

The Travelers Companies, Inc.

TRV: Loss Trend Smacks The Umbrella Again; Conference Call Round-Up

Underweight/\$112

Commercial Lines Insurance

Earnings Estimates Revised Up

- Summary.** TRV hosted its Q2 conference call this morning. The call was broad ranging with a focus on commercial lines pricing, its higher loss trend assumption, reserve development, capital and investments. Our 2020 EPS estimate goes to \$9.25 (from \$8.90) as higher other investment income in the Q3, continued favorable personal auto margins in the Q3 (although not as strong as the Q2), more than offset lower fixed income investment income and lower level of prior year reserve development. Our 2021 and 2022 EPS estimates are unchanged at \$9.95 and \$10.60 and our price target remains \$112. The TRV shares traded down owing to the higher loss trend within commercial lines in the quarter, in our view.

- Higher loss picks takes the stock down.** TRV had an OK quarter with the underlying margin being driven by personal auto, and the reserves developing adversely within management liability and general liability/commercial multi-peril. Covid-19 losses were modest (and the net impact after favorable frequency was minimal), while natural cat losses were high (the Q2 is typically its highest cat loss quarter) and pricing momentum continued to build (double-digit rates away from workers' comp). However, we think the market took a negative reaction to the quarter due to one number – the 0.5% increase to its loss picks within Business Insurance (bringing its trend to 5.0% in BI). The 5.0% is still below price (up 7.4% in BI including rate declines in workers' comp) but reinforced that TRV has had to add to its loss trend, when others have not. Before this quarter TRV had taken up its loss trend assumption to 4.5% last Q2. At this point we are assuming that the higher trend is confined to TRV and do think other insurers (including CB next week) should get a lift on earnings as they point to better commercial lines pricing.

- Pricing momentum building.** The combination of weather-related losses, historically low interest rates, higher loss trend in liability lines, the Covid-19 pandemic and resulting economic contraction have Travelers comparing this market to the one after 9/11 and Hurricane Katrina. This supports our bullish pricing view. Further, TRV pointed to being close to the trough of the workers' comp cycle. This is all good but is counter-balanced by the higher loss trend within their business insurance book. For TRV's underlying BI margins to improve they would need to see rate continue at these levels, without a corresponding increase in loss trend.

- Other takes for the group.** TRV left a bullish view on the level of workers' comp related Covid-19 losses slowing, combined with maintaining its stance that it should largely be immune from Business Interruption losses from the pandemic, and pointed to conserving capital and potentially still remain muted on buybacks given the economic uncertainty and the fact that we are in hurricane season. **See inside note for additional takes for the sector.**

Please see page 14 for rating definitions, important disclosures and required analyst certifications. All estimates/forecasts are as of 07/23/20 unless otherwise stated. 07/23/20 14:21:38 ET

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\$	2019A	2020E		2021E		
EPS		Curr.	Prior	Curr.	Prior	
Q1 (Mar.)	2.83	2.62	A	NC	2.82	2.79
Q2 (June)	2.02	(0.20)	A	NC	1.54	1.55
Q3 (Sep.)	1.43	3.52		3.21	2.16	2.20
Q4 (Dec.)	3.32	3.31		3.30	3.45	3.43
FY	9.60	9.25		8.90	9.95	NC
CY	9.60	9.25			9.95	
FY P/EPS	12.5x	13.0x			12.1x	
Rev.(MM)	29,151	29,562			31,125	

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters
NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful
V = Volatile

Ticker	TRV
Price Target/Prior:	\$112/NC
Price (07/23/2020)	\$120.41
52-Week Range:	\$76-154
Shares Outstanding: (MM)	253.2
Market Cap.: (MM)	\$30,487.8
S&P 500:	3,261.47
Avg. Daily Vol.:	1,618,770
Dividend/Yield:	\$3.40/2.8%
LT Debt: (MM)	\$7,049.0
LT Debt/Total Cap.:	23.2%
ROE:	5.0%
3-5 Yr. Est. Growth Rate:	10.0%
CY 2020 Est. P/EPS-to-Growth:	1.3x
Last Reporting Date:	07/23/2020 Before Open

NC = No Change

Source: Company Data, Wells Fargo Securities, LLC estimates, and Reuters

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Q2 2020 Earnings And Conference Call Highlights

Summary. TRV hosted its Q2 conference call this morning. The call was broad ranging with a focus on commercial lines pricing, its higher loss trend assumption, reserve development, capital and investments. TRV had an OK quarter with the underlying margin being driven by personal auto, and the reserves developing adversely within management liability and general liability/commercial multi-peril. Covid-19 losses were modest (and the net impact after favorable frequency was minimal), while natural cat losses were high (the Q2 is typically its highest cat loss quarter) and pricing momentum continued to build (double-digit rates away from workers' comp). However, we think the market took a negative reaction to the quarter due to one number – the 0.5% increase to its loss picks within Business Insurance (bringing its trend to 5.0% in BI). Our 2020 EPS estimate goes to \$9.25 (from \$8.90) as higher other investment income in the Q3, continued favorable personal auto margins in the Q3 (although not as strong as the Q2), more than offset lower fixed income investment income and lower level of prior year reserve development. Our 2021 and 2022 EPS estimates are unchanged at \$9.95 and \$10.60 and our price target remains \$112. The TRV shares traded down owing to the higher loss trend within commercial lines in the quarter, which more than overshadowed the strong and improving rate within its commercial lines book, in our view.

The Quarter In A Nutshell. This morning (7/23), TRV [reported](#) Q2 core loss of \$0.20 per share, in line with our estimate and its [preannouncement](#). Recall that TRV had preannounced earnings on 7/14 and provided a wide range of Q2 earnings metrics, including the earnings loss per share it expected, although it did not give underlying margins or the level of reserve development. TRV's results were ahead of us in Personal lines (on stronger underlying results due to the frequency benefit from Covid-19), and weaker in Bond & Specialty, with Business Insurance mostly in-line with our revised numbers, although with an absence of favorable development. NPW declined by 1.4%, but were +2% excluding the premium refund, better than our estimate for a 1.1% decline excluding the refund. TRV did not repurchase any shares, in line with our estimate. TRV did update its NII outlook to be down \$35-40 million on a quarterly basis for the rest of 2020, from the prior \$20 million decline, which is not surprising given the drop in rates in Q1. Q3 should however see a rebound in alternative investments. Book value per share rose by 6.8% and the core ROE was (0.8%). Business Insurance renewal rate change was +7.4%, improving from +6.1% in the Q1 and +4.8% in Q4, with rates up in all lines away from workers' comp and up in the double-digits excluding workers' comp. We had expected about 100 bps of improvement in the renewal rate. Exposure growth was -1.8% versus -1.0% in the Q1.

Exhibit 1. Consolidated Results Versus Wells Fargo Securities Estimates

	Q2 2020 Actual	Q2 2020 Estimate
Net premiums written (in millions)	\$7,346	\$7,372
Growth in net premiums written	(1.4%)	(1.1%)
Growth in net premiums earned	(0.5%)	(0.6%)
Investment income (in millions)	\$268	\$268
Combined ratio	103.7%	103.4%
Catastrophe losses (in millions)	\$854	\$854
Reserve releases (in millions)	(\$2)	(\$114)
Underlying Loss Ratio	60.4%	61.7%
Expense Ratio	31.0%	31.1%
Underlying combined ratio	91.4%	92.8%
Tax rate	49.0%	16.5%
Operating EPS	(\$0.20)	(\$0.20)
Growth in operating EPS	(110.0%)	NM
Book value per share	\$106.42	\$98.69
Segment Underwriting Income (in millions):		
Business Insurance	(\$315)	(\$320)
Bond & Specialty Insurance	\$39	\$112
Personal Insurance	(\$47)	(\$89)
Operating ROE	(0.8%)	(0.8%)

Source: Wells Fargo Securities, LLC estimates and Company reports

2020 Outlook Updated For Lower Investment Income

2020 Outlook Lowered For Investment Income. Exhibit 2 below highlights TRV's commentary and expectations for 2020. TRV pulled its outlook in Q1 2020 for renewal premium change and its underlying margins for the remainder of 2020 as a result of the uncertainty associated with the potential impacts associated with Covid-19, but did provide an outlook for net investment income, and also provided helpful color around other line items in the model. TRV's **fixed net investment income** should be down approximately \$35-40 million per quarter in H2 2020 and the company expects alts to improve in the Q3 given the market rebound, but did note that alts may not see the full benefit with Q3 earnings to reflect continued economic uncertainty. For **catastrophe losses**, TRV highlighted that they have accumulated \$1.4 billion of qualified losses towards the aggregate retention of \$1.55 billion on its property aggregate cat XOL treaty. The treaty provides aggregate coverage of \$280 million of \$500 million of losses above the \$1.55 billion retention. TRV did not point to a specific level for **share repurchases**, but did not close the door on potential share repurchases in Q3 or Q4. We get the sense that TRV will not repurchase shares in Q3, but will likely repurchase a modest amount (we have \$300 million) with Q4 earnings. When looking at **premium volume**, TRV said that they expect to feel the effects on an earned basis beyond the end of the year. In **Business Insurance**, the company is getting rate which could improve forward margins, although they did highlight that they will likely see 50 bps increase in loss trend given the social inflation and liability dynamics. In **Bond and Specialty**, TRV highlighted that the loss ratio could remain elevated as a result of the recessionary environment. In **Personal Insurance**, we got the sense that frequency trends will remain favorable with Q3 earnings, but TRV did noted that severity trends could partially offset this benefit to underlying loss trends. Further, TRV said that the **expense ratio** could be elevated in the near term as they do not expect to make significant adjustments to their fixed expense base in response to short-term fluctuations in business volumes.

