# CEO Letter to Shareholders

2023


Dear Shareholders,

Since I first shared the AEL 2.0 model with you in the fall of 2020, we have brought to life all aspects of our strategy flywheel. We have made significant progress in our journey to transform American Equity into the premier financial services company that empowers our advisors with financial dignity solutions for retail clients as they manage through the uncertainty of markets while planning for all life stages, including retirement. We do this by continuing to focus on the retail annuity market – offering both fixed index and traditional fixed annuities – which meets the needs of our clients through both guaranteed wealth accumulation and deaccumulation solutions.

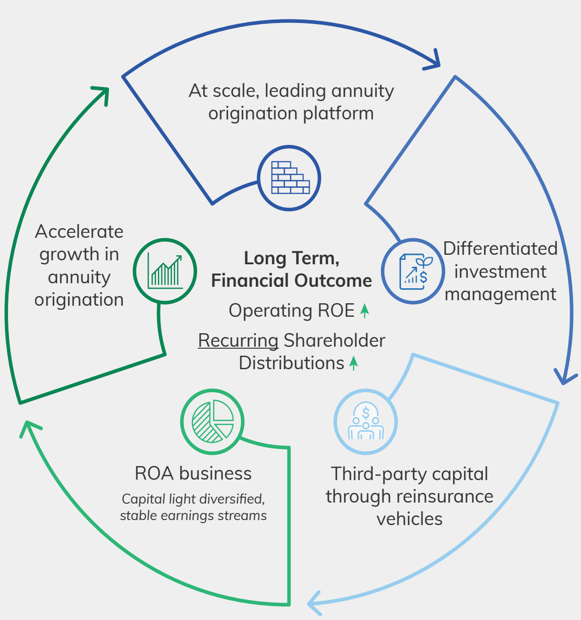
We have embarked on this journey by addressing three key strategic themes:

- Building the AEL Network of Partners;
- Re-imagining our operating platform and foundational capabilities; and
- Supporting a robust, future-forward business strategy.

## AEL NETWORK OF PARTNERS

We have succeeded in building our relatively unique ecosystem by focusing on finding the right partners for each part of our strategy flywheel. We assess both capability and culture, given the societal good that our financial dignity solutions provide over decades and at times to multiple generations in the same family. In an increasingly complex, uncertain and turbulent world, our offerings provide our clients with greater confidence, peace of mind and the reassurance necessary to live their lives to achieve their fullest potential and dreams. This requires us to operate our business so that all our value chain partners' intentions and incentives align to ensure we can best serve our clients and shareholders.

Specifically, in the area of asset management, AEL has built a network of aligned asset managers through minority direct ownership stakes, economic and risk-sharing arrangements, strong governance rights and risk-aligned investment management agreements. The underlying spirit in each of these mechanisms is for AEL to play the role of the "conductor" in the asset management orchestra, while each investment specialist has their own unique instrument to play in the symphony. AEL brings a unified vision to risk management, balance sheet resilience and asset allocation to ensure our promises to clients endure across market cycles and over decades to come.




VIRTUOUS FLYWHEEL OF SUCCESS

Similarly, to advance our desire to become "capital light," AEL has developed robust and bespoke reinsurance vehicle structures, in which we, along with our insurance regulators, can have a high degree of confidence in the resilience of the capital backing our policyholder promises and in the continued alignment of interests between our capital provider partners and our policyholders.

By building the AEL Network of Partners, we have succeeded in rapidly expanding our capabilities while limiting execution risk. This focused approach has delivered value for all shareholders: our stock price at year-end 2022 had appreciated approximately 185% since we first announced AEL 2.0 in late 2020. Our chosen execution model for AEL 2.0 will also be highly scalable as we embark on our goal to double our assets under management this decade and compound book value per share at a double-digit annual pace, on average over time. We do not expect consideration of any transformational growth-oriented transactions will be necessary to meet this goal.

