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Prudential Financial, Inc. (PRU)

Investor Day

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, good afternoon, and thank you for joining Prudential's 2019 Investor Day. Please welcome Darin Arita, Head of Investor Relations.

Darin Arita

Senior Vice President-Investor Relations, Prudential Financial, Inc.

Welcome. Welcome to Prudential's 2019 Investor Day. This is the first time we're hosting our Investor Day here in Newark, New Jersey. So, we appreciate all of you coming here to our home. This is our newest building here in Newark. It's less than four years old. And as some of you notice, this hall that you're in is dedicated and named after Kiyo Sakaguchi. Sakaguchi-san had a remarkable life, and as many of you know, he founded our business there in Japan and grew that significantly. This is over – he founded it over 30 years ago. And today that business accounts for roughly 40% of Prudential's overall operating income.

In the little more than a year that I've been here at Prudential, I've seen a lot of remarkable things. And today, you'll get a window into some of what's going on here. We've got a great line-up of presenters for you, and we really had three goals in mind for the day. First, to help you meet the new Pru. A number of our executives are fairly new to their roles. And, in fact, I think around five of them had been in their roles for only about six months now. Second, to give you a better understanding of how our business is differentiated and how we will grow. And third, hopefully that you'll see that Prudential is an attractive investment opportunity.

Just a few housekeeping items here. Please note that today's presentation may include forward-looking statements. It is possible that actual results may differ materially from the predictions we make today. In addition, this presentation may include references to non-GAAP measures. A reconciliation of such measures to the comparable GAAP measures and a discussion of factors that could cause actual results to differ materially from those in the forward-looking statements are included in today's presentation, which is available on our website at investor.prudential.com.

So, there'll be plenty of time for Q&A today, during the Q&A period I just ask that if you want to ask the question, just raise your hand, please wait for a microphone to come to you, state your name, your company, and please limit yourself to one question and one follow up, just to give others an opportunity to participate.

Also, there is the financial wellness experience outside. If some of you haven't had a chance to experience it yet, do encourage you to go out there. It will be also open during the break, and go out there and scan the QR codes on the Investor Day app there. That'll enter you into a drawing and there'll be a little give away after we come back from the break.

Finally, just so that you get to know the new Pru a little better, on our presenters' name tags, there you'll see an addition, they've got their hometown as well as a hobby or some fun fact about them. I think because I forced all of our presenters to do that, I think it's only fair that I, at least address what's on mine. So, I was born in Honolulu, Hawaii, and I picked up recently a new sport that I never ever thought I'd get into. I'm deathly afraid of heights. As an example, two years ago, I went with some friends to Zion National Park in Utah and were planning to hike up one of the steepest routes there, the most dangerous routes and the whole night before I couldn't sleep, fearing what was coming the next day. And then, when we were up on the mountain the next day, hiking up there, you've got way up high, you've got sheer cliffs to the left, sheer cliffs to the right, you're hanging onto chains, my palms are sweaty, I could hardly breathe and I kept thinking I'm never doing this again.

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Lo and behold, about six months ago, a group of different friends took me to a gym. It was a rock climbing gym and next thing I know I've got ropes and a harness hooked up to me and I'm high up on a wall and scaling those walls there and I liked it. And I got addicted to it. And so, I think it just goes to show the power of the mind, the power of having the right people around you, and then anything is possible.

Speaking of the right people, let me introduce our first presenter. He is our Chairman and Chief Executive Officer. He is born in San Francisco, California and he's an avid cyclist. I'm picturing him on a cycle on the roads of France a couple of weeks from now perhaps with the yellow jersey on. Please join me in welcoming Charlie Lowrey.

Charlie F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Thank you. Thank you all for coming this afternoon. We appreciate your interest in Prudential and appreciate you being here. So, there are three key messages that I would like to leave you with this afternoon.

First, we have a strategic mix of businesses with scale and growth potential that cannot be easily replicated. Second, as I said on the last quarterly investment call, we have been and remain highly aware of and focused on connecting our track record of strong operating fundamentals with financial outcomes. And finally, we're focused on accelerating execution of our strategy to enhance return on equity and earnings per share growth going forward. So, we're confident in our business mix. We're committed to matching superior business performance with financial results, and we're accelerating the execution of our strategy.

Now, over the past 20 years, we've undergone a long journey to focus and simplify our business mix, which has resulted in our laser focus on three lines of business – Financial Wellness; PGIM, our asset management business; and International.

We've been very deliberate with our actions and are proud of where we come from in terms of the divesting and acquiring of businesses. We have sold approximately 40 businesses for about $10 billion. We used M&A to augment the businesses we have, both domestically and internationally acquiring almost $16 billion in transaction value. In addition, we've been opportunistic in acquiring talent especially during the turbulent times, both in terms of individuals and in terms of team lift-outs.

While honing our lines of business, we have delivered significant financial growth, both organically with strong execution and through M&A. In International, we've successfully integrated several companies and generated organic growth in the face of market headwinds. Our market leadership in Pension Risk Transfer is a prime example of our ability to successfully execute on new, complex and challenging market opportunities in the Workplace business. And we've grown asset management into the 10th largest asset manager in the world, which is earning nearly $1 billion.

Each of our businesses is at scale. We are top 10 in all our major U.S. Financial Wellness businesses including industry-leading PRT and variable annuities. As I just mentioned, we are a top 10 global asset manager with a leading position in both alternatives and fixed income. And we are the number one Japanese life insurance company on a number of metrics with other countries and emerging markets such as Brazil gaining in scale.

Scale and breadth are real differentiators for us in Financial Wellness. We have scale in all the businesses that are necessary to deliver Financial Wellness in the marketplace: Advice, investments, retirement income, and protection solutions. And we're well-positioned for solid growth across each of our businesses. In addition to

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scale, our three businesses cannot be easily replicated. Each serves the market in a different way leading to sustainable competitive advantages.

In U.S. Financial Wellness, no other company has the critical components at scale that we have, the number of customers, the asset management capabilities, retirement income and protection solutions, and distribution including tied agency, hybrid, digital, and third-party, which is why we are confident that we have the solution set that enables us to successfully serve our clients and grow our businesses.

For PGIM, we have very a successful multi-manager model. Each business specializes in a particular asset class, has its own culture, and receives compensation for their own performance. This has led to talent retention, differentiated investment results, and consistent organic growth.

For International, we are different from others in how we approach the market. As an example, within Japan, our largest market, we differentiate by focusing on high-quality distribution and patiently grew this distribution platform over a number of years. This has resulted in industry-leading productivity and growth. And we continue to focus on the core competency of death protection while others in the market have shied away.

In our other International markets, we take a similar approach to distributing in ways that are different than our competitors. In addition, our businesses create competitive advantages for each other and collectively generate diversified sources of earnings and free cash flow leading to capital benefits for the entire enterprise. One of the key ingredients to our execution is the focus on purpose and culture. Our purpose, we make lives better by solving the financial challenges of a changing world, speaks to our 140-year tradition of creating financial opportunities for individuals, families, institutions, and communities.

It highlights our ability to improve the quality of life for more people through solutions delivered at both a small and a large scale. It underscores our determination to tackle the toughest problems by which we can help shape our changing world for the better. Our culture is reflected by our people putting our purpose into action. We continue to look for ways to make an impact both around the world and including right here in Newark, which we have called home for nearly a century and a half.

For those of you in the audience, you're in one of our largest commitments to this city, to Newark, an investment that was the cornerstone of a redevelopment of our downtown area. This is one of the many examples of our long-standing commitment to help our community flourish. But our purpose and culture also helps us recruit and retain the best talent. As Mark Grier has said many times before, talent and culture is the soft stuff that leads to the hard stuff, namely business performance. Our talent and culture of low ego and high collaboration enables us to work across businesses to provide relevant and timely solutions to our clients' most pressing and complex financial problems such as PRT.

As the new management of Prudential, we recognize that we need to do better even with our strong operating fundamentals. We can make our financial results easier to understand. We can align external expectations better with our own plans. And ultimately, the execution of our strategy should lead to differentiated financial outcomes for our shareholders. As part of this, we're accelerating the pace of our execution. The world is changing rapidly and our customers are expecting more even while their needs are increasing, and so we expect more from ourselves. It is imperative that we move faster to continue to be able to achieve our purpose and frankly to create the returns that you and we expect.

So, I want to leave you with a few thoughts. At the center of this transformation in how we operate is improving our customer experience. We are completely focused on our customer needs and reaching more of those

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customers through fully integrated workplace and digital channels. We are reimagining our processes, investing in our talent, and developing state-of-the-art technology with the goal of integrating our businesses and processes to produce better, faster results.

As we expect the acceleration of our strategy, including through innovation and technology driven efficiencies, we expect it to drive tangible benefits over the next few years for our customers and for our shareholders. By 2022, we expect this will lead to approximately $500 million in run rate margin expansion, which Rob will explain in greater detail in a moment.

We are increasing our ROE range from 12% to 13% to 12% to 14% as we accelerate the strategy. We believe the earnings growth of our businesses combined with capital management will enable us to grow earnings per share in the high-single digits in the intermediate range. And then over the longer-term, there are multiple drivers of growth across our businesses that have the potential to accelerate EPS growth into the low-double digits. First, by accelerating our strategy and business integration; second, by increased transaction in Financial Wellness and the growth of the underlying businesses; third, by continued growth and success in PGIM and the International growth markets; and finally, through the pursuit of strategic M&A.

We feel positive and confident about the opportunities to serve our customers and to grow our businesses. We have a strong sense of urgency. We have a lot of work to do and we need to move quickly. And we are committed to delivering attractive financial outcomes.

And so, at the end of today, I hope that you have an answer to the question that many of you have asked before, which is what's different? And then, you come away with three thoughts. First, we're delivering a consequential set of financial solutions to our customers through Financial Wellness. Second, that there is a real sense of conviction and urgency in what we're doing. And third, we have a credible path to deliver financial performance. I assure you this won't be linear. That would be too easy. But I also assure you, that when this firm puts its mind to doing something, we will deliver.

So again, thank you for interest. And now, I'll turn it over to Rob.

Robert Michael Falzon

Vice Chairman, Prudential Financial, Inc.

Okay. Good afternoon. As Charlie laid out, we are confident in our business mix and we're upbeat about the opportunities that lie ahead for us, but we also have a sense of urgency, driven by changing customer expectations and a desire to deliver differentiated financial outcomes.

Carrying on from Charlie's presentation here are the key points that I want you to take away from my portion of our agenda. We have a differentiated mix of high-quality businesses with attractive growth prospects. Additionally, we're undergoing an accelerated transformation of our technology, processes, and talent to enhance our customer experience, enable the competitive positioning of our businesses in the Financial Wellness market. This will result in near-term margin expansion as well as sustainable top-line growth into the future, enhancing our earnings growth, our return on equity, and our free cash flow.

Our businesses are well-positioned to meet the needs of customers and address significant market opportunities with our capabilities in offering advice, investments, retirement income, and protection solutions. We do this through PGIM, our Global Investment Management business; our International business; and our U.S. Financial Wellness businesses. Each of our businesses has an attractive financial profile of strong profitability, meaningful free cash flow, and attractive growth prospects.

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Our mix of businesses provides earnings diversification, a platform that enhances the underlying individual growth potential, and capital benefits from a balanced risk profile. We feel confident that we can generate revenue growth and margin expansion in PGIM and in our U.S. Financial Wellness business, and revenue growth with stable margins in International. I'll briefly discuss each of the businesses in turn and then later in the afternoon, our business leaders will come up and give more detailed presentations.

PGIM has been highly successful due to a combination of thoughtful strategy and good execution. It is an active multi-asset class manager with scales capabilities and attractive asset classes, and it's generated consistent and strong investment performance. These attributes have resulted in 16 consecutive years of positive third-party institutional net flows and stable asset management fees. Consistent with our historical earnings growth, we expect PGIM to generate mid to high-single digit earnings growth through a market cycle driven by our proven ability to capture industry flows, end-market share in the areas where we already have leading capabilities. Our strong presence and focus in high growth areas such as alternatives and international markets, and continued revenue growth and margin expansion reaching the benefits of market growth, operating leverage, and both past and future strategic investments in our investment capabilities, retail and international distribution, and technology and other platform enhancements.

David Hunt will cover PGIM in more detail later. However, I'd be remiss if I didn't also highlight the symbiotic relationship that exists between PGIM and our U.S. Financial Wellness and International insurance businesses. Through its investment expertise across a broad range of asset classes including specialty asset classes like real estate, private placements, and commercial mortgages, PGIM provides a competitive advantage to our businesses in their markets globally. And those businesses in turn provide a differentiated source of growth for PGIM through affiliated AUM flows that complement our successful third-party 16-year track record.

Moving on to International insurance. Our business is anchored in Japan, as Charlie described, where we have a differentiated business model with unique distribution. Our thoughtful and consistent strategy combined with superior execution have led to a sustained and stable growth in core earnings of about 5% per year when you adjust for FX and interest rates. Mid-teens ROEs and significant capital generation and free cash flow that has been brought back to the U.S. We anticipate being able to maintain this growth, return and free cash flow profile into the future. This will be fueled by continued expansion of our life planners, life consultants and third-party distribution in Japan. Additionally, growing momentum in Brazil and other high-growth markets in which we're invested will contribute to growth. And over time, we expect to reap benefits from investments we're making in digital capabilities that enhance our customer's experience.

Scott Sleyster is going to speak more about our International businesses this afternoon, focusing on the sustainability of our growth in Japan, and providing more insight into our high-growth markets, particularly Brazil.

And finally, U.S. Financial Wellness which comprises our U.S. Workplace Solutions including Retirement and Group Insurance, and our U.S. Individual Solutions including Individual Annuities and Life Insurance, each is a strong business operating at scale. Together, they create a comprehensive U.S. Financial Wellness business that leverages our broad set of capabilities to meet the evolving needs of customers.

We believe that our unique Financial Wellness solutions are addressing a critical societal need helping Americans to achieve financial security. And that doing so provides us the opportunity to significantly expand our addressable market. Our own research found that less than a quarter of individuals describe themselves as feeling financially secure. And about 50% of households are at risk of not being able to maintain their standard of living in retirement. While estimates vary by source, external industry research indicates that the life insurance

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gap in the U.S. today is as much as $20 trillion that is equivalent to 60% of the current outstanding in-force of individual life insurance in the U.S. The retirement savings gap stands at $28 trillion and it continues to grow.

With our broad set of integrated capabilities, we believe we are uniquely positioned to capture this opportunity, helping more customers and driving long-term sustainable growth. We continue to focus on expanding product offerings to meet the Financial Wellness needs of our customers including the need for simplified solutions, expanding our omni-channel distribution including digital and hybrid capabilities, and deepening customer engagement and relationships, particularly at the Workplace. You're going to hear more on this during our panel session in a few moments, but for now, I would offer that we are seeing success. Success that we believe we can scale.

Our Financial Wellness proposition is resonating with Workplace clients resulting in higher sales, and is resonating with the employees of those clients, driving higher participation rates in the employer benefit programs and engaging with our advice platform. We believe that this success has the potential to increase the growth rate of our underlying U.S. businesses into the mid to high-single digits, driven by first increased operating margins across our Workplace and Individual Solutions businesses, resulting from the investments that we're making to enable capabilities and enhance customer experience. Second, by increased revenues in our Workplace Solutions businesses due to the competitiveness of our Financial Wellness platform and the increased utilization of the existing employer offered benefits by our clients' employees. And then ultimately by increased revenues in our individual solutions groups, due to our ability to provide additional solutions to our clients' employees and to other retail customers.

And as Charlie covered in his remarks, our growth outlook also benefits from other drivers underlying our U.S. businesses, including in particular, the Pension Risk Transfer market. Despite the increased competition that we're seeing in this market in recent years, we've been fielding a number of questions about our outlook for the PRT market, given the competitive environment. While the pricing has become more competitive, our pipeline and our returns on our PRT business nonetheless, remains solid, due to the growth in the market and because of our competitive differentiation around execution. And while there are instances when for strategic reasons, we may choose to write transactions with lower returns, we continue to expect the overall business to generate returns that are consistent with our targets.

So moving on, let me bring this all together at the company level. As Charlie discussed earlier, our new leadership team is accelerating a transformation in how we work, to increase our competitive advantage by enhancing the experience of our customers and enabling the capabilities of our businesses, to more rapidly realize the benefits of our margins and growth rate, while expanding our employees' career opportunities and impact.

This is not simply an expense reduction project. In fact, we've been very disciplined about managing expenses, maintaining a high level of ROE and low growth in our expenses relative for earnings growth. We've accomplished this largely by financing initiative spending through ongoing expense management.

The catalyst for this transformation is our Financial Wellness initiative and at the center of this, is improving the customer experience by re-imagining our end-to-end operations, leveraging state-of-the-art technology, and investing in our talent, so they have the skills necessary for both them and the company to succeed in the future.

Across the U.S. business system, we're driving programs that are designed to enhance the customer experience, while simultaneously improving operational efficiency and driving revenue growth.

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We believe there is a direct connection and dual benefit by removing various points of friction for our customers and achieving more favorable outcomes for Prudential in the form of reduced costs and increased revenues. One such program presently underway we call One-Front-Door, we're consolidating our U.S. business customer service organizations inclusive of contact centers and service related back office. This will create a simplified, modern end-to-end experience for our customers.

This entails strategic investments in technology. For example, we're creating expanded self-service capabilities for our customers to leverage our true omni-channel experience, data analytics and robotics to assist our customer service professionals in better anticipating our customers' needs. And a common front-end service platform that we call Aurora, so that our customer service professionals can better serve the needs across business and product platforms. This will enable our contact center professionals to provide enhanced service to our customers while also deepening engagement with them.

We're also investing in our talent, our contact center associates will be upskilled to position them to more rapidly respond to complex customer inquiries, provide technical support and service a customer's multi product needs spanning across our businesses. Associates will be licensed as deemed appropriate to provide a more robust and integrated service to sales model, allowing us to meet the Financial Wellness needs of our customers. And as we invest to reduce customer pain points, reduce paper, phone calls, errors, duplication and complexity inside our own system we will enhance customer experience while also improving the profit margins in our businesses.

In the short run, we expect to see the expense efficiencies coming from our streamlined technology-enabled processes. In the long run, the impact is expected to be even more powerful as the higher quality experience between contact associates and customers should accelerate revenue growth from increased participation in Workplace Solutions, enhanced client retention and solutions that go beyond the existing employer offerings. Bottom-line is that we believe the One-Front-Door program will be a direct reflection of our hyper focus on the customer and on enhancing their experience. And we look forward to sharing more in the future as it comes to life over the course of the next year to year and a half.

We have 3.5-year plan of programs like One-Front-Door that span across our U.S. businesses and the functional areas that support those businesses. We expect these to meaningfully increase earnings over this period by about $0.5 billion on a run rate basis based solely on cost efficiencies that arise. Furthermore, while not shown here, we expect to have a measurable impact to revenues from Financial Wellness which is enabled through these initiatives and will become very meaningful over a three to five-year period of time.

