Investor Meeting

Company Participants

- Elizabeth A. Werner, Vice President & Head of Investor Relations
- Kevin T. Hogan, Executive Vice President & Chief Executive Officer, Life & Retirement
- Thomas John Diemer, Chief Financial Officer-Global Consumer Insurance

Other Participants

- Alex Scott, Analyst
- Amit Kumar, Analyst
- Andrew Kligerman, Analyst
- Elyse B. Greenspan, Analyst
- Jay A. Cohen, Analyst
- John Nadel, Analyst
- Kai Pan, Analyst
- Meyer Shields, Analyst
- Michelle Ann Giordano-Valentine, Analyst
- Thomas Gallagher, Analyst
- Yaron Kinar, Analyst

MANAGEMENT DISCUSSION SECTION

Elizabeth A. Werner {BIO 1557593 <GO>}

Good afternoon. Thank you, everyone, for being here. Before we get started, I'd like to note that anyone joining remotely can access the presentation materials online at our website, www.aig.com. Those materials include cautionary language regarding forward-looking statements and non-GAAP financial information contained in today's presentation.

Forward-looking statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Any forward-looking statements are not guarantees of future performance or events. Actual performance and events may differ possibly materially from such forward-looking statements. Factors that could cause this include the factors described in our first quarter Form 10-Q and our 2017 Form 10-K under Management's Discussion and Analysis of Financial Condition and Results of Operations and under Risk Factors.

AIG is not under any obligation and expressly disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. Today's presentation will also contain non-GAAP financial measures. The reconciliation of such measures to the most comparable GAAP figures is included in the slides for today's presentation.

This afternoon, you'll have the opportunity to hear from the CEO of our Life and Retirement businesses, Kevin Hogan and the CFO, Tom Diemer. Thank you all for coming.

And with that, I will turn it over to Kevin.

Kevin T. Hogan {BIO 4650423 <GO>}

Excellent. Thank you, Liz. Good afternoon, folks here in the room and also on the webcast. First of all, for those here in the room, I have to say, this is not the ideal setup. I'm going to be watching a tennis match, I think, through the afternoon looking back and forth and addressing your questions later. But we had originally planned on having it in a different room, but it's quite a good turnout. So, we had to change the facilities. So, anyway, thanks for taking the time to coming for this session where we're going to focus on AIG's Life and Retirement businesses.

And the reason that we thought it was appropriate to do this session now is, is that earlier this year we essentially largely completed a six-year transformation of our Life and Retirement business and we're in a strong position to continue to generate stable earnings and cash flows, and we believe we're really well-positioned for future growth. But we also recognize that this is a very active time in the industry and we get a lot of questions from time to time about AIG's position relative to some of the industry developments. And a lot of you cover AIG, and in covering AIG sometimes our discussions really focus on certain of our other businesses and then some of you cover the life and retirement industry.

And because we are a composite company and because we're not a U.S. listed life or retirement company, we're not included in the coverage universe a lot, and as a result may not be really clear in terms of our position in the industry. And so, I really thought that this was a good opportunity to focus on AIG's Life and Retirement businesses.

We're very proud of our position. We believe we have a powerful franchise. We've worked hard to put in place what we believe is a unique value proposition and organization, and we think that our contribution is relevant not only to AIG's overall story, but also to the overall industry position. And so today, I'm going to be joined by Tom Diemer, our CFO for the presentation. We're going to break it up, I'll cover a few of the first parts and then Tom will step in and I'll come back in and then we'll leave plenty of time for Q&A. Looking at what we have to present and talk about, I'm hoping that we'll be able to get you out of here a little bit earlier than our originally targeted end date. We'll target to try to wrap up by around 3:30, if possible.

So, turning to the key messages. Over the last six years, we have worked hard to deliver the organization that we have and the portfolios that we benefit from. And I think sometimes the consistent progress that we've made maybe isn't as transparent as when you look back at it as a whole. And so, the key messages really today are, first, that we have a large, diverse and we believe high quality in-force portfolio that is well-positioned to continue to generate stable earnings and cash flows, as we have demonstrated for a number of years.

Second, we are intentionally organized to optimize capital efficiency and deploy capital to the highest available risk-adjusted returns and to maximize our option value for growing new business. Third, that same organizational structure is in many ways the foundation of our risk management approach, which is a rigorous and holistic risk management approach that starts with the organization, portfolio construction, our individual product characteristics and, of course, our asset and financial management practices.

Fourth, we are well-positioned to meet today's and tomorrow's growing needs in both the U.S. and overseas. We serve almost universal and definitively growing markets and needs. And fifth, following the completion of our transformation last year and earlier this year with the decision that Brian made to go back to the General Insurance and Life and Retirement structure, the reincorporation of institutional markets back with Life and Retirement, the creation of integrated team-based businesses around our businesses, this is really the culmination of this six-year journey and we are now well-prepared and well-positioned for whatever growth opportunities we choose to pursue.

And I want to elaborate a little bit on that last point, particularly in light of some of the recent press but, well, we are well-positioned to grow. We are not urgently seeking out specific transactions. We will maintain our discipline when it comes down to evaluating the opportunities available to us, whether that's organic growth, whether that's expanded distribution, whether that's new partnerships, whether that is potential transactions, or whether that's expansion into new markets. And we will maintain this discipline in the context of AIG's overall business strategy and also AIG's overall capital management strategy.

And I think, Brian has been clear in previous discussions that we are interested in adding to the company's capabilities, putting in new capabilities where appropriate, increasing our diversification, and adding to the intrinsic value of the business. And he's been clear relative to how we think about other opportunities and we can talk about that a little bit more in Q&A.

So, I'd like to go back to the presentation on these five key points and really demonstrate exactly what I mean behind each of them. So, if we turn to the next slide, what is this slide? This is three views of our portfolio. And if I were standing in front of one of the screens, I would sort of point to what they are. So, on the left side, we have premiums and deposits by product, right? Now, first thing to note is the diversification, not only do we have four diversified businesses, but within each of the businesses we have very strong diversification among products.

The second in the middle, we have assets under management, right? And as you can see, not surprisingly, 85% of the assets are Individual Retirement and Group Retirement. After we declared legacy, some of the assets that used to be associated with our Life Insurance business are now reported under legacy. And so, it's a smaller part of our balance sheet.

And Institutional Markets as a business that we've really been focusing on and investing in for the last couple of years and is a small, but a growing part of what we expect in our portfolio.

And then third, the numbers that I think you're pretty familiar with, which is our adjusted pre-tax income. Now, how do we think about this? I think about the APTI on the right side essentially as a rearview mirror. It is a reflection of all of the work that we have done to date and it's a reflection of the portfolio that we have in force. And then turning back to the left side, the premiums and deposit by product, I think about that as like a windshield in terms of where we're going. We are deploying the capital into the opportunities that are the most attractive now.

And if you look at the earnings, clearly the bulk of the earnings is coming from the retirement businesses, but our distribution of new business reflects the work that we've done to put in place our franchise in the Life area, which is 14% of the premiums and deposits where it's only 7% of the earnings. Institutional Markets, which is 14% of the new business and it's also 7% of the earnings. And we continue to have very attractive opportunities in Individual Retirement and a great franchise, but we are making selective decisions as to when is the right time to write new business. And I'll talk a lot more about that in the coming slides. And Group Retirement, which is a very steady part of our business, which is almost consistent in terms of its ratio of earnings to premiums. So, this balance of new growth versus steady earnings from the in-force really reflects the quality of our in-force portfolio, a portfolio that after all the work we've done, we're very comfortable with.

Let's talk a little bit about performance. Through our broad product range and diverse channels, which I'll describe in a lot more detail in the next slide, right, one of our hallmarks is our ability to be disciplined and selective, whether it is by product or by channel, right? And the premiums and deposits, you can see here, have declined a little bit in the last couple of years and that is a reflection of our perception of the economic returns, not an inability to write more new business, right? So, we do not regret the decline in premiums and deposits over the last couple of years because we don't determine success by sales alone and we don't have any restrictions in terms of capital that we deploy into new business either. It's not like there's somebody at corporate that's determining how much capital we should or shouldn't.

These are decisions made by our extremely experienced management team in terms of when the opportunities between economic conditions and market and competitive conditions is the right time to write new business. And so, in terms of the other aspects of our performance, in general operating expenses, we've worked hard in the last couple of years. We've made important investments in improving our efficiencies and, of course, we benefited from AIG's overall expense management efforts. And so, we believe we have a sustainable and competitive expense position in this business. You can see the results in the adjusted pre-tax income and the consistent improvements in the return on equity and, of course, the 2017 number is before tax reform and its impact.

So, clearly, we have delivered consistent performance. And the reason why we've been able to deliver this performance is the combination of our discipline and execution, and also a strategy that actually goes back quite a few years. And we had to work hard to put this platform in place. We do believe it is a unique and differentiating in the industry that allows us to be selective about our products and channels, yet still serve the most important customer needs and maximize our opportunity for new business. And this intentional design goes back to 2012.

For those of you that covered us then, you may remember something called the Growing Together initiative. What was Growing Together? If you go back before that time, we had multiple legal entities, each serving particular channels with particular products, but also having a lot of other channels and a lot of other products that overlapped. For example, SunAmerica focused on independent financial advisors and broker-dealers for variable annuities. Western National focused on fixed annuities through banks.

American General in Houston focused on a broad range of products, life, annuities, et cetera, through broker general agents and independent marketing organizations. And AGLA out of Nashville primarily focused on career distribution. It was inefficient; it was capital inefficient because each of the balance sheets had to stand on their own. You could imagine the SunAmerica balance sheet with variable annuity as its primary component is a very different picture than a highly diversified balance sheet.

Was inefficient because we were knocking on the doors of the banks several times with several different AIG providers of products trying to win the day with those; was inefficient because in most distribution channels, we maybe had one particular product that that was the successful focus of that business and we were missing the opportunity to serve more customers and more of the distribution points of those partners. And so, we established a strategy to separate our thinking about manufacturing the actual product side and the legal entities and distribution.

