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CORPORATE PARTICIPANTS

Jeffrey D. Lorenzen *American Equity Investment Life Holding Company - CIO and EVP*

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Alex Scott *Evercore ISI, Research Division - Analyst*

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

Erik Bass - *Autonomus*

James Inglis *Philo Smith & Co. - MD and Partner*

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

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

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

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

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

PRESENTATION

Operator

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

At this time, for opening remarks and introduction, I would like to turn the call over to 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 first 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 on 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 is now my pleasure to introduce John Matovina.

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

Thank you, Julie. Good morning, everyone, and thank you for joining us on the call. I know several of you in the analyst community have a busy day, so we'll try and move right along. But before we discuss first quarter earnings, I'd like to take a moment to remember our Founder and longtime Chairman, Dave Noble, who passed away last month. Dave was an icon in the insurance business and made it his career for more than 60 years. In 1995, after negotiating and closing the sale of the Statesman Group, he retired from the insurance business for all of 3 days and then formed American Equity Life.

Dave believed in 2 things: First, Americans needed an attractive safe way to save for retirement and insure guaranteed lifetime income. He saw fixed indexed annuities, which he referred to as sleep insurance, as the best product to fit these needs. Second, Dave believed in service. Service to agents and service to policyholders. And we strive every day to offer the best service in the insurance industry and believe this differentiates us from our competitors.

Dave's strength, knowledge and determination drove American Equity's success for the past 21 years. From a startup more than 21 years ago, we are now a public company, with a $2 billion market cap, $46 billion of policyholder funds under management, $3 billion of adjusted statutory capital and surplus and 530 employees. Dave was truly an American success story. We owe him much, and we'll miss his leadership and counsel, greatly. From all of us at American Equity, thank you to everyone for your kind words, support and expressions of sympathy since Dave's passing. There'll be a celebration of Dave's life in Des Moines on the evening of May 31.

Now moving on to first quarter results. We started 2017 on a solid earnings note, reporting non-GAAP operating earnings of $59.6 million or $0.66 per share. Our performance in the first quarter, in the 3 key areas that drive our financial performance, was mixed. And as a reminder, those key measurements are: growing our 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 investment portfolio.

For the first quarter, we delivered 1.8% growth in policyholder funds under management. On a trailing 12-month basis, we generated an 11.2% non-GAAP operating return on average equity and that number excludes the impact of assumption revisions in the third quarter of last year. And our investment impairment losses after the effects of deferred acquisition costs and income taxes, were just 0.02% of our average equity.

The growth in our policyholder funds under management was driven by $1.1 billion in gross sales, that was down substantially from the record first quarter sales of $2.1 billion last year. While we don't have industry sales data yet, we anticipate that the fixed indexed annuity sales for the industry were soft again this quarter. We just don't know our relative outcome in terms of market share and how our other competitors might have done.

While the fixed indexed annuity market remains highly competitive, the interest rate environment remains our biggest challenge. The post-election increase in interest rates allowed us to invest funds this quarter, at rates that were closer to, but still less than our portfolio rate. We were able to offset the negative impact on our investment spread from this with reductions in our crediting rates. Our investment spread from the -- for the quarter also benefited from a larger overhedging benefit and an increase in recurring, but nontrendable investment income items.

And our low level of impairment losses reflects our continuing 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 some additional comments on first quarter financial results.

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

Thank you, John. As we reported yesterday afternoon, we had non-GAAP operating income of $59.6 million or $0.66 per share for the first quarter of 2017, compared to non-GAAP operating income of $21 million or $0.25 per share for the first quarter of 2016. Excluding revisions to the assumptions for deferred policy acquisition costs and deferred sales inducements, first quarter 2016 non-GAAP operating income and non-GAAP operating income per share would have been $49.6 million or $0.60 per share, respectively.

Our diluted share count was 8.5% higher in the first quarter of 2017 compared to the first 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 first quarter was 271 basis points compared to 262 basis points in the fourth quarter of 2016, as a result of a 1 basis point increase in average yield on invested assets and an 8 basis point decrease in the cost of money.

Average yield on invested assets was 4.48% in the first 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, the unfavorable impact from lower new money yields was offset by nontrendable investment income items, which added 10 basis points to the first quarter average yield on invested assets compared to 7 basis points from such items in the fourth quarter of 2016. Nontrendable investment income in the first quarter of 2017, included 7 basis points from fees from bond transactions and prepayment income and 3 basis points from an acceleration of the rate of paydowns on RMBS securities.

