

CINCINNATI FINANCIAL CORP
Form PRE 14A
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934
Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

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- Definitive Proxy Statement
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CINCINNATI FINANCIAL CORPORATION
(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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- No fee required.
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March __, 2018

To the Shareholders of Cincinnati Financial Corporation:

You are cordially invited to attend the Annual Meeting of Shareholders of Cincinnati Financial Corporation, which will take place at 9:30 a.m. on Saturday, May 5, 2018, at the Cincinnati Art Museum, located in Eden Park, Cincinnati, Ohio. The business to be conducted at the meeting includes:

1. Electing 14 directors for one-year terms;
2. Approving an amendment to the company's Code of Regulations to add proxy access provisions for director nominations;
3. Approving the Cincinnati Financial Corporation Nonemployee Directors' Stock Plan of 2018;
4. Voting on a nonbinding proposal to approve compensation for the company's named executive officers;
5. Ratifying the selection of Deloitte & Touche LLP as the company's independent registered public accounting firm for 2018;
6. Transacting such other business as may properly come before the meeting.

Shareholders of record at the close of business on March 7, 2018, are entitled to vote at the meeting.

Whether or not you plan to attend the meeting, please cast your vote as promptly as possible. We encourage convenient online voting, which saves your company significant postage and processing costs. If you prefer, you may submit your vote by telephone or by mail. Detailed voting instructions can be found in the Frequently Asked Questions section on Page __ of this proxy statement.

Thank you for your interest and participation in the affairs of the company.

/S/ Lisa A. Love
Lisa A. Love, Esq.
Senior Vice President, General Counsel and Corporate Secretary

This proxy statement, the Annual Report on Form 10-K, the Letter From the Chairman and the Chief Executive Officer and voting instructions were first made available to Cincinnati Financial Corporation shareholders on March __, 2018.

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Proxy Summary

This summary highlights information contained elsewhere in this proxy statement. It does not contain all of the information that you should consider before voting. Please read the entire proxy statement, and for more complete information about the company's 2017 performance, please review the company's 2017 Annual Report on Form 10-K.

2018 Annual Meeting of Shareholders

Date and Time: May 5, 2018, 9:30 a.m. ET

Place: Cincinnati Art Museum, 953 Eden Park Drive, Cincinnati, Ohio 45202

Record Date: March 7, 2018

Meeting Webcast: cinfin.com/investors

Voting Matters and Board Recommendations

	Our Board's Recommendation
Election of Directors (Page <u>12</u>)	FOR Each Director Nominee
Approve Amendment to the Code of Regulations Adding Proxy Access Provisions (Page <u>22</u>)	FOR
Approve Nonemployee Directors' Stock Plan (Page <u>28</u>)	FOR
Advisory Vote to Approve Executive Compensation (Page <u>37</u>)	FOR
Ratification of Auditors (Page <u>74</u>)	FOR

2017 Governance Highlights

In 2017, the company continued to follow its strong governance policies and practices to benefit shareholders.

Highlights included:

Proxy Access - The board is committed to strong governance. It keeps abreast of developing governance practices and adopts those that it believes are appropriate for our company and its shareholders. Continuing its commitment, in 2017, the board determined that our shareholders should consider amending our Code of Regulations to allow proxy access director nominations. It believes that the provisions and terms of amendments to governing documents to allow proxy access are now well developed, widely accepted, and provide a meaningful mechanism that allows shareholders to nominate director candidates. Accordingly, shareholders are asked to approve a proxy access amendment to the company's Code of Regulations at the 2018 Annual Meeting of Shareholders. Information about this proposal can be found at Proposal 2 - Approval of an Amendment to the Company's Code of Regulations to Add Proxy Access for Director Nominations beginning on Page ____.

Majority Voting - Directors were elected by a new majority voting standard in 2017. The board believes that implementation of this voting standard gives shareholders a more meaningful voice in electing our directors and reinforces our commitment to accountability and strong corporate governance practices. Majority voting will again apply to the uncontested election of directors at the 2018 Annual Meeting of Shareholders.

Cybersecurity - Cybersecurity is a growing threat for all companies. For the third year in a row, the audit committee increased its understanding of the company's cybersecurity risk by engaging third-party experts to test and audit the company's cybersecurity program structure and capabilities.

Board Refreshment and Composition - Informed by feedback from its annual board self-evaluation, engagement with investors each year and our Corporate Governance Guidelines, the board continuously assesses the composition of the board of directors. Its goal is to balance independence, board size, tenure, and diversity of experience, skills, competencies and other qualities of current directors and future director candidates to best structure and govern itself in the short- and long-term and provide effective oversight of management for the benefit of shareholders.

Succession Planning - Succession planning at all levels is important to the long-term success of the company. In 2017, the board continued its practice of attending meetings of the subsidiary boards during which more than a dozen executives provide reports. These meetings provide the directors with opportunities to become familiar with this level of management, assess their development over time and gain in-depth knowledge about the company's operating businesses. In 2017, the board also discussed potential management succession candidates with the chief executive officer at one of its regular meetings.

Director Nominees

The following table provides summary information about each director nominee. Complete information about each director's background and experience begins on Page __. Each director stands for election annually.

