

# American Equity Investment Life Holding Company

**Raymond James 39<sup>th</sup> Annual  
Institutional Investors Conference**  
*March 5, 2018*



# Safe Harbor Statement

*We make forward-looking statements that are based on our current expectations and projections about current events. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Reform Act of 1995, and we are including this statement for purposes of invoking these safe harbor provisions. You can identify these statements from our use of the words “estimate,” “project,” “believe,” “intend,” “anticipate,” “expect,” “target” and similar expressions. These forward-looking statements may include, among other things:*

- *statements relating to projected growth; anticipated changes in earnings, earnings per share, other financial performance measures; and management’s long-term performance goals;*
- *statements relating to the anticipated effects on our results of operations or our financial condition from expected developments or events;*
- *statements relating to our business and growth strategies, including any potential acquisitions and*
- *any other statements which are not historical facts.*

*These forward-looking statements involve known and unknown risks and uncertainties that could cause our actual results, performance or achievements or industry results to differ materially from our expectations of future results, performance or achievements expressed or implied by the forward-looking statements.*

# Company Overview

- Founded in 1995
- Headquarters: West Des Moines, IA
- 515 Employees<sup>(a)</sup>
- Market cap of \$2.7 billion<sup>(b)</sup>, public since 2003
- Principal product: fixed index annuity
- Sell primarily through independent agents
- Policyholder funds under management: \$48 billion
- AEL has been a top 3 fixed index annuity producer by annual sales for 16 out of the last 17 years

(a) As of December 31, 2017

(b) As of February 6, 2018

# Investment Thesis

## **Simple Business; Easy to Understand**

- Vast majority of business is fixed indexed annuities that offer upside participation with downside protection
- Majority of income derived from investment spread (the difference between what our investments yield and what we credit to policyholders)

## **Strong Operating Performance**

- Track record of consistent growth with 17% and 15% compounded annual growth rate in operating income and assets under management, respectively, over the past 10 years
- Strong operating performance with 12.1% average operating return on equity over the past 5 years

# Investment Thesis

## **Strong Distribution Relationships**

- Has been a top 3 fixed index annuity producer by annual sales for 16 out of the last 17 years
- Strong relationships with approximately 35 national marketing organizations (NMOs) and nearly 23,000 active independent agents
- Recruiting and marketing focus on agents selling over \$1 million of premiums in a calendar year

## **Conservative Investment Portfolio**

- Highly rated and liquid investment portfolio diversified across multiple industries
- Predominantly fixed maturity portfolio (88% of cash and investments) with high credit quality (97% investment grade)
- Low impairment experience and strong investment culture

# Investment Thesis

## **Disciplined Risk Management**

- Tight controls on product designs
- Extensive use of options to manage exposure to index appreciation with highly effective outcomes
- Diverse group of highly rated options counterparties with strict concentration limits
- Surrender charges protect approximately 94% of annuity portfolio account value

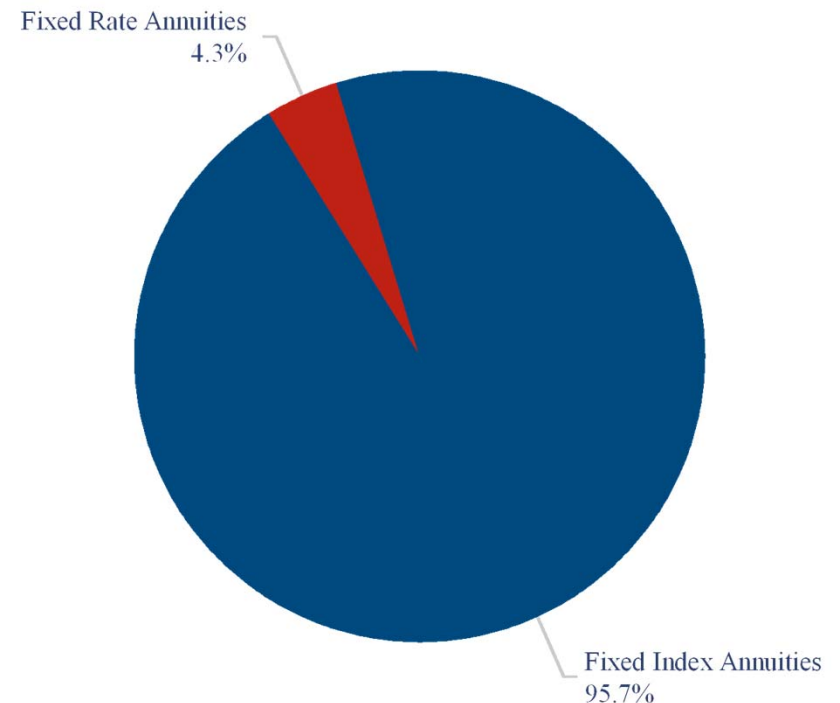
## **Future Growth Opportunities**

- Favorable demographics – growing customer base as aging population looking for lifetime income
- New distribution channels outside of independent agents (Eagle Life targeting broker/dealers)

