

A guide to understanding Asset-In-Kind (AIK) transfers for pension buyouts



MetLife's Retirement & Income Solutions division, the company's institutional retirement business, issues pension risk transfer products through Metropolitan Life Insurance Company (MLIC) and Metropolitan Tower Life Insurance Company (MTL), two wholly owned subsidiaries of MetLife, Inc.

Premium payment for pension buyout transactions can be made in the form of cash or subject to any required regulatory approval, by a transfer of Assets-In-Kind (AIK). In certain instances, an AIK transfer can offer an attractive alternative to an all-cash premium payment, as the in-kind transfer may enhance transaction pricing and efficiency for both the pension plan and the insurer. Our team has experience in the AIK process for both public and private assets associated with pension buyout transactions.

This brochure is intended to provide high-level background on the AIK alternative, including the potential impact on transaction pricing, general timing considerations, and mechanics of valuation. It is not intended to cover all aspects of AIK transfers, as certain specifics will vary depending on the unique circumstances of the buyout transaction.

We may need to seek and obtain the approval of the issuing MetLife company's state of domicile for any proposed asset-in-kind transaction. When regulatory approval is required, we cannot accept an AIK transfer until such approval is received.

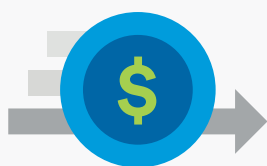
Benefits of asset-in-kind transfers

Whether a pension buyout premium payment is received in the form of AIK or cash, there will generally be a need for us to reposition the premium received to arrive at a target investment portfolio after the closing of the transaction. This target portfolio will generally include certain asset classes that pension plans are less likely to hold, such as private placement debt and commercial mortgage loans.

In certain instances, our funding of the target portfolio can be subject to delay, depending on the production constraints or portfolio diversification requirements. This delay can create loss in investment credit spread until actual funding of the target portfolio.

To the extent the buyout premium payment is made in the form of AIK with positive credit spread to the U.S. Treasury curve, the impact of our spread loss during the funding period may be mitigated. Ultimately, this mitigation results in a more attractive yield or spread for us over the life of the transaction and potentially a more attractive/lower buyout premium for the client.

The precise impact on the buyout premium depends on several factors, including the asset classes transferred and their return characteristics. At one extreme, transfer of a portfolio composed entirely of U.S. Treasury securities would have no impact on pricing, while a transfer of credit assets with return characteristics similar to those in our target portfolio could reduce the premium.



The buyout premium payment in AIK form can benefit the client in additional ways. Acceptable AIK reduces the need to liquidate significant portions of plan assets, which can otherwise introduce:

- Asset Liability Management (ALM) mismatches
- Material transaction costs
- A drag on portfolio returns or yields pre-closing

Steps in the AIK process

The AIK process in connection with pension buyouts is composed of multiple steps.

1. Assets are provided

The first step in the portfolio review process is the communication by the client of the population of assets available for the AIK transfer. For publicly traded assets, this information would include asset identifiers/CUSIPs, durations, and par amounts. For private assets, including private equity and hedge funds, this information would cover relevant fund details, material deal documentation, and information on commitments and liquidity rights.

2. Assets are reviewed for credit quality, liquidity and ALM

We will conduct a thorough due diligence process on both the public and private portions of the AIK mix. As part of that review, we will evaluate the asset profile through a number of lenses, including credit, liquidity, and ALM, to determine the appropriateness of the AIK versus the liability and the potential impact, if any, on the buyout premium.

3. Results are discussed and AIK assets are selected

Once the initial review is conducted, we will discuss in detail with the client the results of the due diligence exercise and work closely with the client to agree on an appropriate population of AIK as premium payment.

4. Regulatory approval is received

Other steps in the AIK process include: seeking and receiving any required regulatory approval, negotiation and agreement on valuation approach and timing/logistics of the AIK transfer, as well as agreements relating to the purchase and sale of any private assets involved in the AIK transfer (including compliance with any rights of first refusal or other transfer restrictions relating to such assets).

5. Valuation sources, methodology and timing are agreed upon

Among other specifics, we will work with the client to agree on valuation source, methodology, and timing.

