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PRESENTATION

Operator

Welcome to the American Equity Investment Life Holding Company's Second Quarter 2017 Conference Call.

At this time, for opening remarks and introductions, I would like to turn the call over to Ms. Julie LaFollette, Director of Investor Relations.

Julie L. LaFollette - *American Equity Investment Life Holding Company - Director of IR*

Good morning, and welcome to American Equity Investment Life Holding Company's conference call to discuss second quarter 2017 earnings. Our earnings release and financial supplement can be found on our website at www.american-equity.com.

Non-GAAP financial measures discussed on today's call and reconciliations of non-GAAP financial measures to the most comparable GAAP measures can be found in those documents.

Presenting on today's call are John Matovina, Chief Executive Officer; Ted Johnson, Chief Financial Officer; and Ron Grensteiner, President of American Equity Investment Life Insurance Company.

Some of the comments made during this call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. There are a number of risks and uncertainties that could cause actual results to differ materially from those expressed or implied. Factors that could cause the actual results to differ materially are discussed in detail in our most recent filings with the SEC. An audio replay will be made available on our website shortly after today's call.

It's now my pleasure to introduce John Matovina.

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Thank you, Julie. Good morning, everyone, and thanks for joining us this morning. We followed solid first quarter earnings, with stronger results in the second quarter 2017, reporting non-GAAP operating earnings of $63.7 million, or $0.71 per share. On a dollar basis, that was the second highest quarter of operating earnings in the company's history, and it was the third highest quarter on a per-share basis, and the only prior quarters that have had better operating earnings have been quarters in which there was a substantial positive impact from unlocking of assumptions for deferred policy acquisition costs and deferred sales inducements.

As a reminder, the 3 key areas that drive our financial performance are: growing invested assets and policyholder funds under management; generating a high level of operating earnings on the growing asset base through investment spread; and then minimizing impairment losses in our portfolio. For the second quarter of 2017, we delivered 2% growth in policyholder funds under management. On a trailing 12-month basis, we generated an 11.6% non-GAAP operating return on average equity, excluding the impact of assumption revisions in the third quarter of last year. And our investment impairment losses, after the effects of DAC and income taxes, were just 0.02% of average equity. The growth in our policyholder funds under management was driven by $1.2 billion in gross sales. That was down substantially from record sales of $2.1 billion in the second quarter of last year, but it was up 9% from first quarter 2017 sales.

The June 9 applicability date for the Department of Labor Fiduciary Rule came in without much fanfare. Changes to agent sales practices required by the Prohibited Transaction Exemption 84-24, including disclosure of commissions and adherence to the Impartial Conduct Standards proved to be manageable.

The interest rate environment remains our biggest challenge as rates have seesawed since the end of the first quarter. We had a modest increase in our investment spread in the second quarter, as we were able to offset the negative impact of investing new premiums and portfolio cash flows at yields below our portfolio rate, with reductions in our crediting rates and a slightly larger overhedging benefit. And our low level of impairment losses, once again, reflects our commitment to a high-quality investment portfolio.

I'll be back at the end of the call for some closing remarks. But now I'd like to turn the call over to Ted Johnson for additional comments on second quarter financial results

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Thank you, John. As we reported yesterday afternoon, we had non-GAAP operating income of $63.7 million, or $0.71 per share, for the second quarter of 2017 compared to non-GAAP operating income of $50.1 million, or $0.60 per share, for the second quarter of 2016.

Our weighted average diluted share count was 8.3% higher in the second quarter of 2017 compared to the second quarter a year ago primarily due to the settlement of 2 equity forward sales agreements through the issuance of 5.6 million shares of our common stock in the third quarter of 2016.

Investment spread for the second quarter was 272 basis points, up 1 basis point from the first quarter of 2017 as a result of a 3 basis point decrease in the average yield on invested assets and a 4 basis point decrease in the cost of money.

Average yield on invested assets was 4.45% in the second quarter. The average yield continues to be unfavorably impacted by the investment of new premiums and portfolio cash flows at rates below the portfolio rate. However, investment income and the average yield on invested assets continue to benefit from nontrendable investment income items, which added 8 basis points to the second quarter average yield on invested assets compared to 10 basis points from such items in the first quarter of 2017. Nontrendable investment income in the second quarter of 2017 included 7 basis points from fees from bond transactions and prepayment income and 1 basis point from an acceleration of the rate of paydowns on residential mortgage-backed securities.

