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Prudential Financial, Inc. (PRU)

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CORPORATE PARTICIPANTS

Charles F. Lowrey
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Tracy Benguigui
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MANAGEMENT DISCUSSION SECTION

Tracy Benguigui
Analyst, Barclays Capital

Good morning. I'm Tracy Benguigui. I joined Barclays recently as the new insurance analyst and I'm pleased to kick off our insurance morning with Charlie Lowrey, Chairman and CEO of Prudential Financial. Charlie, thank you for being here with us.

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

Thanks, Tracy, for having me. I'm looking forward to this a lot.

Tracy Benguigui
Analyst, Barclays Capital

Excellent. Just some housekeeping items before we kick off. There is a live polling question left side of your screen, if asked for username, please use Barclays2. Look for the next button to move through polling questions. We could see the results in real time. The first one is just for fun. The next question really gives me a sense what's on your mind and also on the left side, there is a Q&A box. So, today's session format is a fireside chat. I'll first go through my prepared Q&A with Charlie and then turn over to your submitted questions.

QUESTION AND ANSWER SECTION

Tracy Benguigui
Analyst, Barclays Capital

Q

So, with that out of the way, Charlie, can you provide us a 360 view of Prudential in this dynamic environment we're living in?

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

A

Sure. Let me just take a couple of minutes, Tracy, and provide like context for you. And what I want to do is emphasize a few of the comments we made on the second quarter call and amplify them. But first is that we have a very strong balance sheet, right. I think the financial industry learned a lot from the great financial crisis, and put into place really robust risk frameworks, from which we then emphasized and put forward kind of a playbook, if you will, and we can talk about that more as we go forward. But the point is, we have really – a really strong balance sheet, and we have very, very good liquidity and that risk framework has served us really well. So, we're in a strong capital position. What that enables us to do is to focus on our business, and that's really important.

So, in terms of the business, the insurance industry has really been hit by a tri-factor of stuff. First, you had COVID, then you have the recession, finally you have low interest rates for longer. COVID so far has turned out to be not as bad as anticipated. The recession we can talk about as we go forward, right, and that's really the credit cycle, where are we in the credit cycle and what do we expect going forward. And then there's lower for longer interest rates and that obviously has a big headwind effect on us. We've said that that will affect us sort of to the tune of $0.30 annually on an EPS basis. And then finally, we're taking short and long-term actions and we talked about some of those things on the call. So, we're on track with our short-term actions whether it's the repricing of products, whether it's the creation of new products, whether it's our expense savings initiatives and then we're looking to do more on a long-term basis and accelerate that in terms of transforming the company to a less market rate sensitive company, less interest rate sensitive company, less capital intensive company and a company with higher growth.

So, we're using this opportunity to accelerate the changes of technology, customer service, expense savings, personnel, et cetera, and we're right in the middle of that as we go forward and to the extent you want, we can talk more about it, but that provides a little bit of context for you as we go forward.

Tracy Benguigui
Analyst, Barclays Capital

Q

Excellent. So, reducing market sensitivity, you mentioned, has been a key objective at Prudential. Low interest rates are not new, but it definitely feels different right now. We've seen Prudential react by repricing or completely exiting products that are not meeting return hurdles. Likewise a number of years ago, you've updated your hedging strategy and moderated the richness of guarantees. So, at this point, Charlie, how much more work do you have to do?

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

A

I'd say there is more work to do. So, we are constantly repricing products. You've seen us do it before, as you said. We've been doing it for years starting with in Japan where we've had low interest rates for 20 years. So, we are either repricing products or we stopped selling products, the single premium yen-denominated product, effectively HDI and GUL single life. So, we've done a lot of that, as you said. You then kind of [ph] moved into (00:04:20) product design. Now that may be what we've done reducing the retention limit on our life product from $20 million to $10 million, something as simple as that that's creating a buffered product like FlexGuard or putting simply term on Assurance. So, product design in this environment is a big part of that. That would be kind of the third thing.

The fourth is looking at our investment portfolio. We have a conservative investment portfolio, so you look at the strategic asset allocation in light of the low interest rate environment for longer and how you optimize the risk return trade-offs, if you will, and the volatility trade-offs. So, we're looking at that. We're looking at our existing books of business and what we've said is nothing is off the table. We're looking at either reinsuring them, potentially selling some of them, running some of them down. So, we're looking at all that in terms of the opportunities that we may have.