And on the legal entities side, we began to bring the legal entities together. And that allowed us to create a very different capital structure within the remaining legal entities than what we had before. There was tremendous diversification within those balance sheets. It was a lot of simplification. We reduced the number of regulatory regimes that we had to report, a number of statutory filings, et cetera. And we were able to use that opportunity to create capital management options and to dividend up some of that efficiency to the parent companies. And on the distribution side, what we were able to do was to bring the best of the breed together, to recognize that we had key strategic partners, 20 key strategic partners that have made sense for us to think about across all of the products that we have.

In licensing distributors instead of licensing 10 different legal entities, we could license one and greatly simplify our interface with our distributors. And it allowed us also to put a wholesaling organization in place that was able to move from one product to another as opposed to just focusing on variable or indexed or fixed or life, we have the opportunity to serve all of those areas, it gives us both scale and flexibility at the same time.

And it was also an opportunity for us to rethink about our distribution, right? Where is it that we're most effective and where is it that maybe we have opportunities to think differently? And that's what led to decisions also supported by the change in the regulatory environment, like the decision to sell the Advisor Group, where we used to have 50 to 100 independent financial advisors that were part of our organization. And with the impending Department of Labor Fiduciary Rule, we felt that it was the right time to be more objective about what affiliated advisor versus non-affiliated advisor were. And, in fact, since we sold the Advisor Group, I think because they were trying so hard to be objective when they were owned by AIG, we've managed to maintain a great relationship with them and they're still one of our top distributors, even though we don't have the equity ownership that we did.

Another decision we made on the distribution front was to wind down our career agency. We tried for a number of years to convert it into more like financial advisors, but ultimately that was not possible. And so, we wound down our field force of 1,500 people and closed 75 branches, further contributing to our efficiency and allowing us to focus on independent distribution, which is really our area of success and it allows us to leverage our innovative product capabilities in our long history of product innovation. And finally, we did make the decision to cease our activities in the employee benefits area with an old platform we had the Benefit Solutions group and allow for a fresh start for us in that area.

All of these things over this six years have led us to the point that we have now and also allowed us to deliver the results that we did. And as you can see here and as we have previously reported, right, this summarizes what we disclosed over the last couple of years. In the early years in terms of the dividends and tax sharing payments, that reflected some of the balance sheet efficiencies, the reduction in volatility associated with bringing the small balance sheets together into big ones, much better diversification. It also reflects a number of one-offs at that period. And the more recent years reflects the work that we've done not only in generating earnings off of the in-force which is a high quality portfolio, but also certain of the transactions that we've undertaken, including the financing transactions, the reinsurance transactions in the life portfolio, and some of the other divestitures that we talked about.

But what's particularly important, right, our RBC has remained strong. Our capital base has reduced and yet we've grown our new business origination by around 30%, just over 30% at that time. So, we have become a more financially efficient as well as economically efficient organization. And what I would say is, is that these numbers are not a predictor of what future dividends and tax sharing payments may be, but it's evidence of the health of our portfolio related to free cash flow and our focus on maintaining a strong efficient balance sheet and serving the needs of all of our constituents, whether that's our policyholders, our regulators, our rating agencies, our shareholders, all of our constituents.

And at the year end of 2017, our RBC was within the range that we set for a long-term targets, and of course, this was before change in the tax situation. And we continue to expect going forward normalized earnings to be a part of what we contribute into our capital management as well as the impact of transactions. And as Sid mentioned in our first quarter call, right, after the DSA Re transaction, our RBC in the life balance sheets is ahead of where our long-term target is and we will continue to engage in our capital management in the normal course relative to our strategy going forward. So we have a very financially efficient organization that is also able to scale products according to where we see the opportunities as being the best.

This next exhibit reinforces the breadth of our product and tries to show a little bit a discipline that we show in deploying capital, based on where the return opportunities are. Now what's the scale on this exhibit? This exhibit is scaled relative to the internal capital consumed by the new business in each product. So that is what is the reason why the exhibit the way it is, that's the figure that you can compare across exhibits. And each product area is really a different story, almost a different industry.

So fixed annuities, we managed fixed annuities very tightly. As you know, we have the ability to re-price all 1,200 of our in-force products every week and we pay very careful attention to where interest rates are, where real credit spreads are, where equity markets are relative to investor expectations, and also what investor expectations are relative to the direction of interest rates. And we're very flexible when it comes down to just how much new business we choose to ride at a given time relative to those things.

And just one example, in the last three years, if I look at the last three years quarter-by-quarter production, right, the very lowest production quarter we had was $546 million, that was the fourth quarter of 2016, and the largest production quarter we had was $1.6 billion, which was the first quarter of 2016. And it is because of our enormous distribution presence and the relationship with our strategic partners that we're able to scale so quickly the production in the fixed annuity marketplace according to where we see the opportunities in a competitive environment.

$546 million is still a significant presence, so we're not essentially shutting the valve off entirely or flipping the switch open entirely, but being very judicious in terms of where the opportunities are. And Tom will talk a little bit more about the capital relevance of this in a few minutes.

So our next product is - well, the next product set is variable annuities and indexed annuities. And we think of those very much together, because our focus is on providing lifetime income solutions in both of these businesses and they are different legal vehicles by which to achieve similar outcomes for a customer. 90% of the VAs that we sell have guaranteed living benefits and almost 50% of the index annuities that we still have guaranteed living benefits.

As you can see, the environment in the last couple of years, we've had a reduction in the sales of variable annuities. There's a couple of things behind that. One is the uncertainty created in the distribution arena by the changes in regulations, particularly the Department of Labor Fiduciary Rule and the internal focus by many distributors on having to prepare for that and plan for that. But another is an increasingly competitive environment where we had chosen not to increase the risk in our products, nor necessarily to sacrifice margins. And we have a core part of our portfolio that serves a unique customer need for lifetime income solutions, and we continue to focus on that and are achieving our economic targets with respect to the business that we're riding in that area.

In terms of index annuities, we took our skills and manufacturing variable annuities and our scale in manufacturing fixed annuities and were able to provide for a valid entry into the index annuities business towards the beginning of this transformation. And it's a good example of the value of our distribution model, because we have a single wholesaling organization, over 600 wholesalers working with 220,000 independent financial advisor distribution points. And this is what has allowed us to quickly scale up in the index annuity business using the same skill and many of the same relationships in financial institutions, in banks, and in our other distribution partners.

In terms of Group retirement, Group Retirement is a very different business. Group Retirement is a very stable and steady business. We don't necessarily have to adjust our position relative to changes immediately in market conditions like interest rates, or equity markets, or necessarily actions by competitors. This is a much slower moving set of portfolios.

At the beginning of the year, we know that approximately 50% of our deposits are going to come in, periodic deposits, automatic payroll deductions and things like that. And so as a result, it doesn't necessarily show some of the characteristics of the other lines. However, what did happen is during the period of AIG's recovery, we were not originating new group acquisitions for reasons that I guess are self-evident. And at the same time, we weren't really investing in the underlying platform. To go back seven or eight or nine years ago, we had one of the best websites when it comes down to Plan Sponsor Services or participant experiences. But for not investing for a couple of years, we started to lose that edge. And that's what was impacting our production. But in the last couple of years, you'll recall I've talked a lot about our investments in our digital platform. And our digital platform is really paying off, and that's what's allowed us to recover our Group Retirement sales into the levels where we're seeing both increasing periodic deposits and increasing group plan acquisitions.

In the Life area, I have to say we've really done a lot of work in the last couple of years. We have, as I mentioned, exited the career agency business. The same wholesaling organization, AIG Financial Distributors, has allowed us to refocus on independent distribution. And we're being quite successful in leveraging the relationship of financial distributors and some of our partners that used to be just focused on selling variable annuities, are now among our important Life partners.

And so, our sales have consistently grown in the Life area and returns to an area that's pretty close to I think where they need to be, certainly, in term and increasingly in index universal life and universal life, we had very successful propositions. And I think the institutional markets business is also another area that very much reflects the results of our investments.

In the last couple of years, we've invested quite a bit in our capabilities and our talent in this business, particularly in the pension risk transfer area. We've introduced a modern administrative platform. It allows us to focus on service aspects of that business. We are patient and selective when it comes down to the pension risk transfer business, and last year, late in the second half of last year, we were successful in a number of transactions that reflect where it is that we believe we want to participate, not necessarily in the commodity longevity space, but in transactions like the planned close outs, that we did that have a little bit more of a service orientation.

And so, with that, these are reflective of the distribution organization that we have, the relationships that we have, and the decisions that we make, we're not going to deploy capital unless the returns are attractive both in terms of where the economics of the products are and the competitive conditions.

I'm going to take a little break and hand it over to Tom, who is going to continue on this slide and talk about it from capital perspective.

Thomas John Diemer {BIO 18035886 <GO>}

Thanks, Kevin. Good afternoon, everyone. Yeah, I really, as the CFO responsible for capital deployment, I really like slide 7 because you should read into it that as options. In a dynamic market that we're in, and for the most part, Life Insurance has been for a long time, you really do, in my mind, want to be successful and you can do that when you have options. And these aren't just individual products, as Kevin talked about, these are real robust franchise that allow us to be very selective.

I've been in this industry for 20 years and I can tell you at any point in time there is irrational pricing somewhere in the market and there's also rational pricing in the market. And, again, this gives us that flexibility to be very nimble with our capital deployment and that's why we're – yes, sales are important, growth is important, but we really think about it in the context of how and where are we deploying capital, and are we deploying it in areas where we're comfortable that the returns exceed our hurdle rate.

And the great thing about it is I'm very fortunate that while we had individual business leaders that are immensely passionate about their individual businesses, they're just as passionate that we all share our balance sheet, and we're stewards of that balance sheet. And if a particular business leader is not seeing the opportunities they'd like to see from a return perspective, we're willing and quite frequently have the conversation of, okay, well, we can't deploy it here, is there another area where we are more comfortable at this point in time and can deploy it there. So I like that optionality as it relates to capital deployment.

I would be much more concerned with the market dynamics if I had a single product or had two products, so to speak, because I think the case with VA is I think a great example where from a regulatory framework that caused clients and distributors to think about other solutions, but if I only produced VA, what does that mean and for my business, so to speak. I think you should all be able to figure out what that means, which is pricing tends to get much more aggressive and that's exactly what we thought.