The average yield on fixed income securities purchased and commercial mortgage loans funded in the second quarter was 3.96% compared to 4.13% in the first quarter of 2017 and 3.95% in the second quarter of 2016. In July, we invested new money at 4.38%. The higher rate in July reflects an increase in the amount of NAIC 2-rated structured assets purchased during the month.

The aggregate cost of money for annuity liabilities was 173 basis points compared to 177 basis points in the first quarter. This decrease reflects continuing reductions in crediting rates on in-force policies and a lower cost of money on new deposits. The benefit from overhedging the obligations for index linked interest was 6 basis points in the second quarter of 2017 compared to 5 basis points in this year's first quarter.

As you are aware, we have been working to counteract the impact of lower investment yields by reducing the rates on our policyholder liabilities. We expect that we will continue to achieve reductions in our cost of money through renewal rate reductions that will be implemented on policy anniversary dates over the remainder of this year. We continue to have flexibility to reduce our crediting rates if necessary and could decrease our cost of money by approximately 46 basis points if we reduce current rates to guaranteed minimums. This is down from 49 basis points at the end of the first quarter.

Interest expense on notes and loan payable for the quarter was $8.7 million, up from $7.7 million in the first quarter. Interest expense increased by $1.1 million due to the issuance of $500 million of 5% Notes due in 2027. Repayment of our outstanding term loan during the quarter lowered interest expense by $110,000. However, repayment of the term loan also resulted in a $428,000 loss on extinguishment of debt for the write-off of the term loan's remaining debt issuance costs. Due to the redemption of the $400 million of 6.625% notes due in 2021 last month, third quarter operating results will include an $18.4 million loss on extinguishment of debt consisting of $13.3 million of redemption premium and the write-off of $5.1 million of debt issuance costs.

Other operating costs and expenses in the first quarter were $26 million on a sequential basis. Other operating costs and expenses decreased $1.6 million primarily due to a $1.4 million reduction in the liability for payments expected to be made pursuant to the retirement agreement with our former Executive Chairman.

Our effective income tax rate in the quarter was 34.2%. This rate benefited by 61 basis point for a reduction in our estimated tax rate for 2017 due to a decrease in projected pretax income from the non-life subgroup as a result of the previously mentioned $18.4 million of loss on extinguishment of debt that will be recognized in the third quarter. The change in accounting for stock compensation benefited our effective tax rate by 37 basis points in the second quarter compared to 139 basis points in the first quarter of this year.

Our estimated risk-based capital ratio at June 30, 2017, is 366%, that is up from 353% at the end of this year's first quarter. The increase in the RBC ratio included 6 points from a decline in required capital for production, which we estimate using trailing 12-month sales. The increase in our adjusted statutory capital and surplus exceeded the increase in required capital from growth in assets and reserves and accounted for the remainder of the first quarter increase in our RBC ratio.

Now I'll turn the call over to Ron to discuss sales, marketing and competition.

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

Thank you, Ted. Good morning, everyone. As we reported yesterday, gross sales for the second quarter of 2017 were $1.2 billion. This is down from record sales of $2.1 billion in the second quarter of 2016, but up 9% compared to sales in this year's first quarter. As a reminder, second quarter 2016 sales benefited from $551 million of non-core multiyear guaranteed annuity sales, of which 80% was coinsured.

Net sales for the quarter were $1.1 billion compared to $1.5 billion a year earlier and $1 billion in the first quarter of this year. As was the case in the first quarter, nearly all the sales in the second quarter were fixed indexed annuities. Beginning this year, we are retaining 50% of all Eagle Life fixed indexed annuity sales, up from 20% previously. The market in each of our distribution channels remain competitive in the second quarter, and we continue to suspect that uncertainty regarding the fast-changing Department of Labor fiduciary rule may be distracting from marketing activities and playing a role in lower sales. Also, as we've stated for several quarters now, we believe low interest rates and the length of the equity bull market are also proving to be headwinds to sales of guaranteed income products. We have seen a shift in emphasis on the part of the independent agents from guaranteed income to accumulation products focused on upside potential. In addition, we believe securities licensed agents are allocating more client funds into the equity markets. This premise was reinforced by recent discussions with our national marketing organization partners.

