Athene Holding Ltd.
Q2 2019 Earnings Call
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Operator: Good morning. My name is Maria and I will be your conference operator today. At this time, I would like to welcome everyone to Athene's Second Quarter 2019 Earnings Conference Call and Webcast. All participant lines have been placed in a listen-only mode to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question at that time please press star then the number one on your telephone keypad. If you need operator assistance please press star zero. Thank you.

I will now turn the call over to Noah Gunn, Head of Investor Relations. Please go ahead.

Noah Gunn, Head of Investor Relations: Thanks, Maria, and welcome everyone to our second quarter 2019 earnings call. Joining me this morning are Jim Belardi, Chairman and CEO; Bill Wheeler, President; and Marty Klein, our Chief Financial Officer.

As a reminder, this call may include forward-looking statements and projections, which do not guarantee future events or performance. We do not revise or update such statements to reflect new information, subsequent events or changes in strategy. Please refer to our most recent quarterly and annual reports and other SEC filings for a discussion of the factors that could cause actual results to differ materially from those expressed or implied. We'll be discussing certain non-GAAP measures on this call, which we believe are relevant in assessing the financial performance of the business. Reconciliations of these non-GAAP measures can be found in our earnings presentation and financial supplement, which are available at ir.athene.com.

With that, I'll now turn it over to Jim Belardi.

Jim Belardi, Chairman, CEO, and Chief Investment Officer: Thanks, Noah. Good morning, everyone. Before we discuss the quarterly results, I wanted to highlight an important milestone for Athene. In mid-July, Athene celebrated its 10-year anniversary as a company. At the time of our initial funding 10 years ago, we had a grand total of seven employees, four in Bermuda and three in Los Angeles. Today, we are a public company with nearly 1,400 employees across five offices and more than a $115 billion of invested assets.

Since Athene completed its first reinsurance deal of fixed annuities during the summer of 2009, we've generated a compound annual growth rate in our invested assets and adjusted book value per share of more than 75% and 17%, respectively. To achieve this exemplary result, we repeatedly pounced on market opportunities and extended our capabilities, in each case demonstrating consistency with our founding principles – providing attractive retirement savings products that protect the interests of our policyholders, employing a differentiated asset management model in partnership with Apollo to drive consistent outperformance, and sustaining a rigorous approach to risk management.

In the insurance industry, where the number of years the company has operated is often misinterpreted as a sign of stability, we proudly own our different identity as an entrepreneurial, high-performing business with no legacy issues. From scaling the retail distribution channel, to commencing the issuance of funding agreements, to entering the niche pension risk transfer market to executing complex M&A and block reinsurance transactions, we have demonstrated our expertise and innovation time and again. Because we are willing and able to think differently and challenge the status quo, we are very well-positioned as a solutions provider to an industry in need.

As I reflect on the success we've experienced to-date, I would like to thank all of my Athene colleagues for their great effort in building our superior business, and I would also like to thank our shareholders who have trusted us to continue generating superior results. Looking ahead, we know there's plenty more to accomplish, and we are incredibly excited about our prospects.

Now, turning to our results. In the second quarter, we executed on many of the things I just discussed. We continued our long-term track record of producing consistently growing earnings and adjusted book value per share. We also deployed capital in a number of accretive opportunities. On the back of strong investment returns, we produced a near-record $370 million of adjusted operating income in the second quarter, approximately 30% higher than the prior year quarter, reflecting our stronger earning power from our significant growth in the back half of 2018. Next, we grew total invested assets with $4 billion of organic growth across our multichannel distribution model, all of which continues to be underwritten to mid-teens returns. And finally, we continued to compound book value at our long-term high teens level. This quarter, we found that the highest and best use of our capital deployment was repurchasing our own shares, as we deployed more than $375 million of capital repurchasing our stock at very accretive levels. All these achievements reflect our ability to invest well, remain disciplined and pivot toward opportunity.

Picking up on the discussion from our Q1 call, at Athene, we believe the primary driver of long-term shareholder value is effective capital allocation. We are often fortunate to be provided with an abundance of opportunities to deploy capital at attractive returns. We sum up today's opportunity set in four primary categories – organic growth, acquisitions, share buybacks, and strengthening our balance sheet to drive ratings upgrades. In addition, retaining capital to deploy opportunistically in times of volatility is also paramount to our long-term ability to create shareholder value. Therefore, we are consistently balancing the natural tension between increasing our capital base to fund tomorrow's opportunities while also generating attractive returns today. We believe it's possible to achieve these goals concurrently, and we've demonstrated some of the actionable ways we're making progress in the second quarter.

First, as you recall, in the prior quarter, we announced the formation of a strategic and shareholder friendly capital solution, called ACRA, which is shorthand for Athene Co-Invest Reinsurance Affiliate. ACRA provides Athene with an on-demand, long-term capital vehicle, which will allow us to fund inorganic growth, increase our flexibility around various accretive forms of capital deployment including share repurchases, and augment our balance sheet strength without diluting the earnings power of Athene. Fundraising is going well and our current expectation is that ACRA will receive its initial funding at the beginning of the fourth quarter, which will be reflected in our financials starting October 1st. We remain confident that the combination of Athene's strong balance sheet and the additional capacity from ACRA will significantly widen the spectrum of potential capital deployment opportunities.