## OPERATING PLATFORM AND FOUNDATIONAL CAPABILITIES

Now, I'd like to turn to the reimagining of our operating platform and foundational capabilities. We started this multi-year journey in earnest in 2022 and have made substantial progress in just a short while. We recently completed the implementation of new investment accounting and investment management systems, as well as a new general ledger. Our objective is to support the expansion of our funding base by widening the aperture of our liability origination platform to achieve our assets under management growth goals for this decade. This includes working to position fixed index annuities as an alternative asset class to bonds that can be embedded in both retail and institutional markets as a principal-protected accumulation vehicle as well as a longevity solution for clients via guaranteed deaccumulation riders.

Successful execution in the foundational capabilities pillar will necessitate upgrading our technology stack and redesigning both our user and client experiences as well as the processes that serve them, beginning with the retail business. We are focused on further strengthening our core financial and business processes to expand into additional forms of distribution, such as institutional and international markets through reinsurance and partnerships, while getting closer to the end-client through forward integration with our distribution in the U.S. Additionally, we intend to build out a capability to offer pure asset management-like solutions, such as insurance wrappers, which leverage our ability to source private assets in excess of our own investing demands. Finally, we are building "capital recipes" that enable an insurer's balance sheet to be the preferred majority financier for real assets with long-term, enduring cash flow profiles across market cycles.

I expect that this internal, yet foundational pillar transformation will be a multi-year journey for AEL that will allow us to fully support the aspiration to double our assets this decade and to achieve sustained growth in assets under management for many years to come.

## FUTURE-FORWARD BUSINESS STRATEGY

The third key leadership theme is supporting a robust, future-forward business strategy that will drive continued enhancement of our talent and culture. I am proud to share that we have made tremendous progress in attracting world-class talent by embracing a hybrid working model. This has expanded our access to talent beyond the Midwest. In addition, our new offices along the East Coast serve as "community hubs" for team members to come together, supporting our leaders' efforts to mentor younger talent and rising stars outside of our West Des Moines headquarters and supporting our efforts to build a cohesive, collaborative culture and an adaptable and decisive organization with a rich pipeline of talent.

**LUCID:**

**Learners • Unifers • Creative**
**Informed • Decisive**

In the short span of only a few years, we have seen the new AEL culture begin to take shape. It started with assembling the right executive leadership team, turbocharged with a relentless focus on cultural transformation and manager development. The new AEL is a future-forward culture. While the AEL 1.0 culture allowed us to achieve scale with its more traditional "best efforts" family-feel culture, our organization has morphed into a performance-driven culture underpinned by collegiality, cohesion and determination. Our cultural evolution is one where our teammates exemplify being LUCID: Learners, Unifiers, Creative, Informed in their actions and Decisive.

Now, armed with the right talent to deliver on the value of AEL 2.0 for all shareholders, our company is well on its way to being able to imagine what an AEL 2.5 may look like in the years to come, with a more integrated value chain from distribution to insurance manufacturing to asset management.

## 2022 PERFORMANCE: DELIVERING RESULTS

There is a bright future ahead for our company. Now, I want to reflect on our financial results over the past year, which demonstrated that our transformation initiatives are creating value for all our stakeholders.

In investment management, we originated $5 billion of privately sourced assets at an expected return of greater than 6%. We also expanded our primary focus from residential real estate in 2021 to a more diversified portfolio in 2022, covering a variety of sectors, including infrastructure, middle-market credit and commercial real estate equity.

Across sectors, we are being disciplined and deliberate, focusing on underlying assets with resilient cash flows where the majority of the return is largely delivered by underlying operating performance and where there is an advantage for an insurance balance sheet to own these assets. With fixed income spreads widening throughout most of the year, we seized this additional optionality to increase exposure in core fixed income while being more selective in our private asset strategy.

In Go-To-Market, we substantially revamped our pricing procedures, affording us the optionality to re-price products quickly as markets change. To put this in perspective, we have historically repriced new products once or twice per year; but thanks to the changes we've made, we successfully delivered more than 50 product and rate changes. Our pricing has become more nimble, targeted and responsive to market changes – hugely important to generating sales growth while maintaining attractive double-digit internal rates of return on total sales volumes. We also refreshed our distribution incentive and loyalty programs and continue to assess ways to further differentiate our service offerings to producers, building on our number one ranking in customer satisfaction among annuity providers by J.D. Power[1]. In this area, we will be revamping our new business processes and technology to improve efficiency as we grow.