# Single Product Focus

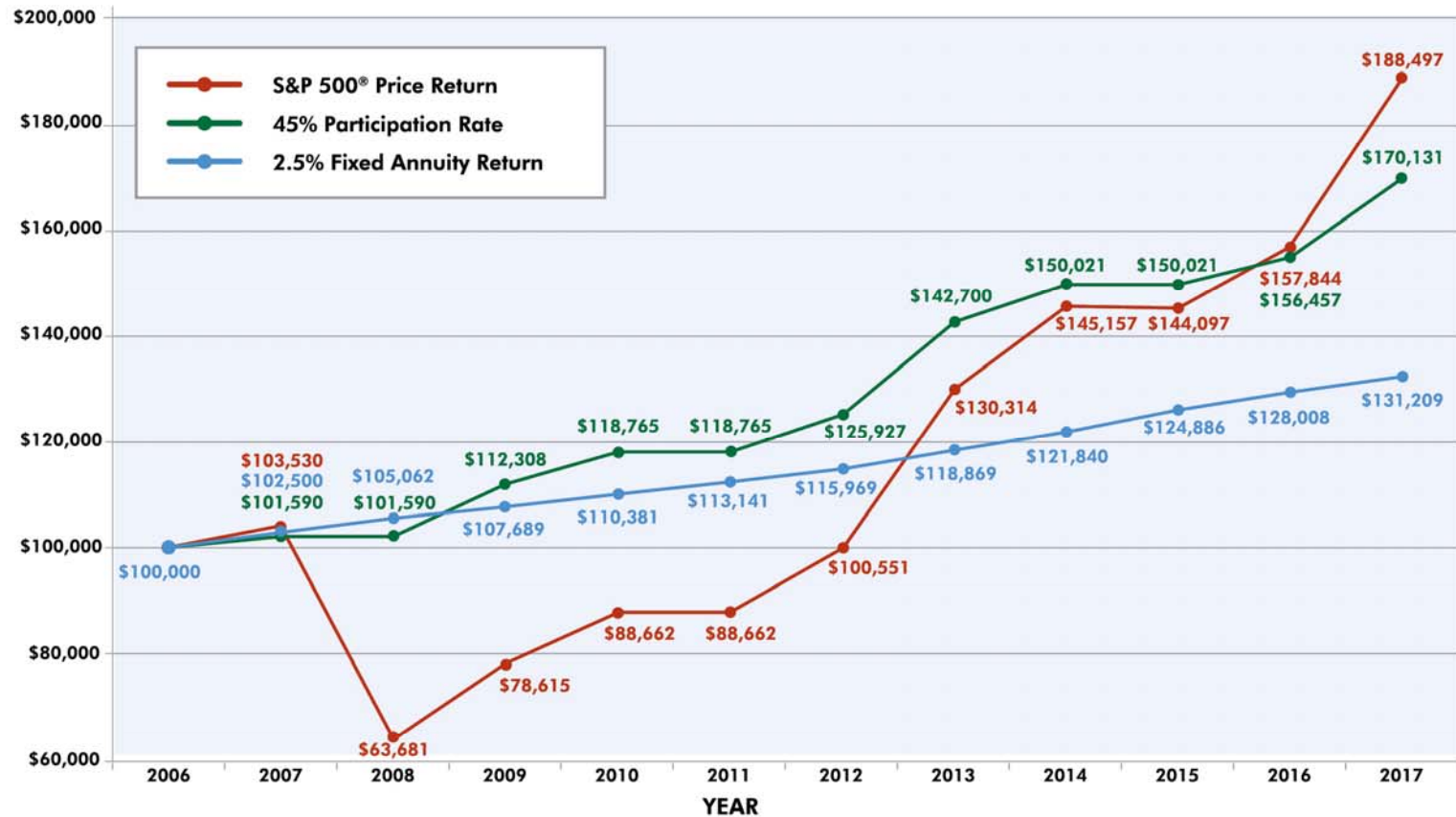
- Fixed Indexed Annuities
  - Deposits build tax-deferred
  - “Interest” based on performance of equity index or traditional fixed rate
  - Index crediting funded by call options
  - Offers more upside potential than simple fixed annuities
  - Index resets annually
    - Don’t have to “make back” market losses
  - Minimum guaranteed return with no losses, unlike variable annuities
  - Policy value and minimum crediting rates backed by fixed income portfolio

**Account Value  
December 31, 2017**



**Total: \$48.4 billion**

# Principal Protected Growth



All returns are hypothetical. This hypothetical demonstration assumes \$100,000 initial premium into both an indexed and fixed annuity with a minimum guaranteed interest rate of 1% and no withdrawals taken. Hypothetical values and returns are calculated using the last business day of each year's closing value.

Past performance is not an indication of future results. Please call your American Equity agent for information on product availability.

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# Growing Market

Index Annuity Sales (*\$ in billions*)



Source: LIMRA U.S. Individual Annuity Yearbook – 2013, 2015, LIMRA U.S. Individual Annuity Sales Survey Participant Report for Q3 2017

# Market Growth

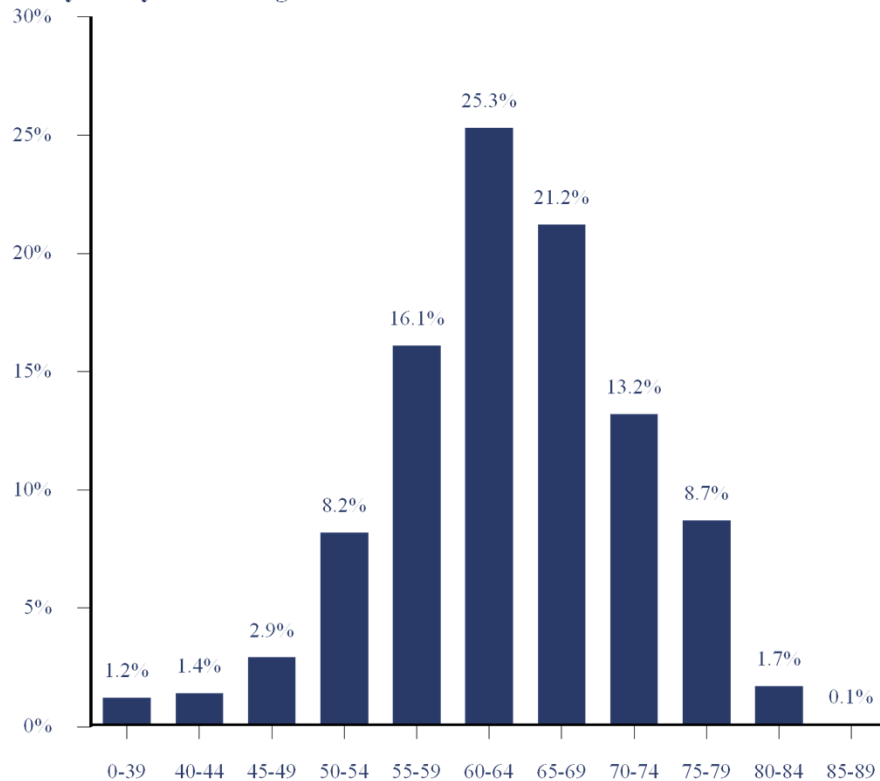
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- Aging population needs retirement savings & income
  - Longevity risk favors lifetime guarantee
  - 2008-2009 bear market left permanent scars
- Indexed annuity characteristics attracting attention
  - Low volatility of returns
  - Principal guarantee
  - Upside potential versus straight fixed income
  - Tax deferred accumulation
  - Guaranteed lifetime income