Next, in early June, we completed our first preferred share offering, raising gross proceeds of $863 million. This was a classic example of our ability to take advantage of favorable market conditions to accomplish multiple objectives: We were able to diversify our capital structure with perpetual preferred equity; We received full equity credit from S&P and Fitch, so our excess equity capital and debt capacity were increased; And we were able to raise the capital at an attractive cost of 6.35%. Importantly, we immediately utilized a portion of the proceeds to repurchase enough of our own shares to offset the go-forward EPS impact of the preferred dividends. We expect to use the remaining proceeds of the offering to fund some of the expected growth activity we foresee with ACRA, as well as be available for additional share repurchases.

In today's environment, it's clear the market is improperly discounting our growing earnings power, so, our stock remains one of the most attractive returns we see each day, offering high-teens or higher returns with virtually no execution risk. Share repurchases accelerated to approximately $375 million in the second quarter, resulting in the repurchase of nearly 9 million shares or 5% of our shares outstanding at an average price of less than 90% of adjusted book value.

Today, we announced that the Board has authorized an incremental $350 million of share repurchase capacity. Since we commenced our repurchase program in December, our Board has authorized aggregate repurchase capacity of almost $1 billion in just the past eight months. We now have $425 million of outstanding capacity that we intend to utilize and we will repurchase even more if markets continue to significantly discount the tremendous value we're creating. Given the attractive levels at which we are executing, we believe this method of capital deployment is very accretive for shareholders.

Before I turn the call over to Bill, I'd like to elaborate on the strong returns we generated in the second quarter and highlight some recent investing trends.

The headline earned rate in the second quarter was strong, primarily due to a significant rebound in alternative returns, which benefited from the impact of strong markets and spread tightening in the first quarter. As a reminder, a little more than half of our alts portfolio is marked on a lagged basis. Within our retirement services segment, our alternatives portfolio generated a robust 14.5% return in the second quarter, reflecting broad-based strength. In terms of specific highlights, Midcap and Amerihome, our two largest alts, returned 15.6% and 13.7%, respectively. Strength in both investments was driven by increasing fee income from heavier loan origination volume, in part due to declining interest rates.

Elsewhere in the alts portfolio, our investments in Venerable, the private variable annuity company established as part of the Voya transaction, and Catalina, a runoff P&C reinsurer, also contributed to the strong results in the quarter. Our alternatives strategy remains differentiated in its makeup, and we believe this has helped us consistently generate double-digit alt returns historically. While quarterly returns can vary, we emphasize downside protection and non-binary outcomes to achieve our investment objectives over the long term.

In the fixed income portfolio, we experienced mixed trends as our earned rate declined slightly quarter-over-quarter; redeployment optimization, higher bond prepay income and lower cash drag was offset by lower floating rate income and the late-quarter timing of approximately $1 billion of institutional deposits. Marty will provide an indication around earned rates of the near-to-medium term.

In terms of investing trends, due to strong organic growth and the ongoing redeployment optimization in the portfolio, we invested $8.4 billion of flows during the quarter, 25% more than a year ago. In a declining interest rate environment where the 10-year treasury fell approximately 40 basis points in the quarter, investment yields are even more challenging to deliver. Despite these headwinds, we continue to achieve fixed income yields at a premium to the broader market. Consistent with our philosophy as active asset managers, the yield on our fixed income purchases this quarter was approximately 30 to 40 basis points higher, net of fees than the BBB corporate index. All things considered, we delivered a solid investing quarter amid a challenging market backdrop.

In terms of specific investment highlights, we identified attractive risk return opportunities in a variety of asset classes, including asset-backed securities and whole business securitizations including aircraft, residential and commercial mortgage loans, which has been aided by the build-out of a triple net lease platform, a newer direct origination capability where we've now sourced more than $1 billion of investments.

As you know, our nimble approach to investing provides the flexibility to lean in to bespoke opportunities that hit our alpha-generating investment criteria. A recent example of this was a $500 million investment grade rated transaction in the Irish re-performing loan space, which offered a spread of more than 300 basis points for a gross yield of approximately 5.75%. Under similar risk parameters, this trade represents a significant yield premium to comparable liquid CUSIP securities that generally underutilize the benefits of our long duration surrender charge-protected liability profile.

The redeployment of the Voya and Lincoln assets is nearly finished and we expect to complete both by the end of the third quarter. Although the yield environment for redeployment is currently lower than we had initially forecast, we are realizing excess investment gains on some of the legacy assets, and we've continued to make progress on increasing the earn rates of these portfolios. As an example of the way we create alpha through inorganic transactions, we've expanded the yield on the Lincoln portfolio by approximately 65 basis points since it was acquired in December without materially altering the risk profile, which is in line with our return expectations at the time the deal was underwritten.

With that, I'll turn the call over to Bill to provide comments around our liability origination activities.

Bill Wheeler, President: Thanks, Jim.

In the second quarter, we continued our track record of strong organic liability growth with total organic deposits of $4 billion, which Jim mentioned, driven by broad-based strength across our channels. Importantly, in the face of a declining interest rate backdrop, we maintained our underwriting discipline by continuing to price our new business to mid-teens returns.

Our retail channel generated $1.9 billion of deposits, an increase from the prior quarter and roughly in line with the year-ago period. Because we are very focused on profitability rather than volume, we are continually evaluating our product pricing to maintain target returns on new business. In an environment where interest rates are moderating and competitors position aggressively, our sales activity may feel pressure in the short run, but as others are forced to adjust to current interest rates, we expect to ultimately maintain our position as a top provider.