And finally, last but not least, the business mix, right. So, we want to emphasize less interest rate sensitive businesses, ones with less volatility and ones that are less capital intensive, as I mentioned. So you think about asset management, retirement, Assurance, as we go forward. So those are kind of the six levers, if you will, that I think we either have pulled or we are pulling as we go forward.

Tracy Benguigui
Analyst, Barclays Capital

Q

Excellent. [indiscernible] (00:05:54) you've mentioned on a balance sheet perspective, how open are you to pursue reinsurance or sales of businesses or blocks, particularly how does the economics look in today's environment in doing something like that?

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

A

Well, I think there is a balance, right. We work for shareholders. And so, what we're going to do is look at – if we make a decision to do something, look at the long-term benefit to shareholders. So, that may mean either selling a portion, it may be reinsuring a portion, it may be reinsuring the entire block if we can get a good price. It may be if the prices aren't great that we see out there and we think there's far more value to shareholders in holding it and running it off, we might do that.

The other aspect of this is if you were to sell a business, would you get a multiple expansion, how much would that multiple expansion be and how does that relate to the amount of proceeds that you would get versus that multiple expansion. So, we're weighing all of these things as we go forward, but rest assured, we will do what's right for shareholders.

Tracy Benguigui
Analyst, Barclays Capital

Q

Okay. Great. Let's talk about [indiscernible] (00:07:12) liability in the broader retirement and savings market. I mean, you've mentioned repricing, moderation of benefits, redesign. Do you feel we could still offer competitive products relative to, let's say, a plain vanilla mutual fund?

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

A

Yeah, I do, and I do for a number of reasons. One, let's state that we've been operating in Japan successfully for 20 years in an extraordinarily low interest rate environment. And as a result, you've seen that we've been able to operate successfully. So, a couple of sort of macro comments and I'll get into some other things, but in times like this, what we've experienced before, we've experienced in Japan, we've experienced here is the value of our products and what we do are even more apparent and more important to people in the kind of volatile and low interest rate environment we're in today. And as an insurance company and as a diversified insurance company, we can pull risk like longevity risk in order to create retirement outcomes for our customers, so that's really important.

So, when you look at Prudential and our complementary business mix, it provides diversification and capital benefits, which can reduce the sensitivity of market movements, which helps clients. So, we've taken actions to lower market sensitivity. We managed interest rate exposure very carefully and we've accelerated expense actions, which will help us in terms of pricing our clients – our products. And despite the headwinds associated with the pandemic, the recession and low interest rate environment, I think we've made some pretty good progress. We have record levels of AUM in PGIM, right. We've really expanded internationally. Now, 35% of our AUM is from international clients. Our retail expansion has been very good and in fact, we're ranked number one in the US mutual fund franchise across active and passive managers on a net year-to-date basis, which kind of surprised us actually but we were, and we're further building out our alternatives capability. So, PGIM, we're taking advantage of things.

In international, we're leveraging off of Japan and our strength in Japan to do other things. You've seen us what we've done in terms of moving from developing to developed markets in terms – or really developed markets into developing markets, I apologize, by selling to Poland, Italy, Korea and now announcing Taiwan, we've expanded in Brazil, in our bank distribution and we've expanded through Habitat, our Chilean pension fund business, into Colombia and Peru. So, we're doing things at the margin there. And then the US business, obviously, we bought Assurance in order to expand our digital distribution and we're accelerating our future work initiatives, our expense initiatives as we go forward and we may even expand them.

So, there's a lot we are doing in order to strengthen our overall business and be able to provide the right clients to – the right products to the right clients as we think about expanding our addressable universe.

Tracy Benguigui
Analyst, Barclays Capital

Q

Great. [indiscernible] (00:10:49) going to address a lot of the other items you mentioned on PGIM and expense savings. But maybe if I could just pick on longevity since you've mentioned that on institutional channel, maybe we could shift gears and talk about PRT. Can you discuss your appetite for pension risk transfers and longevity reinsurance in the current economic environment, and I guess, I'm wondering, are there issues with the funding status of pension plans that would limit deal flow?

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

A

Yeah. And if you would ask me, last year as another analyst did, what do you think the volume of PRT would be this year. I would say – I said I thought it would be significantly lower than it was last year. Last year was a banner year, right. And in fact, if you look in the first quarter, all bets were off, because of what happened. But in the second quarter, the equity markets obviously bounced back and funding came up, right. So, funding is back within a few points of where it was.

