TRANSCRIPT

American Equity Investment Life Holding Company (AEL) at 2021 KBW Insurance Conference

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AMERICAN EQUITY
INVESTMENT LIFE HOLDING COMPANY®

CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Ryan Kruger, Analyst, KBW

PRESENTATION

Ryan Kruger, *Analyst, KBW*

Good morning, everyone. I'm Ryan Kruger from KBW. And I am joined by American Equity or AEL. With me is Anant Bhalla who is CEO and President and Steven Schwartz, Head of Investor Relations. Thanks to you both for joining today.

Anant Bhalla, *CEO and President, AEL*

Thanks for having us

Ryan Kruger, *Analyst, KBW*

Anant, to start, you have a number of new initiatives that are part of your AEL 2.0 strategy that I think we'll dig into. But starting at more of a high level, can you talk about what your ultimate vision is for AEL when you look at several years from now?

Anant Bhalla, *CEO and President, AEL*

Thanks Ryan, for that question, I'm happy to share. In a nutshell, the vision for AEL looking out a couple of years is to become a merchant bank - a merchant bank in the guaranteed income or insurance space. And it's helpful to have our own balance sheet to start to demonstrate that first.

To elaborate what do I mean by that, we're an at-scale annuity origination company as we talk in a virtuous flywheel of a strategy. We're taking that and proving out an asset allocation between private and core assets that is needed, for the entire insurance industry. And that's a way of delivering alpha delivering returns to back up those promises.

We're also inviting in third-party capital. Our Brookfield partnership is a great example of this, where it's separate from asset allocation. It's really capital coming in, in an investment into both our company and a belief in AEL 2.0 and in a reinsurance vehicle. And then, we can do that for our own balance sheet and then do it for others for a fee. So if some people want us to just give them private assets, we can give them private assets, like an asset manager. If some people want us to actually create a sidecar reinsurance vehicle for them and be the merchant bank that has some skin in the game, brings in third-party capital, we can do that too. So it's really evolving into a broader financial services company.

Ryan Kruger, *Analyst, KBW*

Thanks. I guess when you think about the capital and reinsurance aspects of the strategy, can you go into a little bit more detail on what you really mean by that and how you see it playing out over time?

Anant Bhalla, *CEO and President, AEL*

Sure. So let me start with how we're doing it for our own balance sheet and as I mentioned earlier, how we can do it for other people's balance sheet as well. We have in three drivers of our strategy pillar, go-to-market, we originate liabilities at size as you mentioned. We do asset allocation. The asset allocation is very important because that's the source of earning, say a 100 basis points of spread. Then it's like what capital do you need to back that 100 basis points of spread with in order to earn your ROEs as the capital provider? We want to bring in third-party capital that is not coming from a fund, that is not being raised by a sponsor who wants to charge two and twenty, one-and-a-half and twenty, one and twenty, whatever, but charge money to a capital provider and manage the assets and charge money on managing the assets.

Why? Because we want long-term permanent capital to come in and truly be permanent, not going from fund one to fund two to fund three, because the liabilities are 10, 20, 30, 40 year liabilities. You know, we're not a three-to-five-year shop or SPDA shop, single premium deferred annuity shop. We are predominantly over 80% fixed index annuities with living benefits. And so, when you have a promise of a guarantee and a simpler guarantee, the benefit we have is a mono line, but a simple guarantee, which is clearer to understand. I would almost call us "ClearCo", a clear company from the right side of the balance sheet from the liabilities. You can take those clear, transparent liabilities with a low cost of funds, do the asset allocation and bring in third-party capital that wants two things. It wants exposure to long-term funding as leverage on its equity capital, and it wants these private assets.

So if you want 30% to 40% allocation to private assets, and you're a sovereign wealth fund or you're a pension fund, your biggest risk is reinvestment risk. Because you buy your asset in one fund, and at the end of 7 to 10 years, you pay carry, then it goes. You buy the same asset in the second fund, then you buy it in a third fund. Why won't you just buy it in the reinsurance vehicle that's built for your appetite for which mix of that asset allocation you want and how much funding you want? And we will only give you the same return that we earn on the asset. Because we're not - this is a 10%, 12%, 13% IRR business. Insurance is a low unlevered returns on equity, are low double digit returns.