We believe that Financial Wellness will be the fastest-growing portion of our business and has the potential to generate earnings that exceeds some of the standalone U.S. businesses and sales that rival the aggregate of our current level of sales coming from all of our Workplace and Individual Solution businesses. We expect to incur between $600 million and $700 million in onetime expenses related to technology, systems, and severance and reskilling and related charges to implement these programs on an accelerated basis. The more successful we are with our initiatives aimed at reskilling and upskilling our employees into open positions, the lower in that range we would expect to be.

A number of the programs in our plan like One-Front-Door have already begun and we have very good visibility into the economics of these. The impact is shown in the solid red and green portions of the bars on this slide. Programs already in flight will produce $275 million in run rate savings by 2022 and result in implementation charges of about $345 million through to 2022 including approximately $135 million in 2019 beginning in the second quarter. We've shown our estimates for the timing of when we expect to incur these costs but recognize that there could be some movement between calendar years as we continue to roll out our implementation.

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Steve Pelletier, Andy Sullivan, Caroline Feeney, and Naveen Agarwal will be providing more color on our Financial Wellness programs metrics and the progress in the next session.

To recap, we have a differentiated mix of high-quality businesses with attractive growth prospects. We're undergoing an accelerated transformation of process, talent, and technology to enhance our customer experience and enable the competitive positioning of our businesses in the Financial Wellness market. This will result in near-term margin expansion as well as sustainable top-line growth into the future, enhancing our earnings growth, return on equity, and free cash flow.

Thank you for your time. Now I think I'm going to invite Charlie back up to the stage with Darin and we'll take questions from the audience.

QUESTION AND ANSWER SECTION

Darin Arita A
Senior Vice President-Investor Relations, Prudential Financial, Inc.

Just as we're getting set up here, I realized we didn't get to share a little bit about Rob there, and we can't let him off that easily. So, he's our Vice Chairman, but he's from Morristown, New Jersey and he's recently become a grandparent.

Robert Michael Falzon A
Vice Chairman, Prudential Financial, Inc.

Twice over.

Darin Arita A
Senior Vice President-Investor Relations, Prudential Financial, Inc.

Twice over. So, you know we want to see pictures...

Robert Michael Falzon A
Vice Chairman, Prudential Financial, Inc.

Yeah. Okay.

Darin Arita A
Senior Vice President-Investor Relations, Prudential Financial, Inc.

...of the babies, of course. So, questions? Jay Gelb.

Jay Gelb Q
Analyst, Barclays Capital, Inc.

Hi. Thanks. Jay Gelb from Barclays. My first question is can you describe the process that you went through in terms of deciding to go through the acceleration plan in the Financial Wellness area? What were the main drivers there to come to these conclusions in terms of how to group these businesses and also how to improve the return profile and growth? Thanks.

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Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Sure. Let me start, and then, Rob, you can you can go forward. Let me start with just the idea of the acceleration because one of the questions, I think, implicit in what you're asking is why – so, why now? And as we looked at this, we've been looking at U.S. Financial Wellness for a long time. We have an increased degree of conviction and, therefore, urgency around it. And as the new management came in, we thought if we have this level of conviction, let's go for it, and let's accelerate things that we knew we were going to do over a longer period of time and do them upfront. It's not a change in how we're viewing Financial Wellness or the groupings of the business per se. It was merely a thought that with our level of conviction as we have worked through this over time and begin to see proof points that we thought let's accelerate more and bring it up front and do it faster. And that's what we're doing.

Jay Gelb
Analyst, Barclays Capital, Inc.

Q

My follow-up question is the cost to achieve those improvements. We do expect those to be included in operating and core income or excluded?

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

We'll call them out. So, they'll be in our operating income, but we'll call them out as notable items. And in addition to that provide clarity as to the payback that we're receiving on those investments as well. So, you'll see both the investment we're making and the visibility around the return that we're getting on that.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

Right there, Nigel Dally.

Nigel P. Dally
Analyst, Morgan Stanley & Co. LLC

Q

Thanks. Nigel Dally from Morgan Stanley. Just a clarification on that. Was the implementation cost of $135 million already included in the previous guidance that you've provided back in December? Or are these incremental cost on top of that?

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

These are incremental, Nigel.

Nigel P. Dally
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then just in terms of the growth rates, what kind of macro assumptions – like we've had interest rates come down a fair amount. Do we need to see an improvement in rates or those growth rates would be achievable or do you have enough levers about to hit it regardless?

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.

A

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Margin improvement is not driven from macros. It's frankly all under our control. And so, this is an enhancement to our earnings that's not going to be a function of market outcomes. Obviously, our base case has market assumptions in there that we've shared with you, but this increment to it is, is the – the beauty of it is it's – it will not be market sensitive in terms of both our ability to implement and then to realize the savings associated with it.

Nigel P. Dally
Analyst, Morgan Stanley & Co. LLC Q

Great.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc. A

Back there, Tom Gallagher?

Thomas Gallagher
Analyst, Evercore ISI Q

Thanks. Tom Gallagher, Evercore. The $500 million of expense saves, should we expect all of that to flow through to the bottom-line or any of that expected to be redeployed back into the business?

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc. A

No. That's net expense saves over the 3.5-year period would be cumulative over time.

Thomas Gallagher
Analyst, Evercore ISI Q

Got it. And then my follow up is the 12% to 14% ROE guidance has longer-term, intermediate term 12% to 13%. By the time the $500 million is fully implemented in 2022, would you expect to be close to a 14% towards the high-end? It's a meaningful earnings contributor and I'm not sure exactly the definition of intermediate versus long-term and how you're thinking about that.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc. A

And that's the art.

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc. A

No, what we thought about going from 12% to 13% to 12% to 14% is you just think about the median, right? So, 12% to 13%, you're at 12.5%; 12% to 14%, you're at 13%. We felt comfortable saying that you would be somewhere between 12% and 14% over that longer period of time with the median being 13%. So, we feel pretty comfortable with 13% and then you would have some variation around that depending among some of the macro, the macro trends that Rob was talking about.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc. A

Yeah, I'd say Tom that, you think about macros as being the plus and minus around the 13%. But then obviously, Financial Wellness would be on the plus side of that. Our ability to go from 13% to 14% will be the manifestation

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of the run rate earnings that we're achieving. And so, you can kind of do the math and look at those earnings and see how they're contributing into it.

And so you'll see that, I think, begin to migrate toward that within the horizon that we've talked about. Those margin saving should begin to push us. Remember the enhancement in margins don't come with a capital requirement, right? That's pure down to the bottom-line without any capital that it draws. And so, that has a fairly material impact on profitability and ROA.

So, I think you'll see, absent macros just on business execution, some upward bias above the 13%.

Darin Arita A
Senior Vice President-Investor Relations, Prudential Financial, Inc.

Ryan Krueger?

Ryan Krueger Q
Analyst, Keefe, Bruyette & Woods, Inc.

Thanks, Ryan Krueger at KBW. I guess, in the past, Prudential has typically done M&A more in downturns when the properties you purchased were at lower valuations. You mentioned strategic M&A in your priorities. I guess, can you give a sense of has your strategy changed at all? Do you feel like you want to gain additional scale in the Financial Wellness area and would be willing to do so in the current environment or is it still a strategy where you wait for opportunities in a downturn?

Charlie F. Lowrey A
Chairman & Chief Executive Officer, Prudential Financial, Inc.

Well, we'd prefer to pay less rather than more. So – but to your point, we're looking at M&A in a couple of ways. One, domestically it's precisely what you've said, which is to gain more scale in Financial Wellness where it's appropriate to do so. And then, the other would be International in the growth markets. And you've seen us do that with Indonesia and Africa and stepping up in India and doing a number of other things. But you should anticipate that we would want to go deeper into the countries in which we already have operations and expand in those. So, those would be the two areas.

Ryan Krueger Q
Analyst, Keefe, Bruyette & Woods, Inc.

Thanks. And then, just one quick clarification on the 12% to 14%. I know that's an – I think that's an adjusted metric. So, does that exclude the implementation costs of Financial Wellness, or is it included in the 12% to 14%?

Robert Michael Falzon A
Vice Chairman, Prudential Financial, Inc.

Well, we'll rapidly get to 14%, if you exclude the onetime costs obviously. So, we'll look at it that way, it depends on how you want to look at that. But the ability to get to the 14% was accelerated, if you assume the onetime are sort of notable and pull them out from the equation. Yeah.

Ryan Krueger Q
Analyst, Keefe, Bruyette & Woods, Inc.

Thank you.

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Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Humphrey Lee?

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC
Q

Humphrey Lee from Dowling & Partners. Just to follow up on Ryan's question about the M&A side. You talked about the U.S. Financial Wellness, kind of where you can add to your scale. But you – just earlier you talked about your scale in all the spectrums. I guess maybe you can elaborate in terms of where do you think which area along the Financial Wellness spectrum that you use additional scale that you don't have right now, or any area that are of interest to you at this moment?

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Sure. So, we are at scale at our businesses, but that does not mean we wouldn't want to be larger in specific businesses. Now, when you think about Financial Wellness, you think about our ability to access customers. And therefore, if there are businesses where we can access a great deal of more customers, we would think about those kinds of businesses. So, whether it was in retirement or other areas, if there was an opportunity to look at some of those businesses we might.

In addition, we are obviously at scale in PGIM, but what you've seen us do over time is to augment the talent and the skills we have with other smaller acquisitions to infill, if you will, other areas that we want to be in. So, it's more at the margin, Humphrey as opposed to a mass acquisition, but we will look for those opportunities to improve our businesses either by accessing additional customers or augmenting some of the talent we already have.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC
Q

And then shifting gear, in terms of the $500 million cost saves – I'm sorry, the $500 million benefits, how should we think about like – of the three pillars how should we think about where would they be coming from. Would it be in the U.S. Financial Wellness or International? How should we think about that?

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.
A

[indiscernible] (00:42:57).

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

You go ahead.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.
A

Yeah. So, if the margin expansion cuts across all of our businesses because we're creating capabilities across all those businesses. So, it's the functions that support those businesses, so all the businesses benefit by the initiatives that exist within the functions and then each business is undertaking a process. So, in that 3.5-year plan, we have both the identified or the in-flight, everything is identified but we have the in-flight and yet to start included in all that is every business and every function in the U.S.

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Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

So, Humphrey, if you think about Rob's example that he used during his presentation about customer centers, we have customer centers in a number of different businesses which we're consolidating. That's a perfect example of going across the businesses and then providing end-to-end processes for the customer, making it easier for the customer but obviously gaining efficiencies within Prudential.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Take one last one, Suneet Kamath.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.
Q

Thanks. Maybe I'll do two. So, first on that slide 9, Rob's slide 9, how are we – if these are going to be spread across the businesses, how are we going to track kind of how this stuff comes through, because I'm assuming it's going to be kind of co-mingled with the sort of ongoing earnings of the businesses? Are you going to sort of separate a Financial Wellness like line item or something that we can track to see how are you doing relative to that slide 9?

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.
A

Yes.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.
Q

Okay. And then my second question is – I guess for Charlie. You talked about a disconnect between the fundamental business performance and then the financial outcomes at the corporate level. So, what's caused that to happen in your opinion? And I didn't hear anything that you guys were talking about in terms of what corrects it.

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

So, I think there are three things to think about with that question. So, the first is the progress we've already made. So, if you look at what we've done already in terms of bringing GAAP net income and AOI. Before, and you'll see this in a slide later in Ken's, there was a tremendous variation and we brought that way down. Now, what we're talking about is on a quarterly basis, how do we do that better? And Ken will explain some of the things we're doing in order to revise that further. But the other thing we have to do better is to make sure that we portray correctly to you all the seasonality of our business. Because there were some disconnects where we think we're making plan and you're up here and we're down here or vice-versa. And we have to sync that up better.

So, there are three things we've done. One, we've already done which is a heavy-lifting, Rob and his team did a number of years ago. The second is refining that on a quarter-to-quarter basis. Because if you look over the longer term, we're not so bad in hitting our numbers. But on a quarterly basis, we don't necessarily meet expectations. And the third is to revise expectations to make sure that we're in sync better.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.
Q

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When does that in-syncing process start? Is that something that we should expect for 2Q or like how should we expect that to get rolled out?

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Well, 2Q is almost here. That would be – but I think you will see us begin to do this going forward certainly in the rest of this year and next year as well. So, it's an ongoing process. We're very cognizant of it and we're working to help you help us.

Robert Michael Falzon
Vice Chairman, Prudential Financial, Inc.
A

Ken will talk a little bit more about this during his presentation as well.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.
Q

Sounds good. Thanks.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

All right. Thank you. Thank you, Charlie.

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Thank you.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Thanks, Rob. I know there were some other questions out there. Charlie and Rob will be available throughout the day but also, we will have a general Q&A session at the end for all of the presenters.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

Just the next group coming up for the U.S. Financial Wellness businesses will have four presenters there.

We will start with Steve Pelletier. He is our Executive Vice President and Chief Operating Officer of the U.S. businesses. Steve is from Darien, Connecticut. And he is a recently retired surfer. When you see him it will explain part of the story there.

Next up is Andy Sullivan. He is the CEO of Workplace Solutions. Andy is from Wilmington, Delaware, and he has spent two years underwater. So, if someone could just ask the question to explain that, I would like to know.

The third person would be Caroline Feeney. She is from Chatham, New Jersey. And she's also the CEO of Individual Solutions. And Caroline also likes to do spinning. And so, I envision her behind Charlie there racing.

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And then, finally is Naveen Agarwal. He's our Chief Marketing Officer. Naveen is from New Delhi, India, and he is an avid traveler having been to 42 states, 30 countries. I'm wondering what are those eight states he hasn't been to. That could be a good summer road trip.

So, please welcome, Steve, Andy, Caroline, and Naveen.

Stephen P. Pelletier

Executive Vice President & Chief Operating Officer-U.S. Businesses, Prudential Financial, Inc.

Thank you very much, Darin. I appreciate the opportunity to be here with you today. I mean that quite literally. My retirement from surfing is recent but permanent. I appreciate the chance to review with all of you Financial Wellness and the important role it plays in our strategy. As both Charlie and Rob touched upon, we expect Financial Wellness to contribute quite significantly to our growth rate.

Over the past two years, on our earnings calls, we've been able to offer you kind of instance by instance various examples of our progress in Financial Wellness. But today, we want to do something different. Today, we're looking to give you a complete end-to-end perspective on our Financial Wellness strategy, the traction that we're gaining in the marketplace, and what we expect to accomplish from it.

In this discussion, I think we'll be successful if you took away three key messages. First, Financial Wellness is a particularly compelling opportunity for Prudential. I say that because of a highly differentiated approach that we're taking to it, of a combination of solutions and income protection and investments that we bring to bear, and the fact that we bring to bear a full continuum of education and advice.

Second, Financial Wellness is about serving the needs of both institutional clients and the individuals they employ. In creating value for both of those groups, we're also creating shareholder value that we will realize across our businesses over time.

And third, Financial Wellness significantly expands our addressable market. It complements but does not replace advisor base distribution; both Prudential Advisors and that which we gain from our third-party partners. That advisor base distribution remains a vibrant and important part of our strategy.

Let me start by expanding on this positioning for differentiation. Several years ago, we began to meaningfully increase our investment in our digital properties, seeking to enhance the customer experience in more direct, personalized and cost efficient way. So, this has been going on for some time, but now in the ways that Rob described in his comments, we're poised to significantly accelerate our path forward in it.

Two years ago, as Financial Wellness started to come into greater clarity, we reorganized the U.S. businesses into the Workplace Solutions group and the Individual Solutions group, along of course with PGIM. This structure aligns to the key customer groups we serve and we think it better expresses the relationship among our U.S. businesses that underlies the successful execution of the Financial Wellness strategy. We are positioned to deliver at scale and to do so distinctively given, first of all, the 20 million people, a significant swathe of the American working population who already come to us via our Retirement and our Group businesses. We are one of only a handful, and I mean just the two or three players who, in Financial Wellness, who have both the Group and Retirement businesses at the top of the funnel. Usually when speaking about the funnel, I raise my arms over my head. You'll forgive me if I don't do that today.

Second point is the range of solutions we offer. We create some of those solutions around income, protection and investments. And in doing so, we're playing to our proven strengths and realizing the full economics of offering

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those solutions. But we also source additional solutions through partners who are drawn to us by the size of our footprint by the 20 million customers and growing that they can gain access to through partnering with us. And finally, as I touched upon before this continuum of education and advice, that certainly includes Prudential Advisors but with the build-out of our hybrid advisory models and pure digital engagement models, we're able to offer a full spectrum of ways in which we can engage with people.

Let's cover how this combination of business mix, capabilities, and strategy enable us to address the Financial Wellness needs of companies and individuals in a distinctive way. Employers have always been concerned about the financial wellness of their employees but now in recent years, much more so than ever. They are seeing the impact of financial stress among their employees. And they see both the imperative need and the opportunity for improvement in areas such as productivity, absenteeism, and delayed retirement. We are already seeing signs of how a successful financial wellness program can make a difference in this regard. And Andy will speak more on this in just a bit.

It's probably useful at this juncture to say, how do we define financial wellness? We define it as helping people take actions, I can't emphasize that enough, take actions, that help them achieve progress in foundational elements of financial security including managing of day-to-day finances, growing household debt and growing expenses can be challenges, even to those of moderate and higher income.

Second, achieving important longer-term and larger-ticket financial goals, such as retirement and education. That's not my music.

Third, protection against key risks like the loss of income due to the death or disability of an employee or his or her spouse. I mention this because, if you define financial wellness in this way, it becomes clear that it has to be much more than some type of cross-sell program or rollover initiative.

A financial wellness program that serves these needs has to deliver in three fundamental ways. First of all, financial wellness has to have something in it for everyone, regardless of their needs and resources. I say that to simply to state the basic reality that if that need is not met, the program is not addressing the employer need for better financial outcomes across the employee base. For many people, the answer to that question, what's in it for me, will simply mean using education and guidance to get their day-to-day household finances in better order before they're able to address longer-term goals.

Digital engagement means that we can help in ways that are both effective for those individuals and scalable for us. Financial wellness has to be needs based and completely agnostic on the type of action an individual chooses to take in pursuit of financial wellness. By that I mean, in plan or out of plan. Most people will choose in plan, will choose to take steps in which they're better utilizing their employers' sponsored plans in retirement or group benefits. Some will choose individualized retail solutions. Either way, our business mix and our capabilities and the way we're defining financial wellness means that we will be there with solutions in either choice that they make.

Financial wellness experience needs to be holistic, seamless and personalized. Only that will drive action. Drop-down menus won't be enough to get people to where they need to be. Delivering on these elements will enable us to create revenue growth in three discrete but related ways spanning across our businesses.

First, growth from the value proposition for employers themselves. We see this as being in the near-term. In fact, it's already happening now. Witnessed the recent Financial Wellness-based wins in Group and Retirement. We're really pleased to see that it's having a particular impact in priority employer segments that we've targeted for

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growth in Group and Retirement. And we see Financial Wellness beginning to have an emerging impact on our retention rates in those businesses.

Second, we call individuals within institutions, as you see here. And that's emerging in the intermediate term. Employees' increasing plan contributions and optimizing benefit plan usage with the benefit of Financial Wellness guidance. Andy will speak to these two growth drivers in a moment, but we're already seeing the results, and as I say, those results will become visible in our earnings in the intermediate term.