So, a few points in terms of the supply, the willingness of corporations to actually transact and then I'll get into sort of the demand. But one is the funding is back up to kind of almost previous levels. Two, the volatility that we've seen, it reminds corporations of the value of pension risk transfer. So that's really important. The third is PBGC fees keep going up. So, if you're pension fund and you have a high number of potential retirees with low balances, you're getting crushed by the PBGC fees and therefore, it would be good to transact to get out from under those. And then fourth, low interest rates enable companies to borrow to fund that last little bit that they need to. So, the pipeline, especially we think in the fourth quarter is expected to recover and be reasonably robust this year. So, the supply side I think is okay.

Now, on the demand side, low interest rates frankly make it a challenge for people looking to assume these assets because obviously we have to reinvest the proceeds that we receive and if it's at a low interest rate environment, especially if you're focused on retirees and therefore, you have a shorter duration is a challenge.

So, what I'll say about PRU is we have been – we will be disciplined about our pricing and we'll see where the market is and what competitors do. But we think the supply will be there, but the demand side is going to be a little bit challenging I think.

Tracy Benguigui
Analyst, Barclays Capital

Q

Maybe just staying on the demand side a little bit in your discipline and risk appetite, just remind us what's your appetite for deferred liabs transactions?

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

A

Limited. It is quite limited. One, you have to have additional capital to protect against unexpected longevity and there's limited optionality associated with this liability. Two, it's because the duration is much longer for deferred liabs, it's more difficult to find the assets. With retirees, the average age is plus or minus 75. It's much easier obviously for ALM matching. And then you're don't – with retirees, you don't have the tail risk such as sudden medical discoveries like a cure to cancer or diabetes or something else. So, we much prefer and are much more comfortable with retirees than we are with deferred.

Tracy Benguigui
Analyst, Barclays Capital

Q

Okay. Great. Maybe let's just touch upon COVID-19 a little bit. And the reason why I am asking you this question, upcoming question is because Prudential is like really one of the few companies that really talk about a longevity risk, a mortality risk, you even have a percentage you put into earnings, benefit from that. So just taking that to another level, COVID-19 could be described in a way as a black swan event. We saw the emergence of mortality, morbidity, credit, interest rate and equity risk, all in one. And the pandemic angle makes this crisis feel a little bit different than the financial crisis. So, I'm wondering if these scenarios were built into your internal models, and if we should throw any – our longstanding correlation matrixes out of the window.

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

A

Well, I hope not for the latter question and to the former question, absolutely. So when I talked about what we learned coming out the great financial crisis, it was that we had to have a even stronger risk framework. And as we built that up over the years, we in fact had a pandemic playbook, which some of us honestly kind of thought really why do we need this, but thank goodness we had it. And you actually saw us put it to use in March.

Before everything became what it is, we went out and issued a $1.5 billion of debt. Now, we were going to do a [ph] $500 million (00:16:06) green bond which we did. But we added $1 billion to it because some of the signals were kind of flashing red and our CFO, Ken Tanji said, you know what, I just want some more. I want to be safe. I want to make sure we have a robust capital framework and we're going to go out early and we're going to do an additional $1 billion that was specifically because of the risk process that we put in place. So, we have this framework and we have been using it and continue to use it as we monitor what's going on. There's a dashboard that we use and we analyze potential scenarios for each business and then for the company as a whole.

The other thing I would say and the second quarter really highlights this is the diversification we have, right. So there is an inherent diversification in our businesses and you saw that with the net impact of mortality, which was actually favorable by $100 million across our businesses in the second quarter and you're like, well, how is that possible, and the reason was because the deaths in the UK were higher than estimated and that's where we have a lot of our longevity exposure and therefore, that offset what turned out to be less than estimated impacts to our US and group business and very limited deaths and as a result, ramifications in Japan. So, I think this particular example highlights the complementary nature of our business mix and in particular, our retirement longevity business with regard to the life insurance mortality business.

So, there are a couple of things going on. One is a robust risk framework and the other is just the inherent diversification of the businesses.

Tracy Benguigui
Analyst, Barclays Capital

Q

I guess, [ph] building your point (00:17:59), I'm wondering if you've considered any other type of silver lining from this opportunity with disruption led opportunities. I mean, for instance, life insurance still is sold for the most part at the kitchen table.

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

A

Yeah.

Tracy Benguigui
Analyst, Barclays Capital

Q

And I'm wondering how successful your digital and hybrid efforts been to overcome these few and far between kitchen table discussions?

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

A

I think it is – the silver lining is that we are accelerating a lot of what we were already doing and we've had to do that. So just as an example, I mean, we went 100% remote in 48 hours, right. If you would have asked us beforehand whether we could have done that, we would have put together a committee, we would have studied it for two years and said it was impossible. And yet, we did it in 48 hours. That proved to us that we can operate at a completely different speed than we had before.

So when you think about silver linings, one is the acceleration of many of the initiatives we already had outstanding. The second is our ability through that to expand I think our addressable universe and serving more of the needs of society and you've seen us do that through Assurance and putting simply term product on there.

You've seen us do it with the group business in terms of the digitization of all our online education, which was done in person by advisors before. You've also seen a silver lining I think and we saw this in Japan in 2011 after the earthquake, where although there was a decrease in activity, there was an increase in the acknowledgement of the importance of what we offer, whether it is life insurance, emergency savings retirement, all the products that can provide people with peace of mind and financial wellness. So that's the second thing as we think there will be a greater recognition of what we have to offer.

And I think the third is accelerating how we feel like we're doing in terms of distribution. In that, I think we feel we're well positioned, but we needed to do more. We needed to do more revamping the front-end of our systems, so with our retirement plans doing more online and we've been doing that, introducing more chatbots, introducing all sorts of things and we've done that throughout COVID at a pace that frankly we wouldn't have done before, and to expand and strengthen the full array of distribution models we have, right, because I think we have an omni-channel distribution whether it's direct-to-consumer, whether it's hybrid, whether it's digital or whether it's face-to-face. And so, we have been strengthening each of those and focusing on each of those during this time.

The final thing is just I think we also – during these times, you think about the solutions that clients need and we've been broadening that set of solutions, again, whether it's putting on a very simple term product on Assurance, whether it's introducing a buffered product called FlexGuard to take the place of HDI, that kind of thing. So, we've been speeding up frankly the product development process as well. So, in a nutshell, it's the acceleration of many of the things we were doing, but doing them faster and hopefully doing them better.

Tracy Benguigui
Analyst, Barclays Capital

Q

Excellent. And I'm just wondering any early learnings you can gauge from your agent sales efforts, which maybe been ahead of the curve – the COVID-19 curve relative to the US?

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

A

Yeah, I think there is. And our Japan business in particular has really, really strong relationships. The life planners and life plan consultants have extraordinarily strong relationships and what has been, I think, I won't say surprising, but pleasing to us is how those relationships, which normally have been face-to-face because that's the way you do business in Japan mostly, have transformed to a digital nature. And the life planners and life plan consultants have adapted to increase the use of virtual tools, including online consulting and digital solutions to connect to customers. And that's something we were a little nervous about, could they make that transition and they really have.

The other thing is I think the – just the needs based approach we have to selling of debt protection products continues to be of real value to our customers. They get it. They see what's happening. They want these products and if they can only get it digitally, they will. As it turns out, Japan, obviously, hasn't been hit as hard, they begin to open up a bit, so that's alleviated some of this, but we've been really pleased with a pivot that the life planners and life consultants have been able to do.

Tracy Benguigui
Analyst, Barclays Capital

Q

Great. In your opening remarks, you talked about key trends, so do you think [indiscernible] (00:23:26) are gravitating to more fee-based business from spread business, given the interest rate environment? How would you describe the symbiotic benefits of PGIM upon your US financial wellness and international insurance businesses?

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

There is kind of a virtuous circle, right. So, the thing I love about the asset management business is, it is a ruthless business, either you perform and you gain assets or you don't perform and you lose assets. It's as simple as that. And PGIM has performed very, very well. In fact, 85% of its assets under management are outperforming their benchmarks over a 3, 5 and 10-year period. So, they're performing well. That performance and their ability to create alpha enhances the competitiveness of the US businesses, right. So, the US businesses which obviously give them their balances do better and that then leads the US businesses to do better, which then gives PGIM more business and increases the scale of PGIM.

In addition to that and we can get into this at some point, if you want on the retail side, but PRU has the ability and does seed funds to create track records by which then PGIM can go out and raise money and then use that in various ways, including helping our clients, so – our retail clients and some of our institutional clients. So, there are many ways in which PGIM helps PRU, PRU as a whole and Prudential helps PGIM. It's actually – it works quite well.

Tracy Benguigui
Analyst, Barclays Capital Q

And maybe one thing you didn't talk about there [indiscernible] (00:25:22), are you offering proprietary PGIM funds in your VA sub-accounts, for instance?

