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Prudential Financial, Inc. (PRU)

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CORPORATE PARTICIPANTS

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

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Alex Scott

Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Okay. We'll go ahead and get started with the next session. First off, thank you for being with us today. I have Charlie Lowrey, CEO of Prudential Financial.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Thanks, and thanks for having me. Thanks, everybody, for being here. Happy holidays. Well, let me just start by making a couple of very quick comments. One, everything we've done over the past four years has been put – you can put into one of three buckets, and that is we want to be a less market-sensitive, higher growth and more nimble company. And if you look at what we've done in each of those categories, Alex, just – just very briefly, being less market-sensitive, we've actually sold a lot of back books. You've seen us do that [ph] we reinsured (00:01:07) back books over time. We have changed our product type.

As you've looked at both in annuities and in insurance, we've switched out of some of the higher market-sensitive products into lower market-sensitive products. If you look at higher growth, we have made a series of acquisitions. We have invested internally in our own businesses, but we made a series of acquisitions, the latest of which was Deerpath Capital, which we announced on Friday for – in a private credit.

We have changed products. So, we're in higher growth products like FlexGuard and others as we may talk about later. We've increased distribution in a number of ways. So, you've seen us with Mercado Libre down in Latin America, which is the Amazon of Latin America; create kind of a very interesting program in Brazil, Argentina and Mexico. And then you've also seen us announce in the third quarter the – the LPL partnership, where we're now a preferred partner to LPL for the products that we are able to sell there.

And then in technology, we've done some really interesting things. And you say, well, technology, has does that help with growth? It helps with growth if you can reduce the decision-making cycle. So, what we've talked before about taking products that were – took 22 days; under [indiscernible] (00:02:20), it takes 22 seconds. And so – consumers can say, yeah, I want to do it, I want to do it now. And you can create growth that way.

In terms of more in the nimble, we've announced a number of organizational changes as we evolve our organization going forward. All of that gets into what we call our mutual reinforcing business system, where – where we have a business mix where we can create liabilities, the assets of which will be managed by [ph] Peter (00:02:48). And then we announced Prismic, which we can talk about later as well in the fourth quarter -in the third quarter. And that allows us through – to bring in third-party investors for reinsurance. So, we're excited about the growth we have going forward. And again, everything fits into one of those three buckets.

QUESTION AND ANSWER SECTION

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

But as we think through your organic growth, you touched on some of it just now. But, where do you see the most promising opportunities for Prudential when I think over the next 12 months to 24 months in terms of those growth opportunities?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

We see those in the mutually reinforcing business system. So, we announced Prismic. It was a small transaction, it was \$10 billion. We reinsured structured settlements. We created that organization in Bermuda to – to reinsure business going forward. That enables us to bring in third-party capital to really turbocharge the growth of our – our other businesses. So, if you think about annuities, you think about individual insurance, retirement, we will be able to grow those faster through both products that we develop and have developed.

So, we can FlexGuard some of the fixed annuities, some of the variable life products we have, but then to be able to reinsure either forward flow or back books to – to Prismic using third-party capital, using some of our own, but mostly third party capital, that will enable us to grow faster as we go forward. So, it's really this – this self-reinforcing business system, and if we grow faster, those assets then go to PGIM, PGIM gets larger, we get more fees and the circle continues. So, we think we have a very interesting – there is a unique business mix given some of the strategies that other companies have taken that where we have retained annuities, retirement and individual life, which is going to help in that system.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

It makes sense. Maybe, [indiscernible] (00:04:46) on PGIM, as part of that conversation, I mean the multi-year performance of flows has been world class. You guys also haven't been totally immune to what's going on in the

asset management industry in general. How does the outlook look from here or some of these things that you're describing enough to do sort of, turn the tide on that?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah, to deal with two parts of that, there's a – in the first part, the flows, yeah, we haven't been immune. And it's been the tale of two cities. So, on the retail side, we've had exceptional performance this year. 89% of our funds have beaten benchmark. And what happens when you're a sub-advisory on the equity side, when people rebalance, they go to the funds that have outperformed because they're – they're sort of out of whack. And they take – they take money out of that to rebalance into other areas. And so we have been hit because of our outperformance on the retail side.