Third, creating enduring, personalized relationships serving more people in that expanded addressable market over longer periods of time. Being better able to realize lifetime value of the customer as we serve those needs – serve their needs as those needs evolve over time. This is a longer-term development. We will see sales beginning to show signs of conviction around this in the near and intermediate term, the earnings impact of this individual dimension will emerge more in the longer-term. And Naveen and Caroline will talk about how we're going to build towards this.

Rob spoke earlier about how our transformative efforts in technology, talent, and process enable us to accelerate our path forward in this. He spoke of the margin expansion created by those efforts and how those efforts will enhance earnings in the range of $500 million by 2022. In this session, though, I want to make clear, we're speaking of the market-facing, revenue-driving impact of these and other efforts that will enhance earnings even further over a somewhat longer timeframe, producing an additional earnings stream that will certainly be visible in the intermediate term that Rob illustrated. But that by 2025, we expect to be measured in the hundreds of millions of dollars and growing rapidly.

With that, I'll hand it off to Andy.

Andrew Sullivan

Senior Vice President & Chief Executive Officer-Workplace Solutions, Prudential Financial, Inc.

Thanks, Steve, and good afternoon, everybody. So, I will save you the question. I was an officer on submarines, and I spent six patrols at sea, four months underwater for each. So, 6 times 4, 24 is my underwater.

We view the Workplace as a very good environment to help individuals with their most pressing and prominent financial challenges. You will actually quite often hear to us refer to this as the Workplace being the frontline of Financial Wellness it's why we feel so positive about the strategic advantage of our Workplace businesses and the 20 million individual customers that we serve.

So, why do we feel so strongly about this? First and foremost, employees trust their employers. Let me just share some quick information from the 2019 Edelman Trust Barometer, which is one of the most respected research sources in the area. Trust in the employer outranks trust in any other single institution across the globe. Individuals trust their employer at much greater levels than they trust the government, than they trust media, than they trust businesses in general, and even in their trusted non-profits. So, this is a key reason that we are experiencing greater levels of engagement when we deploy our tools and capabilities in the Workplace.

As a very simple and straightforward example, we see that when we engage individuals in the Workplace, they open our emails at a rate 10% higher than when we engage with them from a pure retail prospect. Add on top of all that, that employers really are leaning in and have a vested interest in improving the financial wellness of their employees much as Steve spoke to. We are absolutely experiencing as we've delivered our capabilities, our institutional clients leaning in and working with us. This actually makes great sense to us, that's why we chose the strategy that we chose and it's why we're so focused on Financial Wellness.

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As you've seen, we've been delivering capabilities and a value prop, it is resonating in the market. And our programs are designed to produce benefits for the institutions that we're serving and their employees. So, for the institutions, it helps them understand and actually experience the benefits of having financially well employees, that directly is translating to an impact on their bottom-line, and they along the whole journey of working with us can monitor and measure the effectiveness of each and every program from a Financial Wellness perspective that we implement.

Now, as we've been implementing these, there are a couple aspects that are really important to the success that we've seen. First, and Steve mentioned this, we have been creating capabilities that work for the needs of all employees. This is very important. This cannot be about just helping the top executives in these corporations. One of the most important groups that we are working to serve is the very large middle-market affluent segment. These are individuals in the Workplace that have a high level of unmet need, that have the discretionary income and assets to solve their needs, and they're individuals that are not currently being served through the traditional financial retail channels. This is an area that Caroline will speak more to when she comes up.

The second area that's been part of our secret sauce to our success, employees we work with are rightfully protective of their employees. So, as Steve mentioned, our offerings must truly be needs-based in approach. The rapid adoption that we have seen of our capabilities that we've delivered to the Workplace is clear evidence to us that we are taking the right approach and this needs-based approach is working.

So, just as an example, in the past 18 months, we have had 3,500 of our employers adopt our digital Financial Wellness platform which gives us access to help and serve 8 million individuals in new and different ways. That represents about 40% of our employer client base.

The final key to success criteria is employers expect to see proven outcomes. They want results from their financial wellness programs, results that Steve spoke to. Things like lower absenteeism, lower healthcare costs, higher productivity, where their employees can retire on-time and talent retention. We are showing our clients evidence from our programs as we work with their populations. And as this evidence deepens and grows, so does our differentiation against our competitors and so does the value that we derive.

So, let me go little deeper on our leading capabilities. Hopefully, you've had a chance to experience these outside. If not, I encourage you to do so. Just to reiterate what Steve said, these capabilities are about taking the individuals we work with in the institution from education to action, so that they can actually move forward and improve their financial wellness.

So, the first thing we work with them on is improving their understanding of personal finance topics. Things like budgeting, debt management, credit counseling. We then work with them to more deeply understand their personal and unique needs. This increased education and understanding often leads to them better taking advantage of their employer benefits package including voluntary offerings. And finally with our approach, we are providing access to a broad set of individual services and solutions. These are designed to complement the employer benefits and voluntary benefits and solve the remaining financial needs. So, these are things like one-on-one financial coaching, emergency savings vehicles and student loan assistance. As another example, in the first three months of rolling out our student loan assistance offering to the marketplace, it was adopted by over 400 employers in those for a few months.

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Now, as I talk about individuals, it's important to keep in mind when we serve individuals in a more holistic and broad way, that reinforces the employer value proposition. And it naturally starts to activate that first value bucket that Steve's talked to.

So, when we take a needs-based approach, we've been working very hard to prioritize the capabilities that are most critical to enabling financial wellness for the middle-market and the mass affluent.

Now, a lot of these solutions, we already have great depth in; income, investments, protection, right? And we are seeing that that is a competitive differentiator versus narrow offerings in the marketplace.

As we keep leaning in and continue to learn about our customers and their needs, we are broadening our solution set. Now, some of – in that endeavor will be done through partnering, as Steve mentioned, where it makes sense and when it makes sense.

So, we're about two years in to this rigorous focus on Financial Wellness and we like what we're seeing. We are observing clear signs of success that give us conviction that we will accelerate our growth rate. These signs are emerging in three value buckets that Steve spoke to. I will go more deeply on the first two value buckets.

The first is what we call institutional value. You've heard us quote on our quarterly calls, the enhanced level of Group Insurance and Retirement wins. Obviously, we like that very much. We have defined market segments within the Workplace Solutions group that are targets for us, where we want to grow at twice the rate of market growth.

For Group Insurance, this is the premiere segment and we define that as the segment that has employers with employees between 100 and 5,000 and the association segment. For Retirement, this means the non-jumbo corporate plan market segment with plans with assets between $50 million and $500 million.

Now, while those are the focus areas, we're also highly encouraged what we're seeing outside of those target segments in areas that we've traditionally been less dominant. And I would just cite some of what we've seen in our Retirement business. Our full-service Retirement business in the last 12 months sold its two largest clients ever. And we are absolutely seeing more RFP flow in the $1 billion plus asset category than we've ever seen in the past. We also expect to see better client persistency across both Group Insurance and Retirement, and this make sense. As you might imagine when we engage with an employer and they adopt more and more and more of our capabilities, we move from being a vendor to being a strategic partner. As we're feeling that shift in the depth and breadth of our relationship, we expect that we will see pricing, we will – that will reflect in our pricing levels we achieve at contract renewal.

The second value bucket as Steve talked about is individuals within the institutions, and this is all related to participation and flows from our existing customers. This directly emerges from the access we have with our digital platform. We expect to more than double the individuals on that digital platform from 8 million today to 12 million by the end of the year to 20 million by 2025. We expect that this will lead to better participation and contribution levels from Retirement plan participants and will lead to better voluntary participation in our Group Insurance unit. Based on evidence that we've already seen, based on that positive evidence, we believe that we'll achieve a 10% improvement in each of these metrics over time and that will lead directly to growth in the business and in the bottom-line.

So, to summarize, we've been very pleased that the Workplace is proving to be an effective environment to deliver our Financial Wellness capabilities. We are seeing the metrics and value that we expected to see. And

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importantly, on the timeline we expected to see it. We always knew that the institutional benefits would show up first in this journey. Our core businesses are being strengthened and we're encouraged that they will – that the growth is accelerating.

With that, I'm going to hand it to Caroline. Caroline will go more deeply on how her businesses are deepening our Financial Wellness work, but we'll also cover that third value bucket individuals and how that will all merge over time. Caroline?

Caroline A. Feeney

Senior Vice President & Chief Executive Officer-Individual Solutions, Prudential Financial, Inc.

Thanks, Andy. Good afternoon, everyone. So, today, we serve about 5 million customers through our advisory channels, which includes just over 1 million annuity customers and the balance are individual life insurance customers. And virtually all of those customers came to us through financial advisors. And while the mix varies year over year, over time it's been about 20% through Prudential Advisors and 80% through our third-party partners. And in any given year, we've realized sales for about 70,000 advisors in total.

And we also recognize that one-third of Americans' financial needs today are met through financial advisors, which is why we are very much committed to doing business this way through face-to-face and it continues to be a key part of our strategy. We also believe, however, that it's very important that we meet customers where they want to be met – on their terms and how they want to engage with us whether that be online, whether that be through a hybrid platform where we can actually serve clients on the phone or through video conferencing or whether that be through a more traditional face-to-face engagement. And Prudential is uniquely positioned to be able to offer advice across that entire continuum, because we do have direct digital capabilities and because we do have a fully-tested and functioning hybrid center. And of course, we have also our own Prudential Advisors, and ability for us to combine this high-tech and this high-touch are going to enable us to serve a larger segment of Americans that to-date the industry has not reached successfully.

And as you can see from the slide behind me, we're reaching about two-thirds of the mass affluent market through advisors. However, through the advice continuum that I mentioned and our high-touch, high-tech approach, we're actually going to be able to help a greater population of individuals who also need advice and who also need holistic solutions in the other two segments that you see here, namely the middle-markets and the mass markets. And these we see as underserved populations. We're only reaching 48% and 27%, respectively. And this is where we actually see our digital solutions as well as our hybrid platform creating an opportunity for us to have a really positive impact. And it's also why we see, as Andy mentioned, the Workplace as a key way that we're going to be able to expand our reach into these underserved markets.

So, if we couple the needs-based advice continuum with the strategic business decisions that we've made to focus on businesses that offer guaranteed income, that offer investments, that offer protection, we're able to offer a very broad array of needs-based advice and solutions, and we have evidence that this is working through a program that we actually call Prudential Pathways. And Pathways is our worksite financial education program. It's delivered by our financial advisors but we now also have it available on a digital basis.

And Prudential has really been one of the foundational elements of our Financial Wellness offering, and it's a highly differentiated offer in the employer space. It is delivered in a non-solicitation environment to the employer and to the employees at no additional charge. And this program has actually now grown to the point where we have delivered financial education seminars to over 600 institutional clients, and we've had well over 50,000 attendees complete the program. And Pathways has very much been welcomed by the employers and by the

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employees and we see that very clearly through very detailed survey results that we've been tracking since the inception of the program.

For example, 96% of the attendees would recommend this program to a co-worker or a friend, which helps us organically promote the value of these financial education seminars. And for those seminar attendees, what we've learned is that 96% of them, plan to create or to update a will, 97% of them plan to maximize their group benefits and 98% of them plan to create a household budget or plan to change and update beneficiary forms. Obviously, all key elements of financial wellness. But I think we can all agree that planning to do something and actually doing something are two very different things here. So much more importantly we do see that for attendees subsequently they are taking action to improve their financial wellness, including increasing their participation in the sponsored retirement plans, and increasing their utilization in their group benefits.

In fact, 10% of our attendees who participate in Retirement Pathways seminars are actually increasing their 401(k) contribution by an average of 2.5 percentage points. And for the business, for the average contribution rate that equates roughly to a 35% increase in withholding. And remember that our advisors are approaching these seminars as teachers first and their goal is to provide education to the attendees to support their financial wellness. What we're finding is 25% of the attendees are actually raising their hand and asking for a one-on-one follow-up appointment from the financial advisor who led the seminar. And 20% of those are ultimately purchasing one or more financial solutions.

We're also finding that Pathways is a powerful retention tool for us. And it's also a quality lead-generation mechanism for Prudential Advisors. And because this program provides access to a new group of potential retail customers, we have actually been very successful in attracting a significant number of new experienced financial professionals to Prudential.

Pathways is working well, clearly and you see that we have some tangible results here. But we also recognize the fact that we are not going to reach 20 million employees through 3,000 advisors. So, what we did is we took the financial education content that we had, and we optimized it for online learning and that gave us access to another 3,000 institutional clients, and as you heard earlier, access to another 8 million individuals through our digital Financial Wellness.

And our experience from Pathways, essentially a proof of concept for overall Financial Wellness strategy, in addition to driving value in its own right has actually really helped us create the experience in a way in which it's now highly meaningful and highly engaging to the participants.

As Andy mentioned, these relationships with individuals are built over a longer period of time as individuals are engaging with us and seeing the benefit in the content and the education over their entire lifetime and meaningful events and needs. However, once these relationships are established, they are longer lasting which obviously then creates lifetime value for Prudential but also greater lifetime value for the employees as well.

And Andy also shared some numbers about the scope that we have in terms of the access to be able to provide education as well as retail solutions to the individuals. And based upon that access, we position ourselves and maintain that we will be able to add 1 million new retail customers by 2025 through Financial Wellness. And while that's modest relative to the large base of individuals in the Workplace, it is quite sizable when you think about the retail base of 5 million customers that we have in the Individual Solutions group today.

So, to talk a little bit further about how we're doing that as well as some of the early results, I'm now going to turn it over to Naveen.

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Naveen Agarwal

Senior Vice President & Chief Marketing Officer, Prudential Financial, Inc.

Thanks, Caroline. So, I think you've heard about this notion of 20 million customers from all of us. So, when I'm like traveling to let's say West Coast in my travels and when I meet these start-ups and everybody I talk to, they want to partner with us to engage these 20 million customers somehow, right? We at Prudential are doing exactly that.

So, the question is how do you engage 20 million customers, right? How do you engage them? So, the answer is you have to use technology. You have to use customer engagement in a different way, right? So, Forrester actually last year did a survey. And the survey was all the P&C insurance companies, life insurance companies, and they said let's look at your customer experience. We were number two overall. In every category, we were number one, except for one thing. That one thing was we were not selling life insurance online at that time. So, we did not have an online life insurance take.

Now, not only we have bridged that today. If you go to Google, and if you search, buy life insurance online, we are the first non-paid ad, the first link, if you [indiscernible] (01:19:02) we're the first link that shows up. In Google, there's only one number one, and that's Prudential, right? That shows the power of customer experience. That shows, if you have strong customer experience, you can drive traffic and engage people at large scale, right?

So, how did we do that? How did we suddenly it become – coming from page number four to say page number one and first link. That comes with the way Prudential works. I think Charlie talked about it. Our culture is about going deep. So, we have built a team of about 125 people in California in Sunnyvale in Silicon Valley. And that team is driving our customer experience [indiscernible] (01:19:47).

We've built a team in Minneapolis which is thinking about how do we deliver advice at scale in different ways. So, they're thinking about how do I engage with the customer in the context of online engagement. How do we learn about their needs? How do we think about doing this on video? That's something what we've accomplished over the last two, three years. So, Steve talked about that investment that we have been gradually looking at, what would it take to engage these customers at scale, right?

The ecosystem we have created has three key parts to it. First is, how do we think about customers who are coming to us through online mechanisms, which may be both logged-on sites as well as not logged-on sites, right? Both are very important. We learn quite a bit when people log on but also quite a bit when they don't log on.

Secondary is, how do we use artificial intelligence and machine learning to learn deeply about the needs of our customers? And I'll talk more about that, because that actually is really important. When you think in the context of needs of your customers, you will drive far more success.

And third is the notion that Caroline talked about, our capabilities. What Prudential has today? Our massive distribution, our capabilities in the context of solutions, how we think about engaging people in that context can drive high differentiation for our overall business, right?

So, if you think about the moat we are creating across our competitors in Financial Wellness, that's what's driving our confidence in our strategy. That when we are seeing customers how they're engaging with us, it's giving us confidence that we can engage these customers at scale.

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So LINK, I think a few of you got a chance to see it. What LINK is? LINK is an interactive, highly-interactive human-centric way of creating a modern financial plan. What it does is allows our customers to think about human needs and take those human needs and convert them into, how do I solve for these? Those solutions, right?

Again, the need context, completely in the need context and the solutions that they can go after are everything from; income, to investments, to protection – and by the way, the power of Prudential again, we've worked with our partners in PGIM and QMA in yet another way, to deliver another retail solution, right?

So, the connecting of overall ecosystem is quite important in the context of LINK. What we are seeing is, as we are engaging the LINK, I'll actually kind of give you a little bit – what is that outcomes that we are driving to? What are the things that are coming out?

So, we talked about three buckets here, right? So, I'm focusing on the third bucket, how do you engage retail customers? So, if we think about LINK and our engagement overall, I think Andy talked about this very briefly. Today, our educational tools and content is already being used by 8 million customers. What does that tell you? That tells you that our employers are leaning in. When they are seeing this experience, they are saying I think my customer will like this. My participant will like that. So, what we are seeing there? What we are seeing is that 8 million customer that we have today, we believe by end of the year, we can get it to 10 million, right? And by 2025, we can double that, right?

So, what we are seeing especially here is when these customers are coming online, when they're logging into our websites, we are seeing 40% of these customers engaging with our content and tools.

Now, if you ask any additional person, they'll tell you, generally speaking, you will see about 10% to 12% of customers engaging. That's powerful. That shows you that what we are showing them is topical and need-based, right. So, that's kind of the first thing I would say really important.

Second part is, earlier this year we said, how do we take these customers who are engaging with tools and start putting solutions in their roadmap? So, we started small. We said let's start with 200,000 customers. And given the 8 million number, you can imagine getting to 2.5 million retail activity of customers to whom we can show solutions should not be that hard, right. And that customer base, we believe, by 2025, we can get to 12 million.

So, what are we seeing there? What we are seeing there is that as these customers are coming, if you start on LINK, 50% of customers who register are completing their plan all the way. Well, think about it. These customers, over time, will have several life events, right. They'll have children. They'll get married. They'll switch jobs. Those kind of things will start impacting how we start selling solutions to them.

So, if you think about our next layer, which is how will we drive adoption of solutions into these customers, what we are projecting is that if every year we can take 2% of our customers, just 2% every year, and we can bring them into a need-based solution thinking, if we can engage them in our solutions, just 2% from a benchmark standpoint, you will actually meet our third bucket, the retail bucket financial aspirations, right. Because if you think about the math, [ph] the tune is (01:24:50) little less than 2% because if we have 12 million activated customers, we can get to 1 million by 2025.

So, that's the thinking. And by the way, personalization is really important here. And why I'm saying that? Because we talked about this Google thing, right, where people are coming to buy life insurance. When we can predict the need of our customers when they go online and for example on life insurance, when they're saying get a quote, what we are seeing is we're able to convert that customer at 20%.

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So, we can personalize and understand the needs. It drives a different level of engagement. So, if you think about that metric that we are seeing 20% conversion and you think about how we're thinking about that 2%, it gives you that view of why we are so confident about our strategy. And what it does is it actually expands the pie, because now we are going after that customer segment, which was generally unserved before.

So, the notion of being able to connect our solutions with deep customer engagement to create franchise value is what we're talking about with Financial Wellness.

