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PRESENTATION

Operator

Welcome to American Equity Investment Life Holding Company's First Quarter 2018 Conference Call.

At this time, for opening remarks and introductions, 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 2018 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; Ron Grensteiner, President of American Equity 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 is 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 thank you for joining us this morning.

We started 2018 with solid first quarter results. Our non-GAAP operating income for the quarter was $78 million or $0.85 a share. That was 4% more than the fourth quarter non-GAAP operating income, as the benefit from the lower statutory federal income tax rate in 2018 was partially mitigated by a lower investment spread, which was primarily attributable to nontrendable items. As a reminder, the 3 key metrics 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 investment portfolio.

For the first quarter of 2018, we had 1.5% sequential growth, and just under 7% trailing 12-month growth in policyholder funds under management. On a trailing 12-months basis, we generated a 13.5% non-GAAP operating return on average equity. That measure excludes the impact of the actuarial assumptions reviews, and the losses on extinguishment of debt in a couple of the 2017 periods. And our investment impairment losses, after the effects of deferred acquisition costs and income taxes, were just 0.03% of average equity.

The growth in policyholder funds under management for the quarter was driven by $1 billion of gross sales. That's a 2% sequential increase. More importantly, fixed indexed annuity premiums were up 5% sequentially in the first quarter. As we noted on our fourth quarter call, sales momentum has been picking up. We introduced several versions of a new index product to our independent agent in March, which has been well received and should help us sustain sales momentum in the second quarter. You'll hear more about the sales environment and competition from Ron a bit later.

We had a sequential decrease in investment spread in the first quarter, primarily reflecting a decrease of 14 basis points in the benefit from fee income from bond transactions, prepayment income, and overhedging. Ted will have more details on investment spread in his remarks. And our low level of impairment losses, once again, 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, let me turn the call over to Ted Johnson for additional comments on first quarter financial results.

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

Thank you, John. As John said, we had non-GAAP operating income of $77.7 million or $0.85 per share for the first quarter of 2018, compared to a non-GAAP operating income of $59.6 million or $0.66 per share for the first quarter of 2017.

Investment spread for the first quarter was 254 basis points, down 21 basis points from the fourth quarter of 2017, as a result of an 11 basis point decrease in the average yield on invested assets, and a 10 basis point increase in the cost of money.

Average yield on invested assets was 4.36% in the first quarter, compared to 4.47% in the fourth quarter of last year. The decrease in the average yield in the quarter reflected a lower benefit from nontrendable investment income items, which added 3 basis points to the first quarter average yield on invested assets, compared to 11 basis points from such items in the fourth quarter of 2017.

The average yield on fixed income securities purchased and commercial mortgage loans funded in the first quarter was 4.43%, compared to 4.27% in the fourth quarter of 2017. The yield on investments purchased or funded in April was 4.71%. With the recent increases in the benchmark 10-year U.S. Treasury rate and rates available to us on the asset classes we have targeted for purchase, we are optimistic that the long trend of declining average yield on invested assets will reverse in the upcoming quarters.

In addition to the uplift in investment yield on new purchases we've received from higher rates, we're also benefitting from the continued deployment of money into asset classes that were not traditionally in our portfolio. We have continued to increase our allocations to asset-backed securities, such as collateralized loan obligations, and are also looking to increase allocations to commercial mortgage loans. We also intend to add infrastructure securities or loans to the portfolio this year, and consistent with our past practice when we diversify into an unfamiliar asset class, have contracted with an experienced manager to assist us with this asset class. We do not expect to take on any material increase in credit risk with this allocation strategy, but there will be a slight increase in investments with an NAIC designation of 3. NAIC 3 investments were 2.9% of fixed maturity securities at March 31, compared to 2.5% at December 31 of last year.

The addition of CLOs and certain commercial mortgage loans to our portfolio has also positioned us to have a portion of the portfolio benefit from further increases in short-term interest rates. At March 31, we had $2.5 billion, or 5.2% of our investment portfolio, in floating-rate instruments. We expect our allocation to floating-rate investments to increase to roughly 8% of our investment portfolio by the end of the year.