The average yield on fixed income securities purchased and commercial mortgage loans funded in the first quarter was 4.13% compared to 3.71% in the fourth quarter of 2016, and 4.14% in the first quarter of 2016.

With rates coming down in April, we invested money at 3.9% last month.

The aggregate cost of money for annuity liabilities was 177 basis points compared to 185 basis points in the fourth 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 5 basis points in the first quarter of 2017 compared to 2 basis points in the fourth quarter of 2016.

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 the flexibility to reduce our crediting rates, if necessary and could decrease our cost of money by approximately 49 basis points, if we reduce current rates to guaranteed minimums. This is flat with the year-end level.

Other operating costs and expenses in the first quarter were $27.6 million. On a sequential basis, other operating costs and expenses increased $4.2 million, primarily due to a $2.3 million benefit in the fourth quarter of 2016, from the reduction of an accrual for potential guarantee fund assessments. The remainder of the increase reflects higher reinsurance risk charges, due to an increase in the excess regulatory reserve seeded to an unaffiliated insurer and an increase in general operating expenses.

Our effective income tax rate in the quarter was 34%. Income tax expense benefited by roughly $1.3 million in the quarter, due to a change in accounting for income taxes related to stock compensation. The effective income tax rate excluding this item was 35.3%. Our estimated risk-based capital ratio at March 31, was 353%, up from 342% at the end of last quarter. The increase in the RBC ratio included 8 points from a decline in required capital for production, which we estimate using trailing 12-month sales. The increase in our adjusted statuary capital and surplus exceeded the increase in required capital from growth and 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, everybody. As we reported yesterday, gross sales for the first quarter of 2017 were $1.1 billion. This is down from record first quarter sales of $2.1 billion in 2016. As a reminder, sales results in the first quarter of '16, benefited from continued momentum from record sales in the second half of 2015 as well as elevated sales of multi-year guaranteed annuities. On a sequential basis, gross sales declined from $1.4 billion.

Net sales for the quarter were $1 billion compared to $1.6 billion a year earlier and $1.1 billion in the fourth quarter of 2016. Nearly all of the sales for the first quarter of '17 were fixed indexed annuities.

We expect first quarter industry sales of fixed index annuities will likely be down, both on a sequential and a year-over-year basis. As we stated on our fourth quarter 2016 earnings call, we believe low interest rates and a more robust stock market may be factors. We also believe actions by distributors to conform to the DOL fiduciary rule were a distraction for marketing efforts and played a lower -- a role in lower sales. We've also seen evidence that registered representatives are repositioning money away from annuities and into managed money in anticipation of the DOL fiduciary rule.

As we noted on our last conference call, the sales environment in the first quarter was aggressive. We've seen companies improve, lifetime income benefit writer terms by increasing roll ups, income benefit bonuses and payout factors. Some companies were also quick to raise rates and participation rates following the jump in the 10-year treasury rate. Conversely, we have not seen companies reduce rates as the 10-year treasury rate retreats.

As mentioned on prior earnings calls, we are not a company that will sacrifice spread and returns for the sake of higher sales. It's not nearly as exciting to operate in a lower sales environment, but it's important for us to stay disciplined. One action we did take to improve our competitive position was to make available on optional market value adjustment rider on our American Equity Choice and Eagle Life Select fixed indexed annuities. This rider allows us to offer a more competitive participation rate strategy and has helped us gain some traction, particularly, at Eagle Life. We did not benefit to the same extent at American Equity Life, since the Choice products only represent about 13% of American Equity Life sales.

In early March, we introduced Rate Shield, a suite of traditional fixed rate annuity products and Income Shield, a new income benefit writer. These were introduced as a part of our DOL fiduciary rule strategy and will give independent insurance agents products they can sell under Prohibited Transaction Exemption 84-24, if necessary. However, as long as independent agents are allowed to sell qualified fixed indexed annuities, under an exemption other than the Best Interest Contract Exemption, we do not expect Rate Shield to garner significant sales.