American Equity's Choice and Eagle Life's Select products are competitive for accumulation. Earlier this year, we introduced an optional market value adjustment rider over these products, which allowed us to offer higher participation rates. However, American Equity is more well known for guaranteed income, so we intend to make sure our independent agents are aware of the attractive accumulation opportunities available at the Choice Series products. At Eagle Life, the addition of the market value adjustment rider has proved to be very beneficial, as fixed indexed annuity sales increased 91% sequentially and nearly half of all of Eagle Life's fixed indexed annuity sales in the second quarter were with the market value adjustment.

On July 10, we discontinued our no-fee lifetime income benefit rider and lowered the roll-up rate on certain fee riders. These changes allowed us to reduce the target spread for our bonus fixed indexed annuities by 15 basis points and also recognized lower valuation interest rates used to compute statutory reserves for policies issued in 2017 compared to policies issued in 2016. The lower valuation interest rates result in higher statutory benefit reserves on all 2017 product sales that included the lifetime income benefit rider. To date, we have seen 3 other competitors make downward adjustments, but none that are primary competitors in our guaranteed income space. As a result, our guaranteed income is currently less than our key competitors.

Turning to current sales trends, pending business at American Equity Investment Life averaged 2,585 applications during the second quarter and was 2,542 at the end of June compared to 2,526 applications when we reported first quarter 2016 earnings. Pending at American Equity Life today is 2,206 applications, with the decline occurring post the July 10 changes to our lifetime income benefit rider. Pending at Eagle Life stands at 134 applications today, down from 167 when we reported first quarter earnings.

We're continuing to build distribution at Eagle Life. In the second quarter, we added 1 new wholesaler, 2 new selling agreements and 274 representatives. In total, we have 7 wholesaling distribution partners, 55 selling agreements and nearly 5,500 representatives.

And with that, I'll turn the call back over to John.

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Thank you, Ted and Ron. We view the second quarter of 2017 as a continuation of the first quarter. We were pleased with the sequential increase in sales and the rebound in fixed indexed annuity sales from Eagle Life's broker-dealers and banks, but certainly recognize that new business remained relatively soft compared to our historical levels. However, earnings results were solid, particularly in light of continued interest rate and spread pressure, and investment impairment losses were quite low. While low interest rates remained a headwind to our spread management, we continued to have room to lower liability rates, and we will remain proactive in managing our substantial in-force book of business.

Following the Department of Labor's request for information last month, we are optimistic that it may further delay the fiduciary rule's January 1, 2018, full implementation date and hopeful that regulations unduly burdening distribution of annuities by independent agents will be substantially revised. However, if the rule remains as is and is fully implemented on January 1, 2018, we would expect disruption of fixed indexed annuity sales. While the eventual outcome of the Department of Labor fiduciary rule remains uncertain, we remain prepared to respond and grow our business. Our long-term outlook remains favorable due to the growing number of Americans who need attractive fixed indexed annuity products that offer principal protection with guaranteed lifetime incomes, and the Department of Labor fiduciary rule is not going to change that.

Our relationships with our distribution partners are strong, with several going back more than 20 years. Our sales and operating platforms are widely recognized as the best in the industry. Our employees are extraordinarily dedicated and provide excellent service to our distribution partners and policyholders. On behalf of the American Equity team, thank you for your time and attention this morning. We will now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Mark Hughes with SunTrust.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Ron, has the pending count stabilized here? Doesn't seem like it's down that much from June. Is this maybe as such impact as you'll see from the product changes? And is there usually a little bit of a drop-off in July compared to June?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

Well, the pending -- this is Ron. The pending has been pretty stable up till July 10 when we made the lifetime income benefit rider changes, and that's kind of when we've seen kind of a slide. We don't know if it's done sliding or if it's has stabilized at this point. It hasn't been dropping in big chunks at a time. It's kind of been a slow and steady. And you're right, July is typically -- and August, for that matter, are typically months when producers start to take some vacations before school kicks in.

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

It's a little difficult to call those months, those soft months because we've had experiences where there are good as well. So you don't really know from one year to the next when they're taking vacations or what they're doing.