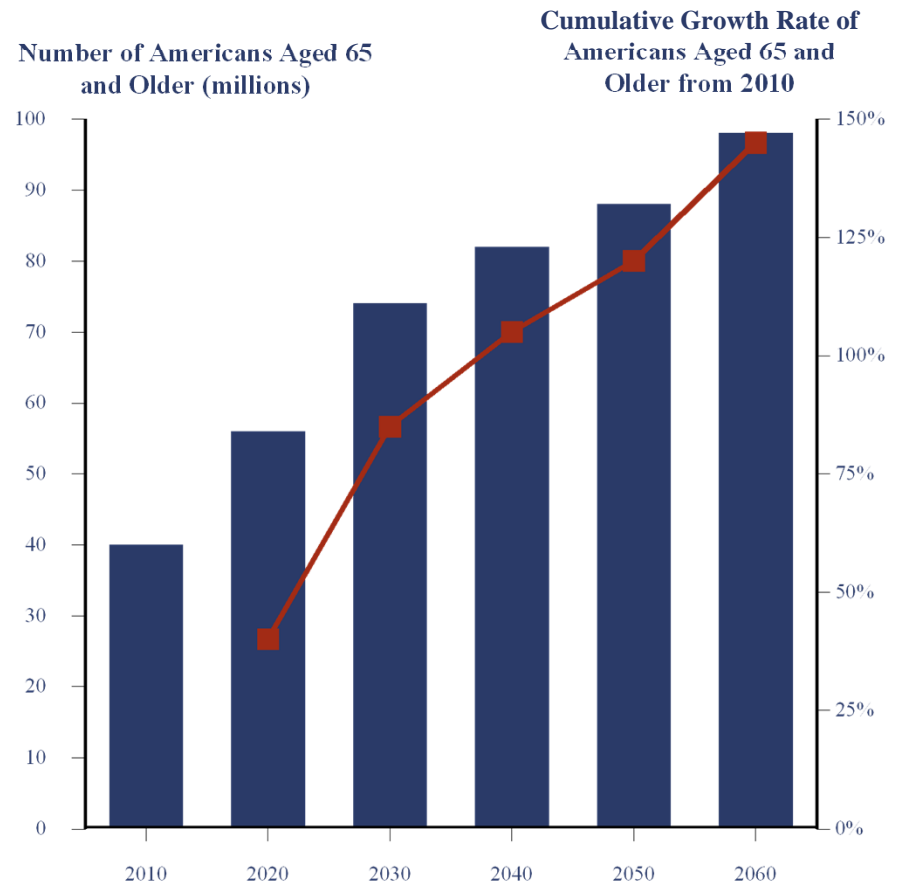
# Growing Market Demographic

- Our typical policyholder <sup>(a)</sup>
  - 63 years old
  - Average fund value of \$87,231

Percentage of Fund Value  
by Policyholder's Age



- Projected Growth in our Target Market <sup>(b)</sup>

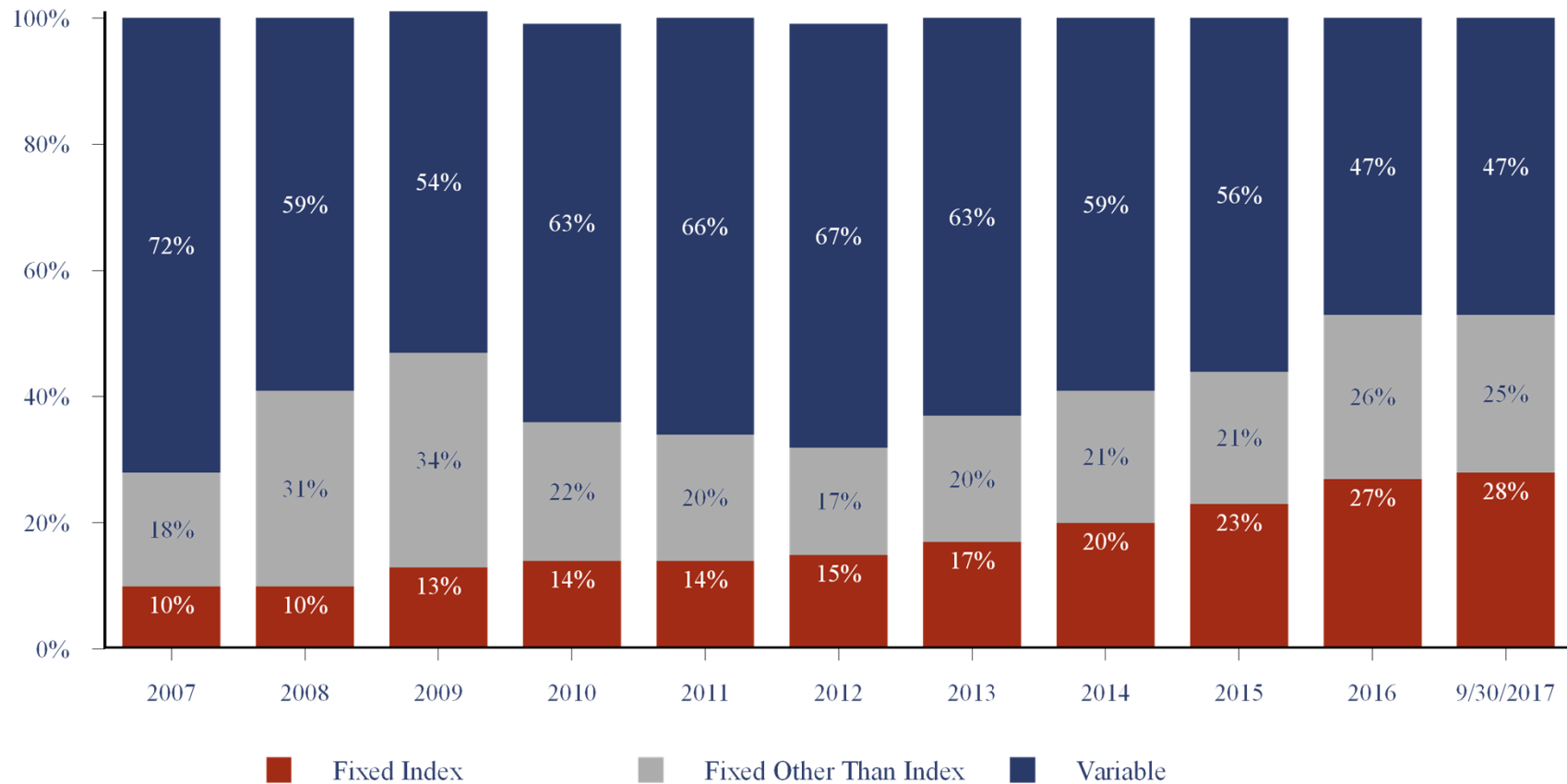


(a) As of December 31, 2017, American Equity Investment Life Insurance Company only data

(b) Source: U.S. Census Bureau, 2014 National Projections

# Continued Room to Grow

## Annuity Market Share (Sales)



Source: LIMRA U.S. Individual Annuity Yearbook – 2009, 2015, LIMRA U.S. Individual Annuity Sales Survey Participant Report for Q3 2017

