.1	4,882.8	19,023.0	4,872.5	5,023.5	5,131.1	5,140.8	20,024.5	5,157.7	5,220.0	5,155.3	5,140.6	22,075.6
% growth (y/y)	4.7%	4.6%	7.6%	5.5%	(6.6%)	(6.4%)	(1.1%)	(2.6%)	(1.4%)	8.7%	12.5%	4.1%	6.0%	5.5%	5.3%	5.0%	5.2%	5.3%	5.2%	5.2%	5.2%	5.3%
Amortization of deferred acquisition costs	4,381.0	4,810.0	1,178.0	1,173.0	1,207.0	1,215.0	4,773.0	1,203.0	1,182.6	1,235.6	1,268.3	1,203.0	1,182.6	1,235.6	1,268.3	1,268.3	1,311.6	1,310.3	1,317.7	1,406.5	1,425.0	
% growth (y/y)	5.2%	5.0%	5.3%	3.4%	3.3%	2.8%	3.7%	1.9%	0.8%	2.4%	4.5%	5.3%	5.3%	5.5%	5.5%	5.2%	5.2%	5.3%	5.2%	5.2%	5.2%	5.2%
General and administrative expenses	4,297.0	4,365.0	1,137.0	1,121.0	1,109.0	1,142.0	4,506.0	1,163.5	1,163.5	1,168.5	1,185.5	4,610.0	1,210.5	1,225.5	1,240.5	1,260.0	1,265.5	1,265.5	1,265.5	1,265.5	1,265.5	5,110.5
% growth (y/y)	3.8%	1.9%	7.0%	(0.4%)	1.0%	5.5%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	4.7%	4.7%	4.5%	4.5%	4.5%	4.5%	4.5%
Interest expense	362.0	344.0	84.0	85.0	87.0	83.0	338.0	82.0	82.0	82.0	82.0	328.0	83.6	83.6	83.6	83.6	324.0	84.3	84.3	84.3	84.3	327.3
% growth (y/y)	(4.5%)	(2.3%)	(4.5%)	(4.5%)	(4.5%)	(3.0%)	(0.6%)	(1.5%)	(2.4%)	(3.5%)	(5.7%)	(1.2%)	(3.2%)	(1.8%)	(1.8%)	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Total expenses	27,321.0	28,443.0	7,188.0	7,486.0	7,289.0	7,610.0	28,444.0	7,117.0	7,461.6	7,798.3	7,412.7	20,792.3	7,515.8	7,848.8	8,119.3	7,801.5	7,895.6	8,252.1	8,495.3	8,247.4	32,890.4	
% growth (y/y)	4.4%	4.1%	7.2%	4.4%	(3.9%)	(3.0%)	1.7%	(1.0%)	(0.3%)	9.3%	9.3%	4.9%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%	5.1%
Underwriting income	522.0	650.0	120.0	320.0	370.0	380.0	886.0	1,000.0	458.0	1,010.0	1,022.0	1,022.0	1,022.0	1,022.0	1,022.0	1,022.0	1,022.0	1,022.0	1,022.0	1,022.0		
% growth (y/y)	15.4%	16.6%	5.4%	5.6%	5.6%	5.6%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%	
Underwriting income & expense	154.0	154.0	54.0	54.0	54.0	54.0	154.0	54.0	54.0	54.0	54.0	154.0	54.0	54.0	54.0	54.0	154.0	54.0	54.0	54.0	54.0	
% growth (y/y)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	(2.3%)	
After-tax underwriting income	4,244.0	4,374.0	676.0	700.0	700.0	700.0	4,244.0	676.0	676.0	676.0	676.0	4,244.0	676.0	676.0	676.0	676.0	4,244.0	676.0	676.0	676.0	676.0	
% growth (y/y)	18.3%	4.4%	16.6%	(10.3%)	11.1%	45.6%	5.8%	25.8%	24.5%	(66.8%)	(42.8%)	(27.9%)	0.3%	1.2%	25.2%	5.7%	3.5%	0.4%	0.4%	0.4%	0.4%	2.5%