On the institutional side, it's a very different story because a lot of what we do is fixed income and there, the story in rising interest rates in a) your AUM goes out, but b) the institutions aren't going to put in more money until they think we're at the peak of the – peak of the market. So, they're kind of holding back. So, gross flows have been less than we would have liked, even though our performance, actually, this year has been extremely good.

On the alternative side, it's a little bit of a different story. We have been able to put some money to work, not – not as much in real estate, but in infrastructure and other areas and in private credit. And we have a \$250 billion alternative platform. And that's – we've done okay there.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

So, staying on PGIM for more – could you discuss real estate specifically? Clearly, there's been, headwind in terms of some of the transaction volume in the fees that you all generate off of that. But, are you seeing signs of stability forming at all? Is – does the outlook start to improve as we get into 2024?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

We hope so. I think office is still up in the air. Now, we're underweighted office. We're underrated big box retail. We're overrated industrial, residential and self-storage, which we love. That's counter cyclical. But so in some of those sectors will be – I think we've seen growth. We've actually raised some funds and infrastructure and other areas. Office is still – office is still up in the air. And so transaction volume, as you said, is down across the real estate industry. That leads to lower – lower, or what we call other related revenue in other areas and agency fees. But we – we hope it'll – it'll – beginning to settle down. But office is still a question mark.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Yeah. Moving over to group retirement and the pension risk transfer, it's been a fantastic growth opportunity for you over time. Can you talk a little bit about, how things are shaping up 4Q, big quarter for – for growth typically? What is the outlook for that business?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, this year, we think it'll be a \$40 billion, \$45 billion year, slightly less than last year. If you remember last year, we and MetLife did the big IBM transaction in the fourth quarter that was \$16 billion. But – but this year, probably, it tails off the \$40 billion, \$45 billion. And that seems typical. I mean, it's a \$3 trillion market, but there's

still – there's still tailwinds in the industry, right? So, sort of three major tailwinds, which is why companies would transact.

One is that they're well-funded. So, the average fundings over is like 102%, 103%, so they can transact. The second is that there has been volatility in the markets. And so what can go – what goes up can come down. And so people say, okay, I should hit the bid now because – because I'm overfunded. And the third is a little bit less known. But is the PBGC fees? So, the – the PBGC charges high fees. It's a Pension Benefit Guaranty Corp on a per person basis.

So, if you have – if you have low, low amounts per person in your pension fund, but you have a lot of people, you get crushed by those fees. So, that's – that's just a – that's just sort of a tax on your business and that's another sort of impetus to transact. So, there – there's a lot of tailwinds in the business as you said we have a very good position in the business. We're very well-known and we've – we've had a good year and hopefully will continue.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

And the second piece of this also, you mentioned Prismic. What are – what are ways you can use that vehicle with – with the pension risk transfer growth?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

So, we took – it's interesting, we took our time in developing Prismic because we wanted to be a little bit of a different animal. It's just not a sidecar for a block of business, right? This is – we brought in world-class investors, who want to see this grow to scale and they want diversification. So, longevity, mortality, they want geographic diversification, they want duration diversification, short term, short duration, long duration. So, we're really looking to build a business here and there are three ways we can do it.

One is through what we did with the first transaction in structured settlements, which is sort of to reinsure our own back books and we'll continue to think about doing that. Second is to reinsure forward flow, and the third is to reinsure other books of business from third parties. And we're pursuing all three of those with – with – with ourselves, with our partners, Warburg Pincus, who supplies the private equity, and then with our third-party investors.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

And, when I think outside of PRT and you mentioned geographic distribution – diversification, et cetera, I mean Prudential can offer those kind of liabilities. You have a lot of business in different places. I mean is that something that is part of the roadmap in the early innings of this entity? I mean is that something that's already heavily being explored?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