Our retail strategy is two-pronged. We actively look for opportunities to expand our product set and we continue to look for ways to expand our distribution capabilities. On the product side, we continue to see good sales momentum in newer products, such as Agility, which has a market-leading design and has quickly become one of our flagship products. More recently, we launched our first ever registered index-linked annuity or "RILA" product, called "Amplify", in early July. This product offers greater asset accumulation potential for customers with a level of protection from market risk that other investment products may not provide. Amplify is a complementary extension of our existing suite of fixed and fixed index annuity solutions and reflects our commitment to satisfy evolving customer needs as they plan for retirement.

On the distribution front, we continue to pursue ways to expand distribution through financial institutions. During the quarter, we commenced distribution of certain MYGA products through PNC Bank and we are currently in discussions with a couple other large platforms that we hope will provide new distribution opportunities, later this year or early next year.

Turning to our PRT channel. We closed one deal, totaling $700 million in the second quarter with Dana Inc. This transaction was another example of how we can structure a full plan termination solution for our clients, allowing them to increase focus on their core businesses. As expected, second quarter PRT volumes were more moderate after a particularly strong first quarter. We expect activity will pick up again in the third quarter, given the recent closing of our previously announced deal with Bristol-Myers Squibb, which totaled $2.6 billion, net of the lump sum of elections associated with the plan termination. Including Bristol-Myers, we have closed on more than $5 billion of PRT transactions year-to-date, underwritten to our target returns, which is a remarkable achievement when considering it’s nearly twice the volume we closed on in all of 2018. While the back half of the calendar year is typically stronger for PRT, we suspect a lower interest rate environment could soften industry activity, which would intensify competition for the transactions brought to market.

In our third-party flow reinsurance channel, we generated $1.1 billion of volume in the second quarter, up significantly from the prior year quarter, due to strong volumes from new partnerships which were formed in the second half of 2018. While it's hard to predict the level of industry annuity volumes, our current expectation is that our go-forward flow reinsurance volumes could moderate from the levels we've experienced recently due to interest rate impact in the major markets.

Lastly, for the first time in almost two years, we closed one funding agreement backed note, totaling $300 million in the second quarter. While these deals tend to be more episodic and are subject to the spread environment, we continue to monitor the marketplace and remain cautiously optimistic on the issuance pipeline for the remainder of the year.

So, in summary, even though quarterly results in each organic channel can ebb and flow, we are encouraged by the strong results in the first half of 2019. Our current expectation is that we will comfortably exceed the organic volumes we generated in 2018.

In our inorganic channel, we are continuing to see a number of opportunities to deploy capital at our target returns. As you know, we look to serve as a solutions provider to the industry and the pipeline of acquisition opportunities remains significant. The industry is still going through a significant restructuring. Companies are making fundamental changes to their business models and we are seeing continued evidence of that as they seek to reduce exposure to complex liabilities, shed non-core businesses or exit whole businesses in hopes of redeploying the freed-up capital in a more accretive fashion.

As we've noted, when the fundraising process is complete, ACRA will help us to capitalize on these prospects by funding opportunistic growth and further building out our reinsurance and PRT channels. Importantly, ACRA will be fully aligned and controlled by Athene and all transactions will be underwritten by Athene, to Athene’s standards. We will maintain our strict underwriting and pricing discipline, targeting mid to high teens unlevered returns to generate significant shareholder value.

Now, I'd like to turn the call over to Marty who will discuss our financial results.

Marty Klein, Chief Financial Officer:

Thanks, Bill, and good morning, everybody.

For the second quarter, we reported GAAP net income of $720 million or $3.75 per diluted share. Net income benefited by strong adjusted operating income results as well as a favorable change in the fair value of reinsurance assets, which are reflected in our GAAP income statement on a mark-to-market basis, but adjusted out of our operating results to be treated like all other ‘available for sale’ investments. Our adjusted operating income for the quarter was $370 million or $1.95 per share, which drove a strong adjusted operating ROE of 16.2%.

Our consolidated net investment earned rate in the quarter was 4.67%, a sharp increase from the prior quarter, primarily due to the rebound in alternative investment returns, as Jim noted earlier. On the fixed income side, we experienced modest pressure versus the prior quarter, resulting from mixed trends. The fixed income net investment earned rate or NIER, benefited from redeployment accretion, higher bond call income and lower cash drag but was pressured by lower investment income on floating rate securities as well as the timing impact of institutional deposits from PRT and funding agreement backed note activity late in the quarter, an item which impacts the earned rate, but not the net profitability.

As we look forward over the near to medium term, amid the backdrop of lower rates, in fixed income, we expect modest pressure in the back half of the year as the impact of declining interest rates continues to phase in and dampen floating rate income. That said, we expect this dynamic to be offset by a lower cost of funds. For alternatives, while these investments are certainly subject to quarterly volatility, we expect baseline annualized returns of approximately 9% to 10% per quarter in the second half of the year versus the robust 14% we experienced in the second quarter.

Moving to the cost side of our spread model. Our total cost of funds for the second quarter was $842 million or 2.95% of average invested assets in retirement services. This reflects a 10 basis-point increase from the prior quarter, primarily driven by higher other liability costs, resulting from approximately $20 million of additional DAC amortization associated with our higher level of gross profits in the quarter.

In cost of crediting, the rate was unchanged quarter-over-quarter. As a reminder, our institutional business carries a higher crediting rate versus deferred annuities, since essentially all the costs related to institutional are reflected in the crediting line, while deferred annuities also bear expenses within the other liability cost from an acquisition cost amortization and rider reserve accretion. Given this dynamic, the quarterly variability in cost of crediting will trend with the mix and timing of institutional deposits in the period.

Next, we continue to see meaningful operating leverage in our expense structure. While operating expenses ticked up slightly quarter-over-quarter, primarily due to the timing of deferred comp awards as well as legal and advisory costs, the long-term trend of a declining expense ratio remains intact. For the second quarter, the operating expense ratio declined 3 basis points or 9% year-over-year, which equates to roughly $9 million of savings.

Putting this together, our net investment spread in retirement services, which is a difference between our NIER and our cost of funds was $479 million or 1.68% of average invested assets. If we then add in our platform cost including G&A expenses, which I just discussed, debt services and taxes as well as our corporate segment, our adjusted operating spread or return on assets was 128 basis points for the second quarter.

Importantly, our differentiated model continues to generate significant ROA outperformance, driving sustainable mid-teens unlevered ROE. We have numerous fundamental advantages at Athene, including differentiated asset management, disciplined underwriting, scalability, and efficient structure. When combined, we estimate these advantages result in approximately 30 basis points of relative ROA outperformance, which translates to a meaningful return in equity pickup of roughly 400 basis points when utilizing similar operating leverage.

Turning to capital, our current position remains strong with $9.1 billion of adjusted common shareholders' equity, an increase of 10% year-over-year. As Jim mentioned earlier, our successful preferred stock offering in the quarter raised $863 million of gross proceeds, which served to diversify our capital structure and enhance our flexibility. With this additional capital, less recent capital deployed for organic growth and share repurchases at attractive returns, we now have $1.5 billion of excess equity capital, along with approximately $2 billion of untapped debt capacity.

Our capital ratios remain solid with an ALRe estimated RBC ratio of 415% and U.S. estimated RBC ratio of 411%. Our strong balance sheet should be further supported by on-demand capital from ACRA, providing us even more flexibility to deploy capital across economic cycles.

In summary, our second quarter results continued our track record of execution on key operating and financial objectives. We expect our long-term earnings momentum to continue as our business grows through organic and inorganic channels. We're excited about our prospects and we believe our business has very attractive embedded earnings growth and valuation expansion potential.

With that, I'll now turn the call back to the operator and open the line for questions.

Operator: Thank you. At this time, if you would like to ask a question please press star then the number one on your telephone keypad. If you wish to remove yourself from the queue you may do so by pressing the pound key. We remind you to please unmute your line when introduce and if possible pick up your handset for optimal sound quality.

Noah Gunn, Head of Investor Relations: Thanks, Maria. Given the heightened level of call participation today, if we could just ask everyone to limit their questions to one on the first full round and hop back in the queue to the extent you have a follow-up.

Operator: We'll take our first question from the line of Erik Bass of Autonomous Research.

Erik Bass, Autonomous Research: Hi. Thank you. Marty, I was just hoping you could go into a little bit more detail on your comments around how the recent moves in interest rates affect your outlook for both the fixed income net investment earned rate and interest credited? And how much of a timing lag is there before changes in your renewal crediting rates start flowing through and offsetting the earned rate pressures?

Marty Klein, Chief Financial Officer: Sure. So, obviously, our floaters depend on the level of interest rate in the near term, mostly on LIBOR, most of the book of business is indexed off of 1 or 3-month LIBOR, although there is roughly 15%-20% of the book is indexed to longer term things. Quarter-over-quarter, we saw roughly a couple basis points of pressure, maybe $6 million. So, you could see, all else being equal, maybe a couple basis points of another drop over the next quarter or so. As I said, I do expect that to be offset in our overall cost of funds.

We have been continuing to, on rate resets, drop rates where we can; that's been offset by some higher hedging costs earlier in the year. But again, as rates stay low and as volatility is decently lower hedging costs have come down. So, as I said I expect in our cost of funds line, which isn't just interest credited but also other liability costs including DAC amortization, I think that whatever decline we have on the fixed income side, I expect we'll offset that perhaps more so than what we've seen in the cost of funds.

Bill Wheeler, President: This is Bill. I might add that, just keep in mind that roughly we're a 100 basis points away from crediting minimums in our in-force portfolio. So, we have the room if we need to move, and we do expect to make changes.

Marty Klein, Chief Financial Officer: Again, there's two items and it's credit on the annuity side, it's the rate resets Bill talked about and then the hedging costs. Both in the lower rate environment would be opportunities to take that down.

Erik Bass, Autonomous Research:	Got it. And not a material lag in terms of timing?
Marty Klein, Chief Financial Officer:	It's not exactly one for one, because hedging costs, for example, you typically hedge -- we have most of our book is annual point-to-point. So, you only typically rebalance less than a quarter of the book every quarter, so there is a bit of a lag there. But, as I said, I expect for the rest of the year that whatever decrease we have in fixed income I expect we'll make that up on the cost of funds.
Operator:	Our next question comes from the line of John Nadel with UBS.
John Nadel, UBS:	Hey. Good morning. So, I guess, following along that line of questioning, if I normalize your ROAs from this quarter to take your alternatives portfolio to, let's say, a 10% annualized yield or what I think you target over the longer term, the ROA was around 115 basis points. So, I'm wondering whether you think, broadly speaking, given all the levers you have to pull against a lower interest rate environment, if you think that 115 basis points is a reasonable way for us to think about a run rate or whether we should be expecting that there is some potential downward pressure, given what's happened with both LIBOR as well as long-term interest rates?
Marty Klein, Chief Financial Officer:	No, I think on the near-term that's a pretty reasonable place to be for us, given where we are. Our expenses were elevated by a few million bucks in the quarter. It's really just timing of things, for example, usually we have our stock comp awards recognized in the first quarter, that got pushed this year to the second quarter. But no, I think, John, that's not an unreasonable thing. I guess, I'd say that from an earnings standpoint, I'd expect the back half of the year, even with the lower rate backdrop to be just a bit stronger than we had in the first half of the year, in aggregate.
Operator:	Our next question comes from the line of Tom Gallagher from Evercore.
Tom Gallagher, Evercore ISI:	Marty, did you -- I just want to make sure I got this right. Did you flag $20 million of higher DAC amortization this quarter that I guess was in sort of lockstep with the higher alternatives return? So, in a normal alternatives quarter, would you expect lower DAC amortization to benefit earnings by that amount or were there other puts and takes there?

Marty Klein, Chief Financial Officer: No. That's about right. So, the alts return we had of a bit over 14%, if you normalize that to 10%, that's worth about $30 million of operating income after tax. It's worth about $50 million on investment income, and then with the DAC amortization offset and tax it's worth about $30 million of operating income.

Tom Gallagher, Evercore ISI: That's helpful. And then…

Marty Klein, Chief Financial Officer: $20 million is part of that, the DAC amortization. That's the biggest piece.

Tom Gallagher, Evercore ISI: Got it. And then, just a follow-up for Bill Wheeler. Bill, you had mentioned having a good pipeline for inorganic. Did I here you correct where did you say either block acquisitions or whole company acquisitions is what you'd consider?

Bill Wheeler, President: Well, certainly, we'd consider both. I think you're going to see more activity in blocks but there are also whole company deals that are in the pipeline.

Tom Gallagher, Evercore ISI: Okay. Thanks.

Operator: Our next question comes from the line of Ryan Krueger of KBW.

Ryan Krueger, KBW: Hi. Thanks. I just had a related follow-up. I guess, it sounds like you're still pretty optimistic about the inorganic pipeline but are you seeing much change in conversations due to the lower interest rate environment or do you still feel like the sellers are willing to transact at this level?

Bill Wheeler, President: It's not a simple answer to that, Ryan. There is still activity. People still want to -- are still interested in transacting. I'm not sure the most recent downdraft in rates has sort of impacted any of the conversation yet. But, people know that it will cost. Values decline when interest rates get lower. So, I feel that it will make the conversations a little more difficult on the margin, but that doesn't mean we're not still having them and that doesn't mean there aren't still people who want to transact, because their issues are bigger. Remember, by the way, if we're talking about a block deal, yes, reinvestment rates when we take over a portfolio are lower, but also we're inheriting a much bigger investment gain. So, the relative impact of lower rates is not that significant, it matters but it's not as significant as you might think.

So, I think, you're still going to see transactions done in this environment.

Operator: Our next question comes from the line of Andrew Kligerman of Credit Suisse.

Andrew Kligerman, Credit Suisse: Hey, good morning. So, I saw that you deployed $1.5 billion -- or clients deployed approximately $1.5 billion toward ACRA and the goal is $4 billion. And I think, I heard by the fourth quarter, but the question is, how's the timing of that? Do you feel like you are on track where you get the $4 billion? And with that, why not maybe even put the brakes on it, your stock is so cheap you did a robust, nearly $4 billion. So, is buybacks becoming more interesting, and maybe not waiting for the fat pitch is the way to go?

Jim Belardi, Chairman, CEO, and Chief Investment Officer: So, a couple of things. Fundraising is going according to plan. So, we still expect the original numbers quoted to happen, the slightly delayed, we said we think it will be in our financials October 1st. Look, the fattest pitch out there obviously is our stock price, and repurchasing shares is the fattest pitch. So, with this new authorization we've now authorized about $1 billion, which is a significant number. And as I said in my script, we'll do more if the stock continues to underperform the earnings power of the Company. So, yes, stock buybacks are at the top of the list right now as far as accretive ways to deploy capital.

Bill Wheeler, President: Andrew, I'd also add that it's not a trade-off. Okay? It's raising -- if anything, and I think we said this last quarter when we introduced ACRA, it will probably allow us to deploy more -- free more capital up to do buybacks, not probably it's clearly, that's what's happening. And I would say, so, you can do both, right. And so, we're -- certainly, we have the firepower to do both, and it looks like that's what we're going to end up doing.

Jim Belardi, Chairman, CEO, and Chief Investment Officer: Bill is right that we fully expect to continue to deploy organically and inorganically at the same time we're buying back our shares.

Marty Klein, Chief Financial Officer: What actually it does – it's Marty, it increases our flexibility because with ultimately $4 billion of on-demand capital for deals, we don't have to hold as much capital for those deals, we have more flexibility to buy back shares and do other things. So, it actually -- the benefits will keep it going.

Operator: Our next question comes from the line of Humphrey Lee of Dowling & Partners.