Guaranteed lifetime income is an area of the market for which American Equity is well known, but we are losing some market share because we are perceived as not being competitive. In reality, our guaranteed income may not be the highest, but it is certainly competitive. Using 200 data points with issue ages between 50 and 75 and income beginning between ages 60 and 80, our top-selling product produces guaranteed income on average within 97% of the top income product.

Turning to current sales trends, pending business at American Equity Life averaged 2,569 applications during the first quarter compared to 2,515 applications when we reported fourth quarter 2016 earnings. Pending at America Equity Life today is 2,526 applications. Pending at Eagle Life stands at 167 applications today, up from 118, when we reported fourth quarter earnings.

We are continuing to build distribution at Eagle Life in the first quarter. We added 1 new wholesaler, 3 selling agreements and 261 representatives. In total, we have 7 wholesalers, 55 selling agreements and 5,267 representatives.

In conclusion, it's difficult for people like me, who grew up in the marketing side of the business, to see sales decline. However, I do remain optimistic and believe our best days are ahead of us with a demographic of people who desire features and benefits that only our product can provide. We'll continue to reinforce our value proposition of providing excellent customer service through strong distribution relationships.

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

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

Thank you, Ted and Ron. We view the first quarter of 2017 as a mixed start to the New Year. Although, sales remain soft, 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 remain a headwind to our spread management, we continue to have room to lower our liability rates, and we will remain proactive in managing our substantial in-force book of business. The value of that book could increase if tax reform comes to pass, and we end up with lower corporate tax rates that are not offset by changes to our taxable income base.

While the order delaying the applicability date of the Department of Labor's fiduciary rule was appropriate, the details of that order have introduced additional elements of confusion. We are optimistic that the DOL will further delay the June 9, 2017 applicable date consistent with President Trump's memorandum to fully examine various aspects of the rule. However, if the rule remains as is and is implemented on June 9, 2017, and January 1, 2018, we would expect disruption of fixed index annuity sales. While the eventual outcome the DOL does remain uncertain, we remain prepared to respond and grow our business. Regardless an ever growing number of Americans, as Ron just said, need attractive fixed indexed annuity products that offer principal production with guaranteed lifetime income and the DOL rule isn't going to change that product need for Americans.

We have great relationships with our distribution partners. We remain consistent in our business practices, and have a very dedicated group of home office employees, providing excellent service to our distribution partners and our policyholders, each and every day. On behalf of those 530 employees, thank you for your time and attention this morning. I will now turn the call back over to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Ryan Krueger from KBW.

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

I have a question on RBC ratio, up 9 points in the quarter. I guess, with this level of sales production that we saw in the first quarter, is that a reasonable expectation for the amount it could be increased on a quarterly basis going forward? Or was it somewhat outsized in the quarter?

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

No, what you got a look at, Ryan, is that, that estimate is done on our trailing 12 months. So first quarter last year was a pretty significant quarter of sales and so that the difference between putting first quarter sales on the first quarter of 2017 and dropping off last year first quarter was a pretty big difference. But as you look at last year and look at the sales trend, you see that sales decreased as the year went on. So there'll be less of a benefit in the RBC schedule as we go on, dependent on what our future sales are for the remainder of the year.

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

Okay, got it.

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

So a larger lump of it came through this quarter than potentially what that would come through in future quarters.

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

Understood. And then, forgive me if I missed this, but did -- I think last quarter you talked about your cap rates were about 90 to 100 basis points lower than a lot of your competitors. Can you give an update on that?

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

Yes. Good morning. This is Ron. That hasn't changed a lot. The competitive landscape has been pretty consistent all through the first quarter.

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

One comment on that, that differential was in the bank and broker-dealer channel. The differential was not that wide in independent agents. And that would have been on nonbonus products versus bonus products.

Operator

Our next question comes from Randy Binner from FBR & Company.

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

Yes, just picking up there. So the reduction, basically in your liability cost this quarter was material and I guess, I'm taking from your comments thus far that you did not -- and so this would be more in the traditional channel. Should I take it that competitors did not make a similar move in the quarter? And also just kind of curious to hear how distribution reacted to that change in the cost of money?

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

Well, Randy, the -- I mean some of the decline in cost of money is just coming from new money rates are less than the cost of money in the old, and then the balance is coming from reductions in renewal rates. And I think, as we said in the past, the reduction in renewal rates is not necessarily an element that shows up in the competitive landscape or mindset. Everybody benchmarks their -- or we see rates for new sales, we know what everybody is doing. But what other companies might be doing on renewal rate adjustments is not very obvious unless you get anecdotal evidence from an agent or you have a company that operates in the space and they make comments like we do, which are not very many.