Getting that to high double digit or high teens, you know 20% returns insurance ROE earnings requires leverage. That's taking on more risk. It's easy to say the liabilities are leveraged. Don't double lever the business.

That was a mouthful, but I'm trying to lay out for you, Ryan, why we think this model is a superior model to a two-fee model that the sponsors generally have had legacy wise. Some are really evolving very quickly for this model and why Brookfield was such an important cornerstone partner for us. Because that's the model they have. The model with them is not about earning fees on assets or earning fees on third-party capital. It is their capital. It is a merchant banking model and that's the model we want to do with them, and they validate what we want to do. We want to be a very mini of them and then do this for other insurers.

Ryan Kruger, *Analyst, KBW*

Thanks. No, that's helpful. And maybe just a follow-up related to what you just said, which is since you originally announced the agreement with Brookfield, Brookfield has also now recently signed an agreement to acquire American National. Has that had any impact on the relationship you have with Brookfield or are things going to be similar as to what you originally agreed upon?

Anant Bhalla, *CEO and President, AEL*

I think it's positive for AEL. And has it had any impact on the relationship? Not materially. They're a great partner. They're a believer in AEL 2.0. They're also a believer in the independent AEL 2.0 strategy where we're trying to do many things that they're trying to do. They're are a much larger scale player in assets. We're are a much larger scale player in liability.

So the American National transaction is good for them. It makes, - we think it's very good for AEL for three reasons. One is it shows people Brookfield's commitment to this space - to the insurance space. The second is it gives Brookfield a wider range of liabilities, more diversity meaning American National is a very large, meaningful P&C business and largely legacy life book. It doesn't take away from us partnering to do things together in the annuity space. Frankly, we can leverage each other's strengths because they're gaining an incredible platform in P&C and legacy life. We are an incredible platform in annuities and they're at-scale in assets, we're trying to get at-scale in assets. And then thirdly, it really will be good to have an alternate model than the sponsors. A more merchant banking like model with a scale player like that to do it. So investors have choice. Investors can see how those companies trade in the value versus other companies.

Ryan Kruger, *Analyst, KBW*

Thanks. I think the AEL 2.0 strategy has been received well. One of the concerns that some have is just around the number of initiatives and executing them. So, in that light, can you talk a little bit about what you've done to add more talent and expertise to the company?

Anant Bhalla, *CEO and President, AEL*

I'm glad you asked me that question. We don't get asked that question enough. So we've - obviously, we announced recently we've joined - we have a new CFO Axel André. I'm thrilled to invite Axel to the company and be part of the team. We didn't publicly announce this, but I'm happy to share this now, is that we've brought in a team focusing on our reinsurance effort, run by a gentleman by the name of Pradip Ghosh. He is former from Ares and Lehman; and Ken Pierce. And Pradip and Ken are leading up our reinsurance efforts and our assets structuring team around them. We built a team of six, seven people that are really structuring the assets. Because the strategy, if I look at - and that's just - a couple of examples I'm sharing with you. So you have a team that's doing asset structuring, you have a team that's doing reinsurance.

If you're the CEO, the important thing for you after you articulate a strategy and set clear milestones is to have the talent and the open architecture nature of investment management. The merchant banking model aspiration is an invitation to everyone in relative to doing the two other models that are prevalent. You have the legacy insurer model where the insurer does everything. And increasingly investment management is a great example, you will have to be - it's become a very sophisticated business. Even in core, it's become incredibly sophisticated to do; it's a data-driven business. And then a lot of people have envy of the incredible success some of the sponsors have had, and you know the players I'm talking about. But there's so much envy that everyone wants the sponsor – they want to enter that business, is in some regards that model is - got its own challenges, specifically the challenge of the double fees that I mentioned, which is why we prefer our model.

Ryan Kruger, *Analyst, KBW*

Got it. Thanks. I'm going to shift a little bit gears to fit more new business efforts. Starting with the independent agent channel, can you talk about some of the actions that you've taken so far to revive your indexed annuity sales momentum?