So, again, comfortable with the business we rode in that space, but on the margin we're going to deploy our capital elsewhere when we see such condition. So, for my mind and in my role particularly around capital deployment, I think that puts us in very, very good stead.

And I think it's a good transition to the next slide, which is flow. And to reiterate a little bit about what Kevin was alluding to, flows are certainly important, but particularly as we think about 2017 flows, we're not going to be immune to the market dynamic, market conditions, and things going on. But I think a much bigger part of our flow story is the discipline that Kevin alluded to, which is choosing the areas that we're comfortable deploying capital and allowing others to take business if we view the returns as not attractive so to speak, so it's much more about our discipline and something, in fact, being done to us.

And then, as you go across the slide here and Kevin alluded to on the fixed annuity side, so just think about from the conditions perspective last year, pretty good equity markets, pretty low rates, and pretty low spreads, probably not the best time to be writing a lot of fixed annuities, it's not going to be in demand from a marketplace perspective. And again, on a relative basis, the returns may not be as attractive. Obviously, that changes as Kevin alluded to, we're ready willing and have demonstrated the capabilities there.

The other thing we had as Kevin alluded to is obviously a huge in-force. So, if I just started a fixed annuity company, I could be showing all sorts of inflows and that maybe a good story or think it's a good story. We had an in-force that's been generated over time, a quality in-force, but we do have people that actually need money and spend money in retirement. And that's what these products are for, to provide in retirement. And so certainly, when we look at flows, I think that is certainly a part of it and something that we have to be cognizant of. It's a reflection of our portfolio, not what I'll call business leading us where we would prefer to sort of keep it if you will, real reflection of the in-force as opposed to what's going on from a market place perspective.

Moving over to variable, we touched on it and think about it in the context of index annuities. So I think this illustrates a little bit of the point that Kevin was making as well. Certainly, see the opportunities on the index side and so deploying capital and seeing the flows there. We're on the variable side, again, reflective of little bit of the historic in-force, as well as the current market conditions. I would say as well as we look at the surrender rates, that's the way we look at it as rates, not absolute dollars. And nothing in the rates that we're seeing really across any of the products, and while called (00:34:43) type activity is outside of what our expectations would be given the aging of the in-force, given the dynamics in the marketplace. So I think that that's something that we're very comfortable with, so to speak.

Retail mutual funds, I don't have tell this group that this is an actively managed platform if you will, and so certainly, the industry trend, we're not immune to that there, but in the grand scheme of things, this is a business that certainly (00:35:10) our annuities offerings, but as a standalone business, it's certainly attractive business, very low capital, as you can imagine, because there's a low risk, but at the same time, it's not a huge contributor to our bottom line in terms of earnings. And so there, you would look at that and say, wow, those are – a lot of outflow is there so to speak. But the impact in terms of our profitability, which is really how we measured it, is really much, much smaller than you'd indicate from a flow perspective.

Kevin talked a little bit about the Group Retirement business and how the flows work there. I think that is an area where certainly market dynamics, as Kevin has talked about on some of the calls, are impacting us, especially as you see consolidation in certain industries in the not-for-profit space, particularly healthcare. In those consolidations where you then had a much larger surviving entity that in many cases is taking that plan out of what we would call our sweet spot, our value proposition particularly around something Kevin will talk about more, the advisor aspect of servicing those plans.

So certainly, something we have to deal with and business that we like, but we also have to acknowledge and stay where we believe we compete and provide the most value proposition in some of the M&A activity there, does take some of those plans out of that value proposition.

We have Life and Institutional Markets on here, again another reminder why it's not closed (00:36:35) I don't really look at those as slow businesses. I really look at them as am I comfortable where I'm deploying the capital in those businesses. And I think between the previous slide and this slide, on a net basis, capital is increasingly being deployed into both those businesses, because we like the returns there.

And so that's not really a closed story. Again it's a capital deployment story, and we have great comfort, and as Kevin alluded to, particularly on the institutional market side, we're being very selective. The one thing we know in that space, and Kevin will talk a little bit more about it, is the demographics and the market trends are very much in our favor. And there will be a demand/supply, so to speak, in balance. And so, we're very happy being patient as opposed to getting on the treadmill, if you will, of originating every deal, so to speak, that comes along.

So, hopefully that's helpful in terms of providing a little more context for our flows. Certainly we want to continue to see flows improve overall. But, again, I think we have to recognize where we are from a marketplace perspective, and that this is really a long-term game, it's not a one in any one year in terms of flows that's going to decide it. And our in-force portfolio really provides us with the ability to be much more selective than I think perhaps others from an industry perspective.

So, let's jump over to 9, I know a topic that's always of interest, particularly around the Life and Retirement side of thing. First and foremost, no new information here, but we thought especially, because we have moved things around between buckets, it was fair to kind of take a little time to provide context around NII in terms of the portfolio broadly.

First and foremost, we have our base portfolios we defined here in the blue. Certainly, while there's lots of things in there, you can think about that as your traditional fixed income portfolio that, again, steady, strong, good cash flows et cetera coming out of that. On top of that, you have our alternative investments, which yet certainly over the years, we've done very well by. As you also know, I think over the last couple of years, we've taken an opportunity perhaps to pull back a little bit there, especially as we saw and see markets continue to be what I would characterize more towards the frothy end, then the other end, if you will, but returns continue to be good, but not a huge part of our overall portfolio. Our current kind of assumption from a short-term next couple of years perspective is we should see 8% in there. It's obviously not straight line, so there's always volatility there, but that's kind of how we think about it. And I think that's consistent with what we've talked to you about before. And then, we have the rest – the other bucket, so to speak, what we call, other yield enhancements. And so, I think, it's important to kind of highlight what's in there in terms of call and tender, commercial loan, prepayments, as well as the impact of our fair value option securities. Certainly, there's impacts as interest rates change to those coming in, and that'll be the more volatile end of our overall return.

But also in the grand scheme of things, it's not a huge part of the total number here. And when we think about and have provided our thoughts of how we think about spread compression in our recent call, so to speak, that is all factored in, in terms of what we've kind of provided in terms of spread compression, most recently around 0 to 2 and also how we've talked about new money rates versus the portfolio rate, et cetera.

So, again, I think the key takeaway here is strong stable portfolio. Yes, there is aspects that will be more volatile than just the basic fixed income security, but we think, it's important to be in those areas from the diversification perspective, from an overall return perspective, but I certainly can appreciate that does add some volatility to the numbers. But overall, no change here, and one, especially given the in force, we don't expect to see drastic change (00:40:50) over time as rates may move around.

So, lastly, before I hand it back over to Kevin, let's talk a little bit about of risk management. And I'm sure it won't surprise you this to hear me say that risk management is really at the core of what we do. It's an area that I think, from a shareholder and a policyholder perspective, everyone is very well aligned and one that we take very seriously, but I would say, I really like our proof points in this area, first and foremost, as we've talked about and, hopefully, it's obvious at this point, the broad business portfolio and product mix, a balanced revenue sources, as was covered in some earlier slides.

But then, also from a product perspective, in terms of risk sharing, where appropriate with the client, particularly in the VA space, Kevin alluded to our nimbleness with regards to fixed annuity pricing, which I think is particularly important as we all see rates and spreads, but predominantly rates these days. I'd like to see spreads move a little bit more. But particularly, as those things change week to week, if you're leaving your pricing out there, again, I would ask you what do you think of that, from a risk management perspective, because you've essentially given an open option. And I can tell you those distributors are pretty smart about how to take advantage of that. So, I think nimbleness there again is the key differentiator.

And then, also, while I'm not an actuary, I spent a lot of time with the actuaries and we got to make sure we understand our experience, make sure we understand our behavior, and make sure that's reflected in our pricing. And we need to stay on top of that, and we spend a lot of time on that. And then, there are certainly areas where we're going to retain risk but we got to have and we do have robust hedging in that space whether it's around some of the market specific risks or whether it's the broader ALM management that we do. I think we have a very dedicated focus there, and it's an area that's hugely important to continuing our steady profitable results so to speak.

Just a last note I would also say is, we all, I think acknowledge that, in the insurance industry, you always like to think we're right, but there's enough examples of showing that the industry does get things occasionally wrong. And so again, I think there's a reason why we like diversification, because if you're in that one area that happens to go wrong and that's a big part of your book, that's going to be problematic. And while it's not necessarily a new issue, it has gotten a lot of recent attention in terms of long-term care, but that's certainly an example where I think as an industry, we should admit, if we haven't already, that we got it wrong.

In that particular case, we obviously have a very small exposure there, but again that's reflected, not that we're necessarily smarter than everyone else, but that we do have to continue discipline around how we deploy capital and specifically the concentrations of risk that may exist on our balance sheet.

And so, we're committed to making sure we continue to do that, and make sure that that helps us continue to provide what we think are differentiated returns from a real diversified portfolio of businesses. And so, I think you should all take some comfort in that, we're particularly proud of it. We'll probably get some things wrong along the way too, but again the diversification I think allows us to progress through those.

So with that, I'll hand it back over to Kevin and talk a little bit more detail about some of the individual businesses, and what's going on there and our progress. Thank you.

Kevin T. Hogan {BIO 4650423 <GO>}

Thank you, Tom. It's always good to have the financial conscience on top of the production environment. So, the rest of the session, we're going to recap our franchise and position. We're going to talk about each of the businesses a little bit, try to provide a little bit more color and insight into how we think about the current market and where we see opportunities, thus first of all slide 11, right. The needs that we serve in the market, the need for guaranteed lifetime income solutions, I'll just give you two data points, right. So, if it were 1967, around 60% of the working population would be covered by a defined benefit pension plans, whereas these days, it's less than 5%. People have to look after themselves.

And as of today, there are around 75 million people in the United States that are between the ages of 50 and 80. And by 2030, that number is projected to be 90 million. And so, when we look at the quarter-to-quarter sales or the pricing environment for those things, we very much think of this as the long game. And we do have the luxury, I believe, because of all the options that we have in terms of markets to serve or products to sell, that we'll put the capital to work and get the returns.

The not-for-profit defined contribution market, our Group Retirement business, 403(b), 457, et cetera. It is not the 401(k) business, and we don't focus on just a pure asset management lease of that business. What's important about it is that, whereas 401(k) is expected to be a net outflow of our $435 billion over the next seven, eight years, truly projects that, for the 403(b) business, a positive inflow of $120 billion. And so, we're very interested in that business, excited about that business, because it is still an area that is attracting positive contributions.