Name	Age	Primary Occupation	Independent	Committee Memberships	Other Public Company Boards
William F. Bahl*	66	Chairman, Bahl & Gaynor Investment Counsel Inc.	ü	A, C, E, I, N (Chair)	0
Gregory T. Bier	71	Managing Partner (Retired), Deloitte LLP	ü	A, C, I	0
Linda W. Clement-Holmes	55	Chief Information Officer (Retired), The Procter & Gamble Company	ü	A, C, N	0
Dirk J. Debbink	62	Chairman and Chief Executive Officer, MSI General Corporation	ü	A, N	0
Steven J. Johnston	58	President and Chief Executive Officer, Cincinnati Financial Corporation		E (Chair), I	0
Kenneth C. Lichtendahl	69	Director of Development and Sales, Heliosphere Designs LLC	ü	A, C	0
W. Rodney McMullen	57	Chairman and Chief Executive Officer, The Kroger Co.	ü	C (Chair), E, I	2
David P. Osborn	57	President, Osborn Williams & Donohoe LLC	ü	A, I	0
Gretchen W. Price	63	Executive Vice President, Chief Financial and Administrative Officer, Arbonne International LLC	ü	A (Chair), C, N	0
Thomas R. Schiff	70	Chairman and Chief Executive Officer, John J. & Thomas R. Schiff & Co. Inc.		I	0
Douglas S. Skidmore	55	Chief Executive Officer, Skidmore Sales & Distributing Company Inc.	ü	A, N	0
Kenneth W. Stecher	71	Chairman of the Board, Cincinnati Financial Corporation		E, I (Chair)	0
John F. Steele, Jr.	64	Chairman and Chief Executive Officer, Hilltop Basic Resources Inc.	ü	A, E	0
Larry R. Webb	62	President, Webb Insurance Agency Inc.		E, I	0

*Lead Independent Director

A Audit Committee

C Compensation Committee

E Executive Committee

I Investment Committee

N Nominating Committee

2017 Business and Financial Highlights

In 2017, a year in which a heightened level of insured losses from hurricanes, wildfires and other catastrophic weather events challenged our industry, your company delivered strong operating results¹ and financial performance that benefited shareholders with one-year and three-year total shareholder return of 2.4 percent and 60.2 percent, respectively; a 17.1 percent increase in book value; and a 30.0 percent increase in cash dividends declared, including the special cash dividend declared in the fourth quarter of 2017. This strong performance generated payouts of annual incentive compensation at the maximum level and payouts of performance restricted stock units at target levels for our named executive officers. Highlights of our company's strong year included:

Our sixth consecutive year of underwriting profit with a combined ratio of 97.5 percent. In 2017, our efforts to further segment our renewal and new business opportunities with better pricing precision and risk-selection decisions continued to benefit underwriting performance, but were offset by less favorable reserve development on prior accident years and losses from natural catastrophes.

- An all-time record-level of consolidated property casualty new business written premiums at \$626 million, up 14 percent, driven by new agency appointment contributions.

- A 6 percent increase in consolidated property casualty net written premiums. The increase in premiums reflects our growth initiatives, modest average price increases for most lines of business and a higher level of insured exposures.

- A \$107 million increase in full-year 2017 life insurance subsidiary net income, including a \$111 million benefit from revaluation of deferred income taxes due to tax reform, partially offset by less favorable mortality experience.

- \$17.708 billion in consolidated cash and invested assets, up 9 percent over the prior year.

- A 2 percent increase in pretax investment income to a record \$609 million, net of expenses, reflecting a 6 percent increase in equity portfolio dividends and a 1 percent growth in interest income.

A value creation ratio (VCR) of 22.9 percent, exceeding that measure for all nine of the companies in our peer group. Excluding the 7.0 percentage-point benefit to the ratio from revaluation of deferred income taxes due to tax reform, our VCR would nevertheless have exceeded our announced goal of producing an annual average VCR of 10 percent to 13 percent for the five-year period from 2013 to 2017. Excluding 2017 effects on VCR from revaluation of deferred income taxes due to tax reform, for our company and peers, also would have resulted in our VCR exceeding that measure for all nine companies in our peer group.

Additionally, our results allowed the board to continue to reward shareholders with an increase of our regular annual cash dividend for the 57th consecutive year. Through the cash dividends paid and share repurchases, we returned \$492 million to shareholders in 2017, and \$1.256 billion during the three years ended December 31, 2017.

¹In our disclosure about compensation paid to our named executive officers we refer to several Non-GAAP measures, including "operating income" and "life insurance subsidiary results." The Definitions of Non-GAAP Information and Reconciliation to Comparable GAAP Measures are attached to this proxy statement in Appendix A.

2017 Executive Compensation Highlights

The named executive officers earned payouts of annual incentive compensation at the maximum level and performance based restricted stock units at the target level due to outstanding results during the performance period ending December 31, 2017: a VCR of 22.9 percent, beating nine peers; and a three-year total shareholder return of 60.2 percent, outperforming five peers. Set forth below is the 2017 compensation for each named executive officer as determined under Securities and Exchange Commission (SEC) rules. See the notes accompanying the Summary Compensation Table (SCT) on Page __ for more information.

Name and Principal Position	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards (\$)	Non- Equity Incentive Plan Compensa- tion (\$)	Change in Pension Value and Non- Qualified Deferred Compensa- tion Earnings (\$)	All Other Compensa- tion (\$)	Total Compensa- tion (\$)
Steven J. Johnston Chief Executive Officer & President	995,351	—	741,917	825,010	2,200,000	—	216,678	4,978,956
Jacob F. Scherer, Jr. Chief Insurance Officer	921,351	—	495,696	451,262	1,203,350	506,246	35,832	3,613,737