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

I mean, depending on after some rate changes going on, stuff like that.

Mark Douglas Hughes - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

The decline in crediting rate 1.77% to 1.73%, I think it's both in-force and in new deposits. Was it both kind of equally -- equal impact from those 2 factors? And can you share the crediting rates on the new policies?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

We don't have an exact split between the decrease in the cost of money between what's new business and what's renewal rate crediting adjustments, though we are running at a lower level of new business, so that's affecting it less than in the past than we would have seen. I guess, I'll let John comment on crediting rates.

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

No, the rates on policies have been stable. So new business, we haven't had many adjustments there. So the new money cost shouldn't be varying that much, I think, from historical other than mix of business can have an influence, because those Choice products and the Eagle Select are non-bonus products. So they come with higher crediting rates, and the Choice has been picking up I, think, a little bit of bigger portion of the American Equity independent agents' sales. So that would be driving its cost up a little bit. But to Ted's comment, we don't track the new money specifically by the cost, overall cost, but spit new money, renewal in a level that could answer your question.

Operator

And our next question comes from Ryan Krueger with KBW.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

My first question is, can you give some color on how your spreads are tracking relative to last year's assumption update?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

In regards to the modeling?

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Yes, exactly.

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Our spread, I mean, actually with -- because of some of these non-trendable items, we're actually seeing, I think, our spreads exceed maybe what we've had in the model.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

And if you were to normalize for some of those nontrendable items, is it reasonably in line with what you had assumed last year?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Then it's reasonably in line if you normalize for those nontrendable items.

Ryan Joel Krueger - *Keefe, Bruyette, & Woods, Inc., Research Division - MD of Equity Research*

Okay, thanks. And then I guess, RBC ratio has been increasing pretty meaningfully so far this year. If we're continuing to see kind of sales at a lower level and your RBC ratio keeps climbing, how are you -- I guess, at what point -- I don't know if there's a level you'd get to, but at what point would you start contemplating capital management?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

I think we're going to need to get out -- I think if that's going to be out in 2018 and we look at what opportunities are out there for sales in 2018, we'll assess then capital management ideas that we maybe need to implement at that point in time. But I think it's going to take us to get out of 2018 and really see kind of what happens with DOL rule and what sales opportunities are out there to be able to make that decision.

Operator

And our next question comes from Pablo Singzon with JP Morgan.

Pablo Augusto Serrano Singzon - *JP Morgan Chase & Co, Research Division - Analyst*

So my first question is about...

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Pablo, you broke up.

Pablo Augusto Serrano Singzon - *JP Morgan Chase & Co, Research Division - Analyst*

Can you hear me now?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

No.

Pablo Augusto Serrano Singzon - *JP Morgan Chase & Co, Research Division - Analyst*

Can you hear me now?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

There. Yes.

Pablo Augusto Serrano Singzon - *JP Morgan Chase & Co, Research Division - Analyst*

Sorry about that. So my question has to do with the core portfolio. So if I look over the past 2 years, 2015 and 2016, it's gone by about 20 bps, but over the past 4 quarters, I think the decline has been about 10 bps. So my question is, is the current pace of decline sustainable? Or is 20 bps more normal or else equal recognizing there are many factors?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

My take would be that the compression you're referring to there is just a function of as the portfolio gets to work closer where we're currently investing, the rate of decline is going to slow. And we've had a number of quarters -- we have one quarter, probably third quarter of last year, where new money was quite low, but we've had quite a few quarters in the last several where the new money has been 15 to 20 basis points plus or minus of 4% level. So I think the rate of decline over time -- if we stated 4% for the next number of quarters, you'd see a further rate of decline, because the gap between 4% and where the portfolio yield is, is declining.

Pablo Augusto Serrano Singzon - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. The second question I had, just to follow up on the pending count question, would it be fair to assume then, given that you saw the drop-off in July, that the transition to the DOL didn't have much of an impact on submissions? Was it sort of your takeaway from the transition to the DOL?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

Correct. I mean, the June 9 date did not have much effect on pending. That kind of went by and agents and NMOs were able to easily adapt to those new procedures.

Operator

And our next question comes from Kenneth Lee with RBC Capital Markets.