In terms of the Life Insurance, the unmet protection and retirement income gap, $12 trillion protection gap, relative to the United States. It's a great opportunity for our indexed universal life products or savings products there, variable universal life.

Another data point, only 30% of U.S. households are insured with life insurance. There were 37 million unprotected families, and only 44% of the people have individual life insurance. And then, finally, the pension risk transfer opportunity. It is timely, because the long-term equity market has clearly brought the plans to funding levels that they haven't been before, make facilitating transactions by company. The increasing interest rate environment has also had a role to play in discounting the liabilities. Tax reform, there's a certain window, by which companies can get transactions in at the old tax rate rather than the new one, and PGBC premiums are going up later in the year. So, we do believe this will be a robust year but, as Tom pointed out, this is a tremendous market. And I think the number is something like $2 trillion in pension liabilities in the S&P 500.

So, we think very much about the long-term opportunity, as well as the immediate opportunity. And frankly, these transactions are like little – mini M&A transactions. Everyone is a different characteristic. And we think we're in a great position, and because we have the luxury of options into which to deploy capital, wait for the right deal at the right time on our terms that meet our economic expectations, as well as respond to our STAT and GAAP responsibilities. So, we have great growth opportunities to leverage our scale, increase our scale or to enter new markets, which we'll also talk about.

So, this next slide is just kind of a reminder of the broad participation that we have in the value chain, and it is different than peers. And I'm not necessarily going to sort of dwell on this. We always talk about the annuities business, where we're the only company that's in all three of the retail annuity space in as large a way as we are in the Group Retirement business. But as I talked about, where we're gaining our rightful position in the Life business, where we're back to number four in term life, and we are the number one direct marketer of life insurance. Our direct marketing business out of San Diego continues to perform very well.

And it might be a surprise to you our strength in Institutional Markets, right, stable value wrap, which is quite a unique business relative to either BOLI or the 401(k)s. We took advantage of market conditions a couple of years ago, when fees were really attractive and there were constraints in that business. And we took a very strong position in that particular area. Pension risk transfer, we're sort of in the middle of the pack, and then structured settlements. These businesses very much reflect the current interest rate environment. And if the interest rate environment changes, there's going to be a very different level of attractiveness of these portfolios across this entire page. And that's the growth opportunity that we're most focused on.

I'd like to get to the next slide. You know what, the reality is, we'd try to describe how different a position that we have than other companies. And sometimes, I get the feeling that the message just doesn't come through. And these are the LIMRA statistics of the entire annuity industry, including in-plan annuities, from the largest and then on the top nine. And the different colors refer to the different annuity products, right, variable, indexed and fixed. You can see five of the nine top players, as Tom was talking about, are essentially dedicated to variable annuity, right? And very few have a balanced portfolio. And so, when we talk about the needs that we serve and our position to serve, and you think about the distribution access that we have, as conditions change, as conditions improve, we are going to be in a position to serve those needs. And we're not limited by legal vehicle.

In fact, today, the legal vehicles by which we provide guaranteed income solutions are variable annuities and indexed annuities, but also fixed annuities. We are one of the first to introduce the fixed annuity with guaranteed living benefits. If there's an opportunity in the future, there may be different legal constructs by which these lifetime income solutions may be able to be provided. If there is a safe harbor created for 401(k)s, there could be a potential opportunity there. Some of the banks are looking at separately managed accounts. There are lots of different ways that living benefits can be provided and our expertise is going to allow us to be in a position to support whatever those markets are, and our distribution will ensure that we're able to participate.

Now, I'll talk about the individual businesses, right. Our in-force annuity block is a very high quality. We did not participate in the arms race VA. We don't have serious issues in our benefits to work out. A lot of our variable annuity is actually sold in the Group Retirement business, where it's actually a relatively simple construction. We've also been conservative on the accounting side where we treat our guaranteed living benefits as an embedded derivative. And we've also shown, I think, great discipline in managing our crediting rates.

But what I will talk about is maybe the third thing here, which is our history of product innovation and leadership. And this is why we're able to be successful in this business. It isn't just the ability to deploy capital. You have to have a valid customer offer and distribution partner offer in order to be successful in the independent distribution market. Just in the last 18 months, we have had over 20 significant launches of either brand new products, reconstructive products or products specifically designed for large distribution partners. And that's in VA and in index and in fixed annuities. So, in the variable annuity business, in May of last year, we launched our product with the Daily rollup – our Income Plus Daily product, it's an iteration of the product we introduced the year before, which is a high percentage of our new sales in variable annuity.

We introduced some partner-specific funds in September of last year. And then, just in May, just last month, we revamped our entire living benefit features in the variable annuities product. In index annuities, in the second quarter of last year, we introduced the unique multiplier living benefit in our index suite. We enhanced the income benefit in the third quarter of last year. And we also introduced a unique TIMco Index, which has done very well with our marketplace in index annuities. And then, we also, just this last month, introduced our first fee-based index annuity, our most recent product innovation in that suite.

And then, finally, I mentioned fixed annuity with guaranteed living benefits, which is a product that is growing quickly with some of our broker dealer distribution partners, and we are the only I believe company that have a fixed annuities with guarantee living benefits licensed in New York, which was approved late last year. So, the innovation continues. It is one of our hallmarks, and it's what allows us to be successful in that very attractive and profitable Individual Retirement business, which we're prepared to grow, when the conditions are right.

And then, Group Retirement, I don't know if you know how deep our history in the Group Retirement business is. We're the first company that issued a 403(b) plan to a public school and whereas a kindergarten and at K-12 school that was in 1964, and that customer is still a client of ours. And in fact, the very first person that enrolled in that 403(b) plan is still an (00:55:09) of ours. And that speaks to the stickiness of this business and the relationships and the depth of experience that we have in that business. We have a handful of other clients that after we introduced that 403(b) in the first year were issued as new plan sponsors and all of them are still our customers today.

So, this is really a very significant part of the history of the business, the role that VALIC has played. And we do have a differential model, but we have VALIC Financial Advisors, 1,200 financial advisers out there that work both with the plan sponsors and the participants. And we believe it is extremely important for those that work with the financial advisor, their contributions are likely to be around 30% higher and their asset values at retirement higher than people that don't work with an advisor. And that's why our model is to bring together the advisor with these powerful tools, which we've developed in the last couple of years, because we think it's better for the customer and the plan participants. And our value proposition is not for every plan sponsor. And that's why we're not out there competing for the pure asset management place. That's why we're not necessarily in the league table where some of those companies are, and it is why we are very confident in our future in this business, because we continue to find those plan sponsors that have an interest in that value, and we were able to demonstrate the real value of the advisor in this differential model.

And we've also made very significant investments in our digital capabilities that I'll touch on in a second. But look at this box in the upper right side, right. This is where you can see the periodic versus the non-periodic deposits for the Group Retirement business, and those periodic deposits are a stable, very valuable source of deposits for us and one of the real important aspects of the stability of this particular business.

Now, let's turn to the next page where we can talk a little bit about the progress that we've made with our platform. We started talking about the digital transformation about three years ago, if I remember correctly. And at that point, we were at the bottom of the tables when it came down to our website, we had no digital capabilities and, really in many ways, we were suffering from the disinvestments of the previous couple of years.

We've, last year, won 54 best-in-class awards from PLANSPONSOR Magazine, the one that really matters when it comes down to these businesses. Our VALIC Financial Advisors are very much valued by our sponsors, and they won the Service Star Team Award for exemplary service. We're in the top quartile DALBAR ranking through our Digital Platform, which we've rolled out over the last couple of years. And we're now number two in terms of the mobile website and the third for the participant homepage. And we're honored for future fit, which is our kind of advisory based tool for financial wellness. And this is why, in the upper right side, you can see the growth in our new group acquisitions.

We had a record year last year, we're going to have a record year, we hope, going forward relative to group acquisitions levels, because we can now serve the needs of the planned participants and their sponsors in the way that they want to be served. So, there is still some industry plan consolidation, there's no question. People that have multiple vendors are trying to find one vendor. And sometimes, they don't value the service of the adviser as much. And those are the plans that we're not necessarily successful in retaining. Sometimes, there's mergers and acquisitions, and we're on the wrong end of those deals. There's got to be some natural attrition around that. But we are growing our momentum. After being out of originating new group acquisitions for approximately five years, we've rebuilt our capability and we're rebuilding our position in that space. So, we're very confident in terms of our position and our future in that Group Retirement business.

So, now let's talk about Life Insurance. As I mentioned, we have completely transformed our Life Insurance business in the last couple of years. We have introduced two new platforms, one which is the admin platform, and one which is the producer servicing platform, which are modern, digital, cloud-based platforms. And that's what's allowed us to be very responsive to customer needs and improve our speed to market, and results we've talked about before. Turn to the next page, it's really the sales story that I think is the one that is relevant here, which is we have regained certainly the market position that we had. Our term business is kind of reaching about where we think it needs to be, we had great success with our Index Universal Life product, and continue to see growth opportunities there. And our fledgling international operations have actually performed very well, and we're quite confident in the further growth opportunities that those represent.

In fact on the next page, we provide some additional information about our sort of two international pilots, if you will, in the UK and Ireland, companies that we acquired back in late 2014, early 2015. AIG Life UK is quite a unique business. The balance sheet is less than 10 years old. It was a brand new company, so it's a small balance sheet, and it focused on technology as it's sort of value-add, simplified policy wordings, very easy for distributors to work with, very easy for customers to understand. We do 75% straight through processing in our independent financial advisor business in AIG Life in the UK.

And recently, we expanded from the IFA channel, which is the only channel it had when we bought it, and we expanded it to the bank channel by becoming the exclusive provider for the Royal Bank of Scotland, which is the largest protection program (01:01:16) in the UK. And in the RBS program, we're actually doing 80% straight through processing. We have an application time that got down to 8 minutes which we think is quite unique in the industry.