Anant Bhalla, *CEO and President, AEL*

I'm glad you brought that up. We have, in the independent agent channel, refreshed the product portfolio as we've talked about on a few earnings calls. We had lost our swagger in some regards over the last couple of years to some of the sponsor-based players who had more juice on the investment portfolio yield, if I may use that phraseology. We've got that swagger back with innovative index design. We started with the Destinations Index with Bank of America last year. If you take a step back, we were a one-channel company with FIAs. Those FIAs were refreshed every three years or so. We have refreshed our entire product suite in the IMO channel and have evolved the distribution model from being more of a farmer model to a hunter model, where we are holding our distribution relationship managers accountable to function in that manner.

What that does end up doing is I feel very comfortable being declarative that go-to-market is now humming the right way. Not only in IMO, but also in banking broker-dealer distribution with Eagle with Graham Day, who we hired to run that channel and some other very seasoned, experienced hires in Eagle. I know you didn't ask about Eagle, but both go-to-market and IMO and Eagle have come together. So, we've got a new product with AssetShield 2.0, IncomeShield refreshed, EstateShield, which we just launched a few months ago. EstateShield by itself is going to be a very meaningful category. When we get on the earnings call, I'm going to talk a little bit about it. But EstateShield is going to be probably one of the fastest products from zero to $500 million in the company's history, or at least in recent years.

So it's a very successful repositioning, getting relevance back. The IMO channel is not an easy channel to get into. Many established players with all the juice on the assets side have not broken in there because it's a relationship business. We and Allianz over the last 25 years have nurtured that channel. Athen has been very successful in that channel, just to pick a few names. A very few others have truly penetrated that channel, and it's a big source of value for us.

Ryan Kruger, *Analyst, KBW*

Sticking with the IMO channel first. Are you primarily focused on product changes like you just discussed or are there other things beyond product that you're also working on with the IMOs to increase sales?

Anant Bhalla, *CEO and President, AEL*

So there's a way we approach distribution, using data and loyalty. There are a lot of IMOs who are loyal to us. The top 10 IMOs control around 90% of that channel. In those top 10 IMOs we have relationships with all of them. The top five control majority like 80/20 Pareto Principle. But we have changed the way we market to them. They are holding our wholesalers a lot more results-oriented account again - that farmer model to hunter model. And then we are also looking at how we can have bespoke relationships with each of the IMO who's spending some - I'll give you an example. I spent some time with one of the IMO leadership leaders a few weeks ago, laying out the AEL 2.0 strategy, and they lit up. They lit up because they're like, "The investment allocation and investment returns that we are looking to create are different sources of that." We're looking to go long duration. We're looking to do more equity in real estate and infrastructure versus the newer, typical sponsor-backed players are doing a true short credit. So the IMOs see the value of choice of having AEL be one of the top three firms.

So, it's relationship management, product innovation, and explaining how they can have a more bespoke relationship with us, which can go anyways. We could do a product together. They could understand the value of our investments for, to do a product together, and that's sort of where we are evolving.

Ryan Kruger, *Analyst, KBW*

Thanks. And then on Eagle, what are - what type of things are you doing there to try to increase your penetration with banks and broker-dealers?

Anant Bhalla, *CEO and President, AEL*

Yeah. Graham has done a great job. He's been a great addition to the team. He's a broad thinker, leader of Eagle. We have signed up new accounts. We have also focused on adding more wholesalers. Now, we moved to a model last year where we use third parties to wholesale. Our learnings from our IMO channel are holding us back because what worked in IMO doesn't work in bank and broker-dealer. We've ramped up our own internal and external wholesalers who are all employees aligned with the company.

So we've changed the go-to market sales model. We've brought in this whole data-driven traditional view of - the way that frankly, the other annuity company selling bank and broker-dealer, we've adopted that. Rather than trying to do what worked in IMO, in Eagle, we've done that. We've also refreshed some products. We've come up with an income product that's very competitive and meaningful. And again, we're trying to build more duration. So we used our SPDA or single premium deferred annuity product to gain relevance in that channel and have now quickly started to move it to fixevindex annuity sales. And even in fixed index annuities, we're not just accumulation products, but income products.