Rebased gain/(loss) on investments another, after-tax	93.0	85.0	(76.0)	10.0	29.0	48.0	11.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Net income	2,523.0	2,622.0	600.0	(40.0)	1,310.0	2,607.0	850.1	465.8	453.6	945.1	2,710.8	852.2	468.4	567.8	749.4	2,864.3	881.8	471.3	614.6	982.2	2,935.8	
% growth (y/y)	22.7%	3.9%	(24.6%)	(22.0%)	108.8%	50.1%	2.9%	41.7%	4.1%	(42.6%)	(45.2%)	0.9%	2.4%	1.2%	25.2%	3.4%	3.5%	0.4%	8.3%	(0.6%)	2.5%	
Company income tax rate (%)	14.6%	16.1%	17.4%	49.0%	15.9%	19.4%	17.0%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	16.5%	
Weighted average number of diluted shares	209.8	262.3	255.0	251.6	254.3	254.8	252.3	249.7	247.2	244.7	242.7	241.1	239.6	237.1	234.5	233.5	232.0	229.9	224.4	228.2		
% growth (y/y)	(3.2%)	(2.8%)	(3.4%)	(4.6%)	(1.6%)	(3.1%)	(1.4%)	(0.7%)	(2.8%)	(4.0%)	(2.2%)	(4.0%)	(4.1%)	(4.1%)	(4.2%)	(4.3%)	(4.3%)	(4.3%)	(4.3%)	(4.3%)	(4.3%)	
Participating share-based awards - allocated income	1.800%	1.90	5.0	1.0	5.8	10.0	21.8	4.0	4.0	4.0	4.0	4.0	16.0	4.0	4.0	4.0	4.0	16.0	4.0	4.0	4.0	
Per share:																						
After-tax core income	\$5.94	\$9.80	\$2,62	\$2,62	\$3.12	\$4.91	\$10.48	\$3.35	\$1.84	\$1.82	\$3.04	\$10.25	\$3.50	\$1.94	\$2.28	\$4.14	\$11.95	\$3.78	\$2.04	\$2.89	\$4.30	
% growth (y/y)	22.8%	7.4%	(7.4%)	(11.0%)	117.5%	48.0%	9.2%	27.9%	NM	(21.9%)	3.5%	4.4%	5.5%	30.8%	7.9%	10.2%	8.0%	4.8%	13.2%	3.9%	7.1%	
Net income	\$9.27	\$9.82	\$2.33	\$2.33	\$3.23	\$3.23	\$5.10	\$10.52														
% growth (y/y)	22.3%	7.0%	(22.0%)	(10.0%)	115.1%	52.0%	5.5%	5.5%														
GAP ratio(%)	2018	2019	Q1	Q2	Q3	Q4	2020	Q1	Q2	Q3	Q4	2021E	Q1	Q2	Q3	Q4	2022E	Q1	Q2	Q3	Q4	2023E
Iess: Fee income - Underwriting expenses	278.0	285.0	67.0	70.0	65.0	65.0	258.0	65.7	64.3	68.9	69.2	266.3	73.8	71.4	76.6	76.6	296.4	77.3	74.6	80.3	80.2	312.4
Iess: Billing and policy fees	93.0	108.0	26.0	17.0	24.0	28.0	97.0	34.4	34.7	35.1	35.8	140.1	36.4	36.6	37.5	38.0	148.6	38.5	38.7	38.6	40.2	157.0
Iess: Fee income - Loss and loss adjustment expenses	154.0	174.0	41.0	44.0	35.0	41.0	167.0	38.0	36.5	39.3	39.5	153.3	43.9	42.3	45.7	45.7	177.8	46.1	44.4	48.0	48.0	186.6
Contra-RWA																						
Loss and loss adjustment expense ratio	66.8%	66.3%	65.5%	72.7%	65.6%	57.3%	65.1%	62.7%	68.7%	69.4%	62.1%	65.7%	63.0%	68.7%	67.7%	62.0%	65.3%	63.0%	68.7%	67.3%	68.6%	
Underwriting expense ratio	35.1%	29.8%	30.0%	29.3%	29.4%	29.9%	30.0%	29.8%	29.2%	29.6%	29.8%	29.2%	29.5%	29.5%	29.7%</td							