6. Custodian bank information is exchanged

We will also exchange the necessary custodian bank information with the client to ensure a smooth transition of AIK at transaction closing.

7. Assets are transferred

With regard to private assets involved in the AIK (such as private equity or hedge funds), the issuing

The precise length of time associated with the entire AIK process is highly dependent on deal specifics. We will work with the client to ensure an effective transition in line with the client's needs. Other client-directed processes with respect to AIK payment may be acceptable.

MetLife company and the client may also need to negotiate transfer agreements with, and obtain consent from, third parties, such as general partners, for the transfer of such private assets.

Preferred assets

We are flexible with respect to asset classes acceptable for satisfying the pension buyout premium payment. Generally, the more closely aligned the AIK mix is with our ultimate target portfolio, the more beneficial the AIK alternative will be for both the client and us.

As AIK payment, we are generally willing to consider:

Public fixed income

Public fixed income asset sectors that provide a reasonable ALM fit to the liabilities, have larger issuance sizes, or are part of established benchmark indices.

Asset classes include, but are not limited to, public corporate bonds, structured assets (such as ABS, CMBS, RMBS), below investment grade public corporate bonds, municipal bonds, and U.S. government securities.

Privately sourced fixed income

Many pension plans may not own certain privately sourced assets (such as commercial mortgages, agricultural mortgages, and private placement debt) in which we invest.

We are willing to consider these asset classes, if available, as part of an asset-in-kind payment.

Alternative assets and real estate equity

We are willing to accept certain classes of alternative investments, including hedge funds and private equity.

Among other considerations, the proportion of these assets as part of the broader AIK mix will depend on the characteristics (duration/cash flow profile) of the pension liability.



Assets generally not preferred

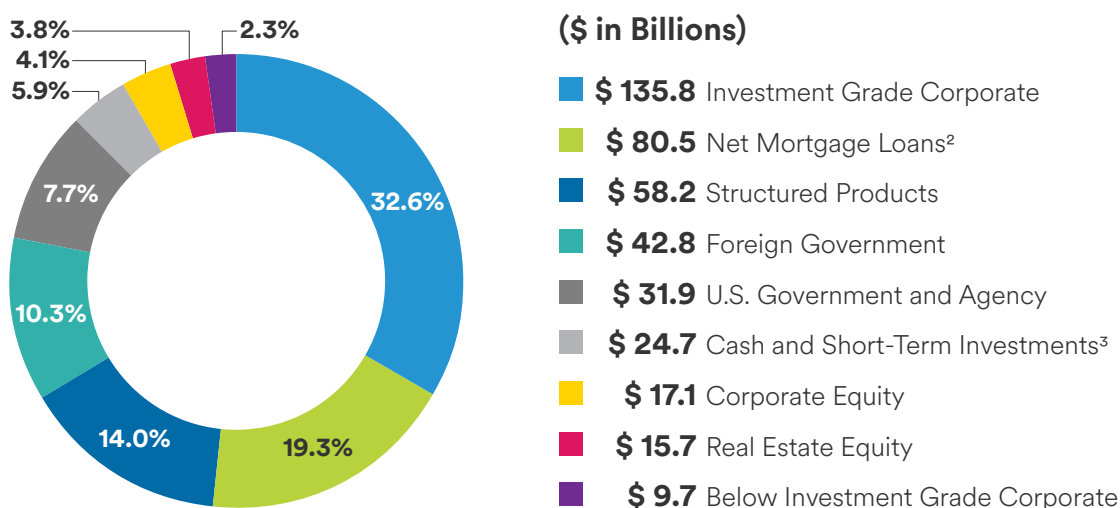
We generally prefer not to accept the following asset classes:

- Public equity
- Public fixed income assets with low outstanding amounts or inactive secondary markets
- Highly illiquid assets of poor/questionable quality
- Alternative assets that are of lower quality, lesser known fund managers/sponsors, smaller positions spread across multiple fund managers, or older vintages
- Direct private equity investments not part of a diversified investment fund

Diversified Global Portfolio

\$416.4 Billion of General Account Assets Under Management¹

MetLife's investment portfolio includes public securities and privately originated assets. Asset allocations reflect our mix of liabilities in MetLