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AFG.N - Q3 2021 American Financial Group Inc Earnings Call

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OVERVIEW:

AFG reported 3Q21 net EPS of $2.56 and core net operating EPS of $2.71. Expects 2021 core net operating EPS to be $10.10-10.70.

CORPORATE PARTICIPANTS

Brian S. Hertzman *American Financial Group, Inc. - Senior VP & CFO*

Carl Henry Lindner *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Diane P. Weidner *American Financial Group, Inc. - VP of Investor & Media Relations*

Stephen Craig Lindner *American Financial Group, Inc. - Co-President, Co-CEO & Director*

CONFERENCE CALL PARTICIPANTS

Charles Gregory Peters *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Meyer Shields *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Michael David Zaremski *Wolfe Research, LLC - Research Analyst*

Paul Newsome *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the American Financial Group 2021 Third Quarter Results. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to turn the conference over to your speaker for today, Diane Weidner, you may begin.

Diane P. Weidner - *American Financial Group, Inc. - VP of Investor & Media Relations*

Thank you. Good morning, and welcome to American Financial Group's third quarter 2021 earnings results conference call. We released our third quarter results yesterday afternoon. Our press release, investor supplement and webcast presentation are posted on AFG's website under the Investor Relations section. These materials will be referenced during portions of today's call. I'm joined this morning by Carl Lindner III and Craig Lindner, Co-CEOs of American Financial Group; and Brian Hertzman, AFG's CFO.

Before I turn the discussion over to Carl, I would like to draw your attention to the notes on Slide 2 of our webcast. Some of the matters to be discussed today are forward-looking. These forward-looking statements involve certain risks and uncertainties that could cause actual results and/or financial condition to differ materially from these statements. A detailed description of these risks and uncertainties can be found in AFG's filings with the Securities and Exchange Commission, which are also available on our website.

We may include references to core net operating earnings, a non-GAAP financial measure, in our remarks or responses to questions. A reconciliation of net earnings attributable to shareholders to core net operating earnings is included in our earnings release. If you are reading a transcript of this call, please note that it may not be authorized or reviewed for accuracy, and as a result, it may contain factual or transcription errors that could materially alter the intent or meaning of our statements.

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

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Good morning, and we're pleased to share highlights of AFG's 2021 third quarter results, after which Craig, Brian and I will be glad to respond to your questions. This was an outstanding quarter. We're extremely pleased with the Company's performance and continued strong market conditions.

Third quarter pretax core operating earnings in AFG's Property and Casualty Insurance Segment were 60% higher than the comparable prior year period and each of our Specialty Property and Casualty groups reported healthy growth and excellent underwriting margins. Results in our portfolio of alternative investments continue to exceed our expectations and produced strong investment returns in the quarter.

This year, market conditions in the Property and Casualty business remain among the best I've seen in my 40-plus-year career. We believe that our disciplined yet opportunistic operating philosophy, a lower net catastrophe exposure than our peers and a continued economic recovery contributed to these outstanding results.

We are excited to welcome our employees back to the office this week, following a staged return that began in mid-May. We're pleased to offer most of our employees the opportunity to select hybrid work schedules upon their return. Craig and I thank God, our talented management team and our employees for helping us to achieve these exceptionally strong results and position our business for continued success.

I'll now turn the discussion over to Craig to walk us through AFG's third quarter results, investment performance and our overall financial position at September 30.

Stephen Craig Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Thank you, Carl. As you will see on Slide 3, AFG reported core net operating earnings of $2.71 per share, an impressive 96% increase year-over-year. The increase was primarily the result of substantially higher underwriting profit in our Specialty P&C insurance operations and significantly higher P&C net investment income due to the continued strong performance of AFG's $1.7 billion in alternative investments. Annualized core operating return on equity in the third quarter was nearly 18%.

Turning to Slide 4, you'll see that the third quarter 2021 net earnings per share of $2.56 included non-core after-tax realized losses on securities of $0.15 per share, most of which pertain to fair value adjustments on securities that we continued to hold at the end of the quarter.

Now I'd like to turn to an overview of AFG's investment performance, financial position and share a few comments about AFG's capital and liquidity. The details surrounding our $16.4 billion investment portfolio are presented on Slides 5 and 6. Pretax unrealized gains on AFG's fixed maturity portfolio were $225 million at the end of the third quarter. For the nine months ended September 30, 2021, P&C net investment income was approximately 66% higher than the comparable 2020 period and included significantly higher earnings from alternative investments.

We're especially pleased with the performance of our alternative investments during the quarter. Earnings from these investments may vary from quarter to quarter based on reported results and valuation of the underlying investments, and generally are reported on a quarter lag.

The annualized return on alternative investments reported in core operating earnings in the third quarter of 2021 was a very strong 20.3%. The average annual return on these investments over the past five calendar years was approximately 10%.

Alternative investments with underlying real estate exposures have been a key contributor to the performance of this portfolio. We view our investments in real estate and real estate-related entities as a core competency. In addition to our portfolio of directly owned properties and mortgage loans, our real estate-related investments include real estate funds and real estate partnerships accounted for by the equity method.

We've found great success in investing in multi-family properties in desirable communities where we continue to achieve very strong occupancy and collection rates and steady rent increases. These multi-family properties represented over half of our alternative investment portfolio on September 30, 2021.

Due to the significant portion of our alternative assets that are tied to real estate relative to our peers, we also believe that this portfolio of investments has a lower correlation to broader market performance and has the potential to produce more consistent returns over time. Excluding the impact of alternative investments, P&C net investment income for the nine months ended September 30, 2021, decreased by 8% year-over-year, reflecting lower market interest rates.

As you can see on Slide 6, our investment portfolio continues to be high quality, with 88% of our fixed maturity portfolio rated investment grade and 97% of our P&C Group fixed maturities portfolio with an NAIC designation of 1 or 2, its highest two categories.

Please turn to Slide 7, where you'll find a summary of AFG's financial position at September 30, 2021. Our excess capital was approximately $3.0 billion at September 30, 2021. This number included parent company cash and investments of approximately $2.7 billion.

Returning capital to our shareholders is an important component of our capital management strategy and reflects our strong financial position and our confidence in AFG's financial future.

In conjunction with our third quarter earnings release, we announced a special cash dividend of $4.00 per share payable on November 22, 2021, to shareholders of record on November 15, 2021. Year to date, AFG has declared $24.00 per share in special dividends.

While all AFG's excess capital is available for internal growth and acquisitions, approximately $180 million of excess capital can be used for share repurchases and additional special dividends while staying within our most restrictive debt to capital guideline. This figure is in addition to our regular quarterly dividend and the $4.00 per share special dividend declared and accrued in September and paid at the beginning of October, and the $4.00 per share special dividend declared yesterday.

We expect to continue to have significant excess capital and liquidity through the end of the year and beyond. Our excess capital affords us the financial flexibility to make opportunistic repurchases, pay additional special dividends, grow our Specialty P&C niche businesses organically and through acquisitions and start-ups that meet our target return thresholds. Annualized growth in [adjusted] book value per share plus dividends was an outstanding 37% in the first nine months of 2021.

Book value per share, excluding unrealized gains related to fixed maturities, was $59.70 at September 30, 2021, compared to $63.61 per share at the end of 2020, and reflects the $21.50 per share in dividends declared during the first nine months of 2021.

I'll now turn the call back to Carl to discuss the results of our P&C operations and to discuss our updated expectations for the remainder of the year.

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Thank you, Craig. Results during the quarter were excellent, as you'll see on the overview on Slide 8. Third quarter pretax core operating earnings and AFG's Property & Casualty Insurance Segment established another record for the third time this year at $329 million. The Specialty Property & Casualty insurance operations generated an underwriting profit of $169 million in the 2021 third quarter, an impressive 63% increase year-over-year, driven primarily by higher year-over-year underwriting profit in our Specialty Casualty Group, and to a lesser extent, our Specialty Financial Group.

Despite the impact of Hurricane Ida and other natural disasters during the quarter, our catastrophe losses were a very manageable at $31 million. Each of our Specialty Property & Casualty groups reported strong premium growth. Underwriting margins across our portfolio of businesses were excellent, at an overall Specialty P&C combined ratio of 89%. The third quarter 2021 combined ratio improved 3.1 points from the 92.1% reported in the comparable prior year period and included 2.0 points of catastrophe losses and 5.4 points of favorable prior year reserve development.

Turning to pricing, we continue to see strong renewal rate momentum, and we're continuing to achieve strong renewal rate increases in the vast majority of our businesses, with exceptionally strong renewal pricing in our longer-tailed liability businesses outside of workers' comp.

Average renewal pricing across our entire Property & Casualty Group was up approximately 11% for the quarter. Excluding our workers' comp business, renewal pricing was up approximately 13% in the third quarter. Both measures are an improvement over the rate increases reported in the second quarter of 2021. This quarter marked our 21st consecutive quarter of overall Specialty Property and Casualty rate increases, which continue to be meaningful in excess of prospective estimated loss ratio trends.

Gross and net written premiums for the third quarter of 2021 were up 19% and 16%, respectively, when compared to the third quarter of last year. The drivers of growth vary considerably across our portfolio of Specialty Property and Casualty businesses. Overall, in the aggregate, year-over-year growth in gross written premium during the first nine months of 2021, excluding crop insurance, was fairly evenly split, with just over half attributable to net growth and change in exposures and just under half attributable to rate increases.

Now I'd like to turn to Slide 9 to review a few highlights from each of our Specialty Property and Casualty business groups. Property and Transportation Group reported an underwriting profit of $45 million in the third quarter of 2021, compared to $47 million in the third quarter of 2020. Higher underwriting profits in our crop business and Singapore Branch were more than offset by lower underwriting profit in our transportation, property and inland marine and non-crop agricultural businesses. We continue to be pleased with the performance of our portfolio of transportation businesses, which has served us very well over time.

The diversity within this book, which includes specialty transportation niches like rigging and crane, and ambulance and paratransit, home delivery, moving and storage, coverage for owner-operators and workers' comp solutions tailored to the wheels industry has helped us deliver attractive margins and strong returns in this group of businesses.

Knowing what we know at this point, we also expect to have an above-average crop year from both a profitability and a growth standpoint, with net written premiums projected to be up approximately 32% for this year. Yields throughout much of the Corn Belt are average to well above average, offsetting below average drought-related yields from the North Central States, freeze-related losses in Texas and drought-related losses in the Western United States.

About 40% of our MPCI corn and soybean business is in the Eastern Corn Belt, where growing conditions were more favorable. The month of October serves as the discovery period for the majority of our corn and all of our soybean business. Corn and soybean harvest pricing settled at 17% and 4% higher, respectively, than spring discovery pricing and was comfortably within desired ranges of volatility.

The third quarter 2021 gross and net written premiums in this group were 26% and 22% higher, respectively, than the comparable prior year period, with growth reported in all businesses in this group. The growth came primarily from our crop insurance business, primarily the result of the impact of higher commodity futures pricing and projected volatility on rates, and also our transportation businesses, primarily the result of new accounts combined with strong renewals. Overall renewal rates in the Property and Transportation Group increased 5% on average for the third quarter of '21.

The Specialty Casualty Group reported an underwriting profit of $110 million in the 2021 third quarter, compared to $53 million last year. Higher profitability in our workers' compensation, excess and surplus lines, excess liability, and general liability businesses were key drivers of these results.

This group reported a very strong 82% calendar year combined ratio for the third quarter, an impressive improvement of 8.7 points from the comparable period in 2020. Underwriting profitability in our workers' comp businesses overall continues to be excellent. Our workers' compensation book is another area where the strength of diversity of our standalone workers' comp businesses has served us well.

Gross and net written premiums for the Specialty Casualty Group increased 15% and 14%, respectively, when compared to the same prior year period. Nearly all the businesses in this group achieved strong renewal pricing and reported premium growth during the third quarter. Significant renewal rate increases and new business opportunities contributed to higher premiums in our excess and surplus lines business. Renewal rate increases, strong account retention and new business opportunities contributed to higher premiums in our targeted markets business. And our mergers and acquisitions liability and executive liability businesses also contributed meaningfully to the year-over-year growth.

Renewal pricing for this group was up 13% in the third quarter. And excluding workers' compensation businesses, renewal rates in this group were up approximately 18%. Both measures are improvements from the rate increases achieved in the second quarter of 2021.

Now the Specialty Financial Group reported an underwriting profit of $26 million in the third quarter of 2021, compared to an underwriting profit of $13 million in the third quarter of 2020. Improved results in our surety and financial institutions businesses contributed to the higher year-over-year underwriting profitability. This group continued to achieve excellent underwriting margins and reported an 84.2% combined ratio for the third quarter.

Gross and net written premiums increased by 9% and 8%, respectively, in the 2021 third quarter when compared to the prior year period. And nearly all businesses in this group reported growth, including our Surety, Fidelity and Crime and Lender services businesses. Renewal pricing in this group was up approximately 8% for the quarter consistent with the results in the second quarter of 2021.

Although the largest business in the Special Financial Group is our Financial Institution Services Division, which generates about half of the group's gross written premium, this group also includes a compelling mix of Specialty Property and Casualty businesses, offering coverages such as fidelity and crime, surety, trade credit, and coverages tailored to lending and leasing institutions. For more than 10 years, the average overall combined ratio of this group has consistently been below 90%.

Now turning to A&E reserves, during the third quarter of 2021, we did complete our annual ground-up review of our asbestos and environmental exposures relating to the run-off operations within the Property & Casualty Group. This was undertaken internally and reviewed all open accounts and considered any trends observed. The good news is we have identified no new trends, and payment activity was within our expectations and consistent with the expectations from our 2020 external study. As a result, the review resulted in no net change to the Property & Casualty Group's A&E reserves.

We do continue to enjoy robust survival ratios, which are well above industry averages, and which are one measure of the strength of our A&E reserves. Based on the relatively moderate payment patterns and the pace of new filings, we will most likely continue to assess our reserves utilizing in-house resources next year. We have also assessed the adequacy of our asbestos and environmental reserves for our historic railroad and manufacturing operations. Asbestos liabilities continue to be adequate, though we are making a small adjustment to our environmental liabilities based on slightly revised projections at three environmental sites.

Now if you turn to Slide 10, you'll see a full-page summary of our updated guidance for the remainder of 2021. Based on results through the first nine months of the year, we now expect AFG's core net operating earnings in 2021 to be in the range of $10.10 to $10.70, up significantly from our previous range of $8.40 to $9.20 per share. We're obviously pleased once again to increase our 2021 core earnings per share guidance in a meaningful way. This guidance reflects an assumed annualized return of approximately 10% on alternative investments in the fourth quarter of 2021, which would produce a return of approximately 20% on our $1.7 billion of alternative investments for the full year in 2021.

As we consider the outlook for our Specialty Property and Casualty operations based on results through the first nine months, we have strengthened our guidance across the board, indicating higher expected 2021 net written premiums and stronger underwriting profit. We now expect the 2021 combined ratio for the Specialty Property and Casualty Group overall between 86% and 88%, an improvement of two points at the midpoint of the range of our previous estimate. Net written premiums are now expected to be 11% to 14% higher than the $5.0 billion reported last year.

Growth in net written premiums excluding workers' comp is now expected to be in the range of 13% to 17%, an increase from the range of 12% to 16% estimated previously. And then looking at each subsegment. We now expect the Property and Transportation Group combined ratio to be in a range of 86% to 88%. Our guidance assumes above-average crop earnings for the year, and we continue to expect growth in net written premiums for this group to be in the range of 15% to 19%.

Our Specialty Casualty Group is now expected to produce a combined ratio in the range of 85% to 87%. Our guidance assumes continued strong renewal pricing in our E&S, excess liability, and several of our other longer tail liability businesses. We have raised our projection for growth in net written premiums to a range of 8% to 12% higher than 2020 results.

Premium growth will be tempered by rate decreases in our workers' compensation book, which are a result of favorable loss experience in the line of business. Excluding workers' comp, we now expect 2021 premiums in the Specialty & Casualty Group to grow in a range of 15% to 19%, an increase of 5 percentage points from the midpoint of our previous guidance. And we now expect the Specialty Financial Group combined ratio to be in the range of 84% to 86%, reflecting strong underwriting results through the first nine months of the year.

We continue to expect growth in net written premiums for this group to be between 10% and 14%, based on projected premium growth in our fidelity and crime and surety businesses. And our expectations for overall renewal pricing were unchanged from last quarter, remaining in the range of 9% to 11% overall. And excluding workers' comp, we expect renewal rate increases to be in the range of 11% to 13%.

Craig and I are very pleased to report these exceptionally strong results and a significant increase in our earnings expectations for the full year. We believe that our entrepreneurial, opportunistic culture, combined with our strong balance sheet and financial flexibility, position us very well as we close out the year, and we look forward to the opportunities in 2022.

We'll now open the lines for the Q&A portion of today's call. And we'd all be happy to respond to any questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Mike Zaremski with Wolfe Research.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Hey, great. Good morning. First question on the still robust excess capital position. Should we be taking into more consideration that debt leverage levels potentially kind of creeping up to rating agency maximums? And kind of then maybe more shifting kind of the use of excess capital towards other means?

Stephen Craig Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Yes, Mike, this is Craig. I mean what I would say is that is the limiting factor today on how much of our cash in the parent excess capital we can use to repurchase shares or pay special dividends. What I would say is, if we saw an incredible opportunity to do kind of to grow that number, we can grow that number significantly by repurchasing debt. So, I think you need to take that into consideration. But yes, that is the limiting factor on how much we can pay in special dividends or share repurchases.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

And as a follow-up to that, is the M&A kind of environment changed at all over the last time you updated us?

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

I think the M&A environment from my perspective is constant. We always get a chance to look at a lot of different opportunities in that. So -- And again, our sweet spot is really more in the $20 million to $500 million range in that. And when you look at what we've done consistently over time. So we're continuing to get opportunities to look at things. We are tough buyers, as we've said. We not only expect acquisitions to add to earnings or be accretive to earnings, we expect an acquisition to be able to earn double-digit returns over time. So we are tougher buyers, but we're seeing a steady flow of opportunities.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Okay. Great. And maybe switching gears to the competitive landscape. I believe it's Carl, you kind of have used on the last couple of calls being one of the best environments in decades. Have you been surprised at all by the kind of the bullishness on pricing levels? It feels like the industry's results at a high level, have been improving or kind of yield. Clearly, American Financial's results are excellent. Any kind of color on what's potentially kind of keeping rates I think more steady than maybe some market participants have expected?

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

I think continued low interest rates, social inflation. We're in our, I think, tenth year of rate increase in commercial auto. And that's -- a lot of that's tied directly to a continued elevated measure of severity losses on that. So I think the industry continues to see in the excess liability business and the D&O business and professional lines, in particular, social inflation that isn't going away. I think also, everybody is a little bit cautious to kind of see as the court slowed down and that, I think as it respects to longer tail lines, we're certainly being more, I think the industry, and we're certainly being more conservative and cautious as we kind of see what happens post pandemic or in a more normalized period of time.

So I think, there's a lot to talk about climate change and increased frequency of catastrophes. I mean, I'm a believer. I think it's baloney to take a look at loss ratios, excluding CAT and forgive yourself for once a year has come and gone to forgive yourself over catastrophe losses in that. I don't think that's the right way to look at it.

Those -- that cash that's paid out pretty quickly. And the way we manage our business, we factor in catastrophe losses in our returns. We don't forgive ourselves. And I do think with -- in an environment of elevated frequency and major catastrophe events, I think some of my peers' opinions about catastrophe risks have changed dramatically. Ours have been pretty much the same for pretty much my P&C life in that. We've always chosen to be more conservative and have a lower catastrophe volatility or profile in that because I just think it's harder to estimate those events, the frequency and the severity and where they happen and to properly price.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

I guess, if I could make one more follow-up to that. So, then I was going to maybe nitpick and ask if there were any items in the Property and Transportation segment that maybe caused the underlying loss ratio to not -- to kind of fall a little below expectations, but maybe that's not fair because we shouldn't be backing out items such as cats or large losses that are maybe part of the ongoing business?

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Yes. No, we're happy to give you what our color is on that. I think in the quarter, we had more of a bumpy large loss, non-cat, large loss kind of impact coming from our property and inland marine business in the quarter. I think that you're going to have -- in the property business, you're going to have some bumpy quarters and not consistently the same types of quarters in that.

So that's, I think, the main thing that impacted us. I'm always careful to encourage people to look to our guidance ranges. I think that we try to thoughtfully put those together and give you a range of what we think the real possibilities are within our different segments on both the growth and the combined ratio side.

Michael David Zaremski - *Wolfe Research, LLC - Research Analyst*

Thank you very much.

Operator

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

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Good afternoon. I guess the first question I'll ask, and it dovetails with M&A, but also it seems to be a popular topic currently, which is around employee retention and recruitment. And in the past, I know you've looked at and considered lifting out teams, underwriting teams or sponsoring new initiatives, and that's not necessarily a full-blown M&A, but I'm just curious if you could comment, one, about employee retention and recruitment? And then is there a pipeline available considering the results that the industry is producing of lift out of talents from other companies that you're seeing?

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Yeah Greg, good morning. Within our insurance operations, first, our aggregate retention rates are aligned with their 5-year trend pretty much. I think we have certain markets and certain geographic locations that are experiencing slightly lower retention than prior periods. Clearly, I think everybody is finding recruiting talent is becoming more challenging in a competitive talent market. But I think our -- the work environment, our culture and our values and our creative, our Total Rewards program approach with our employees has allowed us to have generally, over time, a much lower turnover ratio than probably our peers and that. So I think it's really a combination of many different things that help us with our retention.

I think the -- was the second question related to opportunities to start different teams in that? I think there -- yes, there are still great opportunities to do that. Generally, we have a track record of at least starting, picking up one team or starting some new business every year. So...

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

Fair enough. You mentioned in your answer around commercial auto how it's been affected by severity and you're on a 10-year plus run of getting rate increases in that. When do you think we're going to get to that inflection point where the rate environment for commercial auto will normalize, because it certainly doesn't seem like we're hearing any let up in the severity or these huge blockbuster settlements or jury awards that are coming against the trucking industry. So maybe your perspective, you have some perspective on that, that would help us understand better.

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Yes, Greg, I don't see any reason for the reasons that you mentioned for there to be any let up by the industry and making sure they're getting rate out and above prospective loss trends. We look at our historic loss trends and our prospective loss trend picks in our actuarial reviews and our rate setting, we're using higher levels than what we have had historically for just the reasons that you're mentioning. So I think it's -- and I still think that a lot of those, the market is still in a correction mode in that. There are a lot of guys with not great results in commercial auto.

I think that's great for us because we've had our house in order on commercial auto for years. And I think as it will just provide more opportunities for us as we go forward. Though we're going to be disciplined and continue to take rate. I believe on the commercial auto liability rate side, we took at National Interstate, for instance, an additional 7% in the quarter. And I think we've taken 8% year-to-date. When you look at the severity factor, the loss ratio trends in -- particularly in commercial auto liability, they're significant. So I hope that helps.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

It's good color. I guess the final question and one of the things we have to do, and I know you do a great job of providing guidance, but we're looking out to '22, and you mentioned the $1.7 billion alternative investment portfolio and the phenomenal result this year. And then you mentioned the average going back over a longer period of time. Should we look at 10% as sort of the bogey? It seems a little rich, but when I think about next year, maybe, Craig, you want to weigh in on that, I don't know. But that was my final question.

Stephen Craig Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Sure, Greg. Happy to do that. So it's just impossible to predict what the markets you're going to do next year. It's just impossible for me to give a precise number on what I expect our alternatives to produce in terms of returns. What I would say is we very much like our positioning in multi-family investments, which we're in great markets that today have tremendous pricing power. Most of our markets are able -- and most of our markets were able to increase our rents by a double-digit number by an excess of 10%. And that really drives the values.

I think it's -- I think we have 53%, 54% of the alternatives invested in multifamily. And we're in all the right markets. Just let me take a look here.

So 28% of our multi-family investments are in Denver and Colorado Springs, a little over 25% in Florida, 9% in North Carolina, 9% in Phoenix, 6.5% in Dallas, Texas, their markets that are incredibly strong. We have great pricing power. So again, tough for me to give a precise prediction of return on alternatives for next year, not knowing what the market is going to do or what interest rates are going to do, but we really like our positioning in the real estate area.

Charles Gregory Peters - *Raymond James & Associates, Inc., Research Division - Equity Analyst*

I appreciate the color on the percentages. Certainly, your Florida piece, I can speak from personal knowledge, the outlook is pretty positive there. Anyway, thanks for the answers.

Stephen Craig Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Sure.

Operator

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

Paul Newsome - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Good morning. I was hoping to get a few more comments and color about inflation trends for your book. It sounds like you are enjoying a much lower level of claims inflation than many your peers? And do you think that's just purely business mix? Or is there something else in there that we should be thinking of with respect to American Financial Group that lowers that underlying claims inflation.

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Yes, Paul, our overall loss trend is about 1.9% on loss or loss ratio trend, excluding comp, though, that's 3.6%. Though the prospective loss trend that we're using is 2.7% or a little under 5%, like 4.6% excluding workers' comp. And those -- if you -- and when you go to the social inflation exposed lines, higher numbers, things like D&O, our perspective loss costs that we would be using is more like 7% or excess liability would be 10% on -- or I think 1 unit is 10%, another unit that's more Fortune 500-oriented, we're using 14%. So it's so very line specific I think maybe it has to do with our overall mix business, why we might be different than our peers.

But when you go line by line and you look, I'm not so sure it's that different. I would point out that we also have historically better loss ratio results than our peers also over a long period of time. So that would lend itself to a lower number, maybe also.

Paul Newsome - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I guess, is it kind of somewhat a parallel question when we're talking about the claims or we're talking about the rate levels you're getting. I think you're one of the few companies that at least I covered that's showing the acceleration of rates. And so is that really just again, a business mix, if I looked at it business by business, I would be seeing fairly similar things?

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Yes. I think it has to do with business mix. And we have some businesses that booked a heavy part of their premium on July 1. And I think in this -- that particular -- in our third quarter, there are a number of longer-tail line businesses where July 1 is a heavier quarter. I think that may have something to do also with things so.

Paul Newsome - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Great. Congrats on the quarter guys. Appreciate the help.

Carl Henry Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Thank you.

Operator

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

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Thank you. My first question is on capital management. I was just hoping you could take us through the decision-making process to focus on special dividends, I guess, rather than share repurchases or buying back debt in the third quarter and so far in the fourth quarter.

Stephen Craig Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

Sure. Meyer, this is Craig. As you can imagine, we have lots of discussions about what we should be doing with our excess capital and the portion that can be used to either repurchase shares or pay dividends. I will say, with the benefit of hindsight, given how strong our earnings will be this year, I mean I think we wish we had been more aggressive repurchasers of the shares when we had an opportunity at somewhat lower prices. I'll say that with the benefit of hindsight. But I mean, historically, we've been opportunistic repurchasers of our shares. If you look over a long period of time, typically, we've become very aggressive when the stock is trading at a very large discount to what we think is the appropriate value.

As we do a comparison to our peers, certainly looks to us like our stock is still a very reasonable value given the performance, given the very, very strong returns. But we do take into consideration the dilution on book value per share when we repurchase shares at a significant discount or a significant premium to the book value per share.

We think that over a longer period of time, the measure of total value creation, the growth in book value per share plus dividends is a really good measurement of a company's performance. And so we do take into consideration the dilutive impact, even though repurchasing shares at these prices would be nicely accretive to the EPS, it is dilutive to the book value per share, and that is something that we consider.

Brian S. Hertzman - *American Financial Group, Inc. - Senior VP & CFO*

This is Brian. I would just add on the debt side, right now, the debt that we have outstanding, none of it is callable at par until 2024. And so, bringing it in now would cause us to pay a premium probably in the 10% range. That being said, should we want to more aggressively buy back shares or pay additional dividends, it's kind of like for every $1 of debt we retire, we could buy back $2, more of stock or pay $2 more of special dividends. So it's something we'll keep on our radar, especially should interest rates step up a bit.

Stephen Craig Lindner - *American Financial Group, Inc. - Co-President, Co-CEO & Director*

And we do have more cash and investments in the parent than total debt today. So we're in just a great financial position. If a great opportunity would present itself, we do have the ability to retire a significant amount of debt. We'd have to pay a meaningful premium, which we're not crazy about doing. But given the cash and investment position at the parent if a great opportunity came along, we do have the ability to do that, to retire a meaningful amount of the debt.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. That's very thorough. Thank you very much. One last question, if I can, in Property & Transportation. Is there any way of sort of quantifying how different third quarter '21 large loss experience was from the longer-term average?

Brian S. Hertzman - *American Financial Group, Inc. - Senior VP & CFO*

It's really hard to say because it's lumpy, but we would say that the long-term average would be a little bit lower than what we experienced in the quarter. The mix of business changes. I mean, we don't really like to comment on a particular individual claims.

Meyer Shields - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Fair enough. Thank you very much.

Operator

Thank you. I'm showing no further questions in the queue. I would now like to turn the call back over to Diane for closing remarks.

Diane P. Weidner - *American Financial Group, Inc. - VP of Investor & Media Relations*

Thank you, and thank you all for joining us this morning to discuss our results for the third quarter, and we look forward to discussing our year-end results with you in just a couple of months. This concludes our call for today.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.