# AEL is an Industry Leader

## Index Annuity Market Share (Sales)

2012		
1	Allianz	15.90%
2	Aviva	11.95%
3	American Equity	10.55%
4	Security Benefit	8.67%
5	Great American	6.00%

2013		
1	Allianz	15.56%
2	Security Benefit	11.75%
3	American Equity	10.40%
4	Great American	7.91%
5	Athene	7.10%

2014		
1	Allianz	27.16%
2	Security Benefit	8.92%
3	American Equity	8.85%
4	Great American	6.61%
5	Athene	5.33%

2015		
1	Allianz	16.48%
2	American Equity	13.10%
3	Great American	6.95%
4	AIG	6.21%
5	Athene	4.80%

2016		
1	Allianz	17.51%
2	American Equity	10.06%
3	Athene	7.94%
4	Great American	6.44%
5	AIG	6.23%

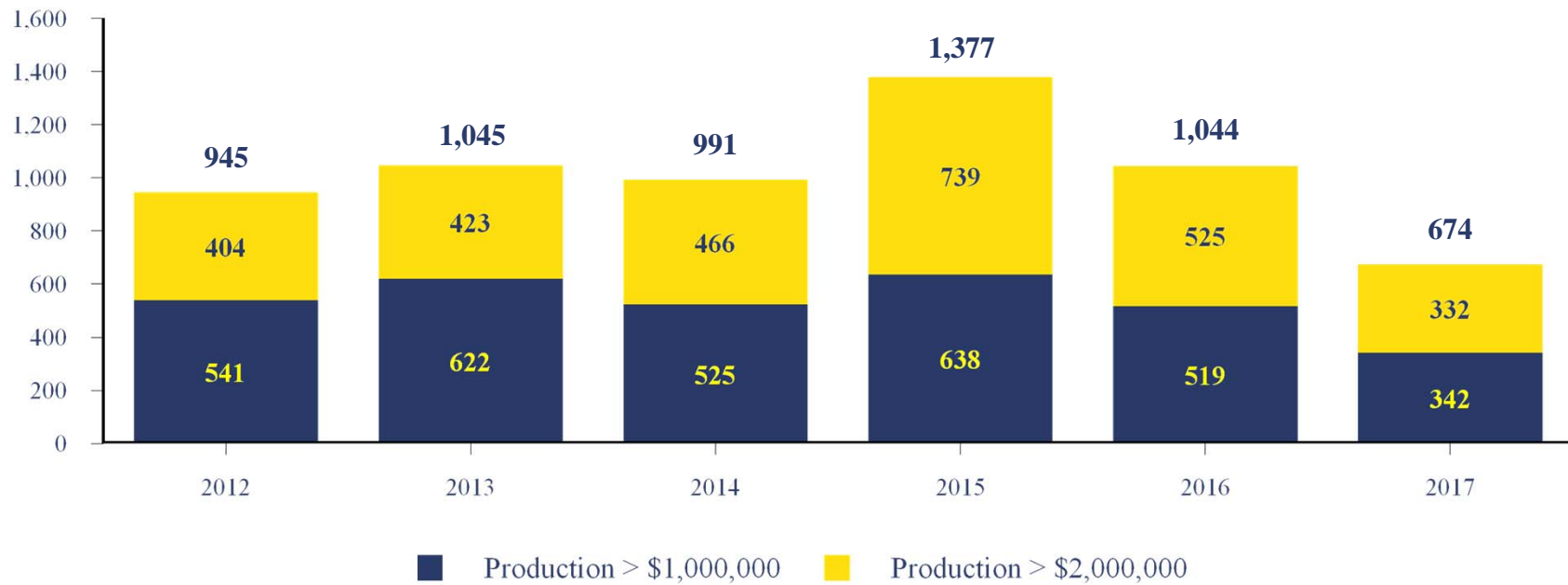
YTD 9/30/2017		
1	Allianz	14.41%
2	Athene	9.33%
3	Nationwide	8.69%
4	American Equity	7.72%
5	Great American	6.74%

Source: Wink's Sales & Market Reports

# Strong Distribution Relationships

- Approximately 35 NMOs and nearly 23,000 active independent agents, incentivized by:
  - Competitive commissions
  - Customary incentives
  - Industry leading service
  - Attractive product profile
- Focus on great agent relationships
  - Pay commissions daily
  - Phones answered by people
  - Access to senior management
  - Coinsure excess business – keep operating even when sales outpace capital

## Million Dollar Agents



# B-D Channel Will Extend Leadership

- Fixed index annuities under-represented in broker – dealer and bank channels
- AEL created Eagle Life to penetrate broker-dealer channel

4Q2012	
Independent Insurance Agents	87.0%
Bank	6.5%
Broker Dealer	1.2%
Career Insurance Agents	5.3%

4Q2013	
Independent Insurance Agents	80.9%
Bank	11.5%
Broker Dealer	2.6%
Career Insurance Agents	5.0%

4Q2014	
Independent Insurance Agents	81.1%
Bank	10.2%
Broker Dealer	5.3%
Career Insurance Agents	3.4%

4Q2015	
Independent Insurance Agents	61.5%
Bank	16.7%
Broker Dealer	16.6%
Career Insurance Agents	5.2%

4Q2016	
Independent Insurance Agents	61.5%
Bank	14.8%
Broker Dealer	17.4%
Career Insurance Agents	6.3%

3Q2017	
Independent Insurance Agents	58.9%
Bank	18.7%
Broker Dealer	15.8%
Career Insurance Agents	6.6%

Source: Wink's Sales & Market Reports

# Best Interest Standard Requirements

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- On November 29, 2017, the DOL released a rule delaying the full implementation of the Fiduciary Rule to July 1, 2019.
  - As of June 9, 2017, independent agents selling fixed annuities to qualified accounts are fiduciaries.
  - Until July 1, 2019, independent agents may rely on Prohibited Transaction Exemption ("PTE") 84-24.
    - Compliance with Impartial Conduct Standards
    - Disclosure of compensation and product fees and charges
    - Attestation of compliance to insurance carrier
- During the delay period, the DOL is reviewing the rule to determine if it should be modified or additional exemptions created.
- The DOL may be coordinating with the SEC on a fiduciary rule applicable to all transactions whether qualified or non-qualified.
- The NAIC has established a working group to consider whether a best interest standard should be added to the NAIC Model Suitability Regulation.