Thank you. And with that, let me pass it to Steve.

Stephen P. Pelletier

Executive Vice President & Chief Operating Officer-U.S. Businesses, Prudential Financial, Inc.

Thanks, Naveen. So, just to wrap up very quickly. Our intent was to provide you, as I said, this end-to-end perspective on Financial Wellness and three key takeaways. First, Financial Wellness serves a critical need for individuals and for the companies that employ them and that requires the type of experience that drives outcomes by helping people take actions. Second, our differentiated approach and mix of capabilities around solutions, education and advice and a continuum of ways in which we're able to engaged individuals positions us as a compelling Financial Wellness choice for institutions and individuals. And third, delivering on the strategy will lead to three drivers of revenue growth over the near, intermediate and longer term, each of which will, in addition to the margin expansion that Rob reviewed earlier, will contribute meaningfully to our earnings and shareholder value.

And with that, Darin, I think you're going to lead us in taking some questions.

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QUESTION AND ANSWER SECTION

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Questions? Josh Shanker.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you. So – thank you. Josh Shanker, Deutsche Bank. Talking about the benefits business in terms of – how does your plan help you sell to new employers? First, what I understand that they get higher retention on the current and getting more buy-in from the current customers, but do these programs help you acquire new customers [ph] into (01:27:31) as the brokers get more sophisticated with their graphical user interfaces that make it easier to buy? How do you crowd out competitors who are offering similar items trying to also improve up the value curve?

Andrew Sullivan
Senior Vice President & Chief Executive Officer-Workplace Solutions, Prudential Financial, Inc.
A

So, I would say a couple things. One is new sales is all about producing differentiated outcomes on our existing book of business and having clear evidence and case studies that we could share in the sales process, which many of our customers that are strategic partners from a Financial Wellness perspective are working with us and going deeper and getting to a place – were getting to a place where we have those outcomes and case studies that we're using in the sales process. That's actually why when we talk about our enhanced levels of asset flows that we've already experienced in Group Insurance sales, that's what's been activating it is that very element of it.

And if you could repeat the second part of your question?

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.
Q

The large employers offer a lot of things to their employees and so how do you crowd out people who are offering similar products to what you're offering or what not?

Andrew Sullivan
Senior Vice President & Chief Executive Officer-Workplace Solutions, Prudential Financial, Inc.
A

So, you also mentioned the intermediary. So, actually a number of brokers in this space and intermediaries in this space have actually adopted our platforms and our solutions not only for their own organizations but as they're offering to all of their clients. So, we are actually spreading to clients that we don't touch with their core offerings already through those intermediaries. So, we're not experiencing that crowding-out effect at all. We're actually experiencing quite the opposite an expansion.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

And now we go to Erik Bass and then I think Jay Cohen.

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Erik Bass
Analyst, Autonomous Research US LP

Q

Hi. Erik Bass with Autonomous. There's a pretty significant retirement legislation that's working its way through Congress now. I'm was curious your views on what that could mean, first, on the retirement side in order to expand your client base are going to deepen the penetration, but then, also on the annuities' side, do you think a Safe Harbor is going to be enough to kind of open up the market for in-plan annuities?

Andrew Sullivan
Senior Vice President & Chief Executive Officer-Workplace Solutions, Prudential Financial, Inc.

A

So, maybe I'll start, Steve, on the retirement side. So, obviously, I mean we all know the stats of how little access there is to actually the defined contribution system across the employer base. And in particular, when you talk about small employers, you're at below 50%. So, we're very encouraged. We have been very proactive in DC and in trying to insert our voice and help the process as the SECURE Act has come through and now passed on the House side. We're very encouraged that that will start to help solve through the multiple employer plans the access challenges. And all of this energy and work in capabilities that we're delivering we'll be able to bring to that when that access expansion that we see. So, all positive from my perspective.

Stephen P. Pelletier
Executive Vice President & Chief Operating Officer-U.S. Businesses, Prudential Financial, Inc.

A

Erik, I'll address the second part of your question. First, I'll just say that we're all-in in terms of support for the SECURE Act. We were one of the very first corporate voices raised individually in support of it and now, more recently, the whole ACLI, the American Council of Life Insurers, has joined us in that.

Specifically, in regard to your question about annuities and the Safe Harbor, as you may know, we've actually been offering an In-Plan Income Solution for some time, IncomeFlex. I would say its progress has been modest and we really see the reason for that modest progress as being the absence of Safe Harbor. That has been probably the critical issue regarding broader adoption of In-Plan Income Solutions. And so, we feel that delivering in the Safe Harbor [ph] in SECURE (01:31:12) really gets at the linchpin issue in that regard. Obviously, the value proposition needs to be solid, but we think that getting the Safe Harbor in place will help a lot.

Erik Bass
Analyst, Autonomous Research US LP

Q

Got it. So, you think that there is plan-sponsored demand if they're protected, but also have you gauged that there's demand from the customers who would like an income solution if it were offered?

Stephen P. Pelletier
Executive Vice President & Chief Operating Officer-U.S. Businesses, Prudential Financial, Inc.

A

Yeah. I think there is growing awareness on a lot of active plan participants, especially those in older age bands that they're really reaching a point where income decumulation and realizing income is going to be a priority even more so than accumulating assets. And so, having that done In-Plan or through engagement with our individual solutions that we can bring to bear through the Financial Wellness program, we're able to show up in a variety of ways to address that need.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

Jay, did you have a question or – why don't we go to Alex Scott then right there?

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Alex Scott
Analyst, Goldman Sachs & Co. LLC

Q

Hi. It's Alex Scott, Goldman Sachs. I guess the question I had was just on the side where you were forecasting some of the conversion and an engagement you're expecting with Financial Wellness, it looked like the conversion of people on the platform to actually purchasing retail products was increasing significantly, I think I like that last slide. That's the piece of it. I don't know if I fully understand how that happens, okay. I get that you get 20 million people on there. What's going to cause that conversion ratio to really push forward that significantly?

Naveen Agarwal
Senior Vice President & Chief Marketing Officer, Prudential Financial, Inc.

A

Let me take that one. I think the real focus there is how can we understand the needs and I think that's going to be the critical portion here. So, our reach is going to be that as you said. So, the reach is not an issue. If we can drive and understand the needs, which we are doing today, so our belief comes from the fact that when we're seeing that customer, when we understand their needs, when we are able to convert them at 20%, let's say, when we understand their needs, in that context, expecting 2% conversion every year, that's what's driving that belief.

Andrew Sullivan
Senior Vice President & Chief Executive Officer-Workplace Solutions, Prudential Financial, Inc.

A

I would add on top of that and Naveen mentioned this, we're building out, as human beings, engagement opens up in certain life events and most times most humans are not open to engage. We're actually building our customer experience in a very specific way for life events that are incurred – that are occurring and when we then apply data and analytics behind that, that's what really starts to bring to life the conversion.

Alex Scott
Analyst, Goldman Sachs & Co. LLC

Q

Thanks.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

[ph] Make it (01:34:04) Mark Dwelle, right there.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Yeah. Mark Dwelle with RBC Capital Markets. This kind of builds on Erik's question from earlier, as you engage with the customer through the employer, at what point do you become an advisor as now defined as compared to just being somebody that's giving a presentation at a company?

Caroline A. Feeney
Senior Vice President & Chief Executive Officer-Individual Solutions, Prudential Financial, Inc.

A

So, I'll take that. When we think about the financial education program that I was discussing earlier, they are not there as an adviser. The information that they're providing for the attendees is very much general financial education. They move into the advisory capacity only if an employee ask for one-on-one follow-up appointment. I did mention this, but I think it's really important, particularly because these are Prudential advisors. They are not allowed to solicit in any fashion when they're onsite on the work site. Part of our differentiator here is because we do have Prudential advisers. It is a highly controlled experience.

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We have a 98% satisfaction for all of the seminars and attendees that have been brought through there, because it is so controlled. They know if they cross that line and solicit, they're out of program. It's fairly simple. So, they only cross that line when they actually engage one-on-one by personal advice.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC
Q

Thanks. And then, this is somewhat a separate topic, but with respect to the LINK system and the various, I guess, portals or engagement process, is that an in-sourced controlled system or is that something that you have outsourced the development of or relying on a partner with?

Naveen Agarwal
Senior Vice President & Chief Marketing Officer, Prudential Financial, Inc.
A

Yeah. So, I think the LINK is actually built in Prudential, made in Prudential. It's built in Newark and built in California. So, it's completely inside the company. And we believe – I think that's a really good point. We believe, going forward, for us to get to what we need to get with – tied to the engagement point, we have to own those capabilities. We need to build those capabilities, because this is not one thing, this is a continuum. And capabilities that have to continuously be enhanced in an ongoing manner for us to create that ongoing lead and competitive connectivity into the marketplace.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Check there. Any others? John Barnidge?

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP
Q

Thanks. John Barnidge from Sandler O'Neill. On the marketing side, you had a slide in there about mass market, middle market, massive fluid. Can you talk about from marketing perspective, how each of those cohorts, how you market to them differently and maybe from a marketing perspective, what makes them move differently? Thank you.

Naveen Agarwal
Senior Vice President & Chief Marketing Officer, Prudential Financial, Inc.
A

Yeah. A couple things there. I would say first is we actually more believe on the behavior of the customer versus worrying about what dollar amounts or things that they have. So, I think our first [ph] score (01:37:01) is we are there for the customer in the context of their need and in whichever way they want to engage with us, we'll engage with them. Now, what we do is, for LINK, for example, I'll give you a metric, so, when they are talking to our digital hybrid advisors, 11% of our customers actually request connectivity to an in-person advisor.

So, on the hybrid context, we have all the solutions, but simplified for channels that can distribute things through a phone or video mechanism, but they need further support. We can actually pass them on to our Pru Advisors or in-person advisor and that's where the model that we have, which provides connectivity across all customers across all channels.

So, we are not thinking of them as a particular segment will go into phone versus In-Plan or to our third-party advisor or to a Pru Advisor. We are totally letting the customer define how they want to engage with us.

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John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP

Q

And my follow-up since no one asked, what are eight states you haven't been to? Thank you.

Andrew Sullivan
Senior Vice President & Chief Executive Officer-Workplace Solutions, Prudential Financial, Inc.

A

Eight states you haven't been to?

Caroline A. Feeney
Senior Vice President & Chief Executive Officer-Individual Solutions, Prudential Financial, Inc.

A

What are the eight states you haven't been to?

Naveen Agarwal
Senior Vice President & Chief Marketing Officer, Prudential Financial, Inc.

A

Yeah. Yeah. Why don't we meet outside? And I can tell you, but Dakota are the two that I can easily tell you I haven't been.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

Right. Last question here, Jay Gelb.

Jay Gelb
Analyst, Barclays Capital, Inc.

Q

Thanks. Jay Gelb from Barclays. Can you talk about how your mix shift would change in Individual as you grow this Financial Wellness platform? And then also, what do you view is the return profile differential between maybe the mass and middle market as opposed to the affluent? Because I think, externally, the sense is most life insurance and annuities are sold to the wealthy cohorts.

Caroline A. Feeney
Senior Vice President & Chief Executive Officer-Individual Solutions, Prudential Financial, Inc.

A

Yeah. So, a couple of things that we're finding. So, for all the solutions that I referenced that we've already seen come through whether it'd be through sales through the hybrid advisor or those that have come through all the way through the funnel and asked to see a Prudential advisor, for all these solutions, it's actually a healthy mix, but actually fairly much mirrors our mix of business today between investments, annuities and life. So, off 1 percentage point or here, but roughly mirrors the mix of business that we have today.

One of the things that's important in terms of what we're offering in different segments and the reason that I mentioned that the digital solutions are more simplified solutions and the hybrid platform are going to be more compelling and help us create a broader reach for those middle and mass markets is largely because of some of the margin returns. And so, part of our strategy here is not necessarily to go with some of the more sophisticated solutions we currently have, let's say, on the annuities space, but we have been very much at work and have solutions that are more simplified. We'll continue to build on those to be able to provide those simplified solutions to the hybrid desk and ultimately where online education all the way through sales makes sense.

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Naveen Agarwal
Senior Vice President & Chief Marketing Officer, Prudential Financial, Inc.

A

Just to add to what Caroline said, I think we're also seeing a deep engagement on capital-light investment kind of solutions. So, the partnership that I talked to you about with QMA and PGIM, we're seeing customers engage on investments. We are seeing rollovers coming through that. We are seeing people looking at emergency funds. They have been actually very pleasantly surprised by people who are contributing.

So, not just that they invested once, but they are saying, hey, I'm from Workplace, I'm thinking about putting one-time investment, but also contributing per paycheck. So, we are seeing engagement across investments as well in quite significant manner. I will also say on the life insurance side, we have been pleasantly surprised by the size of the policies that we are seeing.

So, on average, we are seeing about $650,000 policies in a hybrid setting, which is quite meaningful if you think about it.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

Great. Thank you very much. Thank you.

Stephen P. Pelletier
Executive Vice President & Chief Operating Officer-U.S. Businesses, Prudential Financial, Inc.

A

Thank you.

Naveen Agarwal
Senior Vice President & Chief Marketing Officer, Prudential Financial, Inc.

Thank you.

Caroline A. Feeney
Senior Vice President & Chief Executive Officer-Individual Solutions, Prudential Financial, Inc.

Thank you.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

Andy, Caroline, Naveen. All right. We have one more presentation and then we'll go to a break. Our next presenter is the President and CEO of PGIM, our global investment management business. He is from Swarthmore, Pennsylvania and he is an avid tennis player and a tennis man. I'm curious who he's rooting for in the French Open right now.

Please join me in welcoming David Hunt.

David Hunt
President & Chief Executive Officer-PGIM, Prudential Financial, Inc.

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Oh, thanks very much, Darin. Good afternoon, ladies and gentlemen. The important thing about Swarthmore, Pennsylvania is that I did grow up on the small Liberal Arts campus that's there. And my grandfather was the Dean of Swarthmore College during the late 1960s and early 1970s. And as you can imagine, it was a time of enormous unrest.

Students actually sat in, closed the University down. And he wrote a book about this experience called, Revolt of the College Intellectual. And it was all about how do you manage groups of people who are idealistic, opinionated, passionate, very bright and really stubborn.

And I use that everyday dealing with portfolio managers. It's actually the perfect way for my business. But anyway, thank you very much for your time today. I'm always a little bit intimidated by coming to a group of people who work in asset management, but it does mean that I can move through some of the basics relatively quickly.

So, I wanted to talk about three things. First, I wanted to give you an update just on PGIM performance, how are we doing. Secondly, I wanted to talk about what's the progress against our strategy. And then last, I wanted to talk about the way forward, how do we see the future, how do we see our investments and how do we see a growth rate that's inherent to the business against the backdrop where there are significant headwinds in the industry and I want to address those rather directly.

But, first, why don't we just start with performance? Charlie mentioned at the start of the presentation, PGIM is the 10th largest asset manager in the world. So, we do believe we are at scale now. And what I mean by that is that we don't feel the need that we need to simply grow in order to be competitive either cost or performance basis. We have the size we need. And I would say that unlike other multi-managers, that's not only true at the total level. It's also true for each of our managers.

So, in our model, no manager competes with each other. We're organized very clearly by asset class and each of our asset classes is at scale. So, our smallest asset class by assets is actually our $80 billion private credit business. So, we have scale in each of the businesses.

What isn't maybe as well-known is some of the other pieces here that are on the right. We are actually the third largest alternatives manager in the world. We're the third largest real estate manager in the world when you combine both debt and equity. We're the third largest investment grade player around the world. And where we've grown rapidly and more on this in a moment, we are now the third largest foreign manager of Japanese institutional assets. So, we have a very broad and I think very complementary set of skills right across all of the asset classes.

Well, here is the balance of businesses on the left here. So, we're about 45% public fixed income. 25% of our business and fees is public equity and then about 30% is alternatives, which is real estate and our private fixed income business.

Now, as you can see, this is different than many other asset managers. The asset management industry has tended to grow up. There were long-only managers on the one hand and there were alternatives players on the other and we're actually a mix of both given our heritage. So, we think we actually have complementary pieces of that, but there isn't really any other manager that has the same mix of both long-only and a big alternatives business that we have. And we do think that, going forward, the winners will be people who can manage both long-only and alternatives capabilities together.

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The business did grow out of the general account. About 25 years ago, it was separated out and set on its way to build out a third-party business. And today, as you look at it, the general account is my largest client. It accounts for about 18% of the fees that come into PGIM. About half is institutional third-party and about a-third is retail. We serve on the institutional side, the largest, most sophisticated clients in the world. A lot of them are very large and that we have the privilege of managing a lot of money for them, but these are the sovereign wealth funds, central banks and importantly a lot of the very large pension plans both in the U.S. and around the world.

We also have a very fast-growing retail business and I'll talk about that more in a minute in the strategic area, but over the last three years, we've been the fifth fastest growing retail business which is completely sold through financial advisors.

PGIM is a global business. We have 37 offices in 15 countries around the world. We have – about 25% of our professionals now are outside the United States. And about 30% of the assets are managed for non-U.S. clients. So, this is very much a global business and we manage it that way and indeed our clients expect us now to deliver solutions that give them the best investment opportunities right around the world.

So, every business has its virtuous cycle and this is ours and it starts with investment performance. That's how we measure ourselves. It's how we judge whether we've had a good year or a poor year. And when Charlie calls me up and says, how is it going, what he means is how is my investment performance, you've got a lot of money of mine. And I think that is a very important part of our ethos. There are other asset managers there who are managed for AUM or managed for asset gathering. This is not that. This is managed for investment performance.

And we have the numbers to show it. So, we're an active manager. We're proud of that. And you can see here over 3 years, over 5 years, over 10 years and this is the percent of our assets which are outperforming gross of fees is in many cases in the high-80s and even over five years above 90%. That is significantly higher than you will find with other asset managers right across the spectrum. And I think that, that is really the place that we start in judging ourselves and that does lead then to client flows, which leads to earnings, which leads to our ability to continue to invest back in the business. And I'm going to go right through that cycle with you.

So, based on that investment performance, we've had 16 consecutive years of positive third-party flows. And you can see this is right through the fairly good times, following the dotcom boom as you can see. You can see it right through actually the [ph] difficult (01:48:54) financial crisis. As Charlie mentioned before, the business actually invested as we came out of that, because there was talent and discontinuity and you can see that in some ways 2009, 2010, 2011, very strong years on flows, but we've carried that on right through this.

And this is really just the public piece of this. I also want to highlight the success we've had on the private side. And again, this goes to the balanced business model. So, many other asset managers are only more recently discovering lending as an asset class. Because of our heritage as an insurer, this is something that we've been doing for over 100 years. Our lending businesses are both private placements as well as commercial mortgages. And what you can see here is really, since 2013, we've had a very high level of originations and last year was actually our all-time record.

Importantly, these are businesses which tend to do well when the economy is not doing so well. And of course, they also do well when banks are pulling back lending, which is what we've seen over the last couple of years, but these have a nice countercyclical balance to the businesses like our public equity businesses, which tend to be more in sync with the economic cycle.