Kenneth S. Lee - *RBC Capital Markets, LLC, Research Division - Analyst*

You mentioned that for the guaranteed income products, you saw 3 competitors reduce rates, but some of the key competitors have not. And I think last quarter, you mentioned there was a gap in cap rates, roughly 50 bps to 70 bps for some of the bonus annuities. Just wondering what the latest gap is in this most recent quarter?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

The gap is probably similar when we look at our bonus annuities. The gap is probably, looking at fixed rates, somewhere around 30 to 40 basis points. If you look at annual point-to-point caps, the gap, depends on the product, could be as little as 25 basis points up to 200 basis points on annual point-to-point cap. So it kind of depends on the product, but it hasn't changed a lot. At Eagle Life, we're very competitive on our participation rates. We're equal or close to being equal as far as being the highest on PR, on participation rates. On the caps, it's a little bit different. We're not quite as competitive maybe depending on low bands or high bands, those types of things. We're probably 50 to 75 basis points off when you look at fixed rates. And then when you look at caps, we're probably a point off, something like that, 100 basis points. But we're pretty competitive on participation rates.

Kenneth S. Lee - *RBC Capital Markets, LLC, Research Division - Analyst*

Got you. Got you. That's very helpful. And then a question on the DOL fiduciary. I mean, granted that the full big exemption doesn't go into effect until 2018. But would it be fair to say that there wasn't much in terms of change of practice within the NMOs regarding selling fixed indexed annuities, especially with respect to the big exemption?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

Most of the -- until the full DOL as it goes into play, most of the onerous is now on the agents with their commission disclosure and having to follow their...

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Impartial conduct.

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

Impartial. I can never remember that. I want to say market conduct, impartial conduct standards. So the -- we see -- we know that our NMOs are guiding and helping their agents with that change going from the NMOs to the agents. But a lot of them have been continuing to prepare just in case January 1 comes and they have to be in full compliance.

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

But one of the things in the transition was the bp got postponed for fixed indexed annuities to January 1, 2018. So other than still being alert and making preparations for that date, if it becomes reality, they don't have to follow it right now.

Kenneth S. Lee - *RBC Capital Markets, LLC, Research Division - Analyst*

Got you. Got you. Okay. And just one final question. In terms of the investment spread, you guys received a benefit from prepayments and overheads. And just wondering what your expectations are for either of those items in the next few quarters.

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Difficult to forecast either of those numbers. Obviously, we've had quite a few quarters lower rates persist. That's a positive for prepayment-type items. I keep thinking eventually they'll run out, but that hasn't happened to date. But it's really impossible to predict those. Overhedging, I think the clarity there might be just a single quarter. Actually, we've had strong market, so we got a lot of things in the money, but obviously, a change in the equity market at any time can abruptly end where -- that overhedging benefit.

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

As we've always said, we manage our hedging process to be slightly overhedged. So in periods of time where there's strong equity market performance, we're going to see better overhedging results at that period of time. And then in other times when equity markets are not performing as well, that over- or underhedging is going to be smaller.

Operator

And our next question comes from Erik Bass with Autonomous Research.

Erik Bass

How important a priority for you is getting a ratings upgrade? And should we think of that as a factor as you sort of weigh the level of RBC ratio you want to maintain near term?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

Certainly, I think with a Fitch rating, we would like to get our Fitch rating upgraded. They have quoted in their public remarks that one of the things that they would like to see is us to have a RBC ratio at 350% or above and maintain that, now saying that they are more referencing their own internal capital model now prism. So we need to work through that piece of it, too. But they have publicly stated that. I think we are focused on getting an upgrade from Fitch. I don't think we necessarily landed on what the appropriate capital ratios are for that yet. But that will be a focus of ours as we go through the next 12 months.

Erik Bass

Got it. And would you see the benefit of that being, obviously, on your debt rating, but would there also be sort of competitive advantages in kind of the bank and broker-dealer channel?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

In the bank and broker-dealer channel, all of your ratings are important. So certainly, having Fitch upgrade us would have some beneficial help in the bank and the broker-dealer markets, but very difficult to quantify what that would be.