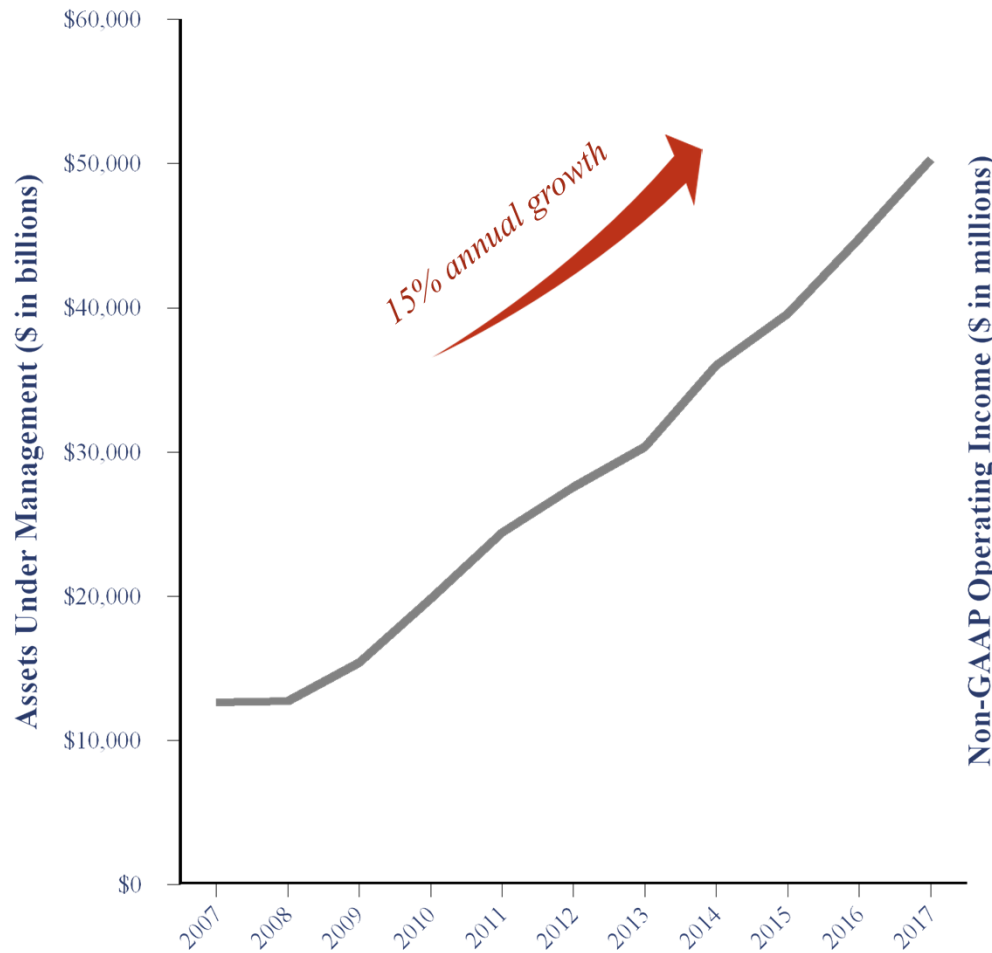




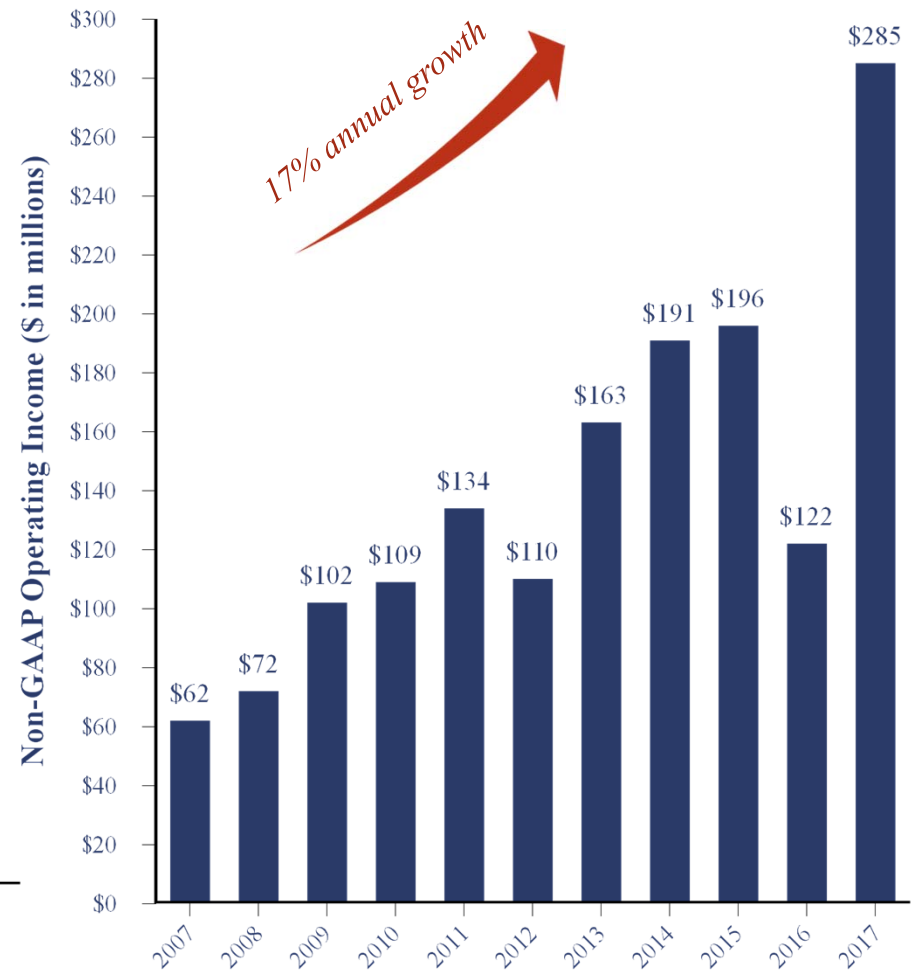
# **FINANCIAL PERFORMANCE**

# Strong Growth Over the Past Decade

**Ten Year Growth of Assets Under Management**



**Ten Year Growth of Non-GAAP Operating Income**

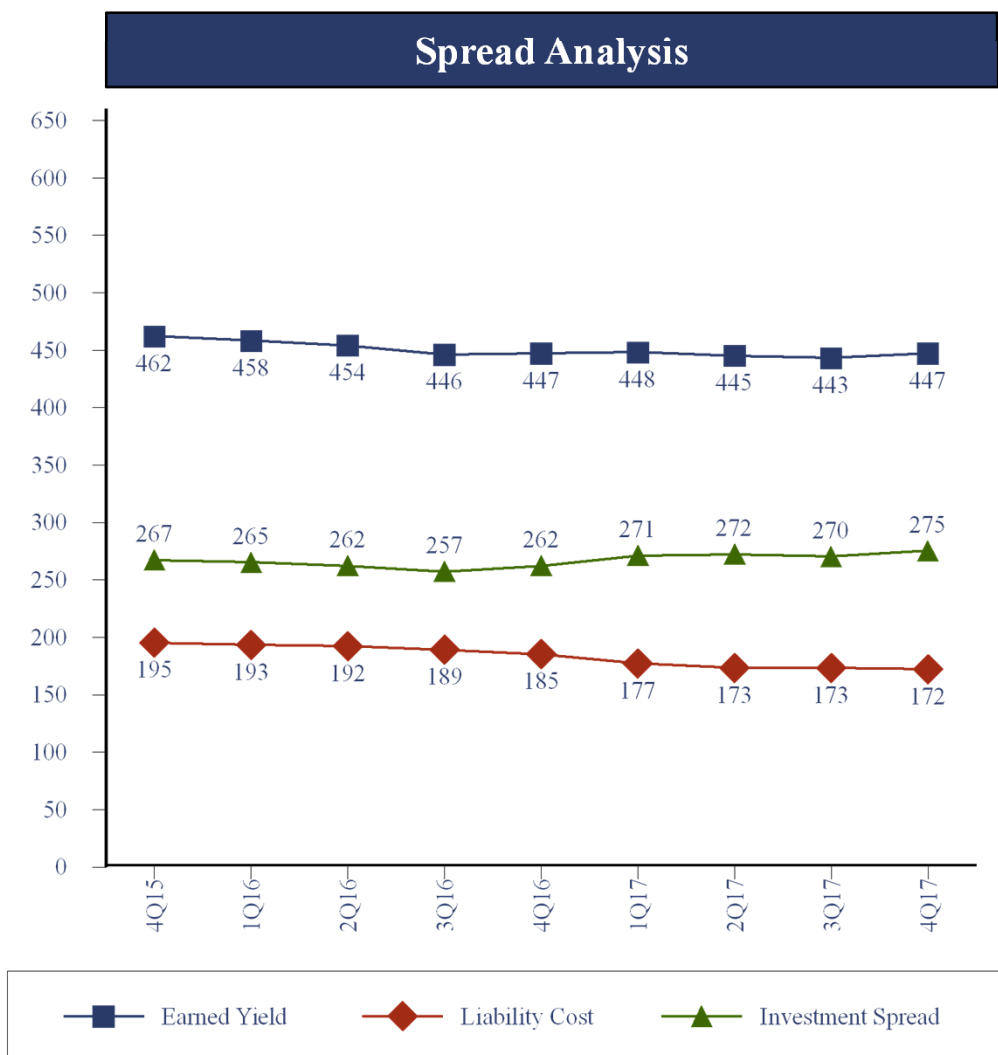


# Spread Management

- Majority of our income is derived from our investment spread – the difference between the earned yield of our investments and the liability cost of our policies
- Target investment spread:
  - 290 - 310 bps<sup>(a)</sup>
  - 205 - 225 bps<sup>(b)</sup>
- Earned yield has been under pressure due to lower interest rates and higher cash balances
- Liability costs are decreasing