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

So basically, you're not seeing a lot of impact in the competitive environment from that?

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

No.

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

From the renewal activity. And then just jumping back to the question Ryan had and your clarification, the 100 basis points on cap rates lower was in bank and BD. What is the differential roughly in the independent agent channel?

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

Well, the differential in independent agent channel for bonus annuities is probably 50, were probably -- they're probably 50 to 75 basis points on cap rates ahead of us. I want to go back to the bank and broker-dealer channel, the cap rates are probably 100 basis points higher than us, but we did have participation rates that we were able to improve with the addition of the market value adjustment.

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

I guess, just the last one. This is also on sales is -- so we share a view -- or your view that they'll be further delays in the DOL fiduciary rule past June 9. And in fact, our view is that it will never come to pass with a best interest contract on it. And so the question is, do -- does distribution react at all to kind of those changes in Washington and people's opinions of it? Or is that market still kind of girding for the potential of the rule? And kind of what would it take to you think change the mindset out there that this fiduciary rule kind of with the best interest contract is not going to happen?

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

We're all looking at each other in this room kind of, whoa.

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

We're always pretty attuned to it, because it's -- we have to follow the rules and prepare for it. I think there's always a delayed response from the field and they're busy doing and doing their thing and I'd would say, there's always a delayed response on how they react to the news from Washington, D.C. as it applies for the DOL rule. So that's a good question. I'm not sure we have a very good answer for it at this time, Randy.

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

All right. But there's kind of a -- we're in a donut hole I guess, between when we get the news and when there's a reaction.

Operator

Our next question comes from Pablo Singzon from JPMorgan.

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

So my first question was, before the introduction of the MVAs, what percentage of indexed annuity sales did Select Choice comprise? I mean, just wanted to get a method by which to track the progress of the MVA introduction over time?

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

Well, if I understand your question right, Pablo, the MVA option, our rider, is relatively new on our FIAs. We just added it in early March. So to see how it's tracking is probably a little bit earlier -- or a little bit early to tell. We could probably in our second quarter call give you a little bit better indication of that optional writer is catching on.

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

Okay.

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

In terms of quantification, the Eagle Life FIA products, it's a 100% of those products have the choice of MVA or no MVA. And Ron said, in his remarks that the Choice product at American Equity was 13% of its sales in the first quarter. And so that's probably the benchmark going forward, as to the level of products that have the option. And actually those combined, were about 20% of our total FIA sales in the first quarter. So in round numbers, $200 million out of $1 billion of sales were in those 2 products that have -- now have MVA or no MVA options.

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

Right. And before the first quarter, the apples-to-apples ratio, I presume was not that radically different from 20%, right? Because I mean, I guess, if MVA sales grow over time, then you should expect that proportion to grow, right? I just want to get a sense of what the base line is?

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

I wouldn't think the presence of an MVA, no MVA is going to impact the overall complexion of sales. I mean, it's -- as I said, it's the only products that are available for bank broker-dealer to Eagle Life. And at American Equity through independent agents, you still have a lot of agents that prefer to sell the bonus products to their policyholders. So I don't think the addition of an MVA to the American Equity Choice products is going to necessarily elevate that product to 25% of sales.

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

Okay, got it. And then just shifting gears here, if we assume for a moment that there will be no change in the DOL rule before June. Can you please clarify, if anything in current years practices will change after the applicability bit? Because at that point, the fiduciary standard does come into effect. So I'm just wondering what do you think could happen during the window between June and January?

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

Well, come June, the onus is on the agents who going to sell under PTE 84-24, the onus is on the agents to comply with the DOL. Up until this time it's been on the IMO and us to make sure that there's compliance. So as we kind of said during the call, they're -- this onus being placed on the agent may create a little bit of distribution confusion after June 9. Because if they do that 84-24, there's going to have to be certain disclosures that the agent has to do, indicating that they've disclosed their compensation and they may follow the impartial market -- impartial conduct standard. Sorry. So it'll be interesting to see how the distribution reacts when June gets here to see if that confusion arrives or not.