Erik Bass

Got it. And then maybe just one bigger picture strategic question. Do you find yourself to be in a material competitive disadvantage versus the insurance-with-a-tax-advantage structure? And is the changing landscape there causing you to think any differently about your strategy? Or is it not really having a significant impact on growth opportunities at this point?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Well, at the moment, it's really -- it gets kind of a lot of discussion, Erik -- this is John, but it's confined to one competitor being Athene and conceivably another competitor under an M&A process that, if seen to the conclusion, would have the same situation. So relative to the balance of our competitors, it's not a particular issue. But yes, it is something on our minds. But as we've said, I think, in previous times when that question comes up, the path to get there is very difficult, particularly for where we're positioned today.

Erik Bass

Got you. Even in the path for you to get to a similar structure?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Right, right. We can't create our own offshore reinsurance entity under some tax laws. There are limitations on what we could do there that would keep us from receiving the same level of benefit that the Athene Enterprise gets from their structure.

Erik Bass

Got it. So it has to be transactional related?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Conceivably, yes.

Operator

And our next question comes from Randy Binner with FBR Capital Markets.

Randolph Binner - *FBR Capital Markets & Co., Research Division - MD, Senior VP and Senior Analyst of Insurance Research*

I apologize, I had to came on late. Can you just briefly review the pending count data you shared earlier in the call?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

Yes. Pending as of today at American Equity is 2,206, and at Eagle Life, it's 134.

Randolph Binner - *FBR Capital Markets & Co., Research Division - MD, Senior VP and Senior Analyst of Insurance Research*

134?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

Yes.

Randolph Binner - *FBR Capital Markets & Co., Research Division - MD, Senior VP and Senior Analyst of Insurance Research*

Okay. And then just on -- the market synergy group, I think, was having hearings in the Tenth Circuit Court. Is there any update you can give or any perspective if you can give on kind of the ongoing legal effort in regard to the DOL fiduciary rule?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

We're going to ask our general counsel to ask that one, because she wasn't previously identified.

Renee Denise Montz - *American Equity Investment Life Holding Company - Executive VP, General Counsel & Corporate Secretary*

I think the biggest change right now or the biggest event that's happening currently is the Fifth Circuit Court of Appeals in New Orleans held hearings on Monday related to the case of the Chamber, the ACLI and the ILC, which is the coalition of fixed indexed annuity carriers. And those hearings were held and the report out of those in attendance is that it went better for the plaintiffs than it did for the government, but we thought possibly we'd have those kind of results before. So we're optimistic, but we don't know how the court is going to rule. But that's really the biggest thing that's happened in terms of the litigation. The other cases are behind that case.

Randolph Binner - *FBR Capital Markets & Co., Research Division - MD, Senior VP and Senior Analyst of Insurance Research*

Okay. And so your market synergy group is in -- I think, it's in Kansas. But -- so that's some for me a bit, but I guess, the follow-up there would just be that you'll continue the legal effort regardless of what prospects there are from -- kind of from a regulatory perspective, is that right? I mean, is there any change in your allocation yet?

Renee Denise Montz - *American Equity Investment Life Holding Company - Executive VP, General Counsel & Corporate Secretary*

Absolutely. There's no change in our litigation strategy. That's one path. Regulatory and legislative is another path. And we'll continue to work both.

Randolph Binner - *FBR Capital Markets & Co., Research Division - MD, Senior VP and Senior Analyst of Insurance Research*

Yes. And then on the IMOs. I think some of the other analysts touched on this a little bit. But I mean, just a level set, so with the June 9 date, there wouldn't be a lot of change because FIAs are still under 84-24, correct?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Correct.

Renee Denise Montz - *American Equity Investment Life Holding Company - Executive VP, General Counsel & Corporate Secretary*

That's correct.

Randolph Binner - *FBR Capital Markets & Co., Research Division - MD, Senior VP and Senior Analyst of Insurance Research*

Okay. So then could you give any update or color on the IMO's ongoing efforts to be considered financial institutions assuming that we have a DOL fiduciary rule that has the constraints around that?

Renee Denise Montz - *American Equity Investment Life Holding Company - Executive VP, General Counsel & Corporate Secretary*

Sure. The DOL hasn't done anything in regard to the prohibited transaction exemption for insurance intermediaries, which they had put out a proposed rule that would have set the criteria for IMOs to become financial institutions. So that's still a pending rule. There's nothing final in regard to that. And I don't think, really, that's going to get picked back up pending -- given that the DOL is looking at the rule as a whole and changes as a whole. But certainly, comment letters are going in right now on recommendations of proposed changes and the IMO's rule is one that many people are commenting on.