Ryan Kruger, *Analyst, KBW*

Thanks. Another aspect of AEL 2.0 is the investment portfolio adding alpha generating assets and partnering with specialty asset managers. Can you give us an update on your progress in doing those things so far?

Anant Bhalla, *CEO and President, AEL*

Happy to. So go-to-market is complete. It's at a point where I know you asked about investments, but I want to like talk about how now investments fits into that. Go-to-market is complete, we're generating income products, we are a company that will generate $5 billion of sales in a typical year - normal markets - would target $5 billion to $6 billion this year and we'll get there.

So now when it comes to investment management, you've got a $50 billion portfolio, which is basically growing because an at-scale origination company with that kind of new business flow is going to be a growing franchise. We are not a shrinking franchise, we are a growing franchise. In that asset allocation, first of all, core and core plus is around 60% to 70%. Now you've got core fixed income. You've got core plus where you might go with some commercial mortgage loans or some aspects to pick up a little yield. So maybe 50 basis points more than core fixed income. But then private assets is one way. We like certain sectors based on the asset allocation that works for the liabilities.

So we had our first partnership with Pretium, where we bought an economic interest in Pretium and that's been our approach to resi, both resi credit and resi equity. In the earnings call for second quarter, I talked about how we bought around north of $250 million invested in single family rental homes, around a thousand homes, frankly, in three markets, Nashville, Atlanta, and Dallas, where we are now through Pretium, the landlord earning rental income there. We will probably put north of a billion dollars in just resi this year – by the end of this year.

Our goal is each year to originate $1 billion to $2 billion of private assets. We had Adams Street, which is in middle-market credit, but credit with part - even sub-parts of credit - that we like, because the value in private assets is from three sources. The first is from proprietary differentiated origination. The second is from KPIs to monitor the assets. In the case of Adams Street, they are looking at the underlying company with almost real-time information on operational metrics. So before even on anything goes wrong with the credit, they can actually get actively involved with the management team to manage the credit. And then finally, as things start to deteriorate in operational performance of a company, they can go to work out mode faster. So it's better to get out of a position or to finetune a position, or frankly, change a business plan before it's getting off the rails.

Adams Street is scaling. We expect - we don't put volume orientation on any of our PMs or asset managers. Volume is Jim's problem as CIO, and my problem is CEO and Axel's problem as CFO. But Adams Street also will scale this year. So that we've got a middle market credit strategy that's working very well. And we've got a resi strategy with Pretium, which is going to get to a billion dollars of credit and equity origination most probably this year.

Now you may say, "What else?" Well, we really like technology companies in middle market credit as well, where healthcare was 7, 10 years ago in terms of share of the economy and company, that's quite subscription-based technology is going. We are in an advanced stage of working on a potential partnership there. I can't declare a name to you yet, but I would say that's a space we've looked at very closely. I think we've woken up a few other insurance companies with the conversations we've had in that space, so they've also started to look at it. But we're very close, and I'm hopeful by the next earnings call to share that partnership where we will lend to a technology company that has a subscription model. So think you go to the supermarket and the software that works the point of sale checkout terminal, that software is a very sticky asset. There's a very large barrier to switching costs for that retailer or any other business that uses technology as part of their business. We're going to lend to such technology companies on an annual recurring revenue basis, not just an EBITDA basis, which is where we see the puck going from forward-looking asset allocation.

It's a theme that can be harvested for the next few decades to come. That's one partnership, again, it's in credit. And then, because we like longer - it's also a longer duration credit because it's a recurring revenue business, sort of the Netflix model.

And then the other part that we are in advanced stages is infrastructure. We have always like infrastructure of an asset to back income guarantees, as people have a paycheck for life just like real estate. And we will be doing infrastructure debt and infrastructure equity, probably in the energy transition space, when one looks at a move from conventional grid, conventional energy to more renewable energy and battery storage. And digital infrastructure; it's a digital economy and one things - so that's the space where we have some very advanced stage negotiations and discussions, and we'll be having an aligned partner discussion. That was a mouthful. So I'm going to pause, ask me any follow-ons you want on it. But hopefully it gives you a little flavor of where we are.

I believe by the end of this year, we will have four partnerships in place. And going into next spring, we will be basically talking about ramping our assets. It's like again, go back to that merchant bank model, go-to-market successful, investment management partnerships successful by the end of this year, early next year; ramping to 30% private assets over a three-year period and that's why we're inviting in capital, to the capital structure cog – and that completes the flywheel.

Ryan Kruger, *Analyst, KBW*

In terms of the 30% private asset target of within three years, can you help where are you in that, I guess at this point?

Anant Bhalla, *CEO and President, AEL*

Yeah, we originate $2 billion a year and we have $50 billion of assets. That's 4%. We will probably look to grow it where we were. So we already had a commercial mortgage loan book that fits that private origination. That's the only thing we really had that we inherited. We'll probably get to add 5% to 7% a year because we look to do north of $2 billion. We sort of target to do minimum $1 billion to $2 billion. But again, we're not volume focused. I think in reality, you're looking at maybe 25% to 30%, 30%, maybe a little stretch in three years but we could get to 30%, easily.

Ryan Kruger, *Analyst, KBW*

Got it.

Anant Bhalla, *CEO and President, AEL*

If I was modeling it, I would model it as having started at 10% and then adding 5% to 7% each year.

Ryan Kruger, *Analyst, KBW*

Okay. That makes sense. I don't think this was asked on the conference call last quarter but can you discuss a little bit about what type of new money yields you think you can achieve on the alpha-type of assets you're adding?

Anant Bhalla, *CEO and President, AEL*

It really varies by asset class. So if you think of - I'm happy to share. If you think of single family rental, first of all, we think of what our unlevered IRRs or unlevered cash and cash yields, they're two different points because you have cash and cash yield, which comes into NII today, and then you have IRRs, which should converge with cash yields, but they're two different concepts. Because IRRs can be a little back-ended too.

So, when we look at IRRs on private assets, we're probably looking at IRRs in the unlevered 6% to 8% area, with leverage could get a little higher, but 6% to 10% unlevered IRRs. When you look at pure resi credit, resi credit only, or middle market credit, the underlying assets there on a cash yield basis is in the 5% to 7% area. It's like an L+550 where the market is right now.

So, then you've got to think about, if you have a 20%, 30% allocation at the 5% to 7% area, and you have a, let's just to keep the math, you have a 30% allocation in 5% to 7%, so let's say 6% on average. And the remaining is earning core, which is 3% at best -that's what gets you up. Earning 3% or more in core is important for without taking outside risks, which is why we don't like in core to go down the capital structure in publicly traded securitized credit. No, we don't want to go down the capital structure there without having the conviction and capabilities. So if we were to go down the capital structure in public credit, it would have to be - with an external manager - we will not do it ourselves.

Ryan Kruger, *Analyst, KBW*

Got it. Is most of the focus on adding new money and allocating that to private credit, or are you also anticipating further changes to the existing portfolio?

Anant Bhalla, *CEO and President, AEL*

So, today we are sitting in a pretty liquid position. We derisked at the end of last year. You may ask why. Well, from a rate point of view, it's worked out well because rates are materially higher than last year, even higher on a yield basis than spreads having tightened modestly. We feel very good about, first of all, in my first year as CEO, having made the balance sheet stronger, having reduced asset leverage, having more capital for any economic concept, the other ramp up. But sitting in all that cash, we're going to reinvest some of that into core. I think by the end of this year, or at least before the fourth quarter earnings call, so going into February, we should be fully invested back into core and then use new flow to ramp privates.

So existing cash largely gets fully invested back into core, core getting our yields back up to that 4% area on the whole portfolio. Because right now the cash drag has kept us down into the 3.50% area. And then we get back to 4% by reinvesting and then use new money, if you're bringing in $4 billion, $5 billion, $6 billion a year to ramp private assets.

Ryan Kruger, *Analyst, KBW*

Got it. On the reins - back to reinsurance. So can you give any update on the Brookfield transaction and the Form A application process, where that stands and also just remind us what the financial impact state will be from the Brookfield deal when it closes?

Anant Bhalla, *CEO and President, AEL*

Happy to. Let me start with the first part of your question, which is, we have a Form A and a Form D type approach here because you got a reinsurance transaction that needs to be approved. For everyone else who doesn't track all these alphabetical forms, the Form A is really to have Brookfield come in to increase their equity investment in us from 9.9% to 19.9% as you know, Brian, as we've talked about over time to get there now.

That is a separate process. Then the reinsurance agreements. So the first thing we've really done is working with our regulator we want to close the reinsurance agreement. We can do both together, great, but we want to close the reinsurance agreement because the reinsurance agreement is a core example of us demonstrating this year that we not only turned around go-to-market, and that's doing well, getting investment management to ramp ourselves, but then have a partner that has that same approach like a merchant banking model, my words, not theirs, where they are putting their own capital in, and then not trying to do on fees. They're trying to provide balance sheet with their own capital, to provide the – to the reinsured liabilities. That we look forward to close the Brookfield transaction, to refinance our redundant reserves and form our own reinsurance platform Ray Re, just the project name, all this year.

That will allow us to start our capital return program. And then the Form A approval, we hope that it gets done this year. But the Form A process, you may ask, why is it taking time? First of all, we are unbundling these two with our regulator, keep them separate. The Form A is really not linked to us achieving 2.0, we can achieve 2.0 without Form A. It's a validation of our strategy and having a strategic cornerstone partner with us who can grow its stake in us. And we don't want the Form A to slow down the execution and we look to get the Form A done too soon.

BAM Re has come out too. When we first announced that transaction, it was Brookfield. Now BAM Re has been introduced to the marketplace. I would say probably that's an element that's required us to, for example, refile a few things - actually for Brookfield to refile a few things, as BAM Re and not just Brookfield. So that's taken a little longer on the Form A, but we - it's their process, but we hear from them it's going well.

Ryan Kruger, *Analyst, KBW*

Great. In terms of internal reinsurance with the captive, can you give us any sense of how much business you think could be to be transferred to captives overtime?

Anant Bhalla, *CEO and President, AEL*

Yes. So we are going to, first of all, do our reserve financing, refinance our reserve financing and form a captive most likely in Vermont, because that is where we're going to build up an economic reserve like we do today, for our lifetime income benefit riders for a fee. That's a $20 million block, we'll build up an – it's almost like an XOL like reserve over there. That'd be a pretty small company. It'll have just a ramping up economic reserve. The bigger one is Ray Re. But closing that Hannover Re, Hannover is where we do the transaction with right now. Closing our redundant, reserve refinancing is very meaningful because it will free up capital, that we have for all our lifetime income benefit riders. So it's going to free up capital that we will have any way freed up in our Varde transaction So we will talk to you about that. I'm sure you'll have questions for me on that.

But our Ra Re transaction we'll probably put $4 billion to $5 billion in it first. Just like we're doing on the in-force with Brookfield. So then we can then demonstrate how we've built under Pradip and Ken's leadership, and the new talents we brought in, our reinsurance platform. We demonstrate our liabilities, go to an offshore jurisdiction. We get capital relief. We do tighter ALM matching. We allocate to investment assets. We put in our own capital, and then we can fundraise for Ray Re 2, Ray Re 3, Ray Re 4 from other investors like the Brookfield. And the important part of that is we are not looking to tie any of the capital raising with giving an IMA to anyone. It is capital coming in to back those liabilities, to earn the returns of those liabilities from long-term permanent capital provides. Does that give you a good sense of it?

Ryan Kruger, *Analyst, KBW*

It does. Thanks. And I mean, I think you on Varde, can you just give us an update on kind of, how does that fit in with the strategy and the partnership that you had originally announced with them?