Price Target Basis and Risk

Price Target for TRV: \$150.00 from \$145.00

Our price target of \$150 is based on around a 1.15x multiple of our projected 2022 book value estimate of around \$129 and 12.6x our 2022 EPS estimate of \$11.95.

Risk for TRV

Risks to achieving our price target include large catastrophe losses, adverse reserve development, increased competition, a deterioration in loss costs, and a rise in D&O claims.

Investment Thesis

TRV

We believe that TRV will benefit from one of the hardest commercial pricing environment since 2003. Although we are positive on the commercial lines space as a whole, we are more cautious on TRV relative to peers due to its smaller account exposure and higher workers' comp focus as both are getting less rate than other lines/account sizes. We still believe that risk remains around social inflation, lower reserve releases, and Covid-19, but we believe that these risks are adequately reflected in shares with the risk/reward now more neutral.

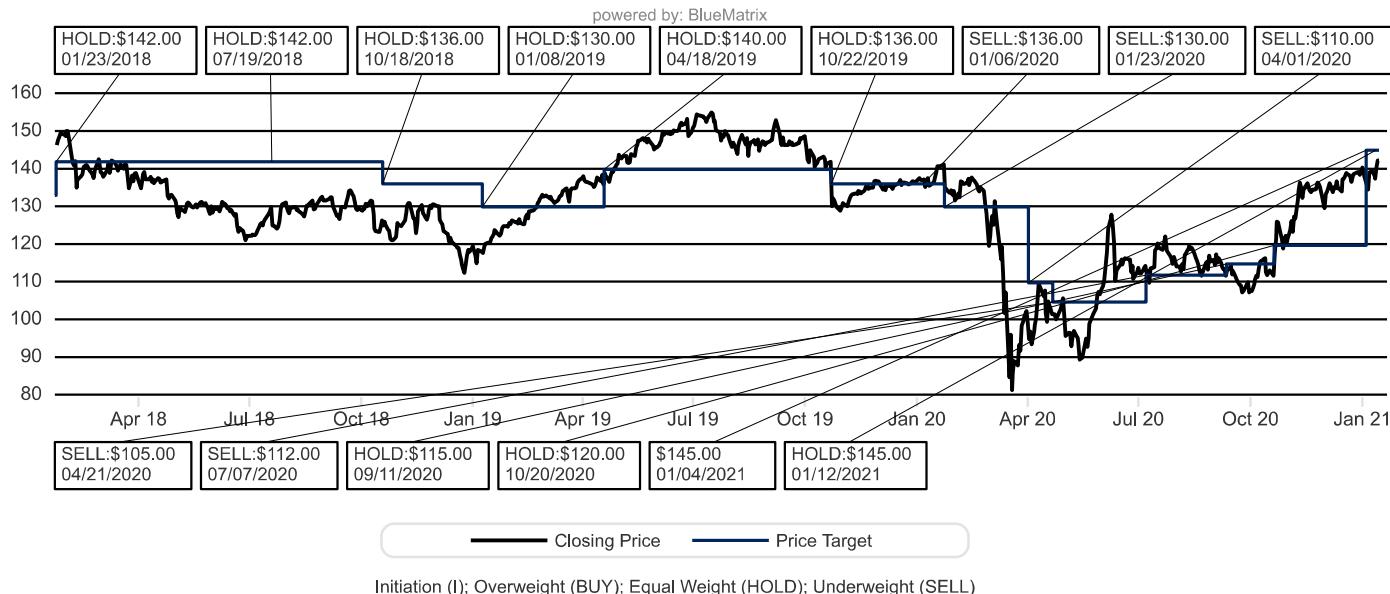
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TRV:

Risks to achieving our price target include large catastrophe losses, adverse reserve development, increased competition, a deterioration in loss costs, and a rise in D&O claims.

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1=Overweight: Total return on stock expected to be 10%+ over the next 12 months. BUY

2=Equal Weight: Total return on stock expected to be 0-10% over the next 12 months. HOLD

3=Underweight: Total return on stock expected to lag the Overweight- and Equal Weight-rated stocks within the analyst's coverage universe over the next 12 months. SELL

As of January 20, 2021

55.1% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Overweight.

33.3% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Equal Weight.

11.6% of companies covered by Wells Fargo Securities, LLC Equity Research are rated Underweight.

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