Randolph Binner - *FBR Capital Markets & Co., Research Division - MD, Senior VP and Senior Analyst of Insurance Research*

But the IMOs, you all work with them. They're working on this, right? They're allocating resources to -- as much as they can to move that forward?

Renee Denise Montz - *American Equity Investment Life Holding Company - Executive VP, General Counsel & Corporate Secretary*

Absolutely. I mean, right now, you have to plan for January 1, 2018, that FIAs will be [invised] because that is what is in play right now. Nothing has changed that at this point in time. So everybody is working towards that date.

Randolph Binner - *FBR Capital Markets & Co., Research Division - MD, Senior VP and Senior Analyst of Insurance Research*

I'll ask one more, this is great. So then on -- so initially, the DOL maybe wasn't -- didn't interact as much with the industry as some folks would have wanted. Is that -- has that changed at all in kind of last couple of months as they've continued to look at the rule and get input from the industry?

Renee Denise Montz - *American Equity Investment Life Holding Company - Executive VP, General Counsel & Corporate Secretary*

I think that's true. It's a different administration and so they are to have a different view of the rule. And obviously, there's been the Presidential memorandum that directed DOL to take another look at the rule and to open up new comment periods. So the DOL is certainly receptive to getting new comments and getting information on the impact of the rule thus far. Also, there are other groups that are being pushed to act, such as the SEC and NAIC, and the DOL is being encouraged to coordinate with those, so that we have a harmonized standards.

Operator

And our next question comes from Dan Bergman with Citi.

Daniel Basch Bergman - *Citigroup Inc, Research Division - VP*

Following the actions you took to pare back the lifetime income benefit riders in response to the statutory reserve changes, is there any way you can help us think about or size the potential pressure on sales if competitors don't make similar changes to their riders? And as relatedly, any sense on or thoughts on whether you'd expect additional competitors to take similar actions going forward?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

I think it's impractical, Dan, to assess what other competitor actions might be there. I think based upon the prior experience, we kind of anticipated there might be a few more that do it and then changes may still happen. But I think we're going to need a little more time with the experience to figure out the ultimate impact.

Daniel Basch Bergman - *Citigroup Inc, Research Division - VP*

Got it. Understood. Then, I mean, maybe to ask a similar question from earlier in the call in a different way, the core investment spread backing up the prepays and overhedging, et cetera, improved actually a couple of basis points quarter-over-quarter, and they're generally held up pretty well in the past few quarters. Is there any way to think about the crediting rate reductions at this point are roughly offsetting the pressure on yields from lowering new money rates? And really any thoughts on how we should directionally expect core spreads to trend ahead? I mean, can these crediting rate actions you're taking continue to be sufficient to offset the pressure you're seeing from lower yields?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

We certainly have the capacity to make more adjustments based upon the room that we have between current rates and guaranteed minimums like we quoted that, that's currently at 46 basis points. So we do have the capacity to continue to offset partially at least or fully the impact for investing in that yields below our portfolio rate for some point in time. But that certainly would take us -- we would need to make further rate reductions, renewal rate reduction actions. We would need to take those as we go out. Remember, we -- I think as we get into the end of this year or to the beginning of next year, most -- prominently most of the rate adjustments we've made will have been effectively implemented in the portfolio by that point in time.

Operator

And our next question comes from John Barnidge with Sandler O'Neill.

John Bakewell Barnidge - *Sandler O'Neill + Partners, L.P., Research Division - Director of Equity Research*

Maybe I'll ask that private equity question a bit differently. So it seems like CSCO is going to be a dominant force, a lot of capital behind it. When the pie is growing larger, it's easy to see how you would not overwhelmingly impact competitive conditions. But with industry sales levels declining, how do you anticipate that they change market conditions? And then what is your flexibility to reduce the amount of reinsurance you use at the very least to retain more gross premiums considering your capital builds in a lower sales environment?

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

Well, first of all, I'll answer the last part of it.

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Yes, I was going to answer the last part of it, too.

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

The last part of it on the reinsurance part. The amount that we see currently is in Eagle Life on our FIA business, which is at 50%, and that's per the agreement. And then that's scheduled to drop to 20% in 2019. So that's scheduled. We -- also with -- another agreement we have is we sell multiyear rate business that's 80% and that stays at 80%, but that's not core to our business. But I think more you're focusing on the FIAs and that's per the agreement, it would be scheduled to decrease to 20% effective 2019.

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

So give us that first part of your question again, please.

John Bakewell Barnidge - *Sandler O'Neill + Partners, L.P., Research Division - Director of Equity Research*

All right, all right. So when a pie gets bigger, there's a lot of cake for everyone, right? In the shrinking pie, with industry sales getting smaller a bit because of the DOL rule uncertainty, I can see how maybe the private equity insurance would be a bit more competitive, because they're fighting for a shrinking pie. How are you anticipating once like the FGL-CSCO deal closes to maybe that change at least their market participation from when they were a stand-alone company?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

What I -- certainly, the indications are they expect to be more competitive. I guess, I'll kind of maybe take exception to one of your premises of a shrinking pie. And that is, yes, at the moment, there's been some shrinkage in the pie, but I don't see that as a very long-term trend in terms of what's going to happen to fixed indexed annuity sales.

John Bakewell Barnidge - *Sandler O'Neill + Partners, L.P., Research Division - Director of Equity Research*

Okay. And then that segues into my follow-up. 2Q '17 sales showed the first increase in sales sequentially since, I believe, 4Q '15. Would it be reasonable to think that while we may have not scraped the bottom, all things being equal, we may be close to that point where perspectively, as you look out a year, we may be in a growing sales environment as you think of it today?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Well, I think -- and I guess, I would dispute one of your numbers, because I think sales were going up through second quarter of last year and then backed off in the third and fourth quarter and first quarters. And yes, our take is that second quarter sales are an uptick from first, so it hasn't been that long of a shrink, only 3 quarters.

Ronald J. Grensteiner - *American Equity Investment Life Holding Company - President of American Equity Investment Life Insurance Company*

From our standpoint, we think about more -- about a longer-term horizon. We have to think about not just 2017, but running the company for 2018 and '19 and '20 and beyond, because we're making commitments today to policyholders that we have to keep for really, really long time. And things can change pretty quickly. If we have a bit of a market correction here in the next few months, that could change things pretty quickly, as people remember that, oh, that's right, the stock market has risk, I need to rethink reallocating more money to those fixed indexed annuities again. So the longer the bull market goes, I think it will keep sales depressed, but we all know that markets can't go up forever.

Operator

(Operator Instructions) We do have a follow-up question from Pablo Singzon with JP Morgan.

Pablo Augusto Serrano Singzon - *JP Morgan Chase & Co, Research Division - Analyst*

I wanted to follow up on the new money rate -- new money yield for July. I think you said 4.38%. Was it driven more by a mixed shift in assets or the general interest rate environment?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

That was driven by assets, Pablo.

Pablo Augusto Serrano Singzon - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And do you expect to sustain that kind of investment moving forward? Or is it just specific to the month, I guess?

John Michael Matovina - *American Equity Investment Life Holding Company - Chairman, CEO & President*

Well, we would certainly like to sustain that and are going to look to do that, but I'm not going to predict that at this point in time.

Pablo Augusto Serrano Singzon - *JP Morgan Chase & Co, Research Division - Analyst*

Okay. And then my second question was about just back-end DSI amortization. So this quarter, I think the amortization was a bit lower than what I had assumed. Is the rate of the piece of amortization affected by the performance of index credits in any given quarter?

Ted M. Johnson - *American Equity Investment Life Holding Company - CFO & Treasurer*

It's not by the performance of index credit. I think what you're seeing here is that actual gross profits that emerged this quarter were greater to a greater extent compared to what was estimated in the model, and that had the effect of pushing the overall amortization down slightly.

Operator

I'm showing no further questions at this time. I would now like to turn the call back to Ms. Julie LaFollette for any further remarks.

Julie L. LaFollette - *American Equity Investment Life Holding Company - Director of IR*

Thank you for your interest in American Equity and for participating in today's call. Should you have any follow-up questions, please feel free to contact us.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program, and you may all disconnect. Everyone, have a wonderful day.