  - We have been reducing crediting rates prudently
  - Current base rates
    - New money<sup>(a)</sup> = 1.00% - 1.15%
    - New money<sup>(b)</sup> = 1.80% - 2.10%
    - Renewals = 1.00% - 3.00%

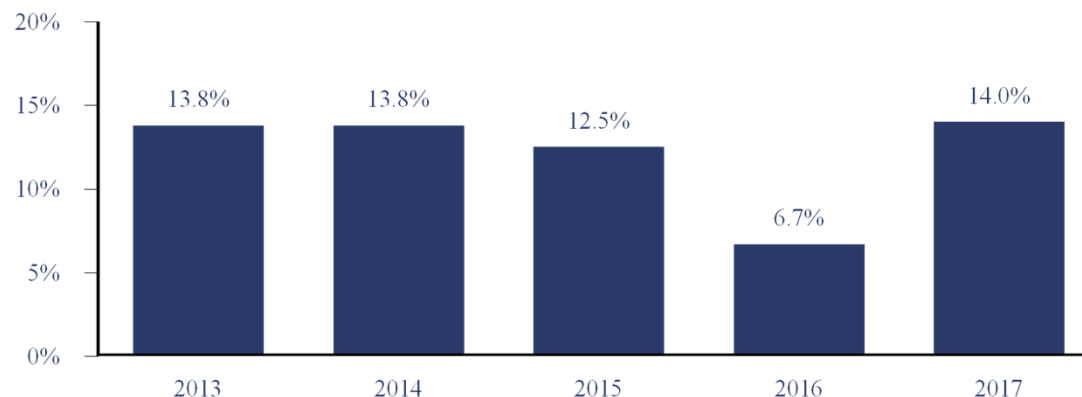
(a) Bonus products

(b) Non-bonus products, introduction of MVA option

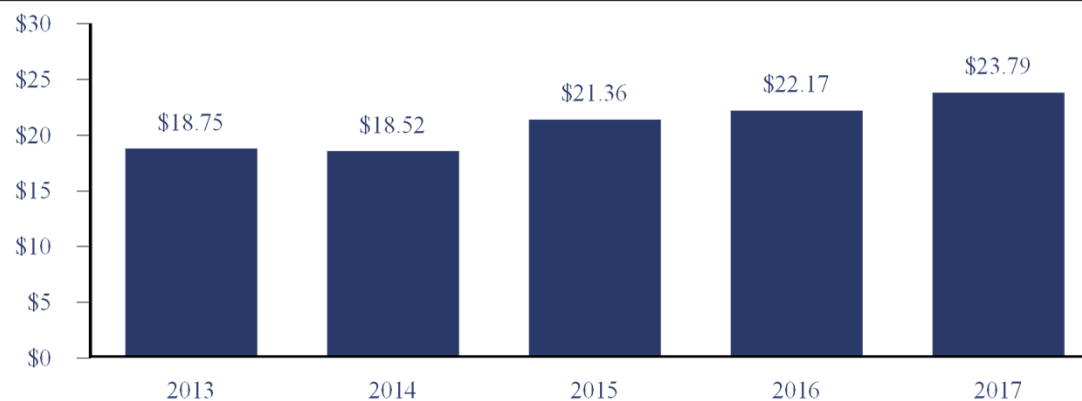


# High ROE on Growing Book Value Per Share

## Operating Return on Equity (ex. AOCI)<sup>(a)</sup>



## Book Value Per Share (ex. AOCI)



(a) Operating return on equity is a non-GAAP financial measure. Operating return on equity equals operating income divided by average stockholders' equity excluding accumulated other comprehensive income.