Exhibit 2. 2020 Outlook Provided By Travelers

	Provided With Q3 2019 Earnings	Provided With Q4 2019 Earnings	2020 Outlook	Provided With Q1 2020 Earnings	Provided With Q2 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 the remainder of 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	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 the remainder of 2020 as a result of the uncertainty associated with the potential impacts associated with COVID-19.		
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			
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.	

Source: Wells Fargo Securities, LLC and Company data

Pricing momentum building. The combination of weather-related losses, historically low interest rates, higher loss trend in liability lines, the Covid-19 pandemic and resulting economic contraction have Travelers comparing this market to the one after 9/11 and Hurricane Katrina. This supports our bullish pricing view. Further, TRV pointed to being close to the trough of the workers' comp cycle (although did not say when comp might turn). This bullish pricing is all a good data point, but is being counter-balanced by the higher loss trend within their business insurance book. For TRV's underlying BI margins to improve they would need to see rate continue at these levels, without a corresponding increase in loss trend. Further, with Travelers not seeing as much Covid-19 losses as some peers and more immune from reinsurance rate increases (as they have high retentions on their treaties) we do wonder if they can continue to push for as much price (double-digits away from workers' comp).

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 include:

- (1) *Commercial lines pricing continues to firm* and picked up in the Q2 with renewal rates up 7.4% in business insurance and rates up in the double-digits away from workers comp. Further, TRV saw 2% premium growth (excluding the impact of the personal auto premium refund) as the strong renewal rate change more than offset the impact of lower exposures due to Covid-19. **This 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.**
- (2) *Higher loss trend in Business Insurance could prove to be TRV-specific.* Over the past couple of years Travelers has added to its lost trend in most cases due to the impact of social inflation (the last time was a similar 50 basis point increase to 4.5% in Q2 2019) and since they did point to some reserve increases for prior years for general liability and commercial multi-peril we are not surprised they increased their loss trend as well. This quarter TRV upped their loss trend within Business Insurance from 4.5% to 5% in commercial lines. We are not expecting a broad-based increase by other commercial lines insurers. **Our assumption is that the 50 basis point increase in loss trend could provide to be TRV specific in the quarter.**
- (3) *Business interruption should be insulated from Covid-19 claims.* TRV once again highlighted that for its commercial property book its policies require losses to be caused by a direct physical damage to property for it to be a covered BI loss. Additionally, its standard policy form specifically excludes losses or damages resulting from a virus. Further, a couple of court decisions so far in NY and Michigan have both upheld the physical damage requirement to trigger BI claims for Covid-19. Additionally within commercial lines, TRV is seeing fewer commercial auto and slip and fall type claims and is also seeing the plaintiffs' bar move to settle claims faster. **This is positive for all commercial lines insurers, but the most positive for HIG under our coverage, as HIG has a similar account footprint as TRV.**
- (4) *Workers' comp impact from Covid-19 is manageable and level of losses are subsiding and not as bad as feared.* Generally workers' comp claims will be triggered if the employee can demonstrate that the injury occurred over the course of employment, including healthcare workers and first responders (not represent a significant part of TRV's book). TRV highlighted that some states have taken steps to expand the scope of comp coverage by creating presumptions of compensability, although given the older age-range that seems to be more impacted by Covid-19 are not in the workforce. Further TRV said that the frequency of comp claims stabilized in the Q2, which could be attributed to improved supply of PPE and the healthcare workers having the benefit of more experience in dealing with Covid-19 patients. **The better results within workers' comp is a positive for HIG.**
- (5) *Personal auto is benefiting from a lack of driving, although does seem like the best of this benefit came in April.* Confirming what we saw in PGR's numbers this quarter, Travelers benefited from a lack of driving by its insurers with miles down significantly from pre Covid-19 levels and reaching a weekly low point in April. TRV did caution that there could be an offset to the favorable frequency trends as severity could rise as individuals get into accidents at higher speeds as well as distracted driving. **This is a positive lateral for the personal auto insurers (ALL and PGR) who should continue to benefit from favorable frequency trends in auto (which is their largest business).**
- (6) *NII from fixed income will be pressured for the group, although alternative NII should improve significantly in the Q3.* TRV lowered its outlook for NII from its fixed maturity investments, but did point to non-fixed income results being stronger in the Q3 reflective of the lag in the portfolio and the recovery in the equity markets in the Q2. TRV did however say that recoveries may not be reflected in the private equity and hedge fund results as quickly as the downturns were as the fund managers may take a more measured approach and not write-up the valuations as quickly as they wrote them down. **This would imply to all insurers (life and non-life) as everyone will be impacted by lower interest rates, with a positive tailwind to alts in the Q3 due to the one-quarter lag.**
- (7) *Repurchases could remain minimal for the group.* Following not buying back any of its shares in the Q2, TRV once again pointed to being more cautious when it comes to capital return, due to the impact of both the ongoing economic uncertainty and the fact that we are now in hurricane season. **We expect all insurers, P&C and life, to remain cautious on the buyback front as they look to conservative capital in these uncertain markets.**

Covid-19 Thoughts

TRV's Q2 Covid-19 losses in line with preannounced levels. When TRV preannounced Q2 earnings results, the Covid-19 losses of \$114 million were well below our \$448 million estimate for the Q2 (\$560 million total incl. Q3) and below our market share and [industry loss estimates](#) and somewhat surprising given the elevated losses from others (see Exhibit 3). We are currently forecasting \$112 million of Covid-19 related losses in the Q3 (TRV did not give an indication of future losses and given the \$50 million of losses in H1 2020, which ignores only investment income, we believe our forward Covid-19 loss estimate could prove to be conservative). TRV highlighted that a majority of the Q2 losses were workers comp although the workers' comp impact from Covid-19 is manageable and level of losses are subsiding and not as bad as feared. Additionally, TRV highlighted that for its commercial property book its policies require losses to be caused by a direct physical damage to property for it to be a covered BI loss.

Exhibit 3. Covid-19 Reported And Preannounced Losses By Company

Ticker	Q1 \$M Impact		% Impact On		Q2 \$M Impact		Cumulative \$M Impact	
	Pre-tax	After-tax	Per Share	Q4 2019 BV	Q1 2020 EPS	Pre-tax	After-Tax	Pre-tax
ACGL	\$87	\$77	\$0.19	0.7%	29.2%	\$170-180	\$154	\$262
AIG	\$272	\$211	\$0.24	0.4%	68.3%			\$272
ALL		Did not call out charges related to Covid-19						-
Alleghany	\$153	\$119	\$8.34	1.4%	62.6%			\$153
Allianz	\$770	\$655	\$1.57	0.9%	30.3%			\$770
Argo	\$26	\$22	\$0.64	1.2%	64.2%	\$10-20		\$41
Aviva	\$225	-	-	-	-			\$225
AXA/XL	-	-	-	-	-	\$1,356	-	\$1,356
AXS	\$235	\$232	\$2.71	4.9%	NM			\$235
Beazley	\$170	-	-	-	-			\$170
Berkshire	\$230	\$183	\$0.11	0.0%	0.0%			\$230
CB	\$13	\$11	\$0.02	0.0%	0.9%	\$1,365	\$1,157	\$1,378
CINF	-	-	-	-	-	\$65	-	\$65
CNA	\$15	\$12	\$0.05	0.1%	10.1%	\$182	\$148	\$197
Hannover Re	\$238	\$183	\$1.51	1.6%	36.0%			\$238
HIG	\$50	\$40	\$0.11	0.3%	7.7%	\$251	\$198	\$301
Hiscox	\$150-175	-	-	-	-			\$150-175
Markel	\$325	\$257	\$18.58	2.3%	NM			\$325
Munich Re	\$865	-	-	-	-	\$812		\$1,677
MS&AD	\$186	-	-	-	-			\$186
Partner Re	\$18	-	-	-	-			\$18
PGR		Did not call out charges related to Covid-19						
QBE	-	-	-	-	-	-		\$335
RE	\$150	\$168	\$4.21	1.9%	51.1%			\$150
RLI	No charges; \$23M premium return and \$5M put up for cost of investigating							\$0
RNR	\$104	\$101	\$2.35	2.0%	75.5%			\$104
RSA	\$53	-	-	-	-			\$53
Sirius	\$140	\$120	\$0.94	6.6%	-			\$140
Storebrand	\$28	-	-	-	-			\$28
Swiss Re	-	-	-	-	-			\$2,500
THG	\$13	\$11	\$0.28	0.4%	11.2%	Not expected to be material		\$13
Tokio Marine	\$346	-	-	-	-			\$346
TRV	\$86	\$68	\$0.27	0.3%	9.3%	\$114	\$90	\$200
Tryg	\$6	\$5	\$0.10	-	NM			\$6
Watford	Not expected to be material due to business mix							
WRB	\$65	\$50	\$0.28	0.8%	28.8%	\$85	-	\$150
Zurich	\$750	-	-	-	-			\$750
Total/Average	\$5,830	-	-	1.5%	32.8%	\$4,405	\$1,747	\$13,037

Source: Wells Fargo Securities, LLC and Company data

Highlights Of Our Estimate Changes

Overview of our estimate changes. Exhibit 4 highlights the changes we made to our earnings model following Q2 2020 earnings. Our 2020 EPS estimate goes to \$9.25 from \$8.90, while our 2021 and 2022 estimates are unchanged at \$9.95 and \$10.60, respectively. The primary changes to our model includes:

- (1) Weaker **net investment income** in H2 2020 to reflect TRV's guidance for a decline in fixed income NII of \$35-40 million in the Q3 and Q4. We are also lowering our NII estimates for 2021 and 2022. We had previously assumed higher alternatives in the Q3 and made minor adjustment to our assumption.
- (2) **Loss ratio adjustments all segments.** We lowered our underlying loss ratio estimates in Business Insurance to reflect the strong pricing TRV is getting. We raised our underlying loss ratio in Bond and Specialty in Q3 2020 to be in line with the Q2 2020 level to reflect elevated loss activity associated with the economic slowdown. We lowered our underlying loss ratio in Personal Lines (mainly personal auto) in the Q3 to reflect better frequency trends than we had previously been modeling (although we do not expect the margin in the Q3 to be as strong as the Q2 as individuals start to return to work and driving picks up).
- (3) Lower favorable **reserve development** in subsequent quarters in Business Insurance following the PYD miss in the Q2.
- (4) We are now forecasting no **repurchases** in the Q3 versus our previous \$200 million estimate. We also lowered our Q4 buyback estimate to \$300 million from \$400 million.

Exhibit 4. Summary Of Estimate Changes

Income Statement	Current			Prior Estimates			Delta (Absolute)		
	2020E	2021E	2022E	2020E	2021E	2022E	2020E	2021E	2022E
Gross premiums written	31,721.7	33,162.2	34,647.1	31,863.5	33,311.8	34,804.9	(141.8)	(149.5)	(157.9)
% growth (yr/yr)	2.1%	4.5%	4.5%	2.6%	4.5%	4.5%	(0.5%)	(0.0%)	(0.0%)
Net premiums written	29,562.0	31,125.3	32,654.0	29,614.1	31,186.9	32,725.1	(52.1)	(61.6)	(71.1)
% growth (yr/yr)	1.4%	5.3%	4.9%	1.6%	5.3%	4.9%	(0.2%)	(0.0%)	(0.0%)
Increase in unearned premiums	(705.0)	(827.7)	(930.8)	(840.1)	(939.1)	(934.3)	135.1	111.5	3.5
Net premiums earned	28,857.0	30,297.7	31,723.2	28,774.0	30,247.8	31,790.8	83.1	49.9	(67.6)
% growth (yr/yr)	2.1%	5.0%	4.7%	1.8%	5.1%	5.1%	0.3%	(0.1%)	(0.4%)
Net investment income	2,125.4	2,378.6	2,396.3	2,170.0	2,428.8	2,459.3	(44.6)	(50.2)	(63.0)
Fee income	456.0	456.0	456.0	458.0	458.0	458.0	(2.0)	(2.0)	(2.0)
Other income	243.0	264.0	272.0	257.0	276.0	284.0	(14.0)	(12.0)	(12.0)
Total revenue	31,681.4	33,396.2	34,847.5	31,659.0	33,410.5	34,992.1	22.4	(14.3)	(144.6)
Losses and loss adjustment expenses	19,310.3	20,631.1	21,648.5	19,332.5	20,580.5	21,719.2	(22.2)	50.6	(70.6)
Amortization of deferred acquisition costs	4,730.4	4,914.8	5,146.5	4,691.0	4,908.7	5,158.6	39.4	6.1	(12.1)
General and administrative expenses	4,523.0	4,625.0	4,793.0	4,562.0	4,673.0	4,841.0	(39.0)	(48.0)	(48.0)
Interest expense	338.9	331.3	337.3	336.0	340.0	344.0	2.9	(8.8)	(6.8)
Total expenses	28,902.6	30,502.1	31,925.2	28,921.5	30,502.2	32,062.8	(18.9)	(0.1)	(137.5)
Pretax operating income	2,778.8	2,894.1	2,922.2	2,737.5	2,908.4	2,929.3	41.3	(14.3)	(7.1)
% growth (yr/yr)	(8.1%)	4.2%	1.0%	(9.5%)	6.2%	0.7%	1.4%	(2.1%)	0.3%
Income tax expense/(benefit)	433.7	477.5	482.2	458.7	479.9	483.3	(25.0)	(2.4)	(1.2)
After-tax core income	2,345.1	2,416.6	2,440.1	2,278.8	2,428.5	2,446.0	66.3	(11.9)	(5.9)
% growth (yr/yr)	(7.6%)	3.0%	1.0%	(10.2%)	6.6%	0.7%	2.6%	(3.5%)	0.3%
Company income tax rate (%)	15.6%	16.5%	16.5%	16.8%	16.5%	16.5%	(1.1%)	0.0%	0.0%
Weighted average number of diluted shares	252.1	241.3	228.8	254.1	242.4	229.3	(2.1)	(1.1)	(0.5)
Participating share-based awards - allocated income	14.0	16.0	16.0	17.0	16.0	16.0	(3.0)	0.0	0.0
After-tax core income	\$9.25	\$9.95	\$10.60	\$8.90	\$9.95	\$10.60	\$0.35	(\$0.00)	(\$0.00)
Profitability Metrics									
Loss and loss adjustment expense ratio	66.3%	67.5%	67.7%	66.6%	67.5%	67.7%	-0.3%	0.1%	-0.1%
Underwriting expense ratio	30.1%	29.5%	29.3%	30.1%	29.7%	29.5%	-0.1%	-0.2%	-0.1%
Combined ratio	96.4%	97.0%	97.0%	96.7%	97.1%	97.2%	-0.3%	-0.1%	-0.2%
Points on the combined ratio	5.9%	4.4%	4.4%	5.9%	4.5%	4.4%	0.0%	0.0%	0.0%
Points on the combined ratio	-1.6%	-0.1%	-0.1%	-2.1%	-0.4%	-0.3%	0.4%	0.3%	0.2%
Current accident year combined ratio	92.1%	92.7%	92.6%	92.9%	93.0%	93.1%	-0.7%	-0.4%	-0.4%
Underlying loss ratio	62.0%	63.2%	63.3%	62.7%	63.4%	63.6%	-0.7%	-0.2%	-0.3%
Segment Underwriting Income (in millions):									
Business Insurance	(\$605)	(\$332)	(\$354)	(\$605)	(\$350)	(\$399)	\$0	\$18	\$44
Bond & Specialty Insurance	\$331	\$471	\$506	\$449	\$492	\$526	(\$118)	(\$21)	(\$21)
Personal Insurance	\$1,055	\$478	\$474	\$833	\$436	\$436	\$222	\$42	\$38
Book value per share	\$111.43	\$117.55	\$124.50	\$103.30	\$109.48	\$116.53	\$8.12	\$8.07	\$7.97
ROE	8.7%	8.7%	8.8%	8.7%	9.4%	9.4%	0.0%	-0.7%	-0.6%

Source: Wells Fargo Securities, LLC estimates and Company data

Pricing Accelerating In Commercial Lines

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

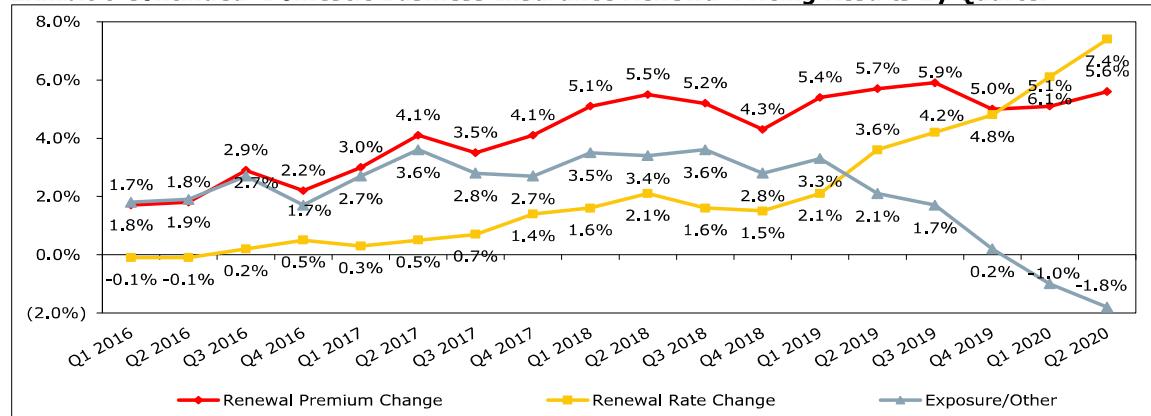
- In the Q2, the *Business Insurance* renewal rate change was +7.4%, accelerating 130 bps from the +6.1% in Q1 2020 and +4.8% in Q4 2019. Exposure growth was -1.8%, lower than the -1.0% in Q1 2020 (revised down from +1.6%) and the +0.2% in Q4 (revised down from +1.4%). See Exhibit 5 below, which shows 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 Q3.

Exhibit 5. Domestic Business Insurance Renewal Pricing Results By Quarter

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
RPC	4.1%	3.5%	4.1%	5.1%	5.5%	5.2%	4.3%	5.4%	5.7%	5.9%	5.0%	5.1%	5.6%
RRC	0.5%	0.7%	1.4%	1.6%	2.1%	1.6%	1.5%	2.1%	3.6%	4.2%	4.8%	6.1%	7.4%
Exposure/other	3.6%	2.8%	2.7%	3.5%	3.4%	3.6%	2.8%	3.3%	2.1%	1.7%	0.2%	-1.0%	-1.8%
% of BI NPW in Workers' Comp	26.1%	26.7%	25.5%	29.8%	24.7%	24.3%	23.4%	28.6%	23.1%	23.3%	22.1%	26.2%	20.7%

Source: Wells Fargo Securities, LLC and Company data

Exhibit 6 Continued. Domestic Business Insurance Renewal Pricing Results By Quarter



Source: Wells Fargo Securities, LLC and Company data

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). The RPC in auto was 1.5% in the Q2 versus 2.2% in Q1, 3.0% in Q4, 3.8% in Q3, and 4.8% in Q2 2019. Homeowners' pricing did accelerate slightly to 7.7% in the Q2 versus 7.6% in Q1, 7.3% in Q4 and 6.7% in Q3 2019.
- Travelers saw its new business in auto grow for the ninth consecutive quarter. Auto new business premium was \$233 million in the Q2 versus \$227 million in Q1, \$224 million in Q4, \$236 million in the Q3, and up from \$206 million last year.

Exhibit 7. Personal Insurance Business Statistics

	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Agency Automobile														
Retention	86%	86%	84%	84%	83%	83%	84%	84%	84%	84%	84%	84%	85%	85%
Renewal Premium Change	7.3%	8.8%	10.5%	11.5%	10.7%	9.6%	8.0%	6.7%	5.5%	4.8%	3.8%	3.0%	2.2%	1.5%
Policies-In-Force (PIF, in thousands)	2,482	2,514	2,528	2,529	2,519	2,517	2,518	2,518	2,516	2,517	2,524	2,532	2,540	2,570
PIF Yearly Change	12%	11%	8%	4%	1%	0%	(0%)	(0%)	(0%)	0%	0%	0%	0%	1%
PIF Sequential Change	2%	1%	1%	0%	(0%)	(0%)	0%	0%	(0%)	0%	0%	1%	1%	2%
New Business (\$ in millions)	\$244	\$225	\$214	\$198	\$193	\$212	\$219	\$202	\$206	\$217	\$236	\$224	\$227	\$233
New Business yearly change	13%	(3%)	(17%)	(24%)	(21%)	(6%)	2%	2%	7%	2%	8%	11%	10%	7%
Agency Homeowners & Other														
Retention	87%	87%	86%	87%	86%	86%	87%	85%	86%	86%	86%	86%	86%	87%
Renewal Premium Change	2.6%	2.6%	2.8%	3.0%	3.2%	3.7%	3.6%	3.7%	5.2%	6.6%	6.8%	7.3%	7.7%	7.7%
Policies-In-Force (PIF, in thousands)	4,222	4,283	4,352	4,402	4,453	4,530	4,601	4,652	4,726	4,825	4,927	5,016	5,111	5,255
PIF Yearly Change	4%	4%	5%	4%	5%	6%	6%	6%	7%	7%	8%	8%	9%	9%
PIF Sequential Change	1%	1%	2%	0%	1%	2%	2%	1%	2%	2%	2%	2%	2%	3%
New Business (\$ in millions)	\$118	\$151	\$159	\$125	\$125	\$170	\$173	\$154	\$163	\$215	\$237	\$219	\$212	\$252
New Business yearly change	17%	14%	18%	9%	6%	13%	9%	23%	30%	26%	37%	42%	30%	17%

Source: Wells Fargo Securities, LLC and Company data

Margins Mostly In Line With A Strong Underlying Beat In Personal Lines

Underlying Results Beat With Strong Results In Personal Lines

- The consolidated combined ratio was 103.7%, missing our 103.4% estimate largely reflective less favorable reserve releases. Costs of \$854 million were in line with preannounced levels and favorable reserve development of \$2 million missed our \$114 million estimate. The underlying combined ratio of 91.4% beat our 92.8% estimate, and improved 3.5 bps from last year. Underlying results beat us in Personal Insurance, missed us in Bond and Specialty, and were in line with us in Business Insurance.
- Catastrophe losses of \$854 million were in line with preannounced levels and came from severe storms in several regions of the United States as well as civil unrest.
- Favorable development totaled only \$2 million and fell short of our estimate for favorable development of \$114 million. There was no favorable development in Business Insurance versus our estimate for favorable development of \$85 million as releases in workers' comp and commercial property were offset by adverse development in general liability and commercial multi-peril. Bond and Specialty saw adverse development of \$33 million versus our estimate for \$20 million of favorable development, while Personal Insurance saw \$35 million of favorable development versus our estimate for \$9 million of favorable development.
- TRV did not provide any forward guidance due to the potential impact of Covid-19 on its businesses, but did note that all losses booked in the quarter were as of 6/30 and did not reflect an estimate for subsequent losses. .

Exhibit 8. Underlying Combined Ratio – Deterioration In Loss Ratio, But Improvement In Expense Ratio

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Reported Combined Ratio	96.7%	103.2%	95.5%	95.5%	98.1%	96.6%	97.5%	93.7%	98.4%	101.5%	92.4%	95.5%	103.7%
Catastrophe Losses, net of reinsurance	6.4%	10.7%	7.5%	5.4%	7.3%	3.8%	8.8%	2.8%	5.3%	3.4%	1.2%	4.6%	12.3%
Prior Year Reserve Development (Favorable)/Unfavorable	(3.2%)	(0.3%)	(4.4%)	(2.3%)	(2.8%)	(0.2%)	(2.4%)	(0.7%)	(1.8%)	4.1%	(0.8%)	(0.4%)	(0.0%)
Underlying Combined Ratio	93.5%	92.8%	92.4%	92.4%	93.6%	93.0%	91.1%	91.6%	94.9%	94.1%	92.1%	91.3%	91.4%
Underlying (improvement) deterioration	1.2%	0.7%	0.4%	0.7%	0.1%	0.2%	(1.3%)	(0.8%)	1.3%	1.1%	0.9%	(0.3%)	(3.5%)
Underlying Loss Ratio	62.4%	62.4%	61.7%	61.8%	62.9%	63.3%	61.6%	61.9%	64.7%	64.5%	63.0%	61.3%	60.4%
Change from last year	2.0%	2.0%	0.9%	0.8%	0.5%	0.9%	(0.1%)	0.1%	1.8%	1.3%	1.3%	(0.6%)	(4.3%)
Underlying Expense Ratio	31.1%	30.4%	30.7%	30.6%	30.7%	29.7%	29.5%	29.7%	30.2%	29.5%	29.1%	30.0%	31.0%
Change from last year	(0.9%)	(1.3%)	(0.5%)	(0.1%)	(0.4%)	(0.7%)	(1.2%)	(0.9%)	(0.5%)	(0.2%)	(0.4%)	0.3%	0.8%

Source: Wells Fargo Securities, LLC and Company data

Exhibit 9. Underlying Combined Ratio By Segment – Deterioration In All Segments

	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018	Q1 2019	Q2 2019	Q3 2019	Q4 2019	Q1 2020	Q2 2020
Business Insurance	94.8%	96.4%	93.9%	95.5%	96.5%	95.4%	95.4%	95.0%	97.4%	95.9%	96.4%	97.3%	97.0%
Underlying (improvement) deterioration	(0.5%)	2.3%	1.1%	1.1%	1.7%	(1.0%)	1.5%	(0.5%)	0.9%	0.5%	1.0%	2.3%	(0.4%)
Bond & Specialty	82.0%	77.7%	91.1%	80.7%	80.5%	78.3%	78.1%	81.1%	81.0%	83.6%	81.3%	85.7%	88.1%
Underlying (improvement) deterioration	(0.4%)	(0.8%)	9.8%	(1.2%)	(1.5%)	0.6%	(13.0%)	0.4%	0.5%	5.3%	3.2%	4.6%	7.1%
Personal Insurance	94.5%	91.0%	90.4%	90.5%	92.6%	92.9%	87.8%	89.1%	94.6%	94.0%	88.4%	84.0%	84.0%
Underlying (improvement) deterioration	4.3%	(1.4%)	(3.2%)	0.4%	(1.9%)	1.9%	(2.6%)	(1.4%)	2.0%	1.1%	0.5%	(5.1%)	(10.7%)
Personal Insurance:													
Agency Automobile	102.4%	98.8%	104.1%	96.3%	95.5%	92.6%	96.9%	92.1%	93.8%	92.7%	99.6%	89.2%	84.2%
Underlying (improvement) deterioration	3.8%	(2.3%)	(8.1%)	(2.3%)	(6.9%)	(6.2%)	(7.2%)	(4.2%)	(1.7%)	0.1%	2.7%	(2.9%)	(9.6%)
Agency Homeowners & Other	82.8%	78.1%	70.2%	80.2%	85.2%	88.5%	72.5%	82.6%	92.9%	93.5%	73.6%	74.9%	81.4%
Underlying (improvement) deterioration	4.6%	(0.2%)	(0.2%)	2.6%	2.4%	10.4%	2.3%	2.4%	7.7%	5.0%	1.1%	(7.7%)	(11.5%)

Source: Wells Fargo Securities, LLC and Company data

Investment Income And Other

Investment Income In Line With Preannounced Levels But Forward Outlook Lowered

- Net investment income was \$268 million pre-tax, in line with TRV's preannouncement. Travelers' pre-tax book yield on its investment portfolio was 1.4%, below the 3.2% yield for Q1 2020 due to the loss within the non-fixed income portfolio. Fixed income investments added \$498 million pre-tax, while alts were negative \$234 million. Short-term investments added \$13 million.
- Given the low interest rate environment TRV lowered its outlook for investment income and is now looking for income from fixed maturities to be down \$35-40 million after-tax per quarter. This compares to down \$20 million after-tax per quarter with Q1 earnings and Q4 guidance for a decline of \$5-10 million). In the Q3, private equity income should see a benefit, although TRV did note that they may not see the full benefit from the market rebound in the Q3 as portfolio managers may be hesitant to mark portfolio up by its full value given the continued economic uncertainty.

Capital Management – Likely Muted In The Q3

- TRV did not repurchases shares in the Q2, in line with our estimate. Dividends were \$218 million versus the \$50 million loss in core earnings. We now removed repurchases in the Q3 versus our previous \$200 million estimate and we lowered our Q4 estimate to \$300 million from \$400 million. Our 2020 capital return estimates have the company returning approximately 68% of its core earnings while our 2021 and 2022 estimates are 98% and 96%, respectively.

Premium Growth Modestly Below Us

- Net premiums fell 1.4% versus our -1.1% estimate and slowed from 4.1% in Q1. The shortfall in premiums was due to lower Business Insurance and Personal Insurance volume, which more than offset premium growth within both Bond and Specialty. Gross premiums fell by 0.9%. Excluding the premium refunds in Personal Insurance, TRV's net written premiums increased by 2%.
- Business Insurance net premiums declined 2.5% versus our -1.9% estimate and 0.6% in the Q1. The slowdown in Business Insurance premiums was due to the impact of economic disruption on insured exposures.
- Bond and Specialty net premiums were up 3.4% versus our 1.9% estimate and 12.9% in the Q1. The Q2 growth reflected strong growth in the company's management liability and international businesses, partially offset by lower surety production.
- Personal Insurance net premiums fell by 1.1% versus our -0.6% estimate and 8.1% in the Q1. Excluding the impact of premium refunds of \$216 million, net written premiums grew by 6% in Personal Insurance. Within personal insurance, TRV saw a decline of 12.2% in auto (below +2.9% in Q1) due to the premium refund and growth of 12.8% in home (versus +18.3% in Q1).

Highlights From Our Loss Trend Analysis

Looking At TRV Loss Picks Versus Others. Exhibit 10 highlights the statutory general liability (Other Liability - Claims Made) initial loss ratios and the total level of development for AIG, CB, HIG, TRV, and the P&C industry for the 2019 accident year and how other prior years have developed (this data was just available last month following the filing of company's annual statutory results). Exhibit 11 provides the same data for Other Liability - Claims Made, Exhibit 12 for Commercial Auto, and Exhibit 13 for commercial multi-peril. Given the lower loss ratios to start versus most peers we are not surprised to see TRV once again adding to its loss trend within Business Insurance.

Exhibit 10. Other Liability Claims Made - Summary Of Loss Ratios and Total Development Relative To Initial Loss Picks

Accident Year	AIG	CB	HIG	TRV	Peer Average	Industry		
	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.
2010	77.22	(12.11)	70.36	(8.72)	62.38	3.32	66.02	6.84
2011	76.96	0.70	72.19	(7.31)	73.85	0.77	67.39	(7.97)
2012	76.51	6.66	71.82	(1.70)	64.91	(12.33)	62.73	4.51
2013	73.32	(6.65)	69.51	(14.69)	57.41	(12.46)	56.69	7.34
2014	67.47	3.94	64.48	(7.52)	50.13	(4.30)	55.94	(8.09)
2015	64.85	5.70	62.16	2.98	47.26	6.16	54.27	(12.34)
2016	70.19	18.72	61.62	4.36	45.14	1.11	53.69	0.65
2017	73.47	4.03	58.48	1.16	43.68	7.17	55.30	(0.60)
2018	67.06	4.34	63.31	(0.95)	47.06	4.88	53.05	2.23
2019	65.61	-	61.03	-	48.56	-	54.65	-
Average	71.27	2.81	65.50	(3.60)	54.04	(0.63)	57.97	(0.83)
							62.19	(0.56)
							65.57	(0.62)

Source: SNL and Wells Fargo Securities, LLC

Exhibit 11. Other Liability Claims Occurrence - Summary Of Loss Ratios and Total Development Relative To Initial Loss Picks

Accident Year	AIG	CB	HIG	TRV	Peer Average	Industry		
	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.
2010	80.37	7.97	74.71	(10.46)	54.41	8.67	60.58	(14.17)
2011	82.28	13.31	76.44	(14.75)	52.83	11.27	59.09	(10.04)
2012	78.73	8.52	71.06	(5.96)	52.33	7.77	57.20	(6.93)
2013	72.73	12.96	72.46	(2.07)	50.23	15.15	54.75	(1.87)
2014	73.36	13.73	71.03	0.63	51.27	4.63	53.98	0.89
2015	75.90	27.41	69.67	3.26	51.72	8.97	52.89	3.59
2016	82.10	15.27	71.15	1.95	52.30	5.81	54.62	5.23
2017	81.70	12.32	74.06	0.35	50.67	0.66	54.90	2.89
2018	79.42	(0.28)	75.54	(0.05)	51.73	0.71	58.11	2.38
2019	82.77	-	73.99	-	54.36	-	62.50	-
Average	78.94	12.36	73.01	(3.01)	52.19	7.07	56.86	(2.00)
							65.25	3.60
							64.40	1.50

Source: SNL and Wells Fargo Securities, LLC

Exhibit 12. Commercial Auto - Summary Of Loss Ratios and Total Development Relative To Initial Loss Picks

Accident Year	AIG	CB	HIG	TRV	Peer Average	Industry		
	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.
2010	65.10	16.42	69.48	(18.13)	56.72	10.58	59.06	7.05
2011	68.18	12.67	67.28	0.40	57.21	21.72	65.50	7.51
2012	71.46	21.21	65.08	(0.70)	66.45	18.18	65.01	4.55
2013	65.87	28.75	61.21	0.19	64.75	7.43	65.29	3.66
2014	76.83	31.62	64.73	1.28	62.21	8.72	61.85	3.56
2015	76.62	25.62	64.48	2.19	59.93	14.31	61.34	9.05
2016	92.34	18.13	68.34	4.68	73.28	5.49	62.89	10.41
2017	110.46	18.18	68.76	7.69	70.11	4.33	65.20	7.48
2018	92.87	9.39	67.16	5.26	63.63	10.55	69.90	1.42
2019	94.80	-	70.42	-	68.12	-	70.46	-
Average	81.45	20.22	66.69	0.32	64.24	11.26	64.65	6.08
							69.26	9.47
							67.44	6.90

Source: SNL and Wells Fargo Securities, LLC

Exhibit 13. Commercial Multi-Peril - Summary Of Loss Ratios and Total Development Relative To Initial Loss Picks

Accident Year	AIG	CB	HIG	TRV	Peer Average	Industry		
	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.	AY Loss Ratio	Dev.
2010	60.68	1.68	63.54	(10.75)	61.81	0.54	57.84	5.63
2011	95.05	7.98	78.76	(4.89)	74.36	(1.37)	71.69	1.21
2012	66.25	9.56	83.61	(13.51)	67.11	(1.81)	60.75	(0.90)
2013	41.84	6.00	49.94	(1.74)	56.34	(3.19)	52.25	(0.23)
2014	50.89	(1.56)	55.47	(5.87)	54.10	0.73	53.96	(0.75)
2015	50.11	1.67	53.96	(3.33)	52.88	(0.11)	50.13	1.42
2016	58.06	7.50	59.40	0.84	59.87	(3.79)	52.59	(2.46)
2017	77.65	(10.31)	86.44	(6.15)	64.93	(4.74)	55.84	3.04
2018	69.27	(0.65)	66.65	4.87	61.13	(0.78)	58.98	4.04
2019	68.43	-	60.13	-	62.08	-	57.61	-
Average	63.82	2.43	65.79	(4.50)	61.46	(1.61)	57.16	1.22
							62.06	(0.62)
							62.61	(0.23)

Source: SNL and Wells Fargo Securities, LLC

Valuation

Current Valuation. The TRV shares are now trading at 1.11x book value, below its 5-year (1.40x) average and its 10-year (1.28x) average multiple. The shares are trading below peak levels of 1.76x. On a price-to-earnings basis, the shares are trading at 12.9x our 2020 EPS estimate and 12.0x our 2021 EPS estimate versus the 10-year average of 11.2x and 10-year peak of 14.7x.

Exhibit 14. TRV Historical Price-To-Book Multiples

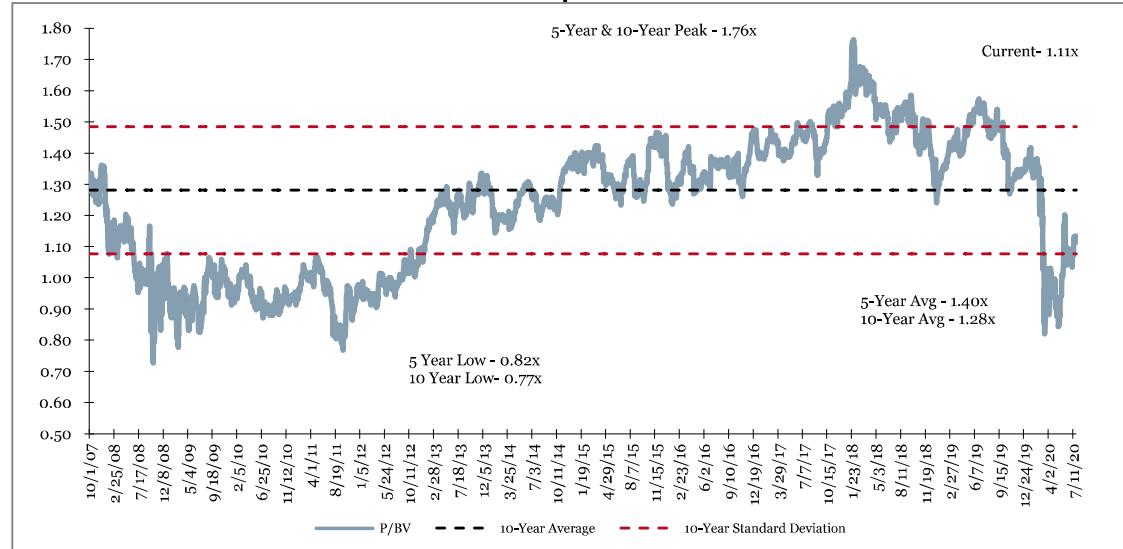
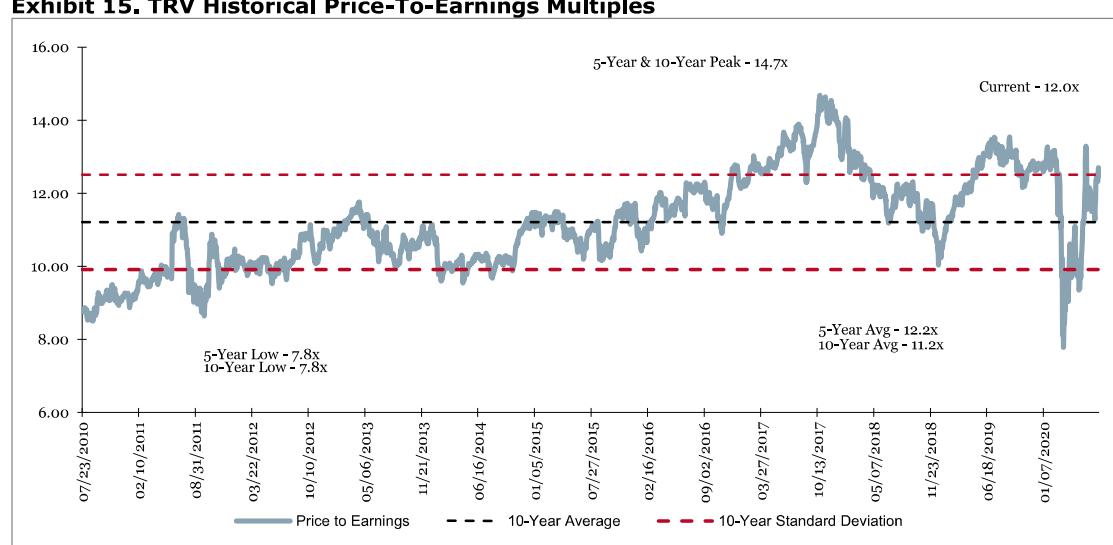


Exhibit 15. TRV Historical Price-To-Earnings Multiples



Consolidated Earnings Model

Exhibit 16. Travelers Earnings Model – Consolidated (\$ in millions, except per share)

Consolidated Income Statement	2018	2019	Q1	Q2	Q3E	Q4E	2020E	Q1E	Q2E	Q3E	Q4E	2021E	Q1E	Q2E	Q3E	Q4E	2022E
Gross premiums written	29,252.0	31,063.0	8,152.0	7,751.0	8,144.6	7,674.1	31,721.7	8,508.4	8,105.4	8,522.1	8,026.3	33,162.2	8,875.3	8,470.7	8,911.8	8,389.3	34,647.1
% growth (y/r/y/r)	5.6%	6.2%	4.0%	(0.9%)	1.5%	4.0%	2.1%	4.4%	4.6%	4.6%	4.6%	4.5%	4.3%	4.5%	4.6%	4.5%	4.5%
% retained	94.7%	93.8%	90.1%	94.8%	93.5%	94.6%	93.2%	90.6%	96.5%	93.7%	94.8%	93.9%	91.2%	96.7%	94.0%	95.2%	94.2%
Net premiums written	27,690.0	29,151.0	7,346.0	7,346.0	7,612.9	7,257.1	29,562.0	7,711.3	7,819.1	7,983.4	7,611.5	31,125.3	8,088.6	8,192.6	8,375.7	7,987.0	32,654.0
% growth (y/r/y/r)	5.6%	5.3%	4.1%	(1.4%)	0.6%	2.8%	1.4%	5.0%	6.4%	4.9%	4.9%	5.3%	5.0%	4.8%	4.9%	4.9%	4.9%
Increase in unearned premiums	(631.0)	(879.0)	(117.0)	(381.0)	(313.1)	(116.2)	(705.0)	(182.9)	(332.3)	(405.5)	(93.1)	(827.7)	(249.0)	(372.9)	(404.4)	95.5	(930.8)
Net premiums earned	27,059.0	28,272.0	7,229.0	6,955.0	7,299.8	7,373.2	28,857.0	7,528.4	7,486.8	7,577.9	7,704.6	30,297.7	7,849.7	7,819.7	7,971.3	8,082.5	31,723.2
% growth (y/r/y/r)	5.4%	4.5%	5.5%	(0.5%)	1.7%	1.7%	2.1%	4.1%	7.6%	3.8%	4.5%	5.0%	4.3%	4.4%	5.2%	4.9%	4.7%
Net investment income	2,474.0	2,488.0	611.0	268.0	646.8	599.6	2,125.4	593.2	594.1	595.1	596.1	2,378.6	597.6	598.6	599.6	600.5	2,386.3
% growth (y/r/y/r)	3.2%	(0.2%)	5.0%	(56.6%)	4.0%	(2.7%)	(13.9%)	(2.9%)	121.7%	(8.0%)	(0.6%)	11.9%	0.7%	0.7%	0.7%	0.7%	0.7%
Fee income	432.0	459.0	108.0	114.0	121.0	113.0	456.0	108.0	114.0	121.0	113.0	456.0	108.0	114.0	121.0	113.0	456.0
% growth (y/r/y/r)	(3.4%)	6.3%	(0.9%)	(1.7%)	0.0%	0.0%	(0.7%)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other income	203.0	269.0	58.0	51.0	67.0	67.0	243.0	68.0	56.0	70.0	70.0	264.0	70.0	58.0	72.0	72.0	272.0
% growth (y/r/y/r)	27.7%	32.5%	(19.4%)	(10.5%)	(1.5%)	(6.9%)	(9.7%)	17.2%	9.8%	4.5%	4.5%	8.6%	2.9%	3.6%	2.9%	3.0%	3.0%
Total revenue	30,168.0	31,468.0	8,006.0	7,388.0	8,134.6	8,152.8	31,681.4	8,297.6	8,250.9	8,364.0	8,483.7	33,398.2	8,625.3	8,590.2	8,763.9	8,868.1	34,847.5
% growth (y/r/y/r)	5.2%	4.3%	5.1%	(5.4%)	1.8%	1.3%	0.7%	3.6%	11.7%	2.8%	4.1%	5.4%	3.9%	4.1%	4.8%	4.5%	4.3%
Losses and loss adjustment expenses	18,291.0	19,133.0	4,789.0	5,107.0	4,665.1	4,749.1	19,310.3	4,993.8	5,361.4	5,284.6	5,011.2	20,631.1	5,216.6	5,603.1	5,534.4	5,294.5	21,648.5
% growth (y/r/y/r)	4.7%	4.6%	7.8%	5.9%	(10.8%)	2.4%	0.9%	4.3%	5.0%	12.9%	5.5%	6.8%	4.5%	4.5%	5.1%	5.7%	4.9%
Amortization of deferred acquisition costs	4,381.0	4,601.0	1,178.0	1,173.0	1,183.2	1,196.2	4,730.4	1,220.5	1,214.4	1,229.0	1,251.0	4,914.8	1,273.0	1,268.7	1,292.6	1,312.1	5,146.5
% growth (y/r/y/r)	5.2%	5.0%	5.5%	3.4%	1.2%	1.3%	2.8%	3.6%	3.5%	3.9%	4.6%	3.9%	4.3%	4.5%	5.2%	4.9%	4.7%
General and administrative expenses	4,297.0	4,385.0	1,137.0	1,121.0	1,135.0	1,130.0	4,523.0	1,165.5	1,139.5	1,162.5	1,157.5	4,625.0	1,197.5	1,176.5	1,199.5	1,219.5	4,793.0
% growth (y/r/y/r)	3.0%	1.6%	7.6%	(0.4%)	3.4%	4.1%	3.6%	2.5%	1.7%	2.4%	2.4%	2.3%	2.7%	3.2%	3.2%	5.4%	3.8%
Interest expense	352.0	344.0	84.0	85.0	86.2	83.8	338.9	82.8	82.8	82.8	82.8	331.3	84.3	84.3	84.3	84.3	337.3
% growth (y/r/y/r)	(4.6%)	(2.3%)	(4.5%)	(4.5%)	2.6%	0.9%	(1.5%)	(1.4%)	(2.6%)	(3.9%)	(1.1%)	(2.3%)	1.8%	1.8%	1.8%	1.8%	1.8%
Total expenses	27,321.0	28,443.0	7,188.0	7,486.0	7,069.5	7,159.1	28,902.6	7,462.7	7,798.0	7,738.9	7,502.5	30,502.1	7,771.4	8,132.6	8,110.8	7,910.4	31,925.2
% growth (y/r/y/r)	4.4%	4.1%	7.2%	4.4%	(6.7%)	2.4%	1.6%	3.8%	4.2%	9.5%	4.8%	5.5%	4.1%	4.3%	4.8%	5.4%	4.7%
Underwriting income	522.0	632.0	233.0	(332.0)	437.5	410.9	749.4	256.6	(114.5)	42.8	397.9	582.8	270.6	(114.6)	65.8	369.5	591.2
add back: general and expense in Other	154.0	196.0	54.0	51.0	43.0	43.0	191.0	43.5	46.5	43.5	43.5	177.0	43.5	46.5	43.5	43.5	177.0
Net Underwriting Income	676.0	828.0	287.0	(281.0)	480.5	453.9	940.4	300.1	(68.0)	86.3	441.4	759.8	314.1	(68.1)	109.3	413.0	768.2
Pretax operating income	2,847.0	3,025.0	818.0	(98.0)	1,065.1	993.7	2,778.8	834.9	452.9	625.1	981.2	2,894.1	853.9	457.6	653.1	957.7	2,922.2
% growth (y/r/y/r)	13.2%	6.3%	(10.5%)	(115.3%)	160.4%	(6.4%)	(8.1%)	2.1%	(562.1%)	(41.3%)	(1.3%)	4.2%	2.3%	1.0%	4.5%	(2.4%)	1.0%
Income tax expense/(benefit)	417.0	488.0	142.0	(48.0)	175.7	164.0	433.7	137.8	74.7	103.1	161.9	477.5	140.9	75.5	107.8	158.0	482.2
After-tax core income	2,430.0	2,537.0	676.0	(50.0)	889.4	829.7	2,345.1	697.1	378.1	522.0	819.3	2,416.6	713.0	382.1	545.3	799.7	2,440.1
% growth (y/r/y/r)	18.9%	4.4%	(10.5%)	(109.3%)	135.3%	(4.3%)	(7.6%)	3.1%	(856.3%)	(41.3%)	(1.3%)	3.0%	2.3%	1.0%	4.5%	(2.4%)	1.0%
Realized gains/(losses) on investments and other, after-tax	93.0	85.0	(76.0)	10.0	0.0	0.0	(66.0)	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)	889.4	829.7	2,279.1	697.1	378.1	522.0	819.3	2,416.6	713.0	382.1	545.3	799.7	2,440.1
% growth (y/r/y/r)	22.7%	3.9%	(24.6%)	(107.2%)	124.6%	(5.0%)	(13.1%)	16.2%	(1045.4%)	(41.3%)	(1.3%)	6.0%	2.3%	1.0%	4.5%	(2.4%)	1.0%
Company income tax rate (%)	14.6%	16.1%	17.4%	49.0%	16.5%	16.5%	15.6%	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	269.8	262.3	255.9	251.6	251.6	249.1	252.1	246.0	242.9	239.7	236.6	241.3	233.5	230.4	227.2	224.1	228.8
% growth (y/r/y/r)	(3.2%)	(2.8%)	(3.4%)	(4.6%)	(3.9%)	(3.8%)	(3.9%)	(3.9%)	(3.5%)	(4.7%)	(5.0%)	(4.3%)	(5.1%)	(5.1%)	(5.2%)	(5.3%)	(5.2%)
Participating share-based awards - allocated income	19.0	19.0	5.0	1.0	4.0	4.0	14.0	4.0	4.0	4.0	4.0	16.0	4.0	4.0	4.0	4.0	16.0
Per share:																	
After-tax core income	\$8.94	\$9.60	\$2.62	(\$0.20)	\$3.52	\$3.31	\$9.25	\$2.82	\$1.54	\$2.16	\$3.45	\$9.95	\$3.04	\$1.64	\$2.38	\$3.55	\$10.60
% growth (y/r/y/r)	22.8%	7.4%	(7.4%)	(110.0%)	145.7%	(0.2%)	(3.6%)	7.5%	(860.1%)	(38.6%)	4.0%	7.6%	7.8%	6.5%	10.3%	3.0%	6.5%
Net income	\$9.27	\$9.91	\$2.33	(\$0.16)													
% growth (y/r/y/r)	27.0%	6.9%	(22.2%)	(107.8%)													
GAAP ratios:	2018	2019	Q1	Q2	Q3E	Q4E	2020E	Q1E	Q2E	Q3E	Q4E	2021E	Q1E	Q2E	Q3E	Q4E	2022E
less: Fee income - Underwriting expenses	278.0	285.0	67.0	70.0	72.2	70.8	280.0	74.1	73.0	75.4	74.3	296.8	77.6	76.7	79.3	77.8	311.4
less: Billing and policy fees	93.0	108.0	28.0	17.0	30.7	30.8	106.5	34.1	34.3	34.2	34.6	137.2	35.2	35.4	35.9	36.4	142.9
less: Fee income - Loss and loss adjustment expenses	154.0	174.0	41.0	44.0	42.2	42.6	169.8	44.1	43.3	44.3	44.8	176.5	46.3	45.7	46.8	47.1	186.0
Combined Ratio:																	
Loss and loss adjustment expense ratio	66.8%	66.9%	65.5%	72.7%	63.3%	63.8%	66.3%	65.7%	71.0%	68.9%	64.5%	67.5%	65.9%	71.1%	68.8%	64.9%	67.7%
Underwriting expense ratio	30.1%	29.6%	30.0%	31.0%	29.8%	29.6%	30.1%	29.7%	29.4%	29.5%	29.3%	29.5%	29.5%	29.2%	29.3%	29.4%	29.3%
Combined ratio	96.9%	96.5%	95.5%	103.7%	93.1%	93.4%	96.4%	95.4%	100.4%	98.4%	93.7%	97.0%	95.3%	100.3%	98.1%	94.3%	97.0%
Shareholders' equity	\$22,894.0	\$25,943.0	\$25,204.0	\$26,943.0	\$27,617.2	\$27,931.7	\$27,931.7	\$28,040.8	\$27,828.6	\$27,762.9	\$27,997.3	\$27,997.3	\$28,128.0	\$27,921.2	\$27,880.5	\$28,097.0	\$28,097.0
Book value per share	\$86.84	\$101.55	\$99.69	\$106.42	\$109.08	\$111.43	\$111.43	\$113.27	\$113.85	\$115.05	\$117.55	\$117.55	\$119.67	\$120.39	\$121.85	\$124.50	\$124.50
Common shares outstanding	263.6	255.5	252.8	253.2	253.2	250.7	250.7	247.6	244.4	241.3	238.2	238.2	235.1	231.9	228.8	225.7	225.7
Operating ROAE	10.3%	10.2%	10.4%	(0.8%)	13.1%	12.0%	8.7%	10.0%	5.4%	7.6%	11.9%	8.7%	10.2%	5.5%	7.9%	11.5%	8.8%