We are also looking to improve our investment yield through opportunistic replacement of lower-yielding securities with higher-yielding securities. During April, we sold $785 million in book value of securities, with an average yield of 3.12%. Book yields on the securities sold were less than market yields, and as a result, we incurred a capital loss of approximately $18 million on these sales. This loss should be recovered from the higher yields on the securities acquired with the proceeds from the sales in less than two years. We anticipate that we will be able to pick up incremental investment yield from additional portfolio realignment.

The aggregate cost of money for annuity liabilities was 182 basis points, up 10 basis points from the fourth quarter of 2017. The benefit from overhedging index-linked interest obligations was 2 basis points in the first quarter, compared to 8 basis points in the fourth quarter. The four basis point increase in the cost of money, excluding overhedging benefits, primarily reflects the escalation of option costs for certain index strategies in the latter half of 2017 that is recognized in the cost of money, ratably, over the 12-month option period. To counteract this impact, we began reducing caps on the monthly point-to-point index strategy in March, and will be expanding the universe of policies subject to monthly point-to-point cap reductions later this quarter.

One trend affecting quarterly spread comparisons is the change in product mix away from bonus products to non-bonus products, which include the American Equity Choice and Eagle Select products. Non-bonus products have a lower spread requirement, but similar returns than bonus products, which translates into a higher cost of money for non-bonus products. The impact on the first quarter sequential spread outcome was modest, but this is a trend we expect will continue in future quarters. We continue to have flexibility to reduce our crediting rates, if necessary, and could decrease our cost of money by approximately 54 basis points, if we reduce current rates to guaranteed minimums. This is up from 49 basis points at the end of 2017.

Our effective income tax rate in the quarter was 19.9%. Income tax expense in the quarter was reduced by roughly $1.6 million, from the income tax benefit for share-based compensation. This benefit varies from quarter to quarter, based on stock option exercise activity and the vesting of restricted stock and restricted stock units. The effective income tax rate, excluding this item, was 21.5%. We continue to expect our non-GAAP operating effective income tax rate to be in the range of 20% to 22%.

Our estimated risk-based capital ratio at March 31 was 383%; that's up from 378% at the end of 2017. The increase in the RBC ratio included 1 points from a decline in required capital for production, which we estimate for interim periods using trailing 12-month sales, and four points from the excess of the increase in our adjusted statutory capital and surplus over the increase in required capital from growth in assets and reserves.

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 first quarter of 2018 were $1 billion. That's up 2% compared to the fourth quarter of 2017. This is the second quarter in a row that we've reported higher sales sequentially.

The fixed indexed annuity market remained competitive in the first quarter, with a number of competitors raising caps, participation rates, and guaranteed income. Decreases were few and far between. In the face of higher option costs from increased equity market volatility, we maintained our rates throughout the quarter.

Reflecting independent agents' emphasis on accumulations, we continued to focus our marketing efforts on our Choice Series at American Equity Life. The Choice Series accounted The Choice Series accounted for 35% of American Equity Life sales in the first quarter of 2018 versus 33% in the fourth quarter of 2017, and 22% in the third quarter. Choice 10 remained our best-selling product in the first quarter.

When coupled with the optional market value adjustment rider we introduced in early 2017, the Choice 10 offers one of the highest participation rates among annual reset fixed indexed annuities, and compares very well with the hybrid index multiyear term product, which certain distributors have focused on.

The changes we made to our guaranteed income products in September and early October kept us well positioned during the quarter. As a reminder, in September, we increased income on our guaranteed income products, and in October, we introduced a new lifetime income benefit rider for our Foundation Gold fixed indexed annuity, which offered our most competitive guaranteed income. We also reintroduced a popular no-fee version of the rider with Foundation Gold. While Bonus Gold remained our best-selling guaranteed income product, Foundation Gold accounted for 17% of our sales in the first quarter, compared to 12% in the fourth quarter of 2017.

On March 19, we introduced our newest guaranteed income products, the Income Shield Series. Income Shield 10 has a 7% premium bonus and a 10-year surrender charge and bonus vesting period. Income Shield 7 has a seven-year surrender charge period without a premium bonus. Income Shield 10 is now our highest guaranteed income product.