# Capital Structure

(\$ in millions)

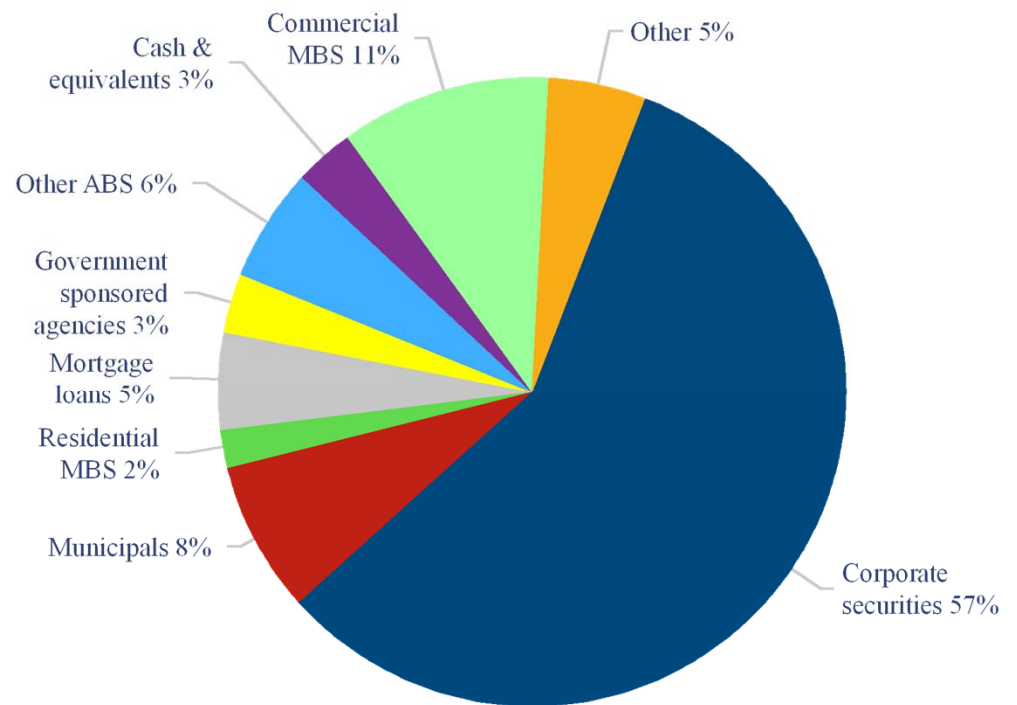
	December 31,			
	2017	2016	2015	2014
Notes and loan payable:				
5.000% Notes due 2027	\$ 500.0	\$ —	\$ —	\$ —
6.625% Notes due 2021	—	400.0	400.0	400.0
Term loan due 2019	—	100.0	—	—
Convertible notes	—	—	—	21.7
Total notes and loan payable	500.0	500.0	400.0	421.7
Subordinated debentures	246.9	246.7	246.5	246.2
Stockholders' equity excluding AOCI <sup>(a)</sup>	2,125.6	1,951.6	1,742.9	1,418.5
Total capitalization excluding AOCI <sup>(a)</sup>	\$ 2,872.5	\$ 2,698.3	\$ 2,389.4	\$ 2,086.4
Total capitalization including AOCI	\$ 3,597.1	\$ 3,038.3	\$ 2,591.0	\$ 2,807.8
Adjusted debt/Total capitalization	17.4%	18.5%	16.7%	20.2%

(a) Total capitalization and stockholders' equity excluding AOCI are non-GAAP financial measures based on stockholders' equity excluding the effect of AOCI. Since AOCI fluctuates from quarter to quarter due to unrealized changes in the fair value of available for sale investments, we believe these non-GAAP financial measures provide useful supplemental information.

# Conservative Portfolio

- Maintain / protect policyholder and stakeholder value
- Maximize investment income within risk parameters
- Minimize credit risk
- 97.1% of fixed maturity securities have NAIC 1 or NAIC 2 designation
- Manage duration and convexity

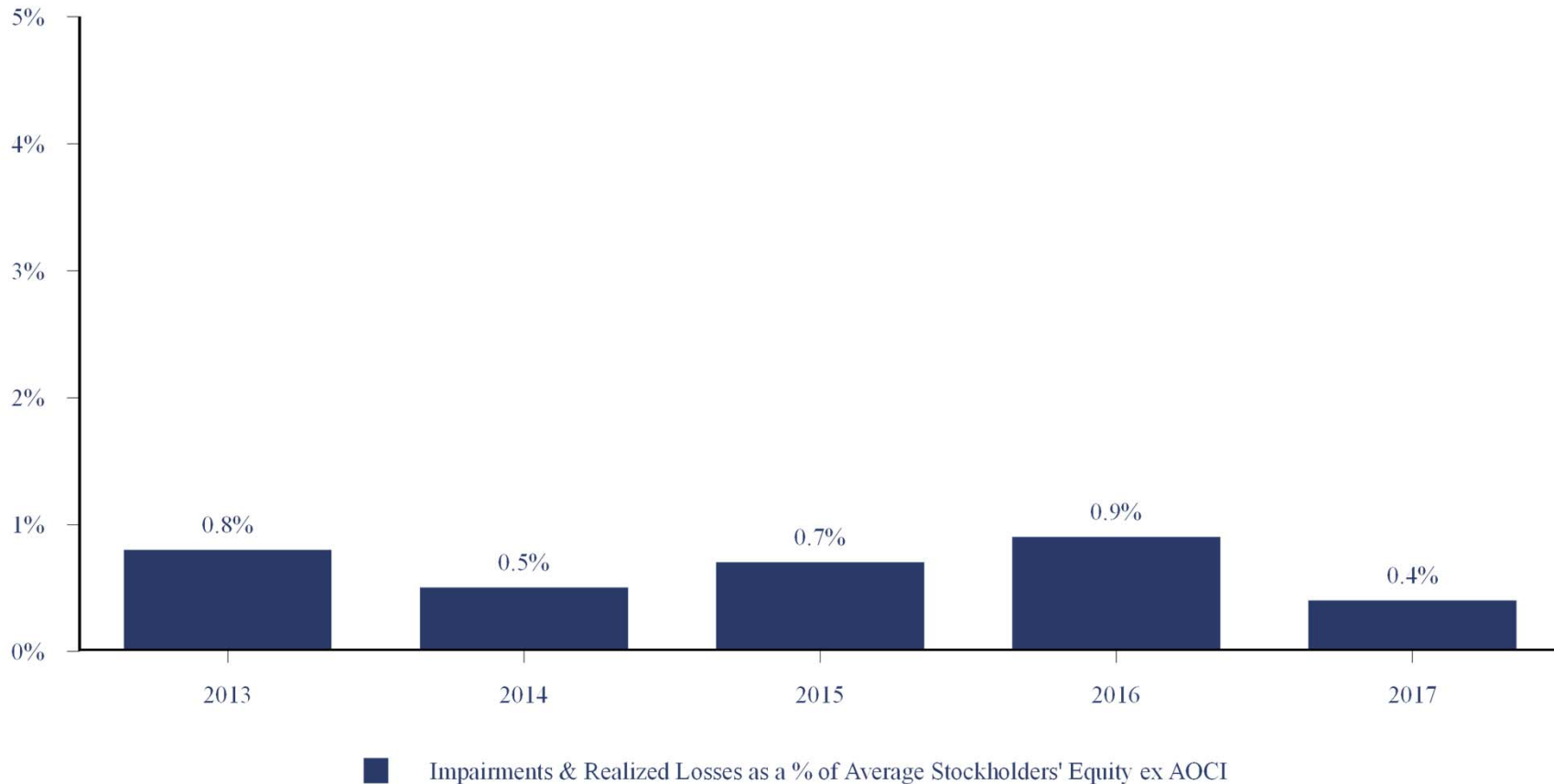
Cash and Invested Assets by Type  
December 31, 2017