Anant Bhalla, *CEO and President, AEL*

Sure. Well, I guess I walked into that question didn't I by bringing it up, but that's a fair question and a good one to ask. I think it's a question of sequencing. Varde is a very good investment manager, they want to get into this space. They've got a partner with Agam so I always couple the two together. It's really important because at the end of the day, we want all capital to all our reinsurance vehicles to come in only because they like the return of the liabilities with the asset allocation. So therefore closing Brookfield priority one, along with Hannover refinancing, and then forming Ray Re, our own reinsurance vehicle priority, two. Varde follows those because we would have already freed up the capital that we wanted to free up with Varde, it's an in-force only deal. What we're trying to get to an understanding and agreement with them is how would we think about that reinsurance company that we create together doing investment management and raising third-party capital for other liabilities. See, it gets no new business from us. It only gets an old legacy block from us, which will run off over time. But we have together with alignment, all three parties, Varde, Agam, and AEL to build a reinsurer that can go-to-market and offer that merchant-like bank model.

If that model involves needing to raise a fund and charge the investors of a fund fee, and then make asset management fees, then it's very similar to a sponsor-like model. In which case, we might say, this is not a platform that's scalable enough for AEL. The AEL Ray Re platform is more scalable, or the Bam Re platform is more scalable. Because at the end of the day, you do not want to couple raising money and investment management together.

So I'm hopeful we'll do something together. But even if we don't do something together, it's fine as long as we execute the parts of our strategy, because we are going to anyway, free up the capital to return to shareholders and start that program.

Ryan Kruger, *Analyst, KBW*

Okay. Yeah. That makes sense. Well, I guess on the capital deployment plan, you've talked about $250 million to $300 million, I think, of annual capital deployment. Can you talk about, you know, are you on track to continue to do that? I know there's been some delay because of the Brookfield transaction timing. But overall, do you still feel like you're on track to do that?

Anant Bhalla, *CEO and President, AEL*

Yes. The short answer is yes. As I said, we will - we're on track. Why are we on track? We're on track because we will refinance our redundant reserves that will free up capital, including the block we were going to put into the Varde deal, it will free up capital with redundant reserve refinancing. We will form ReRe, that will free up capital. And then Brookfield once closed will free up capital. That will allow us to take a dividend out of the life company even though we have enough cash at the holding company, frankly, right now, to buy back stock or returning capital to shareholders, and other means.

So the real fundamental question ends up becoming, are we executing 2.0 on schedule? Yes, other than closing our reinsurance transactions, which are going through the regulatory process and reintroducing BamRe introduces some delay in there. But we expect to return that capital. Now as we ramp - the investment partnerships are in place. As we ramp to 30% allocation, that's going to take time, Ryan.

So there are three uses for our capital. We are looking what's the best use of capital for our shareholders. Freeing up capital through organic earnings and reinsurance, where we are shrinking a little bit our balance sheet size and freeing up capital is good. We can redeploy it into C-1 capital charges on private assets. So, because that's a higher return, that's a good use of capital. We can return it to shareholders. That's a good use of capital. Or we can actually put it back into the merchant banking model where we not only retain interest, but go reinsure some other company's liabilities and make it available to them. We're obviously not in that third leg of the stool right now. And returning - needing C-1 capital to ramp to 30% private assets is not there today. It's going to ramp slowly. So the best use of our capital is to return to shareholders, and we intend to start to do that this year.

Now you're going to ask me, I'll ask myself the question. I tend to do that sometime. How are you going to do it, the Form A is not approved, because they are at 9.9%? We're going to figure out a way with Brookfield, which is why having a partner is so good and how we can return capital to shareholders and make sure our regulators are comfortable with it. We're going to figure out a way to return capital.

Ryan Kruger, *Analyst, KBW*

Got it. Thanks. I guess, one question not related to any of it, right now it would just be you do the - your actuarial assumption review in the third quarter. Is there anything you can say here about it, about that review?