And that's just one example of one partner. We have many new distribution partners that we're developing in the affinity space. And as a result, whilst we were in the ninth position in the market when we acquired AIG Life in the UK, by the most recent industry statistics, we're actually in the fourth place in the protection market. So, we have a great start to that business. We have a great team. We have a solid platform, it's very modern. The business comes at very attractive margins, But it's a small balance sheet like I said. And under U.S. GAAP accounting, because the acquisition costs that we can't differ, the impact of the surplus strain is certainly evident in that business in the UK, as it is in our U.S. life business. And whilst you can see the solid growth there since acquisition, we do believe that there are many upside opportunities for our protection business in the UK.

And in Laya Healthcare, it's just a terrific company, it's an interesting sort of fee-based model, they're an MGA, but they are great health service provider. And Laya stands for looking after you always. And so, again they have a completely digital platform, a lot of lessons that we can learn from that in terms of how they serve their customers. And they do not work with intermediaries. They work directly with large corporations as well as with individuals and have a very high touch service model as a result. So, collectively, between these businesses, there're essentially a marginal contributor to our overall results, but there are great examples of businesses we were able to acquire and integrate and develop and grow and they have strong market positions. And so, we think that that bodes well for our future opportunities.

Now, before leaving the Life business, what I will talk about is the ROE. We have very strong ROEs in all of our businesses in Life and Retirement, except for what we report on the life side. And that is because after the separation of legacy, right, to a certain extent, we have kind of similar characteristics, which is a smaller balance sheet than the size of our new business. And so, because the earnings aren't coming off the balance sheet, the fact that we're not able to defer these acquisition costs from a robust growth position are pressuring that return on equity. And if we were to stop writing new business today, after the 12 months cycle, you would see results emerging from that business in the high-single, low-double digit area that we target for that business. And so, don't be diluted by the fact that the current ROEs are low, it is because we're originating new business at the pace that we will grow into, and it's actually – it's high quality business. We are achieving the low double-digit returns on the new business that we're writing both in the U.S. and the U.K., and those earnings will emerge over time, but because of the great in-force that we have across the portfolio, we're able to provide for that across Life and Retirement.

And our Institutional Markets, I have to say this is a business that is both unique and well-positioned. I talked about our position in stable value wrap and COLI/BOLI. There is a unique opportunity in BOLI right now, because tax reform has triggered an opportunity for re-visitation of the BOLI contracts that are in force. And we've a strong team with deep expertise and experience in this business, and have already begun to see opportunities arise out of the potential restructuring of those BOLI contracts.

And in addition to that, we reentered the GIC market a couple of years ago, and we plan on continuing a modest position relative to GICs and funding agreements. But of course, the most exciting aspect of this business is the pension risk transfer business, which as I mentioned before, we've invested in a lot and we treat like many M&A transactions. We focus on the economic results because the STAT characteristics are a little bit unusual. And also, we understand the accounting implications of the various transactions.

If you turn to the next page, I'll talk a little bit more about pension risk transfer in terms of the investments we've made in the talent and the platform to be prepared. We know that this is a long-term opportunity, right. The transactions, we look at the pricing each time because each transaction is tremendously unique, whether it's got the deferreds versus actives, what the nature of the employee portfolio is, et cetera. And we have the beginning of a portfolio, you can see the mix that we have between deferreds and immediates and we were active last year. We did conduct the two largest closeouts of the pension, which means the final transaction to get at the end of the liabilities off of the balance sheet. So, we're not participating in the jumbo transactions. We certainly look at them, but we don't find them economically feasible, the way those transactions are currently being approached in the market.

But we do focus on larger transactions, because there's a lot of work that goes into these. So, we're not a gigantic player in this, but we're in sort of the middle of the pack, but we are differential in terms of the types of transactions. And as I pointed out, there is $2 trillion worth of liabilities out there. And as Tom said, we can afford to be selective and we do find transactions. There is just not necessarily enough capacity, enough players out there that can support those, what we consider to be, these medium to large size, but not jumbo transactions.

So, look, I hope we've demonstrated that in Life and Retirement, we really - we have completed a very significant transformation. We have a unique in-force in place that allows us the opportunities that we have or generating stable earnings - well, continue to generate stable earnings and cash flows. We'll continue to focus on opportunities for capital efficiency. We're founded on solid risk management and we're prepared to support selective growth opportunities. And maybe more importantly, we have a demonstrated track record of success, whether that's product innovation, whether that's execution, whether that's financial efficiency or capital management.

So, we have a great foundation. We're not going to be engaging in any more of these inflows sort of adjustment transactions, and we are fully focused on the future.

So, with that, I think we're going to move to Q&A. Tom's going to join me up here, and we look forward to our questions.

Q&A

A - Elizabeth A. Werner {BIO 1557593 <GO>}

Right. As a reminder, please wait for a mic before asking your questions. Thank you.

A - Kevin T. Hogan {BIO 4650423 <GO>}

And we're going to try to do one question and one follow-up.

A - Elizabeth A. Werner {BIO 1557593 <GO>}

Yeah. Ideally, a couple of questions and...

A - Kevin T. Hogan {BIO 4650423 <GO>}

Yeah. Give others a chance.

A - Elizabeth A. Werner {BIO 1557593 <GO>}

Yes.

A - Kevin T. Hogan {BIO 4650423 <GO>}

Mic? Okay. I'm sorry.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Hey. Tom Gallagher, Evercore. First question is just on M&A, I think from what Brian has said the real emphasis on life insurance is international only, at least that's mainly what I've heard. So, is that the right expectation that you're not really open to considering domestic life acquisitions? And if there is something International, should it be more of the same like the UK and Irish deal that you did over the last three or four years?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Yeah. Thanks, Tom. So, when we look at M&A opportunities, we look for areas, where we can enhance either the scale of the businesses that we're in or add to those businesses. And from that perspective, whether it's the U.S. market or outside the U.S., I think we take a similar approach. And so, clearly, we have a great franchise in the United States. There are some areas that we have an opportunity to build off of that, but our real focus is outside of the United States, relative to where it is that we're differential and add value in the marketplace. So, because that is leveraging sort of AIG's balance sheet and focusing on income solutions, savings products, et cetera - sorry, I know that this is going to be an awkward room, so - we're looking sort of market by market, looking for the places where there is an advanced legal infrastructure in a vast distribution environments, decent capital markets, where we can actually mobilize the skills capabilities that we've develop in the U.S. into the local markets.

And so, it is - what was interesting about the U.K. and the Ireland platforms were that these were sort of pilots in terms of entering new areas, learning new things. We learned about the digital capabilities from AIG Life in the UK, and the service platform from Laya in Ireland. As we look at M&A opportunities in other markets around the world, we're conscious of the fact that it's very difficult to grow a greenfield life business. And so, finding in-force portfolios, where there is a high-quality portfolios, high-quality management team, very similar to the approach that Brian has consistently described what we're looking for in acquisitions, right. We're looking for things that are accretive, things that are complementary to the businesses that we're in that have good management teams that we can integrate into the business.

Q - Thomas Gallagher {BIO 3311667 <GO>}

Okay. And my follow-up is just on net investment income. The fair value portfolio, I think which is largely RMBS. Just want to be clear on where that's trending? I think the guidance was that was double-digit return a year ago. And I think Sid had said 6% to 8% is the expectation for 2018. 1Q annualized was less than 2%. And then I look at interest rates, I look at credit spreads, seemingly were as tight as they could possibly get in that asset class. So, why would it go back to 6% to 8%? Like it's one – I think it was 1.8% annualized in 1Q. Is there a reason why that's going to recover, because that's a big portfolio and I think a big swing factor around NII?

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. I would say, we continue to be comfortable with what we've stated overall in terms of the impact. There is always going to be ins and outs and other things in there that in terms of the (01:12:34) so to speak are dynamic there. But I think, again, we continue to be comfortable with what we've provided in terms of what we think about there in light of the market environment. And I hope you're right that spreads are at their tightest, because it is from a broader perspective, that is an important part, as I alluded to, it is to our returns is making sure we're going to compensated for the risk that we're taking, particularly on the investment side.

Q - Yaron Kinar {BIO 17146197 <GO>}

Yaron Kinar with Goldman Sachs. Two questions on slide 6. First, if we look at the dividends and tax sharing payments to the parent, I understand that through 2014 you had a lot of releases through the efficiency measures that you took, but I also noticed that there is a shift from dividends to more of a tax sharing payment structure. Can you maybe talk a little bit more about what drove that change from more of a dividend, more tax sharing and how we should think about that going forward?

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah, what I would say, to answer your question, is there's a lot of dynamics there. And so as Kevin in his comments said, there's no way to take that and predict, so to speak, going forward. The tax sharing payments particularly with our tax position from an overall AIG perspective certainly results from us looking at transactions that we can do to basically take advantage, so to speak, of our tax position, as well as economically be more efficient. And so, certainly reinsurance is part of that, which would have drove the tax payment aspect, obviously, now different tax rate that will naturally affect the tax payment perspective.

Again, I think the takeaway and, hopefully, it's clear from my comments is, we want to deploy the capital, but we want to deploy it in places where we're comfortable that the returns are exceeding our hurdle. And if they don't, I'm going to send it back. Now, that's not always immediate, we have a in-force portfolio. I have to balance the constituency and recognize again. We're in a long-term game and work closely with our regulators to make sure our distribution partners are comfortable with our capitalization, et cetera. But absolutely committed that, if I can't use it and deploy it in the way I want to, as we've demonstrated, we're going to send it up the chain, so to speak.

Q - Yaron Kinar {BIO 17146197 <GO>}

Great. And then my follow-up also still on that slide, that 480% RBC ratio, I think, Kevin, you'd mentioned it's still a pre-tax reform. What is the impact of tax reform on it? Does it –

and does it impact the way you're thinking about your capital adequacy?

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. It's an interesting question. Lots of discussion from an industry perspective. I think we would all agree that lower taxes shouldn't necessarily indicate higher risk for the business. So, I think we would all agree, it's not intuitive that, just as a result, potentially changing tax rates on the risk factors that the industry then, all else being equal, would have lower RBC. But we have to obviously work through that, so to speak. But I think our view and I don't think we're going to give specifics, but we're consistent with the industry, it's a manageable aspect to us. The key thing is, I think, working with regulators on the timing of that. But I think, as you also know, there is a lot of other moving pieces as well.