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

Yes, and just where some agents will be fiduciaries at the beginning of June, right, if nothing changes under the current setup?

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

They would -- yes, they would operate as fiduciaries because they -- the obligation to follow impartial conduct standards kicks in on June 9, absent anything else.

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

And that's why I used the word, confusion, in my remarks. That was one of the things I was referring to because the other part of that is, we can follow 84-24 between now and the end of the year. So you'd would have -- we would have 1 regime to follow for the balance of the year. And then absent any other changes, something else kicks in January 1. So you have to comply with an interim set of standards and then the final set of standards.

Operator

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

Erik Bass - - *Autonomus*

Ted, can you talk about how much more you expect the cost of money to decline based on the renewal rate actions that you've taken as you continue to reach anniversary dates?

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

I don't know if I can quantify how much more is left, I can go back to what our adjustments and what our quantification was when we first made those. We had a block of $16 million to $17 billion that we started to adjust in September of last year. And I think we estimated that, that would approximately give us 8 basis points of cost savings over time as that was implemented as people hit their anniversary dates. And then there was another $7 billion approximately of policyholder liabilities that we started to adjust in December and that approximately would give us another 4 points. So there was 12 basis points to flow-through. We're partway or halfway through that. And -- but I think it'll have to go through at least the end of the year before we're going to see the full benefit. And again, that 12 basis points, we always kind of say, well, people can assume that it comes in ratably over that period of time. But the distribution of policies doesn't really allow that to happen. It's going to come potentially in lumps as it comes through.

Erik Bass - - *Autonomus*

Got it. And then in addition, as you're putting on new business, the cost of money is lower. So that would be sort of a downward trend as well. Is that correct?

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

Right.

Erik Bass - - *Autonomus*

Okay. And then I don't know, if Jeff is on, but just a question. There's been a lot of recent press about the financial challenges facing many retailers. And I was just hoping if you could talk about your investment portfolio exposure to retail, particularly within the commercial mortgage loan and CMBS portfolios?

Jeffrey D. Lorenzen - *American Equity Investment Life Holding Company - CIO and EVP*

Sure. I would be happy to. This is Jeff Lorenzen.

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

Jeff is here.

Jeffrey D. Lorenzen - *American Equity Investment Life Holding Company - CIO and EVP*

Before we get into the discussion of the actual numbers, I kind of want to talk a bit about our process. We have a thorough process that we go through when we look at our CMBS or our direct commercial loans. We do a full fundamental analysis of the property locations, demographics, competitive landscape, tenant strengths and diversity, sponsor experience, financial strengths. We get a lot of that data from market-recognized analytical tools to assess the current environment for the properties, across hundreds of submarkets such as vacancy, supply and demand, rents, valuation. It's a process that we put together that we feel is very thorough and allows as to evaluate the collateral on the loans at an aggregate level as well as an individual loan level.

For any CMBS deal, we do a complete deep-dive analysis on a large percent of the underlying collateral on an annual basis. We don't have a lot of BBB-rated CMBS, but those that we do or those where we see some less than desirable performance on the securities. We do reviews on those every 6 months to make sure we're current on those.

Our CMBS holdings totaled $4.9 million, of which 35% or $1.69 billion is retail related. Our retail mall exposure in that group is $733 million. A retail mall exposure under our definition is a large box anchor with small in-line stores. Other forms of retail exposure would include like shopping, community shopping centers, lifestyle centers, neighborhood centers, power centers, things like that. Our mall exposure has 26% or $177 million in what we consider conduit regional, the area of most concerns, where you're hearing more talk about potential problems. LTVs on these conduit regional exposures is 60%. They basically align with what we would view as Class B-type properties.

We classify all of our malls into 3 different risk -- into different risk buckets: low, medium and high, in terms of likelihood of default. There are several metrics that go into this, including like high risk tenant overlap, population density and growth, local household income, revenue trends and occupancy. High risk, which we would believe would align more with like a Class C framework. It is just 1% of our mall exposure. Medium risk is 10% and low risk is 89%.

Medium risk, when I talked about the Class B, that was the 26%. Medium risk is less than the Class B, because we don't believe that all of our Class B malls would be susceptible to default and closure.