Humphrey Lee, Dowling & Partners: Good morning and thank you for taking my question. Just related to ACRA. So, it sounds like kind of fourth quarter ramp-up is still on board. But, I guess in terms of business that you're planning to move to ACRA, in addition to Lincoln and Bristol-Myers blocks, do you have any plan to put any of the on balance sheet business right now or any kind of incoming business in the next couple of quarters to the vehicle as a start?

Bill Wheeler, President: I think the only other thing under consideration at the moment is some of the other pension deals that we did this year. That's -- I don't think we've made a final decision about that yet. Remember, those -- we talked about stuff below $1.5 billion threshold and those are below $1.5 billion but we may consider moving those as well, which -- I think the way to think about it is or maybe most important is that's just going to free up more capital for us in the short run.

Operator: Our next question comes from the line of John Barnidge of Sandler O'Neill.

John Barnidge, Sandler O'Neill: Thanks. Your flow reinsurance growth has been really strong last several quarters. At what point do you think some of your partners may want to diversify from a counterparty standpoint?

Bill Wheeler, President: Well, John, that's a good question. You remember, they're brand new counterparties, right. So, we've really only been doing business with them for -- we started about a year ago. So, the volumes, even though they're very nice and they are spread out over three, four names, in total, given names, we're still talking a relatively small amount.

Just to put this in context, our -- we did an $8 million block indexed annuity deal with Lincoln and yet we also reinsure with Lincoln. But $8 billion -- so Lincoln effectively has $8 billion of exposure to us. And we have certain rules about how we have to manage our relationship and manage that block with them. But they're comfortable with that. And the block runs off as we reinsure more business going forward. So, the relationship stays pretty steady. So, if you say $8 billion is kind of a marker out there, well, we’re not close to that with any other of these new counterparties. We have many years of capacity left. So, I think the reality is that that's -- we're a long ways away from that really becoming an issue.

Operator: Our next question comes from the line of Alex Scott of Goldman Sachs.

Alex Scott, Goldman Sachs: Hi. Good morning. The question I had was just on the rider reserve. I guess it’s increased 24% since the end of the year. And I think that's accounted for under SOP 03-1, which I wouldn't expect to be as dynamic with rates. So now that’s up to 10% of account value. I was wondering if you could talk about what kind of assumptions you have embedded in there. Some of the comments you made around the strength of your balance sheet would maybe suggest that you have conservatively capitalized for those riders. And if you can provide any color on like what some of the things are that are embedded in that reserve that would make us feel better in the declining rate environment?

Marty Klein, Chief Financial Officer: Sure. And actually, I feel very good about our rider reserves, particularly in a declining rate environment, again, as we have a chance to look at assumptions that we use versus others. We certainly feel we are being very, very prudent here. So, there is a couple things happening. One is, with the annual unlocking that we did in the third quarter of last year, as part of that we've updated -- and we do this every year, updated assumptions, particularly on lapse rates, utilization rates and what are relatively modest adjustments for experience we’ve seen, a little bit lower lapse rate, a little bit higher rider utilization, both those things that kind of basically increased by – I guess I’ll call them k-factor, which accountants often – it’s terminology that’s basically the amount of kind of pretax income that you’re thinking about – that you set aside.

So, we’ve modestly increased that to kind of further build our rider reserves. Again, I think that's probably different than in some others in the business, but we feel that's the right course and the prudent thing to do. The other thing that happened in this quarter, particularly with the big kind of gap down in rates, which had a big impact and increased unrealized gains in the portfolio is a little bit of that kind of goes to the rider reserve that's kind of a non-op adjustment but it does show up in rider reserve because as interest rates go up and down, that does have an impact on the rider reserves. So, the rider reserve number increased a bit for that drop in interest rates. So, again, we feel pretty good in a low rate environment that our balance sheet continues to be very, very strong. And we're making sure our financial results are represented in what we think is a very realistic way.

Alex Scott, Goldman Sachs: Is there a specific rate assumption for the 10-year you have, kind of thinking about where ultimately it trends up to?

Marty Klein, Chief Financial Officer: Yes. We've not disclosed it, but I would give you a sense for what we do. Obviously, we look at our current rate and what happens, it's a matter of how you reinvest versus what's run off and so forth. And I would say that what we kind of look at every year is how does our underlying treasury rate expectation compared to what the market says, and it's certainly a bit of a judgment call. But I would say, for the last couple years, at the time we would do our unlocking, that the underlying treasury rate over the next 5 to 8 years is kind of in line with forward treasury curve.

So, I think probably again relatively prudent, compared to what maybe others do. But, obviously we'll do it this year as well. But again, last year, when we did the unlocking and in prior years, we generally look at the forward curve and sometimes make some judgment calls, but our underlying assumption has been pretty consistent with that.

Bill Wheeler, President: Alex, this is really important, because obviously we all know about the accounting -- the changes in GAAP accounting that are coming down the road where they are going to expect people to mark their liabilities this way. When we assess, value those liabilities, we don't price it to the forward curve, but it's not rate, which is what the new accounting would say we should do. But we price it close, right? So, it's not -- so there really isn't much gap.

Operator: Our next question comes from the line of Jimmy Bhullar of JP Morgan.

Jimmy Bhullar, JP Morgan: Hi. Good morning. So, many of my questions were answered, but just on retail sales. Obviously, you've seen 2Q end up being a seasonally strong quarter. Your sales were -- did not pick up to the same extent as they have in the past. And I think you mentioned competition and interest rates a little bit. But, if you could just talk about what you're seeing in terms of competition and how your sales will trend if you're sort of taking actions on crediting rate and whether or not you're seeing everybody else follow suit as well or are some companies still being competitive, despite the decline in interest rates?

Bill Wheeler, President: Yes. So, look, sales were essentially flat, they were down very slightly year-over-year. And we had a very good quarter, second quarter last year. So, we're probably -- if you think about the spectrum of companies and how they price new business, we probably are in the very first, top decile in terms of how quickly we reprice. And I suppose that has a lot to do with how we're compensated, because we're not compensated on volumes, we're compensated on margin. Okay. So, that's really important. So, there is no interest in trying to keep old pricing out there and try to get some more sales before you're finally forced to move it. I'm not sure that's really true for most of the people in the industry.

So, being a first mover is good for margins and good for return on capital. It's not so good necessarily for the competitive environment, because you tend to be the price leader downwards, it could be upwards too, but downwards in this environment. So, we're -- we find ourselves a little off market. I think that's what sort of dampened second quarter sales. It's also true that we're – what -- the end of the business that gets affected the most when interest rates get lower like this is MYGAs. And so, we're seeing just -- our MYGA business is really -- it's trending toward zero at the moment. So, it -- and that's because of price discipline. We aren't going to sell MYGAs when it doesn't make -- not just to just do it.

So, I expect ultimately, Jimmy me that the industry catches up. And as the markets sort of resets, given the new interest rate environment, but it takes a while for that to happen. We still think we're going to have a good year. And I think our current projection is that we will still exceed last year's sales but it's also -- but it's probably -- our sales expectations have dropped a little bit. The other thing too that's hard to tell, I would just really quickly say is we'll find out soon enough when the industry quarterly results come along. But, I have a feeling that quarterly results for even indexed annuities for the industry as a whole were not maybe as robust as they have been in recent quarters.

Operator: Our next question comes from the line of Elyse Greenspan of Wells Fargo.

Elyse Greenspan, Wells Fargo: Hi. Good morning. My question -- you guys, I think in response to an earlier question, you mentioned that the second half of the year would be a little bit stronger than the first half of the year. Your earnings were about $3.45 in the first half of the year. I know if we go back, on your fourth quarter call, you guys had mentioned seeing earnings power about over $7 a share. Obviously, there was pushes and pulls given stronger alts to start the year, then the headwind now that interest rates are much lower. Do you still see yourselves as kind of getting to that $7 bogie for the full year?

Marty Klein, Chief Financial Officer: This is Marty. I expect us to be more than 7 bucks. And again, I think the second half of the year will be stronger than the first half. Don't forget, the underlying trend, even with lower rates, as we keep adding business and the business we put on last year and first half of this year just keeps adding more earnings and that more than offsets any rate backdrop. And also as we talked earlier, any decline in the interest rates side and fixed income side, expect us to get back in the second half of the year on the cost of funds side. So, expect the second half to be a bit stronger than the first half and above the 7 bucks a share for the year.

Operator: Our next question comes from the line of Mark Hughes of SunTrust.

Mark Hughes, SunTrust: Yes. Thank you. Good morning. The 30 to 40 basis points of outperformance, I think you had mentioned that yields are now more challenging to deliver. Anything in this kind of environment where yields have been dropping substantially, can you keep up that 30 to 40 basis points in absolute terms or does that get tougher to do?

Marty Klein, Chief Financial Officer: It's Marty. Maybe I'll kick off and others can chime in. But it’s not just yields, it’s spreads, right? So, that's what really matters is, as we're business on, what are we getting on the investment side versus what we're getting on the cost of funds side. And I think what we get in typical cycles and it's tougher in a tight spread environment, it’s actually more helpful in wider spread environment.

We typically outperform there and get wider spread investments net of fees and then the other thing to add on to that, very low expense ratios that are very scalable and getting lower as we go and our efficient operating structure. Versus any company, they all have their own advantages and disadvantages. But as we look across the industry, we think that’s roughly 30 to maybe as much as 40 basis points of spread advantage, profit advantage, which translates to maybe 4 points of ROE lift unlevered.

Jim Belardi, Chairman, CEO, and Chief Investment Officer: Yes. I think you were may be asking about us compared to the Barclays Agg that I mentioned in my script. And yes, I think we typically have significantly outperformed on a yield basis that Agg. We have a different asset allocation than what's in the Agg. But may be more importantly is our initiative to source non-CUSIP assets from our asset origination platforms. I mentioned the triple net lease progress we have made. Categories like that have significant yield outperformance than CUSIPs -- and which is essentially what the Barclays Agg is.

So, we expect continuing outperformance versus that as we continue to ramp up our non-CUSIP, slightly more illiquid originations, which is a large priority for our firm, maybe the biggest priority actually. I'll also say that we are slightly doing a little bit more outside the U.S. on the asset side and not sacrificing credit quality at all, just we've expanded our scope and purview in conjunction with Apollo and found value like in the IRS RPL that I mentioned. And we think that will continue as well.

Operator: And we will now take follow-up question. Our follow-up comes from the line of John Nadel of UBS.

John Nadel, UBS: Hi. Thanks for sneaking me in one more time. A couple of data point questions if I could. I'm focused on the $11 billion of statutory capital. I think that's in the press release – that, if that equates to a bit over $59 per share. I know your preferreds and your debt combined are maybe just shy of $10 per share. Is there any cash and short-term investments at either the parent holding company or any of the intermediary holding companies that would not be included in that $11 billion of statutory capital? And if so, about how much?