The Income Shield series was designed to allow policyholders to tailor their lifetime income benefit rider to their specific time horizons for guaranteed income. For those looking to begin withdrawals within seven years, we offer a lifetime income benefit rider, under which the guaranteed benefit base grows at a simple interest rate for seven years. For those looking to begin withdrawals after seven years, we offer a rider under which the guaranteed benefit base grows at a compound interest rate for at least 10 years, with an option to extend to 15 years. Both of these riders have an annual fee, which is among the lowest in the industry. In addition, there is a no-fee rider, with the lower lifetime income than the fee-based alternatives. The guaranteed benefit base for the no-fee rider grows at a compound interest rate for 15 years, and policyholders can begin receiving lifetime income payments 30 days after the policy is issued, which is a new feature for us. Our other lifetime income benefit riders specify that lifetime income payments cannot begin until one year after the policy is issued, so this new feature enhances our competitive positioning in the guaranteed income segment of the market.

We also introduced a new index in March, the S&P Dividend Aristocrats 5% Volatility-Controlled Excess Return Index. That's a mouthful, so we call it the Aristocrats. We're optimistic that this new index will enhance our competitive positioning with the hybrid indices available and products sold by several other carriers.

It's early yet, but the Income Shield Series looks to have a bright future. Initial agent response has been very positive, and just one month after its introduction, Income Shield is accounting for more than 18% of American Equity Life's new applications. While some of this may be agents pivoting from one of our products to the new Income Shield, there are also indications that we're picking up incremental sales from agents who have returned to selling American Equity products after selling for our competitors.

Turning to Pending, Pending business at American Equity Life averaged 2,398 applications during the first quarter, and was 2,687 at the end of March, compared to 2,343 applications when we reported fourth quarter 2017 earnings. Pending at the end of March may have been slightly inflated, as markets were closed on Friday, March 30, due to the Good Friday holiday, and we do not issues policies on Good Friday. Pending applications for April averaged 2,625, and as of this morning, Pending stands at 2,580 applications.

Eagle Life sales in the first quarter decreased 23.6% sequentially to $168.7 million, but fixed indexed annuity sales of $160.6 million were only down 14.5% from the fourth quarter. We raised our rates in early September last year, which put Eagle Life in a very competitive position, and we were able to capture some sales momentum in the fourth quarter. In the first quarter of this year, we held rates steady, while most competitors raised rates one more times. Also, our largest account changed third-party wholesalers in February, which slowed sales during the transition. Sales from this bank seem to be back on track, however.

Pending at Eagle Life stands at 226 applications today, compared to 205 when we reported fourth quarter earnings. Pending averaged 203 during the first quarter, and 215 applications in April.

In the first quarter, we added three new selling agreements, bringing the total number to 60. One of these relationships is a broker-dealer servicing approximately 200 small to midsize banks. In addition, we've hired three employee wholesalers dedicated to serving the representatives of a large bank with a substantial footprint in the Southern United States. Our employee team generated more sales from this bank in the month of April than we received from the bank in the entire first quarter. Looking at where Eagle Life is currently having success, regional banks really seems to be our sweet spot.

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 are pleased with our first quarter results and the outlook for the next several quarters. The fourth quarter sales momentum at American Equity Life continued into the first quarter, and early signs for the second quarter indicate a further increase in sales. Pending is at levels not seen since July of last year, and the initial response to the Income Shield series is positive. The sequential decline in investment spread was largely attributable to nontrendable items, and we're investing money at higher rates. The prospect for higher investment yields is quite good, and the trend of declining investment yields that has persisted for more than eight years is likely to end later this year. Our newest challenge is higher equity market volatility, which has been driving up option costs. As always, we are monitoring option costs, and if higher volatility continues, we'll take the necessary actions to protect our spread. We have ample room to lower crediting rates, caps, and participation rates on our [in-force] business.

We were delighted with the March 15 decision by the Fifth Circuit Court of Appeals to fully vacate the Department of Labor's Fiduciary Rule, in light of the court's belief that the DOL had overstepped its authority in expanding ERISA regulations to international retirement accounts. The final outcome of the DOL Fiduciary Rule remains uncertain, pending certain appeal rights, but the expectation is those rights are not likely to be exercised.