When you look directly at our commercial mortgage loans, we have a similar process. We do a deep-dive analysis. We look at all of the relevant information around the market, particular submarkets, current projected vacancy rates, market rental rates, levels of new construction space, absorption, so forth. We look for stabilized, good quality and well-located properties in core markets. We do a full review of the properties. We're looking at the financial strength of the sponsor, vacancy rates, current absorption characteristics, leverage, stress testing.

For us now a big stress test is, what it looks like in a refi of sale or if there's an economic downturn? Do they have the ability to maintain interest coverage ratios that are acceptable to us? I think you'll see through the analysis of roughly 36% of our commercial mortgage loan portfolio was retail. However, we have no exposure to department stores or any other regional conduit malls that we would have in the CMBS. We primarily lend on community strip malls or grocery store anchored shopping centers, and we believe exposure to the Internet disintermediation is extremely low. Does that help, Erik? It's got some of the color of our CMBS and CML. Okay?

Erik Bass - - *Autonomus*

Yes, I appreciate it.

Operator

Our next question comes from John Barnidge from Sandler O'Neill.

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

So DOL rule is delayed. Will probably get another delay. At what point do you think uncertainty around, if the rule goes into effect or doesn't effect, becomes more disruptive to sales than implementation of the rule itself. Because I mean, we -- everyone doesn't like to live in an uncertain environment, right?

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

Well, exactly. I guess, my -- this is John, my personal view is it's hard to see uncertainty about rule being anymore disruptive than it is right now. But I think -- I don't think our views have changed that if BICE became operational for fixed indexed annuities, there would probably be a bigger reduction in our sales from independent agents.

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

All right. Well, that's helpful, at least.

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

But the odds -- I guess, everybody is like Randy said it more affirmatively than we. We don't make our predictions, Randy's guys have, though, but we certainly have our fingers crossed and are optimistic that BICE is never going to be operational for our independent insurance agents.

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

Okay, that's very helpful. And then just one question, I may have completely missed in the prepared remarks. What is your yield on securities purchased so far this quarter?

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

In April, the money that we put to work was at 3.9%. So rates have retracted since quarter end.

Operator

Our next question comes from Daniel Bergman from Citi.

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

I was hoping you could provide a little more color on the recent product launches like the MVA option on FIAs. Just any thoughts on the distributor reception. How they've progressed so far with all of those expectations? And where sales might trend going forward to be much appreciated?

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

Well, this is Ron. We added those MVAs as optional riders to Eagle's FIA products and to some of our products at American Equity. The whole idea behind those were to allow us to provide a little bit higher cap rates and participation rates. We haven't had MVAs on our FIA portfolio before, so we were kind of lagging behind the competition as far as the rates we could offer. That would help us get a little bit closer to the competition. So they would pick us and accept our value proposition with excellent customer service and relationships along with it. As we kind of said, at American Equity, most of our lion's share of our products are the portfolio that we've had for several years now, that are bonus annuities longer term, surrender charges. Those products did not have the flexibility for us to add that market value adjustment rider to them. But we did have that option available on our Choice Series. The Choice Series was introduced a year or 2 ago, mainly to help American Equity get some traction in the broker-dealer community and those products were a little bit more flexible as far as we could add that MVA.

On the Eagle side, it is a much more rate sensitive distribution channel than the independent agent channel. So we needed to get those market value adjustments riders added to the FIA, so we could be more competitive with a highly competitive and sensitive channel. We think we are -- I think we are making a little bit of headway with that. The biggest benefit has been, we've been able to get our participation rate strategy close to 50% and even at 50%, depending on how long -- what the surrender charges duration was on the product. That has helped us recover some market share from some banks that went elsewhere for a higher participation rate. So we remain optimistic that as time goes on, we'll be able to recover additional market share with the addition of the MVA.

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

All right. Great. And then going forward, are there any further new product launches or pricing changes in the works that we should be thinking about? Any color there would also be very helpful.

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

We are looking to introduce a new lifetime income benefit rider for our American Equity portfolio, probably by the end of the second quarter. It will be a rider that will help us be more competitive in the first 10 years. When I say the first 10 years, first 10-year a deferral. Our current rider is competitive, but it's super competitive if somebody waits longer than 10 years to return on income. So we are looking at another writer that will help us be more competitive in that first 10 years of deferral, so that should be helpful. The other thing that, that writer will do for us is, our current version has the roll up rate or the interest rate that's guaranteed for the duration, but gives us an opportunity and a reset to change the fee. This new version that we're introducing in June will have a benefit where we can change the roll-up rate after a set period versus the fee, which would make it a little bit more manageable for us to price that product into the future.