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

Yeah, absolutely. And it is – over 50% of our VA funds are proprietary PGIM funds. The VA goes through a very robust process. We have loads of external managers, but PGIM competes for those and to the extent that an objective group looks at these and says, yeah, PGIM is best then they go – they get the assets, but they compete [indiscernible] (00:25:59).

Tracy Benguigui
Analyst, Barclays Capital Q

And just recognizing that, Prudential is actually the biggest client of PGIM. So how has PGIM influenced your total return on your general account?

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

It produces significant alpha. So, every quarter, we look at the performance of PGIM relative to the benchmarks and see what has happened and what is there and it has created significant alpha over time. As I said, the performance has been really good and it really remains a key driver to the success of the businesses, so by virtue of its performance in the general account. So, we've been very pleased with PGIM's performance

Tracy Benguigui
Analyst, Barclays Capital Q

Great. We've about 10 minutes. I'm just going to remind folks to submit questions in the Q&A box, which will be e-mailed to me, so just a reminder there. Maybe shifting gears and talking about capital management, has COVID-19 reshaped your desired capital deployment measures upon your menu of choices, either M&A, share buybacks or reinvestment back into the business?

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

Not really. We have a playbook. We're following that playbook, and so our capital deployment approach really hasn't changed at all. We paused our share repurchases in the second quarter, in line with our risk framework and the playbook that we had in place. And until we get better visibility about the depth and duration of the pandemic and then the possible recession that may still come as well as the length of the credit cycle because the credit cycle has been more benign in the first half than we thought, but we think that the duration of it may continue for quite some time as furloughs turn into layoffs, as other things happen. So, we're watching that very closely and we'll focus on maintaining our financial strength or flexibility, and frankly, our resiliency over time.

So, we'll continue to evaluate the kind of macro environment, if you will, and as conditions evolve, we'll continue to assess the appropriate time and the amount for the resumption of share repurchases. But until then, they're going to remain on pause. What we don't want to do, Tracy, is to start them and then stop them, right. Dividends are the most important thing. We've said that we will continue to prioritize dividends and seek to maintain them through the cycles and then stock buybacks when we feel we can start the program again, we will, but we're going to be cautious because we're concerned about the credit cycle, especially in the second half.

Tracy Benguigui
Analyst, Barclays Capital
Q

Got it. [ph] And I think you're chomping the bit on (00:29:18) augmenting capital-light businesses in your mix, how does that position PRU on an ROE perspective in light of this new era of ultra-low interest rates?

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

Yeah. Yeah. Would that we could go back to like the [ph] 3% tenure (00:29:33), that would be kind of nice. So, we'll continue to be very disciplined about our pricing and have taken steps, as you know, to reprice our products and emphasize new products that are less market sensitive. Our annual ROE on an adjusted basis in the second quarter was about 12% if you were adjusting for unique items, the puts and takes that came out of that such as annual assumption updates and things like that.

But looking forward, there are two things, there's a plus and there's a minus to the ROE. So, the minus is obviously the sustained low interest rates, which are a headwind and we've quantified that as I said at the beginning about $0.03 a quarter, which is cumulative, so over a year that's about $0.30 that's a big headwind. The positive is that we had net business growth and that we have initiated a strong expense savings and efficiency effort, right, to improve our efficiency to improve customer experience initiatives. And we've stated to you all that we're looking for $500 million of run rate improvement by the end of 2022 and that's to mitigate some of the headwinds and to add to our run rate earnings. So that in combination with all the other things we're doing hopefully offsets or more than offsets the headwinds that are out there. So we're actively managing this, but we have a headwind, which is called lower interest rates.

Tracy Benguigui
Analyst, Barclays Capital
Q

Okay. Great. And [indiscernible] (00:31:18) staying on the theme of capital-light business. So last September, Prudential paid $2.4 billion on a bet on insured tech platform, Assurance IQ. So, one year later, are you happy you've made this bet?

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

A

Yes, we're very happy and we better be, we paid a lot of money for it. We're happy with it and we think it is doing what we wanted it to do and if you look at many of the metrics of the transaction, they are actually doing quite well in terms of the number of customers, in terms of the number of products, in terms of all sorts of things that are going in the right direction. This is very much a fourth quarter business, so we're anxiously awaiting the fourth quarter. They've been preparing for it for a year for Medicaid, Medicaid Advantage, Medicare. So, we'll see what happens there.