And then also Kevin had reiterating in his comments, all else being equal, as a result of the DSA Re transaction, obviously, I transferred risk off of my balance sheet over to DSA. And that, all else being equal, would indicate that I have capital as a result of that release of risk. So, I think we're very comfortable. There's a number of variables out there, but what I would say is, I'm very comfortable, especially relative to the industry that we can navigate those. And that's part of the reason those unknowns of why I really ascribe to a very thoughtful aspect of thinking about capital over time. And then, again, if I can't use it, I'm going to start to move it out and move it up to the parent company.

A - Kevin T. Hogan {BIO 4650423 <GO>}

Yeah. I think it comes down to the tax reform (01:16:38). And if we're not – we are participant in the industry. So, we'll be within what the industry response is. We're not particularly concerned about the implications or statutory balance sheets or our strategies. Couple of products were impacted more than others. And we've already re-priced those products and our re-pricing is out in the market. And we do think that it's a net positive in the long term. Of course, it does depend on what the competitive response is to the availability of lower tax rate, but we're comfortable where we are.

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. And I think it's a space you have to be thoughtful. And maybe just an example, a very minor one, but for years, DRD, as it relates to variable annuities, is an aspect of the return of that product. I always knew that the IRS wasn't crazy about it. And so, we were very conservative in how we price that in years ago, because I suspected it was going to change, so to speak. Now, obviously, we have offsets to it, but I'd rather come out from that position than a position of, oh, wow, they changed that on us now. We won't get it all right, but that is I think a particular case where we took a position, because we thought it was a potential risk. And I wasn't comfortable from a broad-based pricing perspective with pricing that benefit in, knowing that potentially for a product that can be out there for 30 years, might be gone. And so, net-net impact there for us, specifically just on DRD, was not anything to write home about, so.

Q - Elizabeth A. Werner {BIO 1557593 <GO>}

I think you had a pretty clear message that you're sort of balancing sort of writing new business with returning capital. Can you help us to sort of calibrate that a little bit in terms of how much capital did you deploy in new business in recent years and if you do see better growth opportunities and chance to really sort of accelerate the sales and flows, what would that mean in terms of a tradeoff in terms of your dividend capacity as a holding company?

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. Thanks for the question, Erik (01:18:52). Good question. Hopefully, it's clear from my discussion of the market is I wish I had an exact answer. And I'll just go back to really I think what is our commitment as a leadership team, which is, and to Kevin's point, no one is putting any restrictions on us. If we can find and we're all comfortable where we can deploy the capital and produce returns on it, that's where we want to first and foremost, that's consistent with Brian's overall comments.

But at the same – and that can change very quickly, obviously, we get a move up in rates, as Kevin alluded to, maybe a little bit more volatility in the equity market, a couple of tweaks here and there, and fixed annuities, all of a sudden will come, so to speak, back into the fold and we're ready willing and able to deploy capital there. But at the same time, if not, then we will continue to be capital efficient. And that was part of our point of trying to demonstrate over the years how we've approached it, because those years have also had some dynamic aspects to it. And so, yes, free cash flow is important and it'll never be at extremes, but if we get the opportunity to deploy the capital and we're comfortable with the returns, that's first and foremost we're going to put it into the business.

Q - Elizabeth A. Werner {BIO 1557593 <GO>}

Got it. And if you think about it in terms of a ranges, some companies will give guidance as to a percentage of your operating earnings that you would think of as free cash flow, with that range obviously reflecting the amount of new business you're writing. Is there a way to think about that for your business?

A - Thomas John Diemer {BIO 18035886 <GO>}

I wouldn't add anything to my comments of explaining kind of my philosophy which I think is consistent with how we've approached it so to speak and demonstrated results.

Q - Amit Kumar {BIO 15025799 <GO>}

Two questions. Amit Kumar, Buckingham. Going back to the discussion on consolidation, Brian Duperreault, he gave an interview in FT, when you referenced the Validus acquisition and he said if they can find something of that size, I'll do that in a heartbeat. Is that how we should think about like a $5 billion to $6 billion target or was that a more of a broader comment in terms of the target?

A - Kevin T. Hogan {BIO 4650423 <GO>}

So I don't think he's – I don't actually have the fingerprint, I don't think he referred to size of all. I think he said an acquisition like Validus. And I think Validus is a great example of a transaction that has many of the characteristics that Brian has consistently talked about, right. It's accretive. It's in complementary businesses, many of which don't overlap with General Insurance, otherwise does has a very highly respected management team and it makes AIG a better company for the short- and the long-term. I think those are the characteristics.

And Brian has also been consistent in talking about the areas where he would like to expand AIG's franchise, include the SME business, right, include personal lines and include the Life and Retirement business including outside the United States. So that I think is the way that we interpret that statement.

Q - Amit Kumar {BIO 15025799 <GO>}

But the second question I have is, in your opening remarks, you talked about the different market opportunity, the acquisitions, et cetera, I got the sense that you were maybe trying to temper the timing a bit versus when you listen to Brian, there is a sense of urgency, and I think that's one question we get it something imminent, can you just talk about that or did I misunderstand your comment?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Well. What I was trying to – I think you did misunderstand my comment. I mean our growth opportunities are not limited to M&A. Our growth opportunities include the businesses that we're in today. And should there be a continuing change in the environment, so if credit spreads improve a little bit, if rates improve a little bit, right, it could be a very different day for our annuities business than it was last year, and that's an immediate growth opportunity. If the characteristics of the pension risk transfer deal that we're in a good position to serve our economic and other hurdles, then that's another great growth opportunity.

Certainly, M&A generally takes longer than other transactions, but sometimes PRT deals were strenuous than an M&A deal. So, those – so it's a broad panoply that we're looking at and I think that's the great thing about the position that we're in. We can grow by investing in the businesses. We can grow by going into adjacent businesses. We can go grow by going into new markets.

Q - Jay A. Cohen {BIO 1498813 <GO>}

So, Jay Cohen, BoA Merrill. A couple of regulatory issues I guess. First, if you could comment on the latest information out of the NAIC related to the VA capital framework? And then secondarily, given changes in the fiduciary rules, do you see your sales on the annuity side picking up simply because of that?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Do you want to cover the second one first.

A - Elizabeth A. Werner {BIO 1557593 <GO>}

I'll cover the second one first and then maybe comment a little on first one. But, yeah, so the deal I think is, the Fifth Circuit has still not (01:24:14) the rule. So, they have a ruling out there that everybody is expecting action on. And you can imagine if you're a distribution firm out there, you're still held responsible to working in the best interest of your customer, even though you don't necessarily have a contract with the customer that says that. And so, it's a very confusing time for the distribution community. And a number of distribution partners have modified their practices, a number have just stayed with what they had in preparation for the DOL pending, what may come next.

And so it is – I think that there's still an over – as I talked about at the call, there's still an overhang and a little bit of uncertainty in the distribution environments that needs to be clarified, but I think on top of that, that you have various states that are weighing in with their own versions of standards, and then you also have the NAIC discussion and the SEC, which is weighing in. And I think, what is – what I am optimistic about is just that the direction that the SEC and the NAIC are going to the extent that they could have aspects which are similar, make it much easier for customers to understand these products and for the distribution partners to be able to work with them, but I don't think there is going to be a dramatic impact on sales in the short term. There's still just a lot of uncertainty out there, that's one of the reasons that I think, the ACLI just wrote to the Fifth Circuit, asking them to please do something because there's a huge amount of uncertainty out there.

A - Thomas John Diemer {BIO 18035886 <GO>}

So on the second part or first part of your question Jay, I would say, I believe that both policyholders and shareholders should be aligned in applauding efforts to and we are as well applauding efforts to standardize and make a more robust framework around a complex area such as variable annuities. So this has been out there a long time, and in many cases, over the years people have done different structuring things around what are called rules that were built for different products, so to speak.

So we're very supportive of it and then had been actively involved in providing input into the process. And while there was obviously some more public discussions

the other day, there's certainly still, as in any area, it's very complex and the devil is in the details, and so still some things to be clarified. But everything that we see, we don't have any particular outsized concern. And I think overall we should all be supportive of, again, a more economic and robust framework around complex risk.

There certainly are going to be some nuances and perhaps if I'm a variable annuity player, which I'm not that rode things many years ago and maybe still have a captive and all that, maybe I could be more worried. But again, I think from an industry perspective, it's important because these are important promises that we've made to our policyholders and it's important that the industry is reserved and capitalized on a more economic framework. It's always hard to say consistent, because there's nuances to the product, there's lot of focus on policyholder behavior, but certainly policyholder behavior for VA is written with an 8% rollup back in 2001, it's going to be different than policyholder behavior of a VA written in the last couple of years with a rollup of say 4%, 5%. That doesn't mean you ignore what's going on, because there's a lot to learn from that data, but it's much different than mortality, where it's pretty easy to adjust and you can really leverage the industry results.

We think the framework will allow for that recognition and nuance, but again, continue to be very supportive around these efforts. It always takes time – more time than when you start out and it always is more complex when you get into the details. But we're certainly comfortable with the direction that it's going and we're active in the discussions.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Hi. Andrew Kligerman, Credit Suisse. Looking at slide 8, you've got a lot of inflows and outflows of a variety of different products. Can you talk to the return on equity that you're seeing coming in, and is it consistent across all the products? I think I heard you mention high-single low-double digit?

A - Kevin T. Hogan {BIO 4650423 <GO>}

So the high single low double-digits that I referred to was really relative to the Life portfolio. We target, first of all, above the 10% rate as our hurdle. So we're looking for the low- to mid-double digits. It's a little bit different product-by-product, but you can on a portfolio basis kind of think in that direction.

The ROE associated with the inflows and outflows, it depends on which part of the outflows it is, right. Some of them are debt benefits, right, some of them are surrenders, some of them are conversions. And so, in the fixed annuity and the Group Retirement business, part of those outflows are high guaranteed minimum interest rate products, right. They're more capital-intensive than the products that we're issuing today at much lower guaranteed minimum interest rates. That was the nature of the business back years ago, so they chew up a lot of capital. So those types of outflows will have a different impact than outflows of products that are similar to the products that we're selling today.