It is being explored along with reinsuring third-party blocks. So, talking – talking to different people. And what's interesting is we have gotten very good reception talking to third parties just by virtue of the fact that we're in – we're – we come from – we have very good insurance companies and we have a world-class asset manager. And you can put those two together with a history in both that gives us the credibility to be able to do this.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Next on the individual retirement, this has been a shifting business for you all. There was the mix shift that was occurring with the guaranteed product and so forth. And, it's been a real driver of your EPS recently. And so I wanted to see if you could unpack that a little bit, help us think through what's enabled that. And, to the extent you believe it will be sustainable, even, if rates do begin to drift down.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, basically we eliminated anything with three letters, so PDI, HDI, GUL, so anything with three letters, we got rid. But what we're doing is the – the back book, if you will, that we still have generates fees. The new product that we're putting on in FlexGuard, fixed annuities, et cetera is really spread business. So, as interest rates is going up, obviously, that has helped us, but we have the ability to reprice products very quickly. And so even if interest rates come back down and the 10 years ticked down a little bit, we'll have the ability to reprice that to – to retain our spread over the cost of capital. So, we feel very good about the business we're writing and can write going forward. But – but it is help to your point with – with the rise in interest rates.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Before we leave the topic of annuities, I do want to ask about the Department of Labor rule that's been proposed out there.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Seriously.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

I mean I asked. It's too early on the earnings calls probably to – to really be able to opine on it. So, do you have any – any updated thoughts? I mean, should I be asking about it?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

A no-comment is not – is not good enough. So, well, what I would say, look, we are all for regulation. And – and I think we are regulated industry and regulation makes us stronger. We just want good regulation. And what we want is to make sure that there aren't unintended consequences that come along with pieces of regulation that are put into effect. And so what we would hope is that there is a good dialogue between ourselves, meaning the industry and the folks that are – that are considering such regulation and that we can – we can craft it so that it really does, at the end of the day, help consumers.

Because if you look at some of the unintended consequences, the things that have happened in Europe, there – there are many financial institutions that don't – just don't sell long-dated – long duration products anymore. They just sort of disappeared.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Yeah.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

That's not good for the consumer. And therefore we want – we want to do the things that are good for the industry and good for the consumer. And we hope we can have that dialogue with – with the regulators going forward. The other thing I would say is this isn't any amount I can speak for all the firms in the industry. This isn't our first rodeo, right? We've been here before. And so we will – we will deal with whatever comes up. We just hope that the unintended consequences don't hurt the consumer as a result.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Understood. Maybe shifting gears a bit and moving over to the international business and in particular Japan. The rate environment has changed there as well pretty significantly.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Does this offer new opportunities for you to grow that business and open up the product set a bit?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

We have – first of all, obviously, higher interest rates are good, so that's great. We have a broad set of companies over there with strong diversification and we have a diversification of product now. So, it does help. You're right. So, with very low interest rates, we're selling mostly dollar-denominated product. We did have yen-denominated offerings, but there wasn't a lot of take-up. Now, to your point, there's more take up on the yen-denominated products. So, we're selling more of that. We're still selling dollar-denominated product. But – but the yen product has – has definitely picked up.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Got it. And on the capital front, can you discuss where you stand in terms of some of the capital ratios? We sort of have this SMR and moving towards GSR. Will there be any impacts to cash flow as we think through that transition?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, the good news is that the JFSA has engaged the industry for quite a while in looking at this and they've been very, very thoughtful about this. And so there's a great, very good relationship between the regulators and the industry. That isn't to say that we agree on everything, but they selected four companies of which we were one to – to come and talk to them and worked with them on crafting – crafting regulation. So, this has been ongoing for years.

The second comment, there were still a couple of years out. So, this is – this again – this isn't sort of impending immediately and they are still listening to us as we go forward. But – but as the regulation gets crafted, there will be ways to continue to bring cash flow over to – to the states to sort of expatriate capital in terms of reinsurance and other ways of doing that.