The Securities and Exchange Commission has proposed its own best-interest standard, and the National Association of Insurance Commissioners continues to work on amendments to suitability standards for sales of annuity products. The SEC standard, if adopted, will not apply to sales of our products, but could influence the NAIC's proposed changes to the suitability standard. We are working closely with the NAIC and state insurance regulators, both directly and through industry trade groups, to ensure that the revised standards protect policyholders, while allowing for independent agent distribution.

Our long-term outlook remains favorable, as the aging American population needs products like fixed indexed annuities that build retirement savings with low volatility of returns, while offering options for guaranteed lifetime income. American Equity is a significant participant in the fixed index annuity industry, and we are fully prepared to participate in the growth we see ahead for our market. The value proposition we have always offered our agents and distributors, transparent products, attractive renewal crediting rate history, and unparalleled service, remains as attractive as ever.

So, on behalf of the entire American Equity team, thank you for your time and attention this morning. We'll now turn the call back to the operator for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Pablo Singzon from JPMorgan. Your line is open.

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

Thank you. Good morning. I just want to get more information on the size of the point-to-point block where caps are being reduced. If you could just give numbers and how big that in terms of AUM, and how much you expect the cost of money on the block to go down as you reduce the caps.

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

So, the blocks that we've already made adjustments to that have started is approximately $3.7 billion, and there's an additional $7.6 billion that we will be making adjustments on later this quarter. And so, the total as of it stands today is $11.4 billion, and the overall, you know, effect on cost of money that would flow through over the next 12 to 15 months is approximately 6 basis points.

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

Okay. My next question is somewhat related. Can you please clarify how volatility effects option costs for you? I know you have some hedging strategies that become more expensive in higher vol, and others that move another way. So, just given your current mix, will higher vol be more of a headwind or a tailwind for the cost of money?

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

Boy, that takes a while to answer. I don't know the final answer. I'll give you -- the moving parts are higher vol should drive down option costs on this monthly point-to-point strategy. I think it's about 30% of the overall portfolio, so that's kind of the natural offset to higher volatility. Higher volatility, then, is going to increase option costs for the remainder of the equity-based portfolio, but when you have a lot of caps sitting down in the low twos and threes, like we have, the impact is not going to be that great. Where the biggest impact will be is on participation rate strategies, which are very prevalent in the Eagle Life products, and then in the American Equity Choice product. So there, higher volatility, as I say, has a much bigger impact, and let's say can cause you to take 10%, 15% out of the participation rate for, say, a 1% increase in the full option.

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

Okay. And my last question is just about capital and your investment strategy. So, in general, how are you thinking about capital requirements, given your updated investment strategy? Do you think you will need to reduce asset leverage to be invested in riskier, less liquid securities? And, you know, what feedback have you received from rating agencies, if any, on this new strategy?

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

In regards to the strategy on capital, so RBC, we ended the quarter at 383%, so we feel really good about where our RBC ratios are at. And I've stated publicly before, we are going to be managing our RBC between 375% and 400%. That's higher than what we have stated in the past, and that is partly directly related to changes in investment philosophy or investment strategy, and going into some other different asset categories. So we feel that, based upon the projections that we see for our RBC and the run rate that we're at for production, we feel very comfortable with where our RBC ratios are at, compared to what our plans are for the investment portfolio. Since we have just started doing this realignment, we don't have any feedback directly from the rating agencies on this realignment.

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

Okay, thanks for taking my questions.

Operator

(Operator Instructions). Our next question comes from the line of Randy Binner of B. Riley FBR. Your line is open.

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

Hey, good morning. I think I'm going to ask questions about, you know, kind of market competitiveness, and so the first one is CDs. So, you know, the short end of the curve has come up, and I kind of have seen some pretty competitive certificate of deposit offerings out there from banks. And so, I was wondering if that's on the radar at all now, as a safe money product, the way it would have been, back, you know, really, before the financial crisis.

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

Good morning, Randy, this is Ron. I guess I haven't really focused in on CD rates these days. I do recognize that they're going up, but when we're talking about our products in comparison to CDs, you know, the name of fixed indexed annuity of course goes along with the equity market. So, the opportunities for higher rates is there, and our average interest rate in the first quarter was over 5%, I believe, from index credits, so I think CDs would have a hard time matching that. And then, also, just the guaranteed income component that CDs don't offer is the other thing that our agents are talking about that CDs can't offer. So, I guess the short answer is we haven't really focused too much on CDs as a significant competitive force at this time.

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

This is John, Randy.

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

And then -- oh, sorry, go ahead.

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

(inaudible) one of the things, and you cited kind of reference, you know, this hasn't been a discussion for quite a while, for a long while, and yeah, it goes back to 2005, 2006 was kind of the last time it was a discussion point. I think one difference between now and then is, you know, back then, there was a lot more sales in non-qualified versus qualified. Today, there's much more rollovers out of 401(k)s into the product, and the focus is more on lifetime income. There was no lifetime income riders back then, so I'm not sure it's necessarily going to have the same perspective this time as it did the last time it was a discussion point. And I also don't tend to think of people rolling money out of 401(k)s, thinking of CDs as a rollover option, but I could be misguided there a little bit.

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

Yeah, no, that's really helpful perspective. And then, you know, (inaudible) traction in IMO area, and you know, could you characterize how competition is in that market, because it seems like all the major players are kind of fully in the game again this year, but you did have some positive momentum in that area of the business. So, can you give an update on just, you know, are there -- kind of typical players are very aggressive at the beginning of the year, they fade away, or is it a market where you're still remaining competitive?

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

Well, we're still very competitive in the IMO, or the independent agent channel. You know, a lot of them spent a lot of time getting ready for DOL compliance. They wanted to be those financial institutions on behalf of the independent agent market, so I think that they were well positioned for that, and now that the DOL is, we think, mostly behind us, they're more focused on growing their agent base and growing production, of course. So I think they're all in the game and aggressive, but we have seen some consolidations in the fourth quarter, and first quarter of this year, where there are some of the bigger organizations have either agreed to buy smaller ones, or there are just some organizations that are perhaps joining marketing forces and sharing resources. So we've seen a little bit of that in the first quarter.

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

Just one more on sales. I had to jump in from another call, but the Pending count numbers you gave are kind of in the mid-2,000s, Ron. Is that right?

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

Today, it was 2,580 for American Equity, and we averaged, in the first quarter, 2,398.

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

Perfect. All right, thank you.

Operator

And our next question comes from the line of Peter Swan from KBW. Your line is open.

Peter Swan - *KBW - Analyst*

Hi, good morning; just one item. Onn DAC and DSI amortization, the rate increased from 54%, from 52% in the last quarter. So, where do you expect the run rate to be going forward? Thanks.

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

So, DAC amortization, quarter-to-quarter, can fluctuate, depending on what actual gross profits are, compared to estimate gross profits. So the increase in the percentage of -- when you're looking at DAC amortization as a percentage of actual gross profits that you quoted, what we have to do each quarter is we have to true up estimated gross profits to actual gross profits for the quarter, and this quarter, our actual gross profits were less than our estimated gross profits. And so, you true up the model, and you have to use the retrospective approach, and so that has an effect on the pattern of DAC amortization.

Now, going forward, you'll have to make an assumption of whether or not our AGPs are going to be higher, or greater than EGPs, to really see what the trend is. But that's what affected the trend this quarter, and why you saw the increase in the percentage of DAC amortization as a percent of actual gross profits.

Peter Swan - *KBW - Analyst*

Got it, thank you.

Operator

Our next question comes from the line of Kenneth Lee from RBC Capital Markets. Your line is open.

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

Thanks. I just had a follow-up question on the competitive environment. Sounds like there's a lot of new product introductions, and presumably, these products are going to be fairly competitive with what's out there in terms of the market. But wondering, how do the legacy products currently stack up versus competing products, and this is in light of what --

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Operator

Oh, weird.

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

-- was in the prepared remarks about seeing some peers raise cap rates in the first quarter. Thanks.

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

Well, you know, the income shield, we think, is going to be very, very competitive, and it's going to be our most competitive product for guaranteed income. The legacy products that you're talking about, I guess I'm thinking, is the Bonus Gold, and the Bonus Gold is still a very popular product for us. Its strength is that it's got a 10% premium bonus, and it's going to have guaranteed income, just not as high as the Income Shield. But it does have that bonus, which is attractive for a lot of agents. Plus, it's been around for so long, a lot of agents just like it and they're used to it.