But in terms of the synergies between the businesses, what they have taught us, what they're giving us and hopefully what we are giving them is on track. So, we thought we'd get a simplified term product on by the end of I think the third quarter, we bumped that up a quarter. So, we're on track there. They put other things on the site and there is a tremendous amount of interest for – by insurers to get onto the sites – to begin to sell their product too, because it's open architecture. So, yeah, we're quite pleased with where it is.

Obviously, COVID has affected this to a certain extent, because everybody left and in that environment, especially with a company like Assurance, the benefits of being together are great, but they're managing through that, they're managing well and so we continue to be extremely excited about the potential that we have there.

Tracy Benguigui
Analyst, Barclays Capital

Q

Excellent. So, low interest rates have always been a [indiscernible] (00:33:12) right, but you did talk a little bit earlier about the ability to raise capital with some debt issuances and I'm wondering what opportunities are in the market for a possible further refinancing or pre-funding of upcoming maturities?

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

A

Yeah, we have done three debt issues. We did the first one in March, and then, we did another pre-funding for a transaction in 2023 and then we recently did one. And so better to be lucky than smart, there was I think great execution, but we really [ph] kinked it (00:33:50) in terms of some of the interest rates and the execution on this. And the third transaction actually was a – is going to replace a transaction that existed and it's going to be extremely accretive to the company and for shareholders. So we were able to take advantage of that.

We will look for other opportunities to do that. Obviously, it is an extraordinarily good environment and I think we have been quite aggressive in taking advantage of that so far with these three debt issues, including the first-ever green bond that was done by an insurance company in the US and so we were very excited about that, but as I said, that was done in March and we added $1 billion to that opportunistically, just to make sure that we were in a fortress like position, if you will, with our balance sheet going into something we didn't know what it was going to be, but again, our risk framework said – started flashing red and we said we better raise more capital. So, we did it at an opportune time and then we've done twice since then. So, if there are other opportunities to do that, we will absolutely take advantage of it.

Tracy Benguigui
Analyst, Barclays Capital

Q

Great. I'm just watching the clock. We have about 2 minutes left. So, let's call this rapid fire session, okay. I've got two quick questions for you.

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

A

Yeah.

Tracy Benguigui
Analyst, Barclays Capital

Q

It appears actually that your expense savings have materialized better than expectations, what does the rest of the year look like?

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

A

I think the rest of the year looks pretty good. We expect to incur some operating costs of approximately $60 million for COVID, but that will be offset a little bit by lower travel and entertainment expenses in the second half of about $30 million. So, we feel good about what we put into place and we feel good about what we're predicting for the second half of the year.

Tracy Benguigui
Analyst, Barclays Capital

Q

Okay. So, just in time, I got one question in and that has to do with your commercial real estate offices. What are the longer term implications for your own needs, and for the properties held in your investment portfolio?

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

A

Yeah. Well, the properties held – two different questions, very quickly, properties held in the investment portfolio I think we're in reasonable shape, we're underweight and have been underweight hotels and office and retail. We're overweight in terms of industrial and apartment. So, I think we're in reasonable shape there. In terms of our own space, we're rethinking that, and we've told people they're not coming back to work, most people aren't coming back to work until 2021, and only then if they feel comfortable, I think it's fair to say we will over time shrink our real estate space and we're looking at ways to do that and locations by which to do that.

Tracy Benguigui
Analyst, Barclays Capital

Q

Excellent. So, I think we're just out of time but maybe the last rapid fire question I would have for you is, any kind of bull prediction for 2021, and it could be fun.

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

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Wow. That is tough. What I would say is that, and this is just a personal view, I think a vaccine will be a longer time in coming and one of the reasons, they may have one, but then the distribution of it is going to be very, very difficult. And so I think we're going to be in the environment we're in for quite a while, and we're just going to have to get used to the new normal. As companies, we will have to respond to that new normal. So, not as much a prediction, as a resignation that we're in this for the long-term and it wouldn't surprise me, Tracy, if we do this next year that we'd be doing it – I'd almost anticipate we'll be doing it virtually again.

Tracy Benguigui
Analyst, Barclays Capital

Okay. [indiscernible] (00:37:33) I had a lot of fun talking [indiscernible] (00:37:35) and I'd like to thank you so much for participating in today's session.

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

Great. Well, thank you for having me. It's an honor and a great opportunity for us. So, thank you.

Tracy Benguigui
Analyst, Barclays Capital

Okay. Bye.

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

See you.