**Total: \$51.7 billion**

# Conservative Portfolio

## Low Impairments & Realized Losses



**Portfolio \$45.5 billion at December 31, 2017**

# Concluding Remarks

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- Key Investment Thesis
  - Simple Business; Easy to Understand
  - Strong Operating Performance
  - Strong Distribution Relationships
  - Conservative Investment Portfolio
  - Disciplined Risk Management
  - Future Growth Opportunities



People...Service...Future  
**WE'RE THE ONE**



**AEL**  
**LISTED**  
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# APPENDIX

# Non-GAAP Financial Measure Reconciliations

Reconciliation from Net Income to Non-GAAP Operating Income	Years Ended December 31,				
	2017	2016	2015	2014	2013
Net income	\$ 174,645	\$ 83,243	\$ 219,830	\$ 126,023	\$ 253,283
Adjustments to arrive at non-GAAP operating income: (a)					
Net realized investment (gains) losses including OTTI	(5,093)	7,188	5,737	4,429	(18,170)
Change in fair value of derivatives and embedded derivatives – index annuities	121,846	56,634	(44,055)	79,052	(153,267)
Change in fair value of derivatives and embedded derivatives – debt	(1,224)	(1,265)	1,296	104	(2,038)
Loss on extinguishment of convertible debt	—	—	—	12,502	32,515
Litigation reserve	—	(1,957)	—	(1,417)	30
Income taxes	(5,124)	(21,499)	13,012	(30,047)	51,067
Non-GAAP operating income	\$ 285,050	\$ 122,344	\$ 195,820	\$ 190,646	\$ 163,420

(a) Adjustments to net income to arrive at non-GAAP operating income are presented net of related adjustments to amortization of deferred sales inducements (DSI) and deferred policy acquisition costs (DAC) where applicable.

## Non-GAAP Financial Measure Reconciliations (cont'd)

	Year Ended December 31,				
	2017	2016	2015	2014	2013
<b>Average Stockholders' Equity (1)</b>					
Average Equity including average Accumulated Other Comprehensive Income (AOCI)	\$ 2,570,876	\$ 2,107,181	\$ 2,030,613	\$ 1,762,282	\$ 1,552,462
Average AOCI	(532,283)	(270,815)	(461,532)	(383,799)	(366,502)
Average equity excluding average AOCI	\$ 2,038,593	\$ 1,836,366	\$ 1,569,081	\$ 1,378,483	\$ 1,185,960
Net Income	\$ 174,645	\$ 83,243	\$ 219,830	\$ 126,023	\$ 253,283
Non-GAAP Operating Income	\$ 285,050	\$ 122,344	\$ 195,820	\$ 190,646	\$ 163,420
<b>Return on Average Equity Excluding Average AOCI</b>					
Net Income	8.6%	4.5%	14.0%	9.1%	21.4%
Non-GAAP Operating Income	14.0%	6.7%	12.5%	13.8%	13.8%

(1) Simple average based on stockholders' equity at beginning and end of the twelve month period.

## Non-GAAP Financial Measure Reconciliations (cont'd)

<b>Capitalization</b>	<b>As of December 31,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Notes and loan payable	\$ 500,000	\$ 500,000	\$ 400,000	\$ 421,679	\$ 549,958
Portion of subordinated debentures payable to statutory trusts outstanding that exceeds 15% of total capitalization excluding AOCI	—	—	—	—	—
Adjusted debt	500,000	500,000	400,000	421,679	549,958
Remaining portion of total subordinated debentures	246,908	246,671	246,450	246,243	246,050
Total subordinated debentures	246,908	246,671	246,450	246,243	246,050
Total debt	746,908	746,671	646,450	667,922	796,008
Total stockholders' equity	2,850,157	2,291,595	1,944,535	2,139,876	1,384,687
Total capitalization	3,597,065	3,038,266	2,590,985	2,807,798	2,180,695
AOCI	724,599	339,966	201,663	721,401	46,196
Total capitalization excluding AOCI	\$ 2,872,466	\$ 2,698,300	\$ 2,389,322	\$ 2,086,397	\$ 2,134,499
<b>Debt-to-Capital Ratios</b>					
Senior debt/total capitalization - excluding AOCI	17.4%	18.5%	16.7%	20.2%	25.8%
Adjusted debt/total capitalization - excluding AOCI	17.4%	18.5%	16.7%	20.2%	25.8%
Total debt/total capitalization - excluding AOCI	26.0%	27.7%	27.1%	32.0%	37.3%

## Non-GAAP Financial Measure Reconciliations (cont'd)

Book Value Per Share	As of December 31,				
	2017	2016	2015	2014	2013
Total stockholders' equity	\$ 2,850,157	\$ 2,291,595	\$ 1,944,535	\$ 2,139,876	\$ 1,384,687
Accumulated other comprehensive income - AOCI	724,599	339,966	201,663	721,401	46,196
Total stockholders' equity excluding AOCI	\$ 2,125,558	\$ 1,951,629	\$ 1,742,872	\$ 1,418,475	\$ 1,338,491
Common shares outstanding	89,331,087	88,016,188	81,584,091	76,605,527	71,369,474
Book value per share including AOCI	\$ 31.91	\$ 26.04	\$ 23.83	\$ 27.93	\$ 19.40
Book value per share excluding AOCI	\$ 23.79	\$ 22.17	\$ 21.36	\$ 18.52	\$ 18.75