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So, overall what you see in terms of our financial returns since 2010, our AOI has doubled. In terms of our ROE, we've moved from 15% to 35%, mostly that's been due to getting much more efficient at our usage of capital in our real estate businesses. And our adjusted operating margin has been moved up by 200 basis points. And I want to talk a little bit more about the operating margin and how we ended up with the expansion there, because that is after the reinvestment in business initiatives for business growth.

So, here's how that breaks down. In 2010, our margin was 29%. We have driven 360 basis points of operating leverage since then. We have a put back into the business 170 basis points worth of investments and we then returned to shareholders the 200 basis points of margin expansion.

The operating leverage here is really important, because that's what's allowed us to continue to both increase returns to shareholders and to invest in the business. And where that for the most part has come is it's come through our international expansion efforts. So, we have really invested in building our distribution in Japan, in Asia, in Europe and a lot of the money over the last few years has been money from institutions there back into strategies that we already managed in the United States.

And as you can imagine, the marginal margin from $1 that's coming into a strategy we already have is very high. And so, we've been managing the J-curve of our investment, so that we have a lot of that kind of thing which has a high marginal margin together with the build-out of our alternatives business which are new investment capabilities. And that obviously takes a god deal longer to pay off and we've been trying to get that balance right.

But certainly over the last couple of years, we've been able to really drive that operating leverage and we think we'll be able to continue to do that going forward. But the overall picture is one of margin expansion of 200 basis points over this this period.

So, I can see the pencil is out up there and you're saying well tell me how you spent the 170 basis points here. That's quite a bit of investment over this period of time. And let me just talk about the different pieces of where that investment has gone.

So, this is our little strategy house which we use extensively for internal communications, but I think, it's really important because we selected the words carefully. We want to be widely regarded, so not the biggest, widely regarded as the premier active global investment manager across a broad range of public and private assets. The foundation of the business is superior risk-adjusted returns for our clients.

And the four pillars of investments are globalization, modernizing our multi-manager and I'll talk about what that is in a moment, expanding our reputation and brand and selectively acquiring new investment capabilities. And I want to hit each one of these just very briefly.

First, in terms of broadening and globalizing our product, that has really been probably the singular push that we've had. We have the investment performance to make this work. We simply didn't really have the distribution reach around the world that we needed. And so, that has grown, as you can see, 29% of our assets now from non-U.S. up from 11% in 2010. We just two weeks ago had our town hall in London. 262 people in London, that's up from 160 three years ago and about 45 people if you go back to 2009. So, really important growth of people in London, in Tokyo, in Singapore that's growing our global footprint.

Modernizing our multi-manager model, these are a set of investments that we're making, which are used across all of our managers. And I think the best example of them is the range of vehicles. So, we've now got a complete or fairly complete set of UCITS funds, which are basically the mutual funds of Europe. And we didn't have any of

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those four years ago. We now have 29 funds. We just went through $4 billion in terms of total AUM. We now have our [ph] first several (01:55:12) this year of ETFs and we do expect to have a fairly full range of actively-managed ETFs, collective trusts and retail separate accounts. So, these vehicles are being built again just once and they're shared across all of our asset managers.

Our brand, so we have – went from launching PGIM in 2016 to now where we have the umbrella brand of PGIM, but also six of our eight managers have adopted this. And we're starting to see real strength and take-up of that certainly in the United States and I would say increasingly now in Asia and in Europe. The most recent brand survey that came back, PGIM actually was ranked number 12 among institutional U.S. asset management brand. So, we can feel the momentum building around that.

And the last is to selectively acquire investment capabilities. And Charlie mentioned this earlier. We feel we have scale. So, for us, acquiring things is about acquiring capabilities, not assets. And there are areas, as we look around the investment world, where we know that our clients are asking for these capabilities, but we don't offer them.

And a very good example was at the end of last year, we bought Wadhwani, which is basically an asset manager that specialized in managed futures and risk premium. It's based in London, founded by a very well-known economist there, who had a terrific track record, but needed help with distribution. And I think that is a perfect archetype of the kind of acquisition that we would like to do across a range of areas, which would simply broaden out the investment capabilities and doesn't require any integration or any kind of disruption to the multi-manager model that we have.

So, that's where the 170 basis points is going. So, you can see we've had growth of AOI of 8%. We've had very strong increase in margin. And I think it's reasonable to kind of step back and say, can this continue, what gives us confidence that actually we can hit some of the targets that you saw from Rob a moment ago, because the industry is facing some real headwinds and in particular, active management is facing some real headwinds. And, in fact, as we look at the industry, we see more disruption now than we can remember over the last 15 or 20 years. And it's very clear that the industry is having a real separation between people who are winning and a lot of people who are struggling.

For us, there are three groups of people who are winning at the moment. First, there's the very large cheap beta providers who are absolutely [ph] toning (01:58:15) it in terms of AUM coming in. The actual economics of that, we can debate, but at the moment, they are certainly doing a good job of gathering assets. There are also a whole series of more specialized asset managers who either specialize in an asset class or a region, who have terrific returns, they're doing very well and I think our industry will always have a successful place for smaller managers with outstanding returns.

And then, I think there's probably no more than 15 or 20 other firms who, at this point, are able to generate outstanding active performance and also have the breadth of range across both public and private asset classes around the world. What's very clear is that clients want to do more business with less players, but in order to be among those less players, you need to have broad capabilities and you need to be able to deliver it globally.

And the result of that trend, which has been true not just in institutional, but also in retail, means that there is a whole swath of people on the lower left here. And they are not doing well. Some of them were the – in the previous version were some of the benchmarking – benchmark huggers who really were not making and were being beaten by passive, but I would say there are also a whole series of folks who didn't actually achieve the scale that they needed. They probably expanded too much by region and they were too shallow and we're also

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seeing players who just had plain bad investment performance and that is a very tough place to be at the moment.

And so, a lot of them are really in outflows and we certainly expect there to be some pickup in consolidation here, but we also think a lot of these folks will just continue to drift further down to the left. So, it's a challenging environment and I think when you look at that, you'd say, well, why is it that we think that our mix of business will allow us to be in this group. And I wanted to just provide with our logic for that.

First of all, we do believe that we can continue to drive some of the operating leverage that I talked about a moment ago. We think that the trick that we've had so far of being able to bring more assets into strategies that we already have has a good ways to run and that will be particularly true if the next couple of years the U.S. economy remains stronger than what we see around the world.

But there's four other reasons here and I want to go through each of them briefly, but they are our presence in alternatives, which we think we have a long way to grow, the U.S. defined contribution and retail market, international markets and then I want to talk for a moment about the investments that we're making in technology.

So, the first is alternatives. Whenever I visit CIOs around the world, I am absolutely hearing about a shift that they're making from public equity markets to alternatives. And part of that is some frustration with the public markets, but a lot of it also is a belief that putting money with private capabilities right now actually gives managers a lot more flexibility to manage through the cycle, both when to put money in and when to exit investments. And I've just given you some industry numbers in terms of the growth rate, but it's quite substantial what we expect to happen with the growth in alternatives.

You can see we're a top three player on alternatives now. We're a top three player in real estate. We're a major player in private credit. We're a very large player in infrastructure. And we think we can actually use these capabilities to significantly grow from where we are today and we see demand will continue for these kinds of products to be much higher than what they are for the overall asset management industry.

The second one is defined contribution and retail and you heard a little bit of that from the previous panel. There are two things that are really happening in the retail world. One of them is that it's becoming much more institutional. When we sell into the Morgan Stanleys of the world or the Merrill Lynches of the world, it's institutional sale at this point and that's increasingly true right across the framework.

So, our products that have an institutional track record, have the kind of attribution analysis and risk management that we have are actually gaining real traction among those highly sophisticated buyers. And the people who were losing in that game are some of the smaller players and also some of the folks who grew up just in the retail world who don't have the same kind of sophisticated risk management process.

The second thing that's happening is there is an enormous demand for income and a real demand for the decumulation kinds of products which we are very well placed to be able to deliver. Obviously, with our big fixed income capability, our ability to do multi-asset class and then importantly, to work with Financial Wellness, which you just heard about and particularly some of the annuity strategies to combined protection and asset management, we think there's a really differentiated play for us within DC.

So, for both of those trends, we think we will continue to grow much more quickly than the rest of the market in retail, which as you can see is only projected to grow at 5% a year, but we believe that our suite of products will grow more quickly than that.

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I want to highlight the international markets. Japan, so we manage more than $200 billion in Japan today. As I mentioned, we're the third largest player there. Having said that, we've got a long way to go. The list of other financial institutions, other pension plans that we could be serving is quite significant. And so, I do feel with our brand and reputation and our investment performance that we can offer them as they continue to need to get money out of Japan and into higher yielding strategies means we've got to [ph] race our (02:04:40) ways to run there.

Europe, we've just hit $80 billion of money that we manage in Europe. It's been growing very quickly, 14% over the last couple of years. I would say that could grow at least that rate over the next couple. In many ways, the Europeans also are looking for ways of continuing to diversify. They like alternatives. They like to get money out of Europe, which is not just back to the [ph] States (02:05:08) by the way, they've also been some of our biggest investors in Asia, real estate, for example. So, they as well like the suite of products that we have. So, we think international markets will continue to be very good for us.

Let me talk for a moment about technology, because I do feel sort of two ways about technology. On the one hand, I think that there is so much hype around this that almost anything here has been overplayed. That said it's impossible for me to imagine that the asset management business won't be significantly reshaped by technology over the next 10 years. And so, we are putting real money into it in I would say both offensive ways and defensive ways.

So, on the left-hand side is offense. So, we do think that the use of alternative data will become more and more mainstream in the investment process and the use of our own data, the tagging of it and our ability to use data sciences will give us some real advantages on the marketing side. But importantly, we already have natural language processing that we're using within our capabilities now to really measure sentiment, both for earnings calls, but also more broadly in the market. And we've developed signals that we do believe we can trade on.

We've actively been working with satellite imagery to see where we can augment the underwriting that we do for real estate there. And we think that there'll be more and more of these interesting alternative data sets and we are investing in both buying the data sets in and then figuring out how to actually do the analytics behind it. So, that's the offensive part of it.

The defensive part of it is that we think we can get a lot more efficient through the use of technology too. We think that robotics and automation will continue to make our straight-through processing even better. We're already quite outsourced as a business, but we think we can use technology even more and we think it can allow even further offshoring than we've done today.

I will say that I've been surprised as a number of the other industry leaders have been announcing that they do – they're opening new offices to lead technology and operations. Austin here, Nashville there and we've been doing this for a long time. We actually have more than 250 people in Letterkenny in Ireland and that is actually where a large amount of our current operations and technology is done. We would expect more to be done on that over time.

So, we already do a lot of it, and more of it to come, but technology I think is important both offensively and defensively for our future.

So, that's our main messages for all of you. A little bit of the performance, which I think has been strong, a strategy which has, I think, nicely used operating leverage to both return some to shareholders, while at the same

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time, investing for our futures around those four pillars. And then, I think if you take those investments and you layer on the business model we have around some of the higher growth areas within the industry, we do feel confident in our ability to meet some of the goals that Rob talked to you about earlier.

So, with that, Darin, why don't we take some questions?

QUESTION AND ANSWER SECTION

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Sure. Questions? Start with Nigel Dally.

Nigel P. Dally
Analyst, Morgan Stanley & Co. LLC
Q

Thanks. Nigel Dally, Morgan Stanley. The 170 basis point of strategic investing, where is that likely to be headed? Are you going to continue to invest at approximately the same pace? Is it going to go higher, maybe a little lower? Just some sort of outlook there.

David Hunt
President & Chief Executive Officer-PGIM, Prudential Financial, Inc.
A

So, I think that it's pretty much hit its peak at this point and I would expect it to drift down from where it is now. I think we felt that very much in the distribution and to some extent in the international product areas, we had a ways to catch up in the earlier years and so that kind of hit a peak. And I would expect that number now to begin to gradually come down. But obviously a little remain – It will remain a real number as we need to continue to invest in the future.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Erik Bass?

Erik Bass
Analyst, Autonomous Research US LP
Q

Thank you. Erik Bass with Autonomous. You highlighted the big or the large growth you've seen in Japan and the large pool of assets they have now. How much of that are hedged currency mandates and do you see any risk just given the increase cost of hedging that some of that could go the other way in the near term?

David Hunt
President & Chief Executive Officer-PGIM, Prudential Financial, Inc.
A

It's a great point. A lot of it is hedged without a doubt and I would say that last year, we did actually begin to see people pulling out of, say, investment grade corporates, because they just – after the hedge cost, they couldn't get it to work. But I would say that we were quite successful in actually moving that money into other strategies that were higher yielding.

So, structured products was an example of that, high yield was another and then, at the turn of the year, we've actually found that, with rates coming down and the hedge cost actually coming down a little bit, the pressure has

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come off that a bit. But I would say that some of our large mandates are susceptible to that hedge rate expanding again. I think it's a very fair point.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Tom Gallagher?

Thomas Gallagher
Analyst, Evercore ISI
Q

Thanks. Tom Gallagher, Evercore. David, how sensitive do you think your business is to interest rate levels globally? Are you benefiting significantly from the very depressed level of interest rates globally? You think that's kind of a big part of your success or not necessarily?

David Hunt
President & Chief Executive Officer-PGIM, Prudential Financial, Inc.
A

Yeah. It's a really complicated question. On the one hand, I would say that the fact that U.S. rates have remained much higher than the rest of the world, we have clearly benefited from, because we've seen that inflow coming into the products and I think that's been particularly helpful in that – driving that operating leverage that I've mentioned before.

Having said that, I would say that many of our pension clients have glide paths that are in place and they very intentionally, when they get better funded and if rates were to rise, actually intend to move more money into fixed income than they do today. And so, we actually think from a flow perspective, we'd probably benefit a bit from rates moving up. So, I think part of it depends on the differential of rates around the world and part of it in the U.S. would be we would benefit probably from a little rate rise and, of course, our AUM would go down in conjunction with that.

Thomas Gallagher
Analyst, Evercore ISI
Q

And my follow-up is what if we do go into a scenario where you get a significant decline in U.S. rates from current levels? Would that become a headwind for your business?

David Hunt
President & Chief Executive Officer-PGIM, Prudential Financial, Inc.
A

I think it would probably become somewhat of a headwind in terms of U.S. pension plans moving more money into fixed income. I think that it would mean that some of the very attractive flows we've had, if you assume that the differential between us and Europe, say, begins to go away, would moderate and it would, of course, mean that our AUM with what we have would go up.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Any other questions? Okay. Good.

David Hunt
President & Chief Executive Officer-PGIM, Prudential Financial, Inc.

Thank you very much.

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Darin Arita

Senior Vice President-Investor Relations, Prudential Financial, Inc.

Right. Why don't we take a 10-minute break? We'll come back at 3:25, if you have a chance to Financial Wellness experience is out there, scan the QR codes will do the drawing when we come back, 3:25. Thank you.

All right, welcome back. Very important announcement, we're announcing the winners of the drawing, so when I call out your name, can you just please raise your hand and then someone will give you the giveaway, in case you're wondering what's inside of it. It's a nice wine bottle opener set. So hope you enjoy it. We've got three winners here, there is [ph] Jeff Cho, Jeff (02:12:55)?

All right, back there. [ph] Joe Stefano (02:13:02) and [ph] Sam Desai (02:13:07). Some are both from the same firm. Well, congratulations to both, all three of you. Thanks for participating. Thanks for everyone to all participating in the whole Financial Wellness experience. Hope it made it much more tangible to you and both the institutional and the individual experience.

Our next presenter is our Executive Vice President and Chief Operating Officer of our International Business. He's from St. Louis, Missouri. And he is highly active in high-performing charter schools here in Newark, New Jersey. Many of you have followed what's been happening here in Newark with the Charter Schools, it's a fantastic story. So, please join me in welcoming Scott Sleyster.

Scott Garrett Sleyster

Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.

All right. Well, you can tell that Darin's from Hawaii, because he said Missouri instead of Missouri, so we have time to get that right.

I became a Head of our International Businesses just last December, when Charlie became Chairman of Prudential. And I think it's noteworthy to just point out that this is the first time in Prudential's history that our Chairman actually came out of a leadership role from the International Insurance business. And I think that's actually symbolic to the importance that our International Insurance businesses have come to be, if you will, in the whole Prudential success story.

I've gotten to know some of you in my former role as the Chief Investment Officer of Prudential, and in fact, that's actually really how I got to know the International Insurance businesses really well because I was working with the management teams and their general account. So, I worked with some of you in that role and I look forward to working with you in this new role.

Like everyone else that Darin sent up here, I have three messages to talk about today. I want to talk about how in Japan, in particular, our Life Planner model continues to deliver really strong performance. It's the anchor of what we do, its performance metrics are really strong and it's really difficult to replicate.

Second, I wanted to talk to you about why we're confident that we can continue to deliver the returns that we've put before you as mid-single digit. Fundamentally, that's around the fact that our Life Planner count continues to grow. They continue to sell really persistent business. They sell recurring premium business, and when you combine those three factors, you end up with a really stable earnings base.

And third and maybe what's a little bit different today, I want to talk a little bit about some of the seed investments that have been made by my predecessors in emerging markets, and some of those are starting to sprout and

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we're starting to see some benefits. And I wanted to share that with you. And related to that, I would point out that under Charlie's watch, we actually started to do some things a little bit different in emerging markets historically. And I would say really for our first 25 years in PII, we were very, very focused on a highly successful Life Planner model. And it's completely understandable why the model when it works well, it works so well, it's practically unbelievable.

But as you start to look at emerging markets, sometimes they're not really fully developed. They may not be ready for a Life Planner model. And we started to introduce flexibility to meet the markets where they are, and I think that's been a really important shift in what we're doing. Our best example of that is Brazil, and I'll do a drill down on Brazil a little bit later.

So, these are the big three points [ph] can we (02:17:06) continue to deliver the mid-single digit returns. Well, PII's success has been and continues to be driven on the Life Planner model mostly coming out of Japan. If you look at the Life Planner count for almost as far back as you look, we've been able to grow the Life Planner count by about 2% to 3% a year. If you then have a book of business that's highly persistent, your in-force block naturally grows every year. So, when you combine a 2% to 3% growth rate in Life Planners with a stable in-force block, you naturally can produce a 4.5% to 5% return. And that's why we feel really confident about that.

Our businesses in Japan in particular, but also Korea, are at scale. And so they're already delivering mid-teens margins. And they're delivering mid-teens ROEs. So, we really don't have challenges there. Where we have challenges is when we enter emerging markets and we're starting out, we might be at a J-curve or you might actually be losing money for a number of years.

Because of being at scale in really big markets, we actually kicked off cash flow of north of 75% in those really big markets. We're deploying capital in our growth markets so when you put those two together, we're able to deliver about a 60% return of cash to the parent company.

Here's a – I did two maps. This is really where PII's beginning was. We started in Japan. We entered Korea and Taiwan within two years of that. And it's really where we began and it's where our big earnings continue to come from. Today, Japan represents about 90% of our earnings, and Korea continues to be our second largest business.

But what's different I think is looking at where we have a presence today around the world where we started to build out and get a toehold in a number of emerging markets. Why these markets? Well, these are the markets that we think are going to deliver growth over the next 10 to 20 years. If you will, this is where the emerging populations and the emerging middle-class markets that have those big protection needs are and we want to be there to meet them.