Source: Company data and Wells Fargo Securities, LLC estimates

Price Target

Price Target: \$112 from NC

Our price target of \$112 is based on around a 0.95x multiple of our projected 2021 book value estimate of around \$109 and 11.3x our 2021 EPS estimate of \$9.95. 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

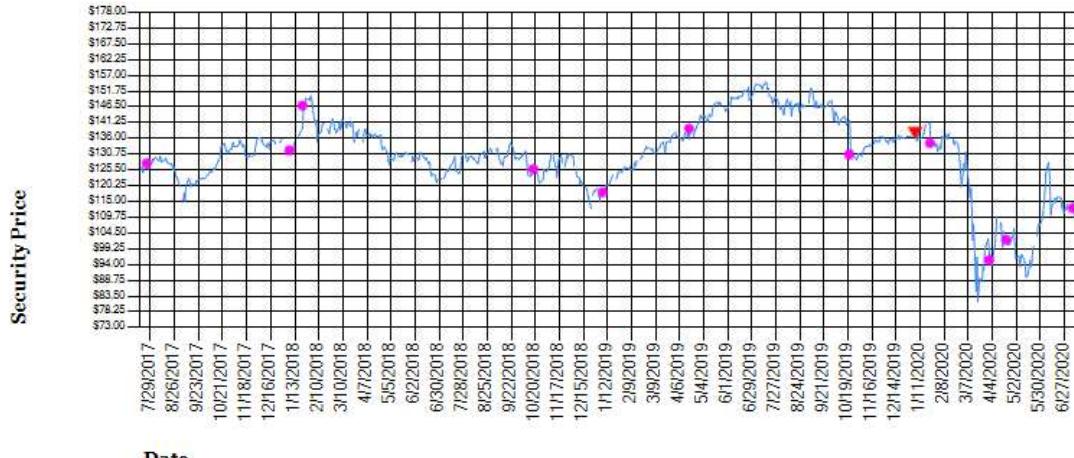
TRV has seen its loss picks within Business Insurance move higher primarily related to social inflation. We think the shares could underperform peers moving forward if it does not hit its 2020 margin target and/or if its reserve releases continue to slow down. In addition, TRV is less exposed to price increases due to its higher workers' comp exposure and also lacks the exposure to large accounts which have seen the strongest price increases. We rate the TRV shares Underweight.

Company Description

The Travelers Companies, Inc. (TRV) is the second largest writer of commercial lines in the United States and also the second-largest writer of personal insurance through independent agents. The company is organized into three business segments: Business Insurance (54% of 2019 net premiums written); Personal Insurance (37%); and Bond & Specialty Insurance (9%), which sell a wide range of insurance and surety products, as well as risk management services. Products are distributed primarily through independent agents and brokers in all 50 states and in select international markets.

Required Disclosures

The Travelers Companies, Inc. (TRV) 3-yr. Price Performance



Date	Published Price (\$)	Rating Code*	Price Target	Val. Rng. Low	Val. Rng. High	Close Price (\$)
7/17/2017		Greenspan				
7/17/2017	NA	2	119	NE	NE	126.23
7/25/2017	127.46	2	125	NE	NE	127.46
● 1/8/2018	131.45	2	133	NE	NE	131.45
● 1/23/2018	146.26	2	142	NE	NE	146.26
● 10/18/2018	124.80	2	136	NE	NE	125.14
● 1/8/2019	118.30	2	130	NE	NE	117.84
● 4/18/2019	138.93	2	140	NE	NE	138.93
● 10/22/2019	130.15	2	136	NE	NE	130.15
▼ 1/6/2020	137.02	3	136	NE	NE	137.17
● 1/23/2020	134.31	3	130	NE	NE	134.19
● 4/1/2020	99.35	3	110	NE	NE	95.20
● 4/21/2020	102.88	3	105	NE	NE	101.78
● 7/7/2020	114.57	3	112	NE	NE	112.48

*Effective December 7, 2019, Wells Fargo Securities' Equity Research modified its ratings definitions. Complete definitions of current ratings can be found below. For information related to prior ratings definitions, please contact equityresearch1@wellsfargo.com.

Source: Wells Fargo Securities, LLC estimates and Reuters data

Symbol Key

- ▼ Rating Downgrade
- ▲ Rating Upgrade
- Price Target/Val Range Change

- ◆ Initiation, Resumption, Drop or Suspend
- Analyst Change
- Split Adjustment

Rating Code Key

- | | |
|---------------------|----------------|
| 1 Overweight/Buy | SR Suspended |
| 2 Equal Weight/Hold | NR Not Rated |
| 3 Underweight/Sell | NE No Estimate |

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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

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As of: July 23, 2020

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