Operator

Our next question comes from Mark Hughes from SunTrust.

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

Ron, if you've mentioned this, I missed this. Did you give the pending accounts and the year ago pending count as well?

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

The pending count at American Equity today is 2,500, 2,600. It's kind of been bouncing between 2,500 and 2,600. That should say -- not 25 and 26, 2,500 and 2,600 during the first quarter and that's kind of where it is today. Eagle Life is at 167 today. I'm sorry, I didn't check what pending was a year ago, but it would be substantially higher because we were in the second half or the second half of 2016, sales were highly elevated. So a lot higher than they are today. I just -- I'm not prepared with the number.

Operator

Our next question comes from Jamie Inglis from Philo Smith.

James Inglis - *Philo Smith & Co. - MD and Partner*

Ron, you had mentioned in your remarks that American Equity is -- has been perceived to be uncompetitive. Now I guess, I'm asking a couple of questions. One, do you think that is a perception relative to the general market? Or is it relative to some specific competitor that's particularly aggressive today?

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

Well, that's a good question. I think it's both. We -- there are a couple of companies out there that have one in particular that's kind of been an outlier as far as guaranteed income, and I think producers look at them first to see what their income is. Because they are -- kind of they have that reputation of having the highest income. I forgot the second half of your question.

James Inglis - *Philo Smith & Co. - MD and Partner*

Well, let me keep going. You also cited some statistics that would suggest that you are in fact, competitive. And I guess, what I'm trying to get a sense of is, is this a marketing perception issue? Is it a crediting rate, a feature issue? Do you know what I mean, why do we have that dynamic today? And how or when do we turn it around?

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

Yes, I think it's -- there is such a large group of companies that are kind of in a pack, where a pack of being competitive as far as income goes. So there's not a big difference say for example, between the company that might be ranked #10 in income and the company that might be ranked #2 in income. So we're all pretty close. I think some of it has to do with agents looking at a spreadsheet and ranking the company's by the highest income to the lowest income. And while we're within 97% of #1, we might actually come out, maybe ranked #5 in a certain cell. In a different cell, we will be ranked #3. In another cell, we might be ranked #10 as far as what our income -- how it is compared to everybody else. So it could be just taking the easy way out and say all right, who is #1? Well, we're going sell them? And I think what we need to do as a company is to get back to doing what we do best, and that's sales and marketing, and we need to get out there and tell the story and remind producers and marketing companies of our value proposition and try and get some of that traction back.

Operator

(Operator Instructions) And our next question comes from Alex Scott from Evercore ISI.

Alex Scott - *Evercore ISI, Research Division - Analyst*

Just with new money yield still below the portfolio yield. I mean, sort of some of the crediting rate action you've done being a pretty meaningful contributor over the last couple of quarters to earnings. Do you have any plans to do incremental action in the back half of this year or in '18?

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

Well, in the current rate environment, if we have to continue to invest cash flows off the portfolio at yields that are below our portfolio rate, we're going to continue to see drag on our investment yield. And that could put us into the position that we would need to look at continued renewal rate adjustments to be able to offset partially or a majority of that drag on our investment income.

Alex Scott - *Evercore ISI, Research Division - Analyst*

Got it. And then just going back to the competitive pressures, I guess, one last question on that, is some of you are seeing a bit of a structural disadvantage just given I think, some of the players in the industry may have a lower tax rate than you? Like do you see that is something that's allowing some of your competitors to price more aggressively than you're able to?

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

It's not necessarily just the offshore companies that are being competitive. So it's a -- there potentially is a variety of different conditions. The question is, are they taking additional risk within their yield and stretching for yield and what they're investing in? Are they expecting a lower ROE? Are -- if it's in regards to the rider, are they making differing assumptions on utilization and how that rider would be utilized by the policyholder liability? So it kind of runs the gamut. It isn't necessarily just the writers that have offshore facilities that are being competitive in the marketplace.

Operator

Thank you. And I'm showing no further questions from our phone lines. I would now like to turn the conference back over to Julie LaFollette for any closing 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 does conclude the program and you may all disconnect. Everyone, have a wonderful day.