So, we are very well-capitalized. The industry in general is well capitalized over there. We are very well capitalized. So, we don't think this will – this will affect us in significant ways and their ways of getting capital out. But kudos to the JFSA because they really are listening to the industry and taking at least our comments under consideration as they craft – as they craft their own regulation.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Can you go a bit deeper into some of the growth avenues for international that are outside Japan? I feel like, we all focus on, Prudential of Japan and Gibraltar within Japan. But, there's a lot going on. There's a lot of different geographies you all have been building up. At what point is some of that kind of hitting critical mass and what are you excited about?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, let me take just a quick step-back and then I'll go right into that, which is where are we? So, we're not going to be planting a huge number of flags going forward. We – we are in the countries we want to be in. So, we're in 7 of the 10 most populous countries in the world. We're not – the only 3 we're not in are Bangladesh, Pakistan and Russia, of the top 10 we're in – we're in all the others. So, we're in the most populous countries with rising middle class. And so we'll take – take that to begin with.

Second point is what we want to do is to go deeper into those countries. And I'll give you an example of Brazil in a minute. But we look at – we look at things in different – different timeframe. So, immediately, we focused on Latin America. We started to talk more about Brazil and the very good business we have in Brazil. We also have businesses in China, India and Indonesia. So, Asia is – is out there, but primarily it's Brazil. Chile would be the two with – with our – with our joint venture in with Habitat. And then far out would be – would be Africa, where we have interest in three very good companies in Ghana, Kenya. And now most recently, we just bought a 33% interest in Alex Forbes, which is a pension retirement company in South Africa.

So, using Brazil as an example, because that's the most relevant, what we've done there is we have a very good and one of the leading life insurance companies there, but that only represents, 15% to 20% of the market. The rest of it, this is sort of rough justice, would be 40% is group insurance and 40% is bancassurance. So, what we did is years ago, we bought the group – the [ph] ETO (00:19:05) group business. So, we're now in that business and growing that. And then later on we created a joint venture with [ph] ETO (00:19:12) to sell through their bank channel. So, we're in the bancassurance business.

So, between – we're now in all the segments of Brazil and that's what's enabling us to grow – to grow really well. You throw on top of that the Mercado Libre transaction, which we just did, and – and the number of simplified policies that we're able to sell to a different demographic in Brazil because there are simplified solutions, small premiums, et cetera. But – but in volume, that's going to – that's going to open up a whole another avenue of growth. So, I would say Latin America first, sort of Southern Asia second, and then Africa under the long term for my successor's successor, they're going to be enjoying the fruits of that.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

So, shifting gears little bit over to individual life, we've seen sort of mixed results from the industry as we've – I guess you're heading towards an endemic stage here. What are you seeing in your block? Are there – is there anything [ph] to (00:20:15) some of these concerns around older age mortality and some of those pressures or, is that mostly been worked out?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

You all have obviously taken action in and, done some things to reserves as well as transactions. So, where do you stand on your block and latest view?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah, I think the – we have absolutely seen the pandemic change to an endemic, so it's much more flu-like now. So, we're back to pre-pandemic levels of where we were. So, we don't see any – any blip in mortality or other things at this point. I don't know about you, but when I got my – my flu shot recently, I also got the latest vaccine both in the same arm and it was just – I think that's going to be what it's going to be like going forward, right? It's just more of an endemic.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Yes. Understood. Maybe sticking the individual for one more. I think you've seen a pickup in sales in individual life as well and some of the VUL. What's the opportunity you see there? Have you done anything in distribution in particular data there?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, so we have seen a pickup in VUL that represents a large part of our – part of the shift that we've done to become sort of less market-sensitive, eliminating the GUL and going into the VUL. That has helped immensely. We have used our both – our Pru advisors to do that, as well as – which is our tied agents, as well as all the third parties that we used to do that. It's – it's been well-received in the marketplace. We've had a big pickup in sales and we're looking forward to being able to continue that with LPL and others as we go forward and create these sort of unique – unique relationships. So, we're always looking to expand distribution in various ways and think that between our brand, our reputation, our distribution and our pricing, that will be able to continue to do well there.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Next topic, capital management. There've been some pretty positive developments when I think through the Prismic transaction, maybe some relief from the interest maintenance reserve update as well. So, as we think

through that added flexibility, what are you thinking in terms of capital management priorities and how you may look to deploy the capital?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

So, we have – thanks for that question, by the way. We have a very consistent view about – about capital and capital usage. So, first, we're in the business of making long-term promises and customers come to us because of our reputation, our execution, the product offering, et cetera. But they have to believe – and we're unique in this way, unique meaning the industry, they have to believe that we're going to be here 50 years, 60 years, 70 years from now because some of these promises won't be fulfilled until then.