We have wholly-owned or JV operations in a lot of the places you want to be. We're in Brazil. We're in China. We're in India. We're in Indonesia. And we're in Mexico. And these markets have a lot of favorable attributes. Most of them are growing faster than the rest of the world and certainly growing faster than the big developed markets. They have a rising degree of affluence among their population base but a lot of that is emerging affluence and when you come into that, you actually have a lot to protect. And we think that creates a lot of needs for protection, not only of life but also of income and health and other needs. And sometimes we have to be more flexible in our product offerings in those markets. And our ownership structures in those markets vary. In some markets, we may be required to have a joint venture partner and in other markets perhaps we could go it alone but as we enter the market, we may feel like we don't have the depth or the skill and we'd really benefit from having a good local partner.

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So let me come back to those fundamentals and drill down a little bit more on each one, there are a fair number of Japan skeptics out there. Japan does have – it's a mature economy and it has a slowly declining population and so people will look at that core business and they'll say, well, how are you going to continue this? How are you going to continue to perform and grow in that market? And there's really a number of reasons why we have the confidence we do. First of all, our needs-based selling model is highly differentiated from our competitors in Japan.

It is costly and time-consuming and takes many, many, many years to build out a Life Planner model that's highly qualified to sell on a needs basis. And the persistency of the relationship with the customer when you build that is really, really strong. And that's where that recurring premium comes from. And you just can't replicate that. It is very, very hard. It's costly and time-consuming. And so, I think we really have that, that position on our side.

Second, in Japan, not only do we have the Life Planner model but we really have a superior and a differentiated bank channel model. For those of you that were at our Investor Day in Japan, Charlie described the three qualities that an agent – the Life Planner really has to have. First of all, they have to – they have to be able to do needs-based selling. They have to understand and be credible on those metrics. But then they have to find customers. They have to prospect. And then they have to be able to close the sale. Those are the three big attributes that every good insurance – a Life Planner really needs.

Well, bar none the hardest factor in all of that is prospecting. By the time somebody has become a Life Planner in Prudential, they're already well-trained in needs-based selling and they've sold enough contracts that they can close, the really hard part and what causes washout is the ability to prospect. Well, what we've done in our bank channel in Japan and we've seconded former Life Planners that weren't the best at prospecting and we've put them in an environment, if you will, that brings the prospects to them. It's a prospect-rich environment. And that allows us to put higher quality people into the bank channel which makes our bank partners much happier when they look at the quality of what we're bringing to the table. And then, finally, in Japan, we also have strong affinity relationships with the school teachers and with the Military. So, I think all of those are really quite differentiated and they are a bit of a moat, if you will.

The last thing I would mention is Japan really is a rich country. There's a lot of money in the bank. Banks earning practically no interest. And while our historical products sales were based off of [ph] death (02:23:34) protection, you might be surprised to know that essentially 40% of our sales today through both of our big channels are related to retirement solution products. And when you look at the aging population in Japan, I think we're actually really well-positioned to follow our customers into retirement.

Let me come back to Japan now and give you some hard proof points that I think really help support that. And I think the best place to start is always with customer service. So if you look at the top left box you can see that based off of independent J.D. Power metrics, we have earn the triple crown of insurance delivery in Japan. This had never happened before and now we've done it two years in a row. What does that mean? It means when customers rate their experience for buying a policy. When they rate their experience for what it was like to have that policy and be serviced. And the most difficult stage what happens if they actually have a claim, how do they feel about of the company that they work with. Two years in a row we've now been number one in all three of those categories.

And what does that do for you? Well, one, it gives you very loyal clients, but two, it also gives you a lot of referrals to other clients which is how that Life Planner model works and it's actually a key ingredient to our productivity. So, let's go to productivity on the right. Where's the evidence there? Well, in Japan, Prudential companies actually

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represent 35% of the Million Dollar Round Table universe and we do that while we only have 9% of the in-force policies. So what you see is that system that we have is substantially out punching its weight, if you will, in the performance around the MDRT. And it's supported by those productivity metrics I have up there. Our Life Planners sell about six policies per month and our Life Consultants sell about four. And in case you think this is sort of just recently or the last two years, POJ has been number one in MDRT for 22 straight years. So it really, really is a powerful system. And the hardest evidence of that is – if you will, is up there on the lower right. It has allowed us to continue to grow in an industry that's actually been quite challenge in growth. We've actually outperformed the market by a full 8 points over the last five years. So that's the evidence there. I think it's strong. And I just think it's really compelling.

Now, let me turn to a case study on an emerging market. And I think this is part of what's different in what Charlie got started over the last few years. Well, first of all, why Brazil? Well, Brazil is the 9th largest economy in the world and it's actually number 5 in population with over 210 million people. It has the largest – it is the largest life insurance market in all of Latin America. And it has a relatively low level of insurance penetration. That's exactly where you want to be, the kinds of markets you want to be in.

Between 2015 (sic) [2005] (02:26:56) and 2017, as you see on the chart, the affluence and middle-class sections of the market actually grew from 49% of that market to 64% of that market. So when you think about Japan and some of the developed markets in – we're in, you think about the wind being maybe in your face. In markets like this, sometimes you actually have the wind at your back.

Here's an example of how we built out our business model in Brazil. We actually started it in 2002. In 2002, we really felt the only way to enter the market was with a Life Planner model. And so back then, we started the heavy lifting and hard work of building out a Life Planner model. But what happened here was we sort of followed the pattern of Japan, but we substantially accelerated it. So, only a decade later, we went into third-party distribution, and we started to build that out. And then in 2017, we actually entered the group insurance market in Brazil. And that's a really important market, actually dramatically more insurances sold through the group market in Brazil. But here again we did that much more quickly than in our evolution than we would have done in the past.

We formed the partnership with the largest bank by assets in Brazil, Itaú. And just a year later after they got to know us and see the quality of what we we're doing, quite frankly seeing some of the technology work that we've been doing in the U.S. and that we wanted to bring to Latin America, they've invited us in and had given us a preferred position to deliver insurance solutions into their Personnalité channel. Just to give you a sense for that, that's 1.6 million customers, and those customers on average earn 10 times more than the average person in Brazil. So, it's a very exclusive relationship.

We're moving fast to try and roll out technology in all aspects of what we're doing in Brazil, Life Planner support, customer engagements, engagement with the bank. And we're now actually the largest non-bank insurer in Brazil. Now, we're number six because there's five banks affiliate, but we're now number one in the non-affiliated.

So, what do the results look like? Well, they look pretty good. You can see at the bottom – let me start with the bottom because that's the Life Planner count. You heard us talking about in our developed markets the Life Planner count had been growing at 2% to 3% and has been for a long time. But in Brazil, 2013 to 2018, it was actually growing at a 13% rate. The sales over the same period of time grew at 27% and importantly, you can see back in 2013, we were essentially all Life Planner but by the time you got to 2018, fully 10% of our sales were coming from third-party distribution. And when you put that together, again, Life Planner business, high-quality, persistent, staying on the books, our in-force amount of insurance in Brazil has actually grown over this period, five years, at a 28% CAGR.

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And so, what I hope you see here is that the thinking in Prudential about how we approach new markets and the speed at which we have adapted has dramatically improved from sort of being fixated a long time ago and moving relatively slow with a Life Planner bill, I think we've gotten smarter and faster as we've entered emerging markets. Brazil, we have evidence that we can move much faster. And now we're moving into these other markets and I think we're more flexible, faster, and more adaptable company than we used to be.

So, let me talk about what we're trying to do in those additional markets that we're entering. One, the fundamentals are right there under the strategic imperatives and you probably already heard them through my comments. We're not just married to [ph] LP (02:31:16). We're going to look at proprietary, third party in digital distribution. We're going to meet our partners and our customers where they are.

We have become much better at PII in leveraging product development from market-to-market. That is the one advantage I think we bring from having an aggregate team like we've put connective tissue in there. And if something is good, is happening in Asia, we can take that to Latin America or vice versa. And I will say that we [ph] still shamelessly (02:31:46) from the U.S. businesses as it relates to technology advances.

And then, finally – but I did put it forth, is after we have the toehold in the market, we can then start looking at organic – inorganic growth and M&As. But we haven't really relied on that as the first move.

We are actively looking for expansion opportunities in the emerging markets. I'll give you – I have a couple of examples here on the screen. We work with CT Corp in Indonesia, they are real estate developer but they also own CNN, CNBC and franchises, and they're a big retail, Carrefour used to be their brand on the retail side. So, they're a very big player there.

We've partnered with Fosun in China and they're an independent, pretty successful company across all of China. We've worked with Habitat as a partner on the pension side in Chile. And I would say that's going very well. And then when you looked on the map and you saw that we've made an entry into Africa, we actually did that through a separate account arrangement and we're now a partial owner of the largest company in Ghana, Enterprise Group.

The last thing I have on the screen is that – I think we're rolling out digital engagement in these emerging markets quite quickly. We've got two examples up here. Some of you are probably familiar with Vitality, that's a health – it started out as a health wearable, how do I get my customers healthier, how do I underwrite them better, how do I give them better pricing if they're taking healthy actions. That business started in South Africa. It's moved to Asia, but we actually have the exclusive arrangement to work with them in Latin America. We started small in Argentina and when that's up and running, we intend to bring that to Brazil very quickly. And then, lastly, Klimber is an all-digital online platform for selling insurance in Latin America as well and we've already rolled that out in Argentina.

So what are the key messages I'd like to leave you with? First of all, we will remain vigilant to protect our franchise and our developed markets. And I think they have natural [indiscernible] (02:34:19). So that continues to be very important to us. But beyond that, you're going to see us to continue directing more energy to these emerging markets that have really attractive growth features.

Let me put it this way, back in 2013, less than 1% of our earnings came from emerging markets in PII. In fact, I think if you ask Ken, he'd say that less than zero we actually had a slight loss. In 2018, that had grown to 5%. And by 2022, we think that will be somewhere in the 8% to 10% range. Those numbers may not seem big but when 90% of your business is in Japan and it's growing at 5%, to make those kinds of gains is really, really hard.

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And so with that, I think I'll have Darin come up and I'm going to grab a quick drink of water. Okay.

QUESTION AND ANSWER SECTION

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

Any questions for Scott? A question there. Suneet Kamath?

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Thanks Darin. Suneet Kamath from Citi. So, you talked about, I think, 60% consolidated free cash flow conversion for the International business. And I think the Japan markets were 75% or something like that. So, when do we start to see based on the scaling up of these other areas that 60% start to drift higher? Is that in the foreseeable future?

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.

A

Well, actually, I think the 60%-plus is actually closer to 67% today. And then north of 75% is closer to 80% in Japan. So, those big scaled businesses, they are at scale and they're kicking off a lot of cash. The question will be how rapidly can we deploy it in some of these better opportunities? And quite frankly, I'd be pretty happy if we had more to deploy in markets for those kind of growth rates.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

And then I think as we've been thinking about Japan for the past several years covering you guys, it had been mostly protection needs space. You talked about having more product flexibility in some of these other areas. So, can you just talk a little bit about as we think about these other countries, what sorts of products are you primarily focused on?

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.

A

Okay. Well, there are two prongs, I guess, to that. One, you talked about Japan. As people age, we think they are going to need more retirement. We've already done that. We actually think they're going to need more savings, wealth transfer and health care-type needs in Japan. So, that's where that product expansion would be going.

I think when you go to other markets, you may not go all the way to the other end with Enterprise Group. Enterprise Group in Ghana is actually number one in life, number one or two in general insurance, top three in pension, and I think top three in health care. So, when people have less wealth, it's kind of like a Maslow's chart, if you will. What do people need first? Well, they need a place to live. They need peace of mind. They need health care. That's really, really important.

If they're a fluid enough to start getting a motorcycle or to get a car, well, then they need protection insurance immediately. They get a home, they need homeowner's insurance and ultimately and depending on the market, sooner or later, they're going to need some kind of protection insurance and if there's a growing affluence, they

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may need a estate planning and college planning. But in some of these countries, people rely on family more. And so, actual protection, [ph] death (02:37:51) protection insurance isn't really something that's a first order priority. And that's, you just have to meet them where they are.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

There are questions. Tom Gallagher?

Thomas Gallagher
Analyst, Evercore ISI

Q

Thanks. Tom Gallagher, Evercore. Scott, just point of clarification, the 5% of earnings coming from emerging markets, is that as a proportion of International earnings or Pru's total earnings, 5%...

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.

A

Yeah. Yeah.

Thomas Gallagher
Analyst, Evercore ISI

Q

...and then growing to 8% to 10%?

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.

A

Those [ph] percents (02:38:23) were for PII alone. Those were numbers for our business...

Thomas Gallagher
Analyst, Evercore ISI

Q

Okay. So you cut the number in half roughly as a proportion of Pru's total earnings?

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.

A

Yeah.

Thomas Gallagher
Analyst, Evercore ISI

Q

Okay. Thanks.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

Ryan Krueger?

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

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I think you said 5%, you've had 5% earnings growth, [ph] ex-FX (02:38:43) and interest rate drags. Just can you quantify what the interest rate drag has been to earnings growth over the last five years? And then, what your thoughts are on that going forward that where – given where rates are right now?

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.
A

I don't have those specific numbers with me. Maybe we'll do it in – you want...

A

[ph] We can do it in the Q&A at the end. We've got those numbers to work here again (02:39:03).

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.
A

I think the fundamental 5% is a pretty good number but you are going to have the FX moves in and other things. But I think when Tim comes up here. I'm sorry I can't help myself with my old job. I think he's going to make the point that if you look at how far rates have now come down in the duration of the portfolio, we're getting pretty close to our replacement rates. So, I think it's less of a drag certainly than it used to be but it was material for the last few years.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Jay Gelb?

Jay Gelb
Analyst, Barclays Capital, Inc.
Q

Thanks. Prudential obviously has a phenomenal brand in Japan. To what extent has that brand recognition and adoption been a factor to overcome as you enter new markets?

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.
A

Well, that's a great question. Brand is a challenge for Prudential. It's a real strength in certain markets. It's fabulous in the United States. It's actually fabulous in Japan. It's very strong in Korea. And I would say it's actually really strong throughout all of Latin America. But I think as many of you know, if any of you'd read From Three Cents a Week or What Have You, our company was actually named after Pru UK out of respect and thanks, I guess, and gratitude by our founder, John Dryden to them because he actually helped teach them about the insurance business when he set up the original Prudential. But of course, back then, it took three weeks to cross the ocean in a boat.

But if you go into Europe, the Prudential brand means Pru UK. And quite frankly, when we get into the emerging markets in Southern Asia, emerging Asia, the Pru UK brand they were there before us, they kind of followed the British Empire out faster and that's a challenge for us. So, we're more flexible in using another brand or a partner brand in some of those regions because I don't think we're ever really actually going to overcome that challenge. But for the core markets that we're in, where we're dominant, it's a very powerful good guy and it's really strong throughout all of Central and in Latin America, South America.

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Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Any other questions? Okay.

Scott Garrett Sleyster
Chief Operating Officer & Executive Vice President-International Business, Prudential Financial, Inc.
A

Thank you.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Thank you, Scott.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

Our next presenter is our Chief Investment Officer. He is from Moline, Illinois and he likes to play golf, tennis and do paddleboarding and he claims to be good at none of those. Please join me in welcoming Tim Schmidt.

Timothy L. Schmidt
Chief Investment Officer & Senior Vice President, Prudential Financial, Inc.

Thank you. Good afternoon. It's great to be here with you today. When I mentioned to my wife that I gave Darin for the fun – little fun fact, three things I like to do and I'm not good at. I told my wife that and she says, well, how do you win over list down to three. So – but just so you guys know just to be clear, portfolio management wasn't on the list that she was thinking, okay.

So anyway, it's my pleasure to be here today with you. I'm going to talk about Prudential's Investment portfolio. I'm going to be able to talk about our disciplined approach to Asset Liability Management, a little more detail maybe than what you've heard before and hopefully when I finish, what you're going to see is that Prudential's portfolio is broadly diversified. It's a very high-quality portfolio and it's well-matched against our liabilities. In constructing and managing this portfolio, the General Account enjoys distinctive competitive advantages from PGIM's asset origination capabilities and their investment management expertise. And then finally, these two factors, plus our disciplined approach around Asset Liability Management and our Risk Management Framework, ensures that this portfolio is well-positioned I think to weather the next credit cycle, whenever that is, some three to five years or three to five minutes depending on who you listen to.

So we've talked about our approach to portfolio management here before but because I think it's so critical to understanding how we manage this portfolio and why this portfolio looks the way it does, I just wanted to spend a minute reviewing it for you. Our approach to portfolio construction and management is based upon these four key principles you see behind me. The first is a fundamental understanding of our liabilities. So my portfolio managers are aligned by businesses, the businesses they support both in the U.S. and internationally. And we have people from those teams that actually spend time with the business, co-located to make sure we understand the products that we're selling so we know how to hedge them. They also play a role in product development and product pricing and that's critical to our whole framework.

Second, we have a very disciplined interest rate risk management process. I'm going to talk a little bit more about that, a little bit later in my presentation. But that's one of the things that's allowed us to weather the low interest rate environments that we've been in now for close to a decade so well.

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Third, we're a big believer in diversification. Where this portfolio is broadly diversified by asset class within asset class. And when you talk about credits, we're broadly diversified by credits in the portfolio, and I'll talk a little bit about that as well. And then we rely on rigorous security selection in every one of the assets we have, and most of that occurs in PGIM and they're credit experts that they have in that organization.

So here, you see the total PFI portfolio, excluding the Closed Block. As you can see, over a third or actually 36% of the portfolio is in government securities. So it's U.S. Treasuries, high-quality annuities, and a lot of JGBs that we have to support our Japan business.

Public and private credit, investment grade accounts for 31% of the portfolio. Mortgage loans are 12% of the portfolio, structured products are a 5%, Below Investment Grade is only about 4% of the portfolio, equity and alts is around 3%. And we have a category here listed as other. These are assets that are supporting experience-related – experience-rated liabilities, so investment performance on these assets flows through to the contract to holders.

So what I'd like to do now is I'm going to drill down in some of these asset sectors in more detail and give you a little flavor for the quality of the portfolio.

On this slide, we show the quality of our fixed maturities portfolio broken down by NAIC rating and we compare that to a peer average. As you can see, we have 77% of our fixed maturities are rated NAIC 1 compared to a peer average of about 63%. NAIC 2, which is a BBB securities, we are at 18%, our peer average is at 31%. Below Investment Grade, we have about 5% and as you'll see in a couple of slides from now, that's skewed more towards the higher end of Below Investment Grade. Our peer average in that category is 6%.

So now, I'd like to go a little deeper in terms of the credit quality of the $147 billion we have in corporate credit. As you can see on this slide, 50% of the corporate credit is A-rated or better. 39% is BBB. So you put those together, we have almost 90% of the credit portfolio is investment grade. About 30% of the overall credit portfolio is private placements. And I wanted to spend a second on that. David talked about that capability in PGIM a few minutes ago. These are what I would call traditional private placements. They're investment grade. They usually have full financial covenants. They have other structural protections that are far superior than anything you can get in the public markets, including 144A securities, which are often referred to as privately placed securities.