**In our Capital/Reinsurance pillar, we achieved $9.6 billion of fee-generating reinsured balances and generated over $50 million in revenues in 2022. This growth included new business amounting to $1.3 billion ceded during the year to Brookfield Asset Management Re and $3.8 billion of in-force to 26North Re.**

The new reinsurance agreement with 26North Re resulted in a capital release of $260 million to fund the growth in excess capital that supports the continued migration to privately sourced assets and capital return to shareholders. As a result of this transaction, we also reduced the sensitivity of our GAAP financial results to equity index credits. We were pleased to announce that we started flow reinsurance on traditional fixed rate products with 26North Re effective February 8, 2023.

Over the course of 2022, we repurchased 14.8 million shares, more than offsetting the dilution for the follow-on offering to Brookfield and returned an additional $307 million to shareholders. Combined with dividends paid in the fourth quarters of 2021 and 2022, we have returned $369 million of capital to shareholders in the last five quarters. In 2023, we intend to return at least $380 million to shareholders comprised of the $130 million remaining from our planned return for 2022 and at least $250 million for 2023. We are well on our way to accomplishing this goal following our entry into a $200 million accelerated share repurchase program on March 17, 2023.

Over the past two years, our execution of each part of the AEL 2.0 business model has enabled us to begin delivering on our financial transformation to ensure we stay at the cutting edge of an increasingly competitive and complex environment. The success of our model is most visible in terms of transforming our earnings mix towards a more capital-light model with a healthy mix of "fee-like" related earnings (FRE) and spread-related earnings (SRE) with a growing mix of reinsured liabilities, enabling us to grow adjusted book value per share by 20% since year-end 2020.

In terms of the macro environment, we entered 2023 with uncertainty in markets and economic activity for the near-term, which has only been exacerbated by financial stress in certain pockets of the financial system. This environment is one where our product solutions have an even greater appeal to clients and distribution partners. Our focus is always on our goal to maintain a fortress-like balance sheet – one with ample liquidity and capital to fund growth and manage through turbulent market cycles. This financial strength reflects our risk-conscious culture and ensures our ability to be the preferred partner both to those in the AEL Network of Partners, as well as to our clients. Given the high likelihood of a new, ongoing regime of higher rates, our focus at AEL is first on maintaining and then growing our balance of policyholder funds under management.

**We believe our long-term future is supported by significant tailwinds, which will bolster our growth initiatives in the coming years. In the United States alone, our target sales demographic (those aged 65 or older), is expected to increase from 56 million in 2020 to 73 million by 2030.[2]**

Meanwhile, the largest redistribution of wealth in our history is set to occur as over $70 trillion of assets is expected to transfer from older generations by 2045.[3]

Furthermore, ongoing trends prove that many Americans continue to prefer purchasing life insurance and retirement products through an agent or advisor. Approximately 35% of U.S. adults, 30% of Generation Z, and 40% of Millennials seek financial advice from a financial advisor, making it a large sales channel for retail annuities.[4] We are well positioned to seize the opportunity in these markets, utilizing both American Equity Life's more than 28-year distribution franchise that includes over 28,000 independent agents working through independent marketing organizations, as well as Eagle Life's growing presence with banks and broker-dealers.

Moreover, we see tremendous potential to expand our offerings to additional markets, both in the U.S. and internationally, through our reinsurance capabilities, potentially serving as the insurer for local domestic insurers in those markets who have proximity to their policyholders.

Thank you for your belief in AEL, our over 900 employees and over 40,000 appointed agents and advisors, and the more than half a million clients whom we serve, day in and day out, to achieve financial dignity.