So, job one for us always, and I'm unapologetic about it, is financial strength. They need to know that we are rock solid financially. So, if we hold a little more capital in order to do that, again, I'm unapologetic about doing that. It helps our sales and it allows us to fulfill our promises of – of – that we make that are decades and decades long. So, that's – that's number one.

Number two is investing in our businesses both organically and inorganically. And you've seen us do both. And we can talk more about M&A if you want in a minute. But – but it's – that's definitely a part of what we do and how we do it. And then we return capital to shareholders as a third, both in terms of dividends. And you've seen us increase dividends for a long period of time. We have consistent way of doing that as well as then returning after that excess capital to shareholders through buybacks.

And we have – we've been consistent in doing that over time. We don't use buybacks as a way of our – our opinion about stock prices, but – but a way of consistently giving – giving excess capital back to shareholders on a regular basis. And so that's – that's how we think about the tearing of it and that's how we'll continue to look at it.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

And maybe to touch on – on the M&A front. I think you mentioned some of the things you've done recently, but, maybe touch on what were those things and what was the driving force behind the decision and then also, what are the ways you think about M&A moving forward that could supplement the growth within Pru?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

So, we think about M&A in a programmatic way. So, we're thinking about a series of transactions that either help our capabilities or potentially our scale and focusing on both PGIM, in the alternatives capability and then in emerging markets. So, taking PGIM for a minute, if you look at the two latest transactions we've done with Deerpath Capital, which is in the private credit business, which we closed on Friday, about \$5 billion in AUM. But – but augments the really good private credit business we have now by going slightly, slightly lower into the market in sort of middle market

And then we did Montana Capital Partners, which was a private – private equity secondaries. And so what we're doing is augmenting our – our alternatives business with additional capabilities that investors will like and taking – buying sort of smaller pieces of smaller business or buying the entire business and then using our distribution and our investor network to – to kind of turbocharge that.

The other area in PGIM we look at is distribution, either in Europe or in Asia. And if we can expand distribution there, we will. So that would be PGIM. And then in emerging markets, as I said, we really concentrated the past two deals on Africa and sort of augmenting our – our Africa strategy. One, buying an interest in ICEA LION in Kenya; and then of the 33% interest in Alex Forbes more recently. And you won't – you won't – what you'll see us do now in emerging markets is really go deeper into the countries in which we – we already are. And you won't see us expand into a lot more countries.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Understood. Okay. You mentioned some of the investments in the business. I wanted to come back on that. It feels like, in the news recently, there's certainly lots of talk about an acceleration in the AI capabilities and so forth. But, could you talk about some of the opportunities you do see for Prudential, to leverage some of those capabilities and – and maybe take advantage of the scale that you have?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah. So, obviously, there's lot of talk about this now with AI and Gen AI and all of that. We spend a lot of time talking about where is good, good enough and where do you really want to spend your incremental dollars in technology to – to be a leader in the industry. So, I'll give you an example. If you call our call center and it takes 10 seconds, we can spend another \$300 million or \$400 million and turn that – make it 5 seconds. Is that worth it? Probably not. Would I rather spend the money on Gen AI and creating a program where Gen AI can in fact take the call notes of someone in the call center so that they don't have to do it? They would review it, but they don't have to do it. That could save them up to 4 minutes of time by which they could then call another customer, right?

So – so that's the kind of – that's the kind of thing we're thinking about. We used an example. We've been using AI since, I don't know, 2017, and 2018. We used it on a previous call where we took a simplified product and turned the underwriting from 22 days and 20 seconds. Our – actually, our IT group gets – gets annoyed at me because that's a really nice sound bite. It's actually 7 seconds, but that doesn't sound as sexy. It's 22 days and 22 seconds. But – but that – that kind of investment helps us because it helps the customer and it drives sales because they don't have 22 days to think about it. They – they can if they want to own the product, they can immediately own it.