Anant Bhalla, *CEO and President, AEL*

Well, we're not a company that does it in the second quarter, so that would have been a better question for them. But jokes apart, it's early days to talk about actuarial review. I think I would start with a phrase I've started to use a little bit is having simpler liabilities where you could almost call us a ClearCo or a TransparentCo is really helpful on the right side of our balance sheet. This business is a pretty simple business. We understand it well. Our behavior has proven out over time. There are tweaks around the margin and edges, but too early to say anything. I think it's really a function of, I feel very heartened about as we go into long duration accounting going into next year, we're in a good position. Now, run rate of DAC, run rate of SOP, those change around, but nothing really changes from the point of view of the business. You have to earn 4% returns or greater over time. You have an all-in cost of funds, if you look at SOP build, and all-in of 3, 3 ¼%, and you're managing for that.

Ryan Kruger, *Analyst, KBW*

Just one question from the audience, and you've kind of talked about this. But I think the gist of the question is why do you believe this – it's better strategy for AEL to partner with several different private managers versus just partnering with one private manager?

Anant Bhalla, *CEO and President, AEL*

It's a great question. Because one private manager cannot be good at everything. There are four sectors we like right now in private assets: commercial real estate - equity and lending, pockets of commercial real estate really only, resi real estate, infrastructure, and middle market credit. That will change. That will change over time as the economy changes. If you get into a captive investment manager, you run into a lot of alignment risk issues. Because first of all, doing someone from outside that becomes difficult. Secondly, our partnerships are all built around alignment of interest. I love European waterfalls. For everyone what does that really mean? Means you get paid in the backend. If you earn carry, you earn promote. Your incentive is reinvested back into the assets. You basically, as a manager have symmetry of risk sharing with us. It may not be 100% symmetry because we have more dollars at play, but you definitely have a lot of risk of clawing back of fees.

We're building a business together. So we are truly partners where we can offer these assets to other insurers, again, going to our merchant banking model or to other capital providers who come in with capital with no strings attached. There are very few reinsurance deals excepting our one with Brookfield, where there is capital coming in without an IMA. There is no IMA in our Brookfield deal. Absolutely, no IMA. It's capital coming in for those returns. Now they'll manage the cap of the assets on their own liabilities when they transfer to that.

So where we are in the asset management cycle, it's too rich to go by someone. We are being smart about structuring these as partnerships. Would we like to buy them? Of course. Will we lift out teams like the team I mentioned we built out? Yes. Over time we would want more economic ownership or control of the asset manager. But more importantly, it's not just an asset manager, it's an asset operator. It's not just an allocator of capital to those assets. It's someone who manages those assets like a real estate property manager or an infrastructure manager. That's important. So that's the difference. Open architecture works. It's good for the capital provider. It's no strings attached. It's unbundling the value chain.

Ryan Kruger, *Analyst, KBW*

We're basically out of time, but I want to sneak in one last one.

Anant Bhalla, *CEO and President, AEL*

Go for it.

Ryan Kruger, *Analyst, KBW*

Because when you - when you roll that AEL 2.0, you guided to an 11% to 14% return on equity over the intermediate term. 2021 has definitely been a transition year. But I want to hear your comments and if you still view that target as achievable overtime,

Anant Bhalla, *CEO and President, AEL*

Very much so achievable, more achievable at the higher end of the merchant banking model, lesser as a pure spread player. So the evolution from spread to fees drives that. The higher private assets will get us to the lower end of that range. And we probably need our allocation to private assets to be like 10%, 15%. So you can see in the timing I talked about how we ramp to the lower end of that range, and start to return capital to shareholders.

Ryan Kruger, *Analyst, KBW*

Excellent. We're pretty much out of time there, but I want to give you the chance, if there's any last comments you want to make before we end.

Anant Bhalla, *CEO and President, AEL*

Appreciate you making time and your investors dialing in today to talk to us. We are very excited about this different model, not a legacy investment model. So thank you for your support and partnership in AEL becoming this merchant banking-like model where we do this for our own at-scale balance sheet and do it for others. It's different than the sponsored model. I hope everyone begins to realize the value of decoupling IMAs and capital. We're going to deliver all on those fronts and look forward to being executed in the coming few years.

Ryan Kruger, *Analyst, KBW*

Excellent. Well, thanks a lot, Anant and Steven, and appreciate your participation.

Anant Bhalla, *CEO and President, AEL*

Take care, stay safe.