Over time, and we've looked at this going through a number of credit cycles in our portfolio, these performed significantly better than they were comparably rated public bonds. Our losses are significantly lower through a cycle than what you would see on comparably rated public securities. And I want you to keep that in mind for just a few minutes from now. And PGIM's direct origination capabilities through private placements really represent a distinct competitive advantage for when we construct these portfolios. Looking at our BBB exposure, half of our BBB exposure was in private placements.

Now, let's drill a little deeper in the BBB because this has been something that's been talked about a lot in the market. Our BBB exposure is skewed towards the higher quality as you can see here. 40% of our BBB exposure is BBB+. And when you go to BBB flat or BBB-, more than 50% of the portfolio is in private placements, which has those characteristics that I talked about earlier. And we have a relatively small allocation of Below Investment Grade just about 10%. And as I said earlier, you can see it skewed towards the higher quality of the Below Investment Grade range.

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A few slides earlier, I talked about how diversified the portfolio is across asset sectors. I want to spend just a few minutes talking about how diversified the credit portfolio is within credit names. This slide shows the cumulative exposure of our top 25 credits as a percent of the total credit assets that we have in the portfolio. And as you can see, our top 25 cumulatively adds about 12.3% of our total credit exposure, which puts us slightly below the average of our peers with significantly more diversified than sum. In fact, if you took the average of our top 25 exposures in dollars that comprises less than 20 basis points of our total invested assets. So, it's a broadly diversified portfolio.

Then, when you add in the fact that 30% of the portfolio is private placements and those credits typically aren't credits you see in the public market that adds to the overall main diversification we have in the portfolio. Finally, I just want to stress the fact that our credit exposure is particularly our top credit exposures are actively monitored and managed by PGIM's credit experts.

Now, let me turn to structured products. The structured product portfolio is about $22 billion. It's 5% of our invested assets. As you can see, it's broadly diversified again here across CMBS, RMBS, CLOs and other asset-backed securities. 98% of the structured product portfolio is AA or AAA rated.

Let me draw your attention to CLOs, because that's been a topic that's been in the market a lot over the last several months. We have about $7.3 billion portfolio in CLOs, all of which is rated AAA. Let me go a little deeper.

So, why do I stress the fact that 100% of our CLO exposure is in the AAA tranches? This slide shows the typical structure for CLOs. And as you can see, at the AAA level, there's a 37% loss absorbency cushion at the bottom to protect against losses flowing up to the AAA level. When you drop down to that AA category, that cushion drops to 25%. And when you're in the A tranches, that cushion is 19%. That's about half of the cushion you have at the AAA level.

So, frankly, from our perspective looking at our portfolios, we don't like the risk/reward tradeoffs associated especially with where we are in the credit cycle and what you're seeing with leverage loans these days. We don't like the risk/reward tradeoff with A and AA credit. So, we're only in the AAA. Also, for our portfolio, we have [ph] sarcastically (02:50:08) stressed our portfolio through a cycle to see how it performs, and we're quite comfortable with how it is performing.

And finally, and this is probably the most important point to make, our PGIM credit analysts have fundamental credit opinions on over 80% of the individual credits in our CLO structures. So, these are names that they follow. They may be public high-yield issuers. PGIM does buy loans for other third-party clients, so they underwrite credits there. Over 80% of the credits in our collateral are covered by an analyst, and we have a fundamental credit opinion on those credits.

Turning to our $50 billion commercial mortgage portfolio, we like commercial mortgage loans a lot. They're great diversification from corporate credit. They offer attractive yields, and like private placements, this is another sector where we really benefit from PGIM's broad, extensive direct origination capabilities in the U.S. and actually around the world. As you can see versus the ACLI averages here in terms of how our portfolio is positioned, we're clearly skewed towards more defensive sectors. In commercial mortgage loans, we're overweight in industrial properties; a lot of those are distribution facilities which are very attractive properties and multi-family. And we're overweighted in office and retail.

Let me give you just two more key statistics on our mortgage portfolio which isn't in here. Our average loan to value ratio on this portfolio stands at 56%. And those are on values that are more conservative in terms of

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valuations than even the values assigned to the properties in recent transactions. So there are internal values which are more conservative than market values on transactions. Secondly, the coverage ratios are at 2.4% on this portfolio. And when we look at the section of the mortgage portfolio, kind of the hot zone that we might be a little more concerned about where loan to value, let's say, north of 80% and coverage maybe below, say, 1.2 times, that's less than 20 basis points of the total portfolio. It's about $175 million on this portfolio right now. So, it's a very healthy portfolio.

Turning to equities and alternatives, this is a portfolio that's about $12 billion. It's relatively small, but it's a very important portfolio for us. As you can see, it's also diversified equity securities which are mostly in Japan, real estate, hedge funds, and private equity. And by definition, these are riskier assets. But I would say that our portfolio in alternative space is tilted or is positioned more towards the less risky side of the scale.

Now as you know, short-term returns can be somewhat volatile in this asset sector but if you look at the bar I have here in the lower right, you can see that our cumulative return on this portfolio over the last six years, 2013 to 2018, is far in excess of what we have assumed in our pricing, what our expected returns are. So, we're very happy with the returns on this portfolio cumulatively.

Now, I'd like to spend just a few minutes on the impact that this low rate environment is having on us – on our portfolio and I've got three slides on this topic that I'd like to use to make three points. This is the one Scott was referencing or – maybe, Scott, you want to come up and finish this slide? Will that be okay? So, just checking.

If you look at the slide, you can see in our Domestic portfolio, in our Japan dollar portfolio, our acquisition yields which are the yellow lines, are basically right on top of our portfolio yields at this point. And on the end, business on the lower right, you can see that's a little bit below our portfolio yields but in general, it's quite close.

So the good news is that we don't see a lot of downward pressure here with regard to book yields where rates are. My second point is illustrated here and frankly, I think this is more relevant regarding the impact of low rates on our portfolio.

We've talked before about how we closely manage the interest rate risk in our portfolio. We have over 250 portfolios. So we manage this business on a very granular basis against specific liabilities. We manage these portfolios across 10 key rate duration buckets, 12 in Japan, to make sure our interest rate exposure is appropriate given the liabilities.

As you can see, we're pretty well-matched here. Essentially, this means that for the majority of our liability cash flows, we have very limited exposure to changes in interest rates. This interest rate risk management discipline that we have and how we manage the portfolio is actually also embedded in the product pricing disciplines that the businesses use in pricing products.

Now, obviously, we have some liabilities that have recurring premiums over time. We also have liabilities that have significant amount of cash flow in the tail of young, investable horizons, say beyond 30 years in the U.S. and 40 in Japan. This slide is intended to help me illustrate my third point.

I talked a few minutes ago about the relatively small, but important Alternatives portfolio that we have. Over a short timeframes, you do expect to see some volatility from these types of assets. But over the longer timeframe, our returns on these assets are expected to be well above fixed income. This provides essentially a natural hedge or a little bit of a buffer to low rates in the future for those types of cash flows that we can't currently hedge because we either haven't received them or they're beyond the investable horizon.

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I've mentioned the significant benefits that the General Account enjoys from our relationship with PGIM. And really in two main areas: asset origination for private placements, commercial mortgage loans, real estate equity, and our Alternatives portfolio; and for the public credit market expertise that we get from PGIM fixed income. So, really it's the combination of our Asset Liability Management discipline and our Risk Management discipline with PGIM's expertise in credit and markets and their asset origination capabilities is really what leads to a strong General Account portfolio that has met or exceeded our expectations in terms of performance.

I want to see if I can quantify this for you just a little bit. So, we don't manage the General Account on a total rate of return basis. But we do measure the total rate of return of the portfolio versus the public market benchmark for a variety of reasons that I won't go into right now. So, what this slide shows is the total rate of return of our portfolio against a public corporate benchmark. And this is using standard performance attribution techniques used for the U.S. Financial Wellness business portfolios.

And what you can see in 2018, our portfolio outperformed the Public Corporate benchmark by 200 basis points, a little over 200 basis points. Not a lot came from duration. That's good. We told you we don't take a lot of duration best. We manage that interest rate risk pretty tight. Allocation contributed 64 basis points. That's really the benefit we're getting from privates and commercial mortgages in the portfolio for the most part. But security selection, which relates to this fundamental credit underwriting that we rely so heavily on PGIM for, generated 122 basis points of excess performance last year. In fact, over the 2016 to 2018 period, over the three years, excess return from security selection was about 96 basis points, so significant value-add.

Finally, as you know, there's a fair amount of uncertainty and nervousness in the market around the timing of the next downturn. This portfolio is built to weather a credit cycle. But that doesn't mean, we sit on our hands as we kind of have been 10 years into this credit cycle. So, we have taken a number of steps over the last year or so to start positioning this portfolio a little more defensively. We've been shifting to more defensive asset classes and sectors within asset classes, whether it's public corporates or other asset sectors.

We continue to emphasize the direct origination capabilities of PGIM and privates and commercial mortgages. We've done some slight off shifts and credit qualities within asset classes. We've shorten the spread duration in our portfolio, we're buying short or Below Investment Grade and that we've even shortened the spread duration exposure we have on our investment grade public corporates. And we continue to rotate out of price that we feel are most susceptible to credit migration. We think the portfolio is well-positioned for whenever this next credit cycle takes a turn. And what I wanted to show you here is a comparison of our portfolio today to what it looked like in 2007 before the Great Recession.

What you can see here is that we have a higher allocation to government securities. Now a lot of this is being driven by the growth in Japan, but our NAIC 1s are up about 3% from where they were a decade or so ago. Our exposure to NAIC 2 is down. Structured products is down fairly dramatically that market has changed quite a bit, but what's really important to note here is that despite significant growth in this portfolio and it grew from $163 billion to over $400 billion in this time period, is that PGIM's been able to pace an asset origination for privates and commercial mortgages for us and we've maintained our exposure to those attractive asset sectors.

So, my intent today was to show you the quality and the diversification of the portfolio that we have, to talk a little bit more detail about our disciplined asset liability management approach and to help you better understand the key benefits that we get in the general account from PGIM. And when you put it all together, I hope you saw that we have a portfolio that's well-structured and we think is in a pretty good position as we head into the later stages of this credit cycle.

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So I think we're doing questions later. So thank you very much.

Darin Arita

Senior Vice President-Investor Relations, Prudential Financial, Inc.

Thank you, Tim. Our final presenter is our Chief Financial Officer. He hails from Minneapolis, Minnesota. He likes to play ice hockey and he has a dog named Doug. I think we should add a picture of Doug up there. Please join me in welcoming Ken Tanji.

Kenneth Yutaka Tanji

Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

Thanks, Darin for that credible introduction. This is my first session as CFO at an Investor Day. As you imagine, I was preparing hard for this, making sure our facts are very clear and our story was tight. And my assistant came in the other day and said, you know, Investor Relations is looking for a fun fact about you. And I learned a little bit about there as a CFO, I deal with facts a lot. But I never step back and try to think about are they fun or not. And so the question was hard and it was doubly hard because I realized there's not a lot about fun about me. So I thought long and hard about it and finally I came at, I have a dog, as if everybody loves dogs. Dogs are fun. So, that was the early part of my Investor Day experience.

So, I'm going to cover today which will be the facts about Prudential and I hope to highlight some of the distinguishing characteristics about the combined financial profile which is summarized, with of course, I have three key messages; strong financial performance over time, diversified free cash flow and consistent capital deployment, and attractive value driven by our integrated business mix. We're going to start by looking at our track record of delivering strong financial performance over time.

So here you see EPS has increased at an average rate of 8% per year and that's over the last five years and book value per share has grown 10% per year as well. And our returns on equity have been strong, and last year it was 12.7%. So you can see that's kind of right in the middle of our new ROE target of 12% to 14%. And these results over time reflect the combination of our focused strategy, our high quality businesses, and disciplined execution which together, led to both growth and attractive profitability.

So looking ahead, we believe the power of our collective capabilities and scale combined with the acceleration and transformation of our customer experience and operational excellence will result in expanded margins, higher growth in earnings and a lift in our ROE. So looking back, our financial performance track record has been strong and looking ahead, we believe it'll be even stronger.

Okay. Next, what you see here is our source of earnings and the combination of our investment retirement income and protection solutions provide us with diversified and balanced sources of earnings. Over on the left, you can see the mix of our earnings by type. Fee based businesses represent our largest type of earnings at 43%. This is primarily from PGIM, retirement and annuities. Insurance underwriting is 39% of our earnings and that's from both our insurance operations in the U.S. and Internationally. And then lastly, net spread represents 18% of our earnings and that's primarily from our retirement business.

Now over on the right, you can see our earnings by business. There's a balance of earnings between U.S. Financial Wellness and International and PGIM is a very meaningful contributor to our earnings at 12%. So our mix of businesses combined to provide both earnings from diverse sources is both in terms of the type of

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earnings, but also by business segment and our businesses also provide opportunity to grow across the diverse markets that they serve with a balanced risk profile.

Now let's take a look at our financial strength and flexibility. And we feel really good about the overall strength of our capital position. At the end of the first quarter, highly liquid assets at the parent company totaled $5.5 billion and that was above our target of $3 billion to $5 billion, and this gives us flexibility to deploy capital for attractive opportunities. Financial leverage was also better than our 25% target. So we have the flexibility to issue debt to fund capital deployment and we're also very pleased that Moody's recently acknowledged our financial strength with a credit upgrade. So the combination of robust levels, of highly liquid assets at the parent company, debt capacity and regulatory capital ratios above our AA objectives provides us with financial strength and flexibility.

On this slide, we've summarized our free cash flow and capital deployment over the last five year period and it's been a very consistent picture. Over on the left, you see the free cash flow from our businesses which totaled $16.1 billion and our sources of cash flow are, again, balanced between our U.S. Financial Wellness businesses, PGIM, and International Insurance and this is after funding the corporate expenses which you see in the middle. Our U.S. Financial Wellness cash flows include our annuities business which is now paying regular quarterly dividends. And PGIM's fee-based business provides another stable source of free cash flow, again, with regular dividends paid each quarter. Free cash flow from PGIM totaled $2.8 billion over the last 5 years. Cash flow from our International Insurance business, which is primarily from our insurance operations in Japan, looking ahead will also benefit from the ability to reinsure business to our newly established reinsurer in Bermuda. So in total, the free cash flow of $16.1 billion was 69% of after-tax AOI again over that 5-year period.

Now, moving over to the right side of the screen and you see how that free cash flow was deployed. So we paid $6.2 billion of dividends to shareholders. And over the last 5 years, our dividend per share has increased 16% per year on average. And we've repurchased 6.8 billion of shares over that time and for 2019, this year, our board authorized a share repurchase program of $2 billion, an increase of 33% over last year. We've also deployed $1.2 billion to international M&A, and we've reduced debt by $700 million. So overall, we have diversified sources of cash flow and have consistently deployed capital to grow our businesses while also increasing distributions to shareholders.

So here, we want to take a moment to highlight the financial profile of our Annuities business, which we find very attractive and also very different from any other variable annuity businesses. And just as a reminder, over 80% of our variable annuities have an auto-rebalancing feature that substantially reduces the risk of market declines. Now, this protects both our clients and Prudential and this unique feature enabled us to offer retirement income solutions at a time when others retreated from the market, particularly in the years 2010 to 2012.

Now, furthermore, since that time, since the end of 2012, the S&P has nearly doubled. And that's, if you can think of that as a compounded average growth rate of about 11% per year over that timeframe and that exceeded our return assumptions. Again, that's been very good for our clients, but it's also been very good for the profitability of this business. And three years ago, we restructured our variable annuity business in a way that is highly aligned with the proposed regulatory reserve and capital standards that will take effect next year. And our business continues to be robustly capitalized with risk management that is highly effective. And as a result, when you put that all together, you see the strong profitability with an ROA of about 120 basis points and ROE of 18% to 19%.

So this high profitability combined with strong risk management and capitalization generates a robust and stable level of free cash flow that is now being released each quarter at a rate that's about 85% of after-tax AOI. So, our variable annuities business is distinctly different in many ways and has the combination of high profitability and regular free cash flow which we find attractive.

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Now, over the years, we've talked a little bit about this in Charlie's session, but we've made substantial progress in addressing areas that led to our GAAP net income differing from operating earnings. So over again on the left, you see the period from 2012 to 2014 where our GAAP net income was lower than our adjusted operating income. And the primary reasons for this were structural non-economic accounting outcomes that we took actions to fix. The steps that we took have been very effective. And so, you can see over the last four years from 2015 to 2018, GAAP net income was in line with our after-tax AOI, but we know we must do more to refine the connection of our operating and financial outcomes.

Now, if you looked as Charlie mentioned at our financial results over longer horizons, we believe the connection between our fundamental progress and financial outcomes are much clearer, but in the short term quarter-to-quarter we have a few items that tend to vary.

Now, I think it's easy to put these items into three categories. The first are seasonal items. We have items that occur at certain times of year, and that's due to either the nature of the business or the accounting recognition. And that's the first area. The second area is variable investment income. We have short term returns that will vary, as Tim mentioned, period-to-period, but over the long term, have exceeded our target returns. And then the third area which can lead to quarter-to-quarter volatility is updates of our insurance reserves for both market and actuarial assumptions. And this is where even small adjustments to our long term reserves can cause our earnings to vary in a certain period. So, over the short-term, these items can vary quarter-to-quarter.

Now with that, I'd like to take a minute to mention a few considerations to the upcoming second quarter. First, I'd like to remind you that we had seasonality of our International Insurance business where premiums tend to be highest in the first quarter. And this drove earnings to be higher in the first quarter as well by about $55 million relative to an average quarter. In the second quarter, which is coming up that's what we're in right now and we'll report later, is when premiums tend to be lowest relative to the average, which again will result in lower average earnings, and then we expect that to occur this year as well.

Now also in the second quarter is when we update our experience studies. And we look in to see if there's any new patterns or trends that would lead us to change our assumptions. And we also know that there're certain topics on people's minds. One is given what's going on with the interest rate environment, what about our long term interest rate assumption. And just as a reminder here, two years ago, we reduced our long term rate assumption and we'll use the 10-year treasury as the benchmark from 4% to 3.75%. And although rates have declined recently, they're actually about now where they were two years ago when we made that adjustment. And also when we set our long-term interest rate assumptions, we evaluate several reference points including forecast of the continents and other benchmarks and that's the process that we're going through right now.

The other topic of recent interest has been long-term care. So last year, we updated our morbidity assumptions to more prudent assumptions. And since last year, our experience has been consistent with our updated assumptions. Actually, they've been just a little bit better. So albeit that's a very small sample size, we'll factor that in to our analysis along with industry data.

And then the third area of interest is involves our individual life business in our mortality experience. And our recent experience has been in between range of what we'd expect normal volatility, but net it has been below our experience. So, in ordinary course in our rigorous process, we will factor that in to our study and we'll take a closer look at that. So I know these are areas of current topical interest, our process is very comprehensive and that work is underway and we cannot comment yet because the work's not complete on the potential outcome.

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And then lastly, as you think about the second quarter, please keep in mind that some of the implementation costs that Rob mentioned in his presentation will begin in the second quarter and initially at a modest pace. So overall, we're going to be working on several fronts to clarify our short term results. We're going to be working on giving you all more guidance around our seasonal items so you know when they expect to occur, insensitivities for those and putting them in ranges. We're going to refine the way we measure AOI. And so we'd call out things to make our reported results a little more clear, and we'll look to refine, as we always do, our hedging strategies related to market items. So please stay tuned. There's more to come on these topics. We realized this has been the source of confusion. We've made considerable progress and we're committed to making further improvements as well.