**Anant Bhalla,**
Chief Executive Officer

[1] For J.D. Power 2022 award information, visit jdpower.com/awards.
[2] https://www.census.gov/content/dam/Census/library/publications/2020/demo/p25-1144.pdf
[3] https://www.cerulli.com/press-releases/cerulli-anticipates-84-trillion-in-wealth-transfers-through-2045
[4] Northwestern Mutual 2022 Planning and Progress Study

**Forward-Looking Statements**

The forward-looking statements in this letter, such as achieve, additional, aspiration, become, build, can, continue, desire, efforts, enable, expect, forward, further, future, goal, grow, intend, to be, objective, on our way, opportunity, position, potential, strategy, to be, and will, their derivative forms and similar words, as well as any projections of future results, are based on assumptions and expectations that involve risks and uncertainties, including the "Risk Factors" the company describes in its U.S. Securities and Exchange Commission filings. The Company's future results could differ, and it has no obligation to correct or update any of these statements.

| **GAAP and Non-GAAP Financial Measures** | Year Ended December 31, 2022 |
|---|---|
| Other revenue reported on US GAAP basis | 43,921 |
| Amortization of deferred fees associated with reinsurance treaties | 6,567 |
| Non-GAAP operating revenue associated with recurring fees (a) | 50,488 |

(a) Non-GAAP operating revenue associated with recurring fees is comprised of GAAP Other Revenue adjusted for the amortization of gains on assets transferred under an in-force reinsurance transaction.

| | 12/31/2020 | 12/31/2022 |
|---|---|---|
| Total stockholders' equity | 6,574,716 | 3,169,223 |
| Equity available to preferred stockholders | (700,000) | (700,000) |
| Total common stockholders' equity (c ) | 5,874,716 | 2,469,223 |
| Accumulated other comprehensive income | (2,429,285) | 2,155,055 |
| Total common stockholders' equity excluding AOCI (c ) | 3,445,431 | 4,624,278 |
| Net Impact of fair value accounting for derivatives and embedded derivatives | (166,453) | (1,150,532) |
| Total common stockholders' equity excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives (c ) | 3,278,978 | 3,473,746 |
| | | |
| Common shares outstanding | 95,720,622 | 84,810,255 |
| | | |
| Book value per common share | 61.37 | 29.11 |
| Book value per common share excluding AOCI | 35.99 | 54.52 |
| Book value per common share excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives | 34.26 | 40.96 |

(b) Total common stockholders' equity, total common stockholders' equity excluding AOCI and total common stockholders' equity excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives, non-GAAP financial measures, exclude equity available to preferred stockholders. Total common stockholders' equity and book value per common share excluding AOCI, non-GAAP financial measures, are based on common stockholders' equity excluding the effect of AOCI. Since AOCI fluctuates from quarter to quarter due to unrealized changes in the fair value of available for sale securities, we believe these non-GAAP financial measures provide useful supplemental information. Total common stockholders' equity and book value per common share excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives, non-GAAP financial measures, are based on common stockholders' equity excluding AOCI and the net impact of fair value accounting for derivatives and embedded derivatives. Since the net impact of fair value accounting for our derivatives and embedded derivatives fluctuates from quarter to quarter and the most significant impacts relate to fair value accounting for our fixed index annuity business and are not economic in nature but rather impact the timing of reported results, we believe these non-GAAP financial measures provide useful supplemental information.

At American Equity Investment Life Holding Company, our policyholders work with over 40,000 independent agents and advisors affiliated with independent marketing organizations (IMOs), banks and broker-dealers through our wholly-owned operating subsidiaries. Advisors and agents choose one of our leading annuity products best suited for their client's personal needs to create financial dignity in retirement. To deliver on its promises to policyholders, American Equity has re-framed its investments focus – building a stronger emphasis on insurance liability driven asset allocation and specializing in alternate, private asset management while partnering with world renowned, public fixed income asset managers. American Equity is headquartered in West Des Moines, Iowa with additional offices in Charlotte, NC, and New York, NY. For more information, please visit www.american-equity.com.

AEL™

American Equity Investment Life Holding Company®

6000 Westown Parkway
West Des Moines, Iowa 50266
515-221-0002 | 888-221-1234
www.american-equity.com