Marty Klein, Chief Financial Officer: That includes everything including the available cash that's up with the Holdco, some of which is in the preferred. So that's the whole enchilada, John, if you will. There is probably currently right now a little over $10.5 to $10.7 billion that's within the Opcos and maybe roughly $300 million or so that's at the Holdco, but pretty much all our capital's down in the subs.

John Nadel, UBS: Okay. So, your stat capital net of Holdco preferreds and debt and cash is bordering on $50 a share?

Marty Klein, Chief Financial Officer: It's really that $11 billion, that's the available -- that's the whole thing. The capital at the Holdco is the capital that's available to use in the business. It's just currently sitting at the Holdco, so it's just geography. But that actually -- we call that excess capital, it's available to be used. We do hold incremental cash that I'm not counting that is for debt service and preferred dividend and other operating expenses. I'm not including -- that does not include in the $11 billion. So, the $11 billion is really capital that's either in the business or if it's up at the Holdco, it's available to go down to the business to support it.

John Nadel, UBS: Got you. And then...

Marty Klein, Chief Financial Officer: The cash is kind of working capital if you will or to service debt and so forth.

John Nadel, UBS: Got you. And then, maybe for Jim or Bill, just is this thinking strategically, particular focus on your fat pitch commentary and now maybe -- it sounds like your tone towards sort of whole company potential M&A is slightly different than I think what we've heard in the past. How willing are you to do in what's becoming a more challenging microenvironment, right, the fat pitch sort of comes in that kind of an environment. How willing are you to put a lot of capital to work in a single transaction, particularly one that might include true integration of an operating platform as opposed to just reinvestment of assets to support an acquired block of liabilities?

Jim Belardi, Chairman, CEO, and Chief Investment Officer: Hey, John, I'll start. So, consistent with our strategy since we started, we put capital to use at the highest and best returns. But, yes, I don't think there has been any change in our strategy on the inorganic side. I think we still aggressively pursue both M&A, buying companies with operating platforms as well as block reinsurance. I think, we've said in the past and we'll continue to say now, we don't really need the platform because more than at scale with what we have now, but if the platform comes with a significant amount of assets and liabilities that we want, then there is a number of options we have to efficiently do that. So, absolutely, we're as ready as we've ever been, even now with ACRA maybe more so, to expend a significant amount of capital for the highest and best use of it, which includes buying a company that has a platform that we don't need.

Bill Wheeler, President: John, I'm not sure -- I don't think our position has changed at all really, with the exception of ACRA, and I'll explain what that means in a second. Look, I wouldn't get hung up on this idea of whole company deals, I think that's always been in our kind of our party line. There isn't any doubt that most of the opportunities out there are block transactions, like the last two we've done. But, to say, there are no whole company deals I think would be inaccurate. And so, I would also say, by the way, ACRA just -- because it allows us to set our sights bigger, right, because there's so much more capital sort of available to us when we get it fully funded than has been the case historically. So, I do think it increases our scope in terms of what we're willing -- the size of things we're willing to look at than maybe we were before.

We certainly aren't going to be able to depend on the outside equity markets anytime soon. So, I think ACRA, again is going to be a huge advantage for us, because I don't think anybody is going to tap equity markets at these prices to try to transact. So, the guy with the most money wins in that situation, and I think that's going to be us.

Jim Belardi, Chairman, CEO, and Chief Investment Officer: Yes. John, I'd just add to that. I agree 100% with what Bill said is yes, ACRA gives us the ability to do very large M&A and block reinsurance deals. At the same, it gives us huge flexibility to buy back even more of our shares. By buying back shares, we're now not going to be short, executing on an inorganic deal, given ACRA. So, I think it's a win-win and why we think it's a real game changer for us.

Operator: And ladies and gentlemen, we have time for one more follow-up. Our next follow-up comes from the line of Humphrey Lee of Dowling and Partners.

Humphrey Lee, Dowling & Partners: Thank you for letting me back in. Just a quick question about the capital allocation to retirement services. It came down kind of sequentially, even though your business grew. I was just wondering if there's just simply some in-quarter allocation thing, how should we think about the change in capital allocation for the segment?

Marty Klein, Chief Financial Officer: I mean, we had a bit of a shift, because we had an increase in excess capital. We look at a number of measures. We look at where we are versus rating agency capital, where we are versus RBC rating agency models are the most important thing but as a rough proxy 370% RBC under the new post tax reform rules is kind of what look at. And I'd say that essentially for this quarter anything in excess of that we're holding at corporate and other, which is that $1.5 billion number. And so, the remainder is in the retirement services business. I think, when some of the business ran off and with investments and all the other stuff that you might have seen, the number came down a little bit but still in line with our historical philosophy by and large.

Operator: And we've reached the end of our allotted time for questions. I would now like to turn the call over to Noah Gunn for any additional or closing remarks.

Noah Gunn, Head of Investor Relations: Thanks, Maria, and thanks, everyone, for joining the call this morning. To the extent you have any follow-ups, feel free to reach out to myself or Sue Lee following the call. And we look forward to speaking with you all again next quarter.

Operator: Thank you. This does conclude today's Athene Holding's second quarter 2019 earnings call and webcast. Please disconnect your lines at this time, and have a wonderful day.