Okay. I'm going to turn now to our valuation. And you've heard a lot today about our strategies and our opportunities for our businesses, our plans to accelerate progress, to deliver financial wellness to customers and again, we think that will result in margin expansion, more growth and a lift in our ROE. And this slide gives you a valuation framework to think about that.

Our U.S. Financial Wellness business altogether represents a comprehensive and integrated set of capabilities that is uniquely positioned to serve broad market needs. Our business is well-positioned both in worksite and individual markets and have complementary capabilities, diversified sources of earnings and balanced risks. And we think, again, our acceleration of progress to gain efficiencies, build capabilities will expand margins, increase growth and cause our ROE to rise. Now our U.S. competitors have PEs in the high-single digits and we believe our Financial Wellness business has the potential to grow faster and that could lead to an even higher PE multiple over time.

Now turning to PGIM, which is a global investment manager, again, diversified with scale across multiple segments, has strong investment performance, has had strong growth characteristics, is a fee-based capital light business with naturally high and attractive ROEs, and again positioned well both strategically and financially relative to its peers. And PEs for asset managers are typically in the low-double digits and we believe PGIM's multi-manager model again with scale, strong investment performance, consistent growth, deserves a value that reflects its strengths relative to its asset management peers.

And then lastly, International Insurance business features a world-class business in Japan that is complemented with growing presence in certain emerging markets. And again, the foundation of our success in Japan is high quality and high productivity that's hard to replicate. And all that combines into solid margins, mid-teen ROEs, regular free cash flow and a low level of market volatility.

Now, PE multiples for companies with a significant portion of their business in Japan can typically be low-double digits, and given our high quality and consistent growth, one could argue our multiple in Japan could be even higher.

Now when you look at that all in aggregation, and based on, again, competitors' valuations, that would suggest a low-double digit PE multiple. And as Charlie outlined in his speech, the three lines of businesses are very much by design and complementary and have attributes and capabilities that allow them to serve markets in new and differentiated ways. And when you put that all together, that would imply an evaluation that is higher than where we trade today and there's real value upside in Prudential.

So now the next question is why the gap, right? Why, if that's all true, is there a gap in our valuation? And we'd like to share our perspective on that. So first as we highlighted, our financial performance has not always been connected with our operating performance, under short timeframes. We've taken steps to address that. We have

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more work to do and it's going to take time to demonstrate our progress. We also have certain businesses that are typically thought of as low multiple due to industry issues that we don't have. And a good example of that – and the reasons we don't have those issues is because of our differentiated approach. A good example of that is our variable annuity business that again is very different than others, highly profitable, highly capitalized, generating high returns and free cash flow and we don't think that's fully recognized in our valuation, but will be demonstrated over time.

And there're industry concerns like long term care. We discontinued long term care seven years ago and last year took steps to strengthen our reserves. We're now positioned to see how actual experience emerges over a long duration timeframe or to de-risk if we see an attractive opportunity to do so. And then lastly, our opportunities for growth with expanded margins and continued strong ROEs is hopefully better understood today after today's sessions, and again, we have plans to make that happen at an accelerated pace. So, with the progress of reducing our short term financial variation in our results, the continued profitability and cash flow from our annuities and an accelerated execution of our strategies from where we are today, we believe there's attractive upside in our valuation.

Okay. So in closing, I'll reiterate the key messages; strong financial performance over time, diversified free cash flow and consistent capital deployment, attractive value driven by our integrated business mix.

So with that, thanks, and I think now we will open it up for general questions. Thanks.

Darin Arita

Senior Vice President-Investor Relations, Prudential Financial, Inc.

So if we could invite Tim back, as well as Charlie and Rob. As they're setting up, a couple of announcements. One, we will have a shuttle running to Penn station until 6:30. There'll be – when you exit the building and if you go to the right on that road, there's a little inlet there and there'll be a shuttle, it'll be marked special on that. Just be aware there's just one that's going to loop. It might take around 20 minutes to loop. So if it's not there, please be patient.

Second, just wanted to say thank you to all the people who helped pull this together. It really takes a lot of people, a lot of cooperation, and we really, really appreciate everything that they've done.

With that, want to turn it over to questions. Feel free to ask any questions amongst the audience members here or the other presenters as well. Start in the middle there, Josh Shanker.

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QUESTION AND ANSWER SECTION

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks, Darin. Thank you, all. And actually not to make it any more difficult but [indiscernible] (03:21:56) model was sub-7 and low-double digits almost twice that amount. It's not even close what you think the business is worth versus where it's trading today and everyone knows about eight months from when your competitors entered into a transaction to bring their earnings forward to accelerate their share repurchase [indiscernible] (03:22:17) they'd do it again. Well, the stock's not as low as it was back then. But for you guys, you have to think it's actually worth maybe double what it is today. Why wouldn't you be doing everything possible for financial engineering right now to retire your shares while the market is irrational pricing your stock at 50% of fair value?

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. I'll start. Our approach to share repurchases is really a way to distribute excess capital to our shareholders in a regular and sustainable way given the natural free cash flow profile of our business. You'll see that as we have more excess free capital, we will return it and that's been our natural course. And we've done things that have restructured our business like when we restructured our Closed Block, which released $1 billion and we returned a portion of that to shareholders. When we restructured our variable annuity business, we returned a portion of that to shareholders as well. And so, as we get free cash flow and we don't have alternative uses of that cash flow, we will return it to shareholders.

Josh Shanker
Analyst, Deutsche Bank Securities, Inc.

Q

And there's no interest in accelerating those cash flows as the market has presented a maybe inexplicable pricing opportunity purchasing own shares.

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Again, we do it in a regular day. We're repurchasing shares every quarter. And as we have the free cash flow, we will return it to shareholders.

Timothy L. Schmidt
Chief Investment Officer & Senior Vice President, Prudential Financial, Inc.

A

Josh, the only thing I'd add is we increased our buybacks by 33% from last year to this year and we take a view because the execution of it is fairly problematic, as Ken described. The amount of capital that we redeployed to share repurchases is a reflection of the fact that when we look at alternative ways to deploy that capital, we're seeing that where our share price is, increasing our buyback program was a logical thing for us to do as we discussed with the board. So think about us doing that, not in reaction to short-term market movements but more thoughtfully in the context of a full year plan.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

Go to Suneet.

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Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, Darin. Suneet Kamath from Citi. Ken, you mentioned this Bermuda reinsurance subsidiary. So, can you just talk about what your plans are there and what kind of impact that could have on free cash flow or any of these metrics?

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. So what we've done is we've established a reinsurer based in Bermuda, which will enable us to take certain business that is issued in Japan that would be better suited for a more economic regulatory capital framework such as they have a Solvency II equivalent regime in Bermuda. And so we're utilizing that to move that business to a better regulatory framework with the full supervision of both the BMA in Bermuda as well as the FSA in Japan and New Jersey our group supervisor in order to have that business continue to be well-reserved and well-capitalized, but will lead to an increase in profitability under J GAAP with our Japan insurance business, which that higher profits will then be distributable and allow for free cash flow from our Japan business keeping both our Japan business well-capitalized and reserved as well as the business in Bermuda. And we're doing it in a sustainable way in various tranches that will lead to a more regular cash flow profile much like you've already seen from our Japan business. So we have a new way, a new tool to do that.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

So we should think about this, as like you said another tool, as opposed to something that's an accelerator increase...

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

That's right.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

... [indiscernible] (03:25:55) Okay.

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

I'm sorry.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.

Q

And then when you're going to the assumption review commentary, you talked about the life business. And I just wondered, I missed what you've said. Has mortality been more favorable is that relative to what your expectations are or...?

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

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No. It's very quarter-to-quarter, both positive and negative. If you looked at it, it has been slightly negative and we're taking a look at that.

Suneet Kamath
Analyst, Citigroup Global Markets, Inc.
Q

Got it. Okay. Thanks.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

John Barnidge?

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP
Q

Thanks. Your guidance for the year assumes a year-end U.S. tenure of [ph] 315 (03:26:30). Why should we not worry about that?

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.
A

I don't know if you should worry. We...

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP
Q

It's not your ability to make that.

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.
A

Yeah. We also gave interest rates sensitivities too, if rates were below by 100 basis points. That was $0.30 per share. And I think you can use that, think about the impact of that.

John Bakewell Barnidge
Analyst, Sandler O'Neill & Partners LP
Q

Great. Thank you.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Tom Gallagher.

Thomas Gallagher
Analyst, Evercore ISI
Q

Yes. Ken, in terms of – I guess one of your main points is your variable annuity business is misunderstood its better quality than some of the others that created much lower multiples today. Is there any further elaboration you can give as to where some of the biggest differences lie? Is it your auto rebalance feature allows you to spend a lot less money on hedging because it does seem to me like that. Clearly one of the biggest risks with some of these variable minority blocks from your very scenarios is the need to roll and rebalance hedging.

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Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. Thanks for bringing that up. The auto rebalancing feature is really important. It, in essence, reduces our tail risk. So markets can only experience so much of the decline before our account value gets stabilized by a rebalancing into a fixed income return option. And so it really reduces the level of tails, reduces the level of hedging intensity and makes the block less risky, and as well as our robust approach to it. We've, from the beginning, took a very economic approach to managing that risk and capitalize on it very fully. And so we've had a full value proposition from the beginning including highly capitalized, well risk managed and taking an opportunity in the market when none of those left to be a consistent force and writing very profitable business and then experiencing on the back of that markets that rise.

And so, all of that goes into how we differentiated ourselves from the beginning, maintained a consistent presence in the market, able to capture profitability, and then actually the regulatory restructurings were not a problem for us but were actually an opportunity, and which we highly influenced to help others do things the right way. And so that's why we think we have a much different experience than many others.

Timothy L. Schmidt
Chief Investment Officer & Senior Vice President, Prudential Financial, Inc.

A

And Tom let me just add one other thing and that is the diversification of product. So we have HDI, we have Highest Daily. We have PDI, which is Prudential Defined Income. We have fixed annuities. We have all sorts of different kinds of products in that product suite. So, we meet the needs of our customers but the products are, as Ken said, very sophisticated but they're also diversified. So, we have a large stable of products which we can give to the marketplace.

Thomas Gallagher
Analyst, Evercore ISI

Q

And just a follow-up question on that point on the variable annuity side. I think one of the other big concerns is FASB reform could potentially have a very big negative impact related to VA on book values. One thing I've noticed over the years is I think your discount rate has generally been below that of peers in terms of the way you've been fair valuing your reserves, which I think would imply that your adjustment should be probably less than most others. Is that something you've looked at or is there any elaboration you could give us on that point?

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. There's a lot of moving parts in the new target improvement and FASB announcement. So I don't want to get into those. But as you know, our living benefit has been on a fair value basis. So that won't be a change for us whereas others in the market haven't had a fair value approach to valuing their living benefit liabilities. So, for us, on the living benefit side, that won't be much of an issue.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

Ryan Krueger?

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

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Thanks. First, just to follow up on the GAAP accounting changes. I know you're no in a position to quantify anything at this point, but have you thought about, I guess, when you may be able to give more quantitative disclosure from a timing standpoint on the market, when that might be?

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

Yeah. It's going to be a while. This is a pretty extensive effort that we have to take. It's revaluing about two-thirds of our liabilities and it's cohort-by-cohort, which is by year and there's decisions to make along the way. So we're still early in our process with that. The other thing is we would hope, as we go through this with the intent of these changes to bring more consistency across the industry and the way the liabilities are accounted for. Variable annuities is a big example of that, that now everybody will be on a fair value standard for living benefits where we already were.

And we would like to work with our insurance peers to make sure we achieve that objective of having more consistency in the way people approach valuing their liabilities. So, you have a better way of comparing across a company-to-company and including the way we measure operating income. So, the idea here is to bring more consistency. We want to make sure that happens and we're going to work with our counterparts across the industry to try to achieve that and that will be another element of time. We're also advocating for an extension of time, because to get this right is important and we think it needs time to make sure we achieve the objective of getting better, more consistent information for – and that benefits for everybody.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. And then just on interest rates. On the chart you showed with new money rates relative to portfolio yields going forward. I think you did that as of 1Q 2019. It looked like we've had a big drop in rates as this – I guess could you just give us any sense of kind of where new money rates are now relative to portfolio yields, maybe just for the domestic business?

Timothy L. Schmidt
Chief Investment Officer & Senior Vice President, Prudential Financial, Inc.

A

I haven't seen the full 2Q numbers obviously yet, but they're going to be down like 30 basis points maybe from that. But we are always dynamically trying to flow money into the market where we see spreads may not have moved in as much as rates have moved in. So we're watching that very closely, but they're going to be down if rates stay where they are now, but...

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

And the spreads have widened a little bit too.

Timothy L. Schmidt
Chief Investment Officer & Senior Vice President, Prudential Financial, Inc.

A

Yeah.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you.

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Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Humphrey?

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC
Q

Humphrey Lee from Dowling & Partners. I think for today's presentation a lot [indiscernible] (03:33:26) at the U.S. Financial Wellness. Taking a step back, looking at a lot of your competitors, they've been talking about Financial Wellness in general and that seems to be the industry trend going forward. So, I guess, question for Charlie. When you think about Prudential's opportunities, like what is truly differentiating Pru compared to some of your competitors that are seeing the same language?

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Our competitive differentiation is the product suite and the solutions set that we can offer to clients. So if you look at what we can offer in terms of retirement income, in terms of protection, in terms of asset management capabilities, in terms of advice, whether it's the product suite or solution set, whether it's the distribution capability, as was said in the panel, whether we want to go face-to-face, hybrid, digital, we have the entire solution set. Others don't have all of that. They may not have tied agency. They may not have protection solutions. They may not have retirement. But because we have that, we can form a backbone of all these solutions by which then we can go to our customers and give them a complete set of financial wellness capabilities by which they can then pursue their own financial wellness. That is a significant competitive advantage that we have relative to others.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC
Q

Okay.

Timothy L. Schmidt
Chief Investment Officer & Senior Vice President, Prudential Financial, Inc.
A

If I could just jump in Charlie.

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.
A

Yeah.

Timothy L. Schmidt
Chief Investment Officer & Senior Vice President, Prudential Financial, Inc.
A

The only thing I'd maybe add to that is we also recognize competitive advantages [indiscernible] (03:34:59) over long periods of time and, hence, the urgency and the acceleration of our plan. And you know the all intend today is to get the message to you that we see this opportunity and we think we have a differentiated competitive and advantage in seizing that opportunity and we're going to go after it hard and fast.

Humphrey Hung Fai Lee
Analyst, Dowling & Partners Securities LLC
Q

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That makes sense. I think shifting gears, so on the regulatory side, there's some discussion about the international capital standard for insurance company by the [indiscernible] (03:35:24). I think U.S. has been pretty adamant pushing back against that, but there is some concern about – for companies that operate internationally, could the international regulators be a influence on these companies like Prudential? So, I was just wondering if you have any thoughts on ICS proposal and then in terms of what maybe, like your thoughts on the proposal itself and what you're thinking about in terms of the outlook.

Timothy L. Schmidt
Chief Investment Officer & Senior Vice President, Prudential Financial, Inc.
A

Yeah. So, I'll take a stab at that. I would say, and we're on record, so I don't think I'm out of school in saying this that the ICS is not currently fit for purpose. And I think there's broad industry consensus on that. We let a group of about 10 of the largest international insurance companies. And on behalf of that group, we sent in a letter to [indiscernible] (03:36:14) who's now heading the FSB to say the FSB needs to engage in this with IAS because currently, as constructed, this really won't work for the industry. Not for Prudential, for the industry and the industry being defined on a global basis.

Having said that, directionally there're sort of improvements being made in order to try to make that work in a way that it can be implemented in reflecting underlying economics of insurance in that construct. Our view is that with respect to U.S. operations and U.S. companies, it's highly unlikely that this was going to have any impact because the U.S. has actually been – the regulators have been very clear that if it's sort of not suited for purpose, it won't be adopted here.

Our engagement, however, is because we believe that it could have an influence on how regulatory regimes evolve around the world and other places in which we operate. And so we believe that getting it right is going to be important whether it's directly applied to us as a holding company based out of the United States because it could affect the regimes that regulate the underlying subsidiaries we have in other parts of the world. So, Humphrey we remain very engaged. We're encouraged. What we've found is constructive engagement with the regulators generally gets to the right outcome. It's a function of how long it takes to get there. And so, we're going to put the time in to try to make sure that we get to that right outcome.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.
A

Any other questions? Mark Dwelle?

Mark A. Dwelle
Analyst, RBC Capital Markets LLC
Q

Mark Dwelle with RBC. You've talked a lot about Wellness. And when you think about your Wellness competitors, are you more concerned about Principal, Met, and people like that or are you more concerned about Schwab and Fidelity and people like that or the banks? How does your world evolve when you differentiate between your Wellness competitors?

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.
A

Yes. And by that I mean different companies that you just talked about in different categories compete with us in different ways. As I said, we have it all, right? We have protection, we have retirement, we have asset management, and we fight on each of those fronts with different competitors that may have one facet of what we have. So we view them all as competitors of various sorts in various ways. But when you look again at the entire

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suite of solutions that we offer, we don't see a lot of competitors out there who can compete with us in the full range of products, but we do compete with different competitors in different areas.

Mark A. Dwelle
Analyst, RBC Capital Markets LLC

Q

Which batch are you more concerned with?

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

A

I would say, probably on the retirement side. That's one that we think a great deal about. On the protection side either people have it or they don't and we can deal with that. But the retirement side is the one we spend a lot of time thinking about and how to access the customers on a digital hybrid or face-to-face method and how to take advantage of how can we get them to take advantage of what we have to offer. Some of them are ahead of us quite frankly in some particular areas. That's okay. We're catching up fast. And because we have again the full suite of products we think we can compete very effectively against that.

Darin Arita
Senior Vice President-Investor Relations, Prudential Financial, Inc.

A

Any last questions? Okay.

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

Okay.

Kenneth Yutaka Tanji
Chief Financial Officer & Executive Vice President, Prudential Financial, Inc.

Great. Thank you.

Charlie F. Lowrey
Chairman & Chief Executive Officer, Prudential Financial, Inc.

Let me just say a couple of things, but first, I want to acknowledge someone who is here. You all know Mark Greer, and this is Mark's last Investor Day with us He has been such an important part of Prudential for a long, long period of time and he represents the best of everything we have done and hopefully we'll be able to do in the future. As we said, we stand on the shoulders of those that have come before us and Mark is a tremendous example. And Mark, we will all stand on your shoulders. So thank you so much.

So we hope today was different for you. We tried to answer the question of what is different. We had it out here in kind of our home territory, if you will. We tried to specifically answer some of the questions that you've had. We've tried to provide tangible proof points for many of the business areas that we have talked about. And so we hope you walk away from today with the idea that things are different, that we are moving faster, that we are pursuing Financial Wellness with conviction, that we have a strategy that we are moving forward with, with urgency in Financial Wellness, in International, and clearly in asset management.

So I hope you've enjoyed today. I hope you've learned a lot and we look forward to working with you going forward. We appreciate your interest and thanks for coming.

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