So I think, it's something – I know it's kind of a pain, because our portfolio is complex. It's different in fixed annuity than in variable and index. Group Retirement hasn't been subject to the same kind of market impacts that the fixed annuity business is. And so, Group Retirement is maybe a little bit more comparable. It does have some of those old higher interest rate associated outflows. Those are really the main areas of impact.

Q - Andrew Kligerman {BIO 1551668 <GO>}

And I have a follow-up, but just real quickly on,

you mentioned BOLI and GIC, are they meeting that low double digit hurdle right now?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Oh, yeah.

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah.

A - Kevin T. Hogan {BIO 4650423 <GO>}

Yes.

Q - Andrew Kligerman {BIO 1551668 <GO>}

Great. Earlier you talked about career agency and shutting that down. They were 1,500 agents that went in, because I remember a time way back when you had over 20,000 agents, what happened to the economics of that business? I mean, isn't it attractive to have your own captive distribution versus these intermediaries that are servicing all of your competitors as well?

A - Kevin T. Hogan {BIO 4650423 <GO>}

So, I have a lot of experience with agency. In a prior part of my career, I ran AIA China and Nan Shan respectively had a 29,000 and 20,000 agents. The agency mechanism can be an appropriate mechanism with the right products in the right market. And the decision that I guess we made gradually here in the U.S. is that the traditional type of the agents with a different expectation as to financial acumen and the responsibilities associated with the regulatory environment, it's a very different challenge than maybe what it used to be.

So we undertook an intensive effort since we acquired AGLA right, back in 2001 to try to upgrade and to transform that agency into one that we felt was appropriate for today's products and environment. And in that effort, I think we really gave it a go, but it was the final recognition that we were not going to be able to, on a cost effective basis, maintain the training and the compliance and all of those necessities around that agency as compared to the choices that we had with other distribution channels.

The other thing I would say about a captive agency is, you have to give them product to sell. And so by choosing to work with independent distribution, yes, we have to win the business all the time, but we'll never be forced to sell the business, if we don't think it's the right time to sell it. So it is a trade-off. I mean, I think there are some great agency companies out there and there's some great agents out there, but for our business model at our time, the way that we believe we can focus on our product expertise and the breadth of our products, we didn't feel that career distribution was the best one for us. We have 200 people that are essentially a direct sales force, that we think is appropriate for our particular niche in that area. But it's an expensive way to do fiduciary business.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Elyse Greenspan, Wells Fargo. So I have couple of questions. My first question is, you think about putting capital the use and the opportunities, what would cause you to become more aggressive in the pension risk transfer market? Can you just talk about the opportunities and on some of the recent deals that you've done there?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Nothing would cause us to be more aggressive, because we look at every single transaction, we see most of them and we go through a really rigorous disciplined process of trying to find a way to win the business. And we have an extremely close partnership between investments and finance, and the institutional markets team. I may not have mentioned, I mean we've been building this team for the last four, five years. We have a very good team in place in addition to the administrative platform that we built a lot of experience. And we simply have not found a way to understand the same way that those people that are writing those transactions are able to write them. We take a relatively conservative position, where it comes down to the correlation between longevity and mortality. There's a lot of basis risk there.

We're certainly very careful in terms of the asset profiles, particularly when there's payment in kind. And we have a good sense for what it is that's going to differentiate us and our capabilities on these transactions. We've been successful in the $500 million to $800 million range of cases, where there's a certain percentage of active or deferred participants, which present a slightly higher service hurdle, but we have the mechanism to be able to deal with that service hurdle. And there are so many deals out there that we'll have the opportunity I think to be able to meet our expectations in terms of new business on our terms. And if we can write get more business, we would, we certainly could put more capital to it. But the restraint is, is the competitive considerations in the market.

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah, I think you have to be conscious of once you get on the treadmill so to speak and you have an in-force, obviously, those people are aging and moving on, so to speak. You almost embed kind of an aspect of, I got to keep growing so to speak, and we really want to take a much more opportunistic approach and we believe we can do that because of the dynamics of the market from a supply/demand perspective over the long term. In any one year maybe different et cetera, but we like that approach and we try to be very thoughtful around it.

Q - Elyse B. Greenspan {BIO 17263315 <GO>}

Great. And my second question on – sorry to bring it back, maybe the M&A side a little bit. But if you're thinking, where would you say that you guys are subscale? When we think of the broader M&A picture, I know Brian mentioned international, but what specifically would you find attractive and additive to AIG's Life business?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Well, we're not sub-scaling very many areas. We do not have an employee benefits business. As I mentioned, we actually made the decision to wind down the employee benefits business that we did a couple of years ago. And we pretty much, we have scale in almost all the businesses that we're in, in the United States.

As I think about outside of the United States, right, markets which are large, which have the characteristics that we're looking for, maybe 12 or 14 of those markets. And we are going through a disciplined process of evaluating each of those markets according to their characteristics who potential partner – what are different ways you can enter a market through a partnership, you can enter a market by acquiring in an entity that's there or you can enter in other ways, reinsurance et cetera.

And so, we're going through a disciplined process of evaluating those places where we think we can add value and where our expertise is something that we'll be able to make a difference. And then market entry options, they're not always necessarily immediately available. So that's how I think about it.

After we sold (01:37:38) and AIA, right, our entire presence is very large business in the U.S. and those two small nimble franchises in the UK and Ireland. So there's a lot of whitespace out there for us to participate in.

Now Japan, we had a business there, Fuji Life, I think we made the right decision to divest of that business with the long rates being negative or as low as they are in a small balance sheet is going to be very difficult to actually make your way in that particular marketplace. So it really is very dependent on the unique characteristics of the given market and also what are the ways by which we can enter and then what are the economics of a given transaction associated with that entry, and then what other options do we have at that time as Life and Retirement and what other options do we have at that time as AIG? So, we very much look at the big picture.

Q - John Nadel {BIO 6998784 <GO>}

Over here, hi. John Nadel from UBS. I've got one question on page 7. The new business capital, the footnote is talking about it's your own internal capital model, it benefits from some of the diversification of the businesses. You didn't quantify how much under your own capital model you deployed in 2017 or frankly any of those years. I'm wondering if you'd be willing to quantify even if it's just in total for Life and Retirement.

But secondly, how would that compare to the statutory capital deployed? And how should we think about how dialing up growth might impact statutory capital, because I think that will go to Erik's (01:39:20) question about how do we think about the dividend capacity from the life companies up to the holding company, it's really going to be statuary driven. No?

A - Kevin T. Hogan {BIO 4650423 <GO>}

That's right. That is true. And each product has a very different signature when it comes down to the relationship between the internal capital and the statutory capital, because of the – or should I say the uniqueness of our statutory regimes. But I don't know, Tom, do you want to...

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. So, I don't believe we disclosed the individual, particularly if it may be a nugget that may find in stifle, I would point to PRT where when we look at that on an economic lens, the capital was more than you would otherwise see from a statutory perspective. There are products that go the other way, but probably there's a bias towards our economic view probably has higher levels of capital, again as ins and outs, so to speak. So, that's why it's also hard because there's some where you're going to have more statutory capital requirements than what your economic view is and some where your economic view is going to be higher.

But as I said, PRT and that may be part of the reason, we look more selective is because we do a greater emphasis on what we believe is our economic evaluation of the risks there. I do believe that's an area and I've talked to regulators about this, particularly on the longevity risk that the statutory aspect maybe not picking up as robustly as maybe an economic lens, so to speak. So, maybe that is a little helpful in terms of nugget of information or detail.

Q - John Nadel {BIO 6998784 <GO>}

Yeah. Can I...

A - Kevin T. Hogan {BIO 4650423 <GO>}

I'm sorry, I just want to jump in. I mean, I think we have a very large in-force, right? So, we're confident in what our cash flow sort of profile is going to be. And whatever it is that we do, I mean as and when we see opportunities, there's going to be multiple implications, maybe redeploy more capital because rates improve, but that also then means that other things are going to improve, right? Our investment returns are going to improve. It may be more attractive to customers to retain products that otherwise they might have surrendered.

We may surrender products that are not very attractive and therefore – so, it's really difficult to generalize around it, but I think what's important to keep in mind is the size and diversification of the balance sheets that we have that are throwing off those cash flows and that whatever changes that we make in our new business profile. We're not writing as much new business now as we could. We're still writing a lot of new business. It's not like we're deploying zero and I think we just have to try to collect it into a framework like that.

Q - John Nadel {BIO 6998784 <GO>}

Okay. And just if I could follow up real quick on your PRT comments on economic capital versus debt. The PRT is in the Institutional Markets sales, correct?

A - Thomas John Diemer {BIO 18035886 <GO>}

Correct.

Q - John Nadel {BIO 6998784 <GO>}

I mean if I'm looking at this chart the right way, in 2017 your sales grew substantially year-over-year, but the capital deployed looks like it barely moved and it looks like it's an incredibly small percentage of sales. So, that feels like it's at odds with the comment that you made about the economic capital being higher?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Or maybe just statutory capital is really low for longevity transactions.

A - Thomas John Diemer {BIO 18035886 <GO>}

No, each bar is discrete, it's not accumulative in terms of capital

Q - John Nadel {BIO 6998784 <GO>}

Yeah. No, I get that.

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. Again, I'm happy to share that you should, I think, view capital and I think others have talked about this from an economic basis on PRT probably ranges from 5% to 10%, so to speak, of the "premiums". Now again, there'll be different things and remember, there's also stable that – well, not in that number, so to speak, because we haven't disclosed. But there's other aspects where the capital may be less, so to speak. But if that helps in terms of giving you color, that's economically when I talk to the team when we go through some of these deals, again each one is different, has different risk. So, it's never a pure rule of thumb, but I think that's the way to think about it.

Q - John Nadel {BIO 6998784 <GO>}

Okay. And I had one other question just on the variable annuity block. I know your block is much younger than most of the blocks industry-wide, but can you talk to CTE95, CTE97, CTE98, what's your target? Where are you currently? How does that coordinate with what you feel like is coming out of the NEIC, Oliver Wyman path here?