What we're seeing from competitive forces as far as higher rates is we're really, really good with the participation rate. On the Choice 10, for example, our participation rate for annual reset is 52%. Where we're seeing competitors be a little bit more aggressive is on cap rates. So, our cap rate on the Choice 10, for example, on an annual reset, is about 5.25, where we're seeing some competitors out there with caps over 6 -- 6.1, 6.2, which is, you know, very, very competitive, and we don't see it in the cards for us to be able to raise cap rates that high. But for participation rates, that's where our sweet spot is.

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

Got you. And then, just one more question: In regards to the SEC's Reg BI, as well as the recent decision on the DOL Fiduciary Rule, what's been the latest conversations with the independent agencies? Are you seeing any change in behavior? Do you expect any kind of changes over the next few quarters, or is there sort of going to be a little bit of uncertainty surrounding the mood in the regulations? Thanks.

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

Well, probably too early to know if there's going to be any changes in behavior from the agents. I think there's a bit of a sigh of relief that the DOL is mostly gone. But, as a company, we're going to continue to work with the NAIC, both individually and through our trade groups, to try and make the industry better, you know, with suitability and trying to do not best interests, but -- yeah, I guess that's a good word. So, I haven't seen a lot of -- it's too early to really say about behavior, but we're not expecting anything to go crazy here in the next year.

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

Ken, we haven't seen any companies take significant actions, you know, in regards to how they're behaving in the marketplace yet, so we think if those things happen, it would happen slowly, over time. But as Ron pointed out, what's important now, I think, for all the companies, is working with the NAIC on enhanced suitability standards, and to see where those rules go, probably before any of us would make any significant changes in practices of what we're doing today.

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

Got you, thanks.

Operator

Our next question comes from the line of Dan Bergman from Citi. Your line is open.

Dan Bergman

Thanks. It sounded like you were quite happy with the initial reception for the Income Shield product that launched in March. I just wanted to see if there's any incremental color you could provide around how the launch and sales so far have compared to your expectations. And, I guess, any thoughts on how much of a sales impact we might expect going forward in terms of how much of the sales you're generating are kind of incremental, versus stuff that's pulled from other AEL products?

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

Yeah, well, our hope was that the Income Shield Series would get back some of those sales that we perhaps lost last July when we made some changes, and we're starting to see some evidence of that. As far as our expectations, we're very pleased with the result so far, with about 18% of the applications being from the Income Shield, just 30 days after it's issued. So, I guess as far as what our actual expectations would be, we think that that will grow as the word gets out, because 30 days isn't very long. I would probably expect to see some of it pivot from the Bonus Gold that has been, historically, our best-selling income product. But as far as the ultimate, by the end of the year, what percentage we expect Income Shield to be, you know, I can't forecast that at this point.

Dan Bergman

Got it. That's helpful color, thanks. And I guess, now that we're a little further into 2018, I just wanted to see if you had any updated thoughts around how tax reform is impacting competition in the indexed annuity market. Have you seen any evidence of competitive pricing actions based on this, or any differences in behavior between onshore and offshore players in recent months?

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

You know, it's difficult to say whether tax reform -- you know, to isolate competitive actions and say, oh, they did that because of tax reform. You've got lots of different dynamics going on, including rising investment yields. So, I think we'd be very hesitant to say this happened because of tax reform, or that did, but I think the analysis that we thought the tax reform was only going to have a modest uplift to pricing is still on point, and we wouldn't judge any of the things we've seen as being big reactions to tax reform.

Dan Bergman

Got it. Thanks so much.

Operator

(Operator Instructions). Our last question comes from the line of Mark Hughes from SunTrust. Your line is open.

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

Yeah, thank you; good morning. I don't know if you touched on this earlier, but the new money yield, any way to quantify how much of a boost it got from the shift in asset strategy?

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

No, not really. I mean, that would involve -- I guess my take would be well, we would have done $500 million if there was $500 million of an asset class that was new, we would have bought $500 million of something else and reversed the math, but we haven't done -- or, you know, do the math, and we haven't done that.

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

Okay, yeah, just curious. Thank you very much.

Operator

And there are no further questions at this time. I would like to turn the call back to Julie LaFollette for 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, this concludes today's conference call. Thank you for your participation. You have a wonderful day, and you may now disconnect.