So, we're doing a lot of work on AI and Gen AI and finding lots of used cases for both. But we're being very thoughtful about how we actually spend the money and what we spend it on because otherwise, you can spend an inordinate amount of money and not get a real return on your investment. So, lots of work going on, lots of really exciting work, but we're being really thoughtful about how we spend the money.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Got it. This one's a totally different topic, but I wanted to ask you about long-term care insurance. It's – it's been more of a benign story for you all. And I think you were sort of early in taking, a bit more action going back a handful of years. But, any – any view on some of the studies that have come out? Any implications for your block? I know there's, reopening of long-term care and ways and frequency having picked up. I mean what would you tell us about what you've seen in the confidence in your book of business?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Three comments. One, we have a very small book. So – so, I would talk to a lot of people who have larger books because they may have them. Secondly, we have seen a slight uptick in incidence after the pandemic. But that to me is intuitive because you – you would expect to see a slight uptick. Not – not huge, but – but, people are getting out, people are doing things, things happen. You'd expect that. But the third comment is that we find our claims are consistent with our assumptions. So, we haven't seen any – any aberration to that. So, have incidence ticked up a bit? Yeah, but after the pandemic, lots of things have ticked up and that's – that's kind of intuitive. So, nothing – nothing alarming there from our point of view.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Pivoting over to the investment portfolio. Can you talk a bit about, the experience you've had in terms of credit performance.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

And, also just touching on the commercial mortgage portfolio, what that experience has been like working through the first slug of – of your maturing loans this year?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Sure. No, I love talking about this because I ran – I ran PGIM during the great financial crisis.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Okay.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

I've seen – I've seen these groups in action and what they do and starting with private credit, they have something that they put in there. What is it called? Covenants. I think it was covenants and they use a lot of covenants and those come into effect now, if there is – if there are issues. So – so our recovery rates are extremely good. The private credit is – our private credit group knows what they're doing. They're great. In terms of real estate, I would say the same thing. It's not – it's not a big part of our portfolio. It's – it's 14% of the general account, which is about \$50 billion.

The debt service – debt service coverage is 2.48 times. So, very high debt service coverage. Loan-to-value, as of the third quarter, was 59%. Again, we are underweighted office and big box retail. We are overrated residential – we are overrated residential and industrial. So, the portfolio itself structurally is in good shape. The loans we make are very conservative. Sometimes, we're criticized for it, but it's times like this that the experience that we've had over – we've – we've been lending in mortgages for like 100 years. So, the experience we have is, is profound. And the professionals we have, they are battle-tested and they know what they're doing. So, our portfolio is in good shape

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Q

Got it. Group benefits is an area that you probably don't get asked about quite as much. But, yeah, I think there's been some momentum there in terms of, some of the growth opportunities and so forth. I mean is that – how – how does that fit in in terms of those ambitions that you talked about at the beginning in the growth?

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

A

Yeah, we've been very pleased with the – the rebound and the growth in our group business. Obviously, it was hit hard during the pandemic. So, you can't take credit for – for a lot of – I'd like to take credit for the rebound but you can't. But – but we have – we have moved into different segments of the business. We are increasing our – our voluntary offerings. We're moving sort of down. We're very big on the national account basis, but now on the premiere basis, we're going sort of 1,000 to 5,000 people.

We're moving into that nicely. And so there's – there's a lot of – there's a lot of good things going on in the group business that we're very pleased with. One thing that we – we also do is we are not afraid to lapse business that isn't profitable. And so sometimes the elimination of a negative is a positive. And so we're – they are extremely disciplined about what we – what we renew, what we don't renew, the pricing on which we renew it. And that discipline has – has helped us significantly over the past two or three years.

Alex Scott

Analyst, Goldman Sachs & Co. LLC

Got it. Look, I think we can leave it there. And I just want to thank you again for being here and thank you to everybody in the audience. It was very helpful.

Charles F. Lowrey

Chairman & Chief Executive Officer, Prudential Financial, Inc.

Great. Well, thanks. Thanks all of for your interest. Thanks for – thanks for having us up here and very much appreciate it. And again, I wish everybody happy holidays.

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