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah, John. So, happy and I'll just kind of reiterate some of the comments, but maybe particularly on CTE which I don't want to bash a framework, but I would also caution that like other things it's assumption driven, if you will, and so I can appreciate you all want to hear like everyone's at this level, so to speak. It is driven by assumptions and, in fact, how you think about the in-force, so to speak. So, what I would say is we are actively involved, nothing that we're seeing is concerning to us. We've been very thoughtful in this area. We do have on the statutory side a permitted practice in this space for what we view as a transitory measure to the new rules and we've worked with our regulators on that.

I think as you know, the current statutory framework really undercapitalizes for interest rate risk which is the main risk there, it's much more sensitive to equity risk. And as you know, many companies, including us, are actively hedging that interest rate risk. And so, without our permitted practice and again it changes depending on rates, so to speak, but if you're actively hedging interest rate risk and interest rates come down, you're getting a big benefit in your surplus. Well, that is offset by what's going on the liability side, but under statutory framework, it's not immediately recognized.

We all know in the end there'll be one answer and so statutory will get to it, but current framework is much more slow-moving. And so, we think about the economic and we believe our permitted practice both positive and negatively helps us get to what we would view as a more economic answer. So, when rates are really low, we're removing a benefit that statutory would give a surplus and if rates are moving up, we're obviously going the other way, so to speak. But again, we've talked with our regulators about we view that as a transition measure which puts us in good position. Always, as we get into the complexities and calculations, there'll be impacts, but again one that we believe and are comfortable is much more manageable.

Q - John Nadel {BIO 6998784 <GO>}

So, I guess, can I just ask the question in this way. Based on what you know from the way things are going with the Oliver Wyman project, I mean should we expect you to have to hold more capital against this block or not? I mean, is there an outcome here that could require some kind of shift that would be a negative announcement for all of us to hear?

A - Thomas John Diemer {BIO 18035886 <GO>}

I can't speak from an industry perspective at everyone's block, but based on what we know today, I don't expect any significant impact and certainly don't expect an outsized one from a industry perspective. But lots more details to get through and clarifications quite honestly, that announcement the other day while it seemed like it was closed, still the devil's in the details around that, but again everything I know today is not causing me concern.

Q - John Nadel {BIO 6998784 <GO>}

Okay. Thank you.

Q - Meyer Shields {BIO 4281064 <GO>}

Meyer Shields, KBW. (01:46:30-01:46:46)

A - Thomas John Diemer {BIO 18035886 <GO>}

Well, as I mentioned, Meyer, we believe we've achieved what we set out to a couple of years ago in terms of having a competitive and a sustainable expense level for the businesses that we're in. We would obviously always like to get better, but with our investments we have to make in the business and that we are making the digital platforms, some of the capabilities in pension risk transfer, that life transformation, et cetera, certainly as there are initiatives across AIG, clearly there's a clear guide – there are clear targets set for general insurance, what they're going to achieve and then other actions across AIG, there will be opportunities that we have to participate in efficiencies, but we are pretty comfortable with respect to the profile that we have for the Life and Retirement businesses. Over here.

Q - Kai Pan {BIO 18669701 <GO>}

Thank you. Kai Pan with Morgan Stanley. My first question on net investment income on page 9, you mentioned that new money yield is 75 basis points lower than the portfolio yield. I just wonder what percentage of your fixed income portfolio turnover each year and when will we see that the new money yield reach parity with the portfolio yield. Just wanted to get a figure out to say (01:48:07) because this year you said net investment for the overall company coming down, from $1.4 billion down to $1.3 billion. I just wonder these are going to be further pressure into 2019 and 2020.

A - Kevin T. Hogan {BIO 4650423 <GO>}

Yeah. I don't believe, Kai, we've provided the details of the turnover and I would stand by our comments around – what we've made around spread, which is really I think – what's most important and obviously NII is an input into that outcome in terms of the impacts from a spread perspective. Again, large in-force, lots of moving pieces, but as part of that is also a stability that I don't think you would see broadly as you think about peers as well.

Q - Kai Pan {BIO 18669701 <GO>}

So, the 2 basis point decline per quarter will persist for future? Is that a fair characterization?

A - Kevin T. Hogan {BIO 4650423 <GO>}

As the conditions as existed at the first quarter reporting time, yes.

Q - Kai Pan {BIO 18669701 <GO>}

Yeah. Okay, great. My second question is on overall – stepping back, you have emphasized on stable earnings for the overall life business. I just want, in your mind what could be the biggest risk to the downside?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Well, actually among the things that we have to monitor carefully is policyholder behavior. I mean clearly depending upon what happens in the external environment and how policyholders respond to that, but I don't see it as a big threat, because these are very sticky long duration liabilities. And generally the insurance industry is not subject to the same kind of reactions that we've seen historically from banks or whatnot. So, we've hedged all hedgeable risks in the variable annuities portfolio. We manage carefully the economic and market risks associated with our products. Execution risk is probably our biggest risk and that's up to us. But in terms of the in-force and the portfolios that are there, I think unexpected policyholder behavior probably has been as well (01:50:12).

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. And I think you can take our comments around deployment of capital and pricing as an indication, we probably believe and I don't think I'd get too many arguments that we're probably closer to the end of the credit cycle than we are to the beginning. Obviously, that can go extra innings, but especially with where spreads are, I think that's at least indicative to me that it's in the later stages as opposed to the early stages. So, I think that's always something we have to be conscious of.

A - Kevin T. Hogan {BIO 4650423 <GO>}

One up here.

Q - Alex Scott {BIO 20003952 <GO>}

It's Alex Scott, Goldman Sachs. There has been some conversation about dynamics in the pension risk transfer market, it maybe motivate transactions sooner rather than later associated with tax rates on funding liability gaps and also Pension Benefit Guaranty Corp. premiums going up. And so I think, there's been some expectation that maybe we'll see an accelerated pipeline here for the next few months. Is that something that you're seeing? I mean, is there an expectation and is that part of sort of the communication around this business that we might see a pickup here?

A - Kevin T. Hogan {BIO 4650423 <GO>}

Well, I think that there are some unique characteristics this year that certainly have timings associated with them, you name them, I mentioned them earlier. There's a very strong pipeline of transactions. And historically, I think it takes companies a while to prepare these things, so the second half is generally a period of a lot of activity and there's discussions of a lot of activity out there. So, we do see a very strong pipeline right now.

Q - Alex Scott {BIO 20003952 <GO>}

And then maybe just one follow-up...

A - Kevin T. Hogan {BIO 4650423 <GO>}

I also think that pipeline will continue though because whether you get in under the past deadline or not, PGC (01:52:05) premiums are going up and companies are going to continue to manage their risk relative to pension risks.

Q - Alex Scott {BIO 20003952 <GO>}

Okay, thanks. And then maybe just on the stat capital and that conversation and maybe the capital requirements are relatively low compared to your internal model. What's the expectation with the longevity risk charge that could come for RBC, are you kind of pricing that in already? So, should I think about that aiding your stat income for a while until something is done there? How should I think about sort of that dynamic and what you're assuming in terms of the capital you have to hold there?

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. I think you can expect – I think there'll be – been more conversation around it. I don't think anything is imminent on the stat side and I think it's fair to read that part of our difference between our economic view and the statutory view is around longevity. There's obviously other risks in there as well that contribute to it. So, I would just say – I would repeat what you did, which is I think that's a fair observation of the facts of how you think about it. I think also diversification in how people price and Kevin alluded to this longevity versus mortality risk.

I agree and have signed up that there is a diversification aspect. I think we could have some reasonable debates about how much credit you give yourselves for it because they are different populations. And so, I think that's also contributes to it – I think that contributes to some of the differences you may see out there in the marketplace on how people approach this. And so I think our commitment is, we're going to be very thoughtful here and we're also obviously – by being thoughtful and prudent, I think it also gives us an opportunity to see how things play out.

This is like many of insurance products is a generational product. And we take very seriously that the decisions we will make today will probably be ultimately owned by someone quite a bit of time from now. But that doesn't relieve me and the management team of the responsibility to make sure we're being thoughtful and prudent around it. And again, I think the market dynamics allow us to do that as well because it allow us to be selective. In the back then.

Q - Michelle Ann Giordano-Valentine

Thank you. Michelle Giordano with Neuberger Berman. When we think about excess capital in a subsidiary, there is excess capital that can be used to dividend up to the parent company for dividends and share buybacks. And then there is excess capital that essentially would have to be left in a subsidiary, where a rating agency might be happy if you deploy that excess capital to growth or an acquisition or a block of business transaction. How much excess capital do you think you need to leave in the Life Insurance subsidiary that the rating agencies would allow you to use for an acquisition or a block transaction such as a pension risk transfer?

A - Thomas John Diemer {BIO 18035886 <GO>}

Yeah. I mean it's a good question. I think it's hard to quantify because there are so many dynamics of what a particular acquisition may look like. But again, I'd go back to our philosophical approaches. If I did something that generated excess capital tomorrow, I'd generally if I first look to deploy, but I was not going to be able to deploy it all on one day, I'm not looking to dividend it out that day, because risks change and things like that, and so I think it's important and prudent from a constituency perspective with regulators and rating agencies to demonstrate discipline there. And I think that gives you that much more credibility that if you don't have the opportunity either through M&A or through growth opportunities, so to speak, to then we're part of a broader organization and have a responsibility, so to speak, to then pass that money up, so to speak.

I would say our discussions with rating agencies and regulators, the great thing is they're very consistent with this discussion we're having now and then I think we try to demonstrate to them that we do it thoughtfully. We're in the business of making money in our return hurdle and we want to grow, but we're not going to just grow for the sake of growth, if you will, and we're going to be prudent around it. But the money is going to move up if we can't find a way to deploy it, so to speak, and we think within our construct, we're factoring in the expectations of those constituents, including our policyholders and our distribution partners that are also very sensitive, some more than I'd like, the particular RBC levels and things like that.

A - Kevin T. Hogan {BIO 4650423 <GO>}

Already.

A - Thomas John Diemer {BIO 18035886 <GO>}

So, I think that's it. Yeah. Go ahead. Go ahead.

A - Elizabeth A. Werner {BIO 1557593 <GO>}

Yeah. Thanks. Thank you everyone for coming down and certainly if you have any follow-up questions, just send them our way. Thank you.

A - Kevin T. Hogan {BIO 4650423 <GO>}

Okay. Thanks, everybody.

A - Thomas John Diemer {BIO 18035886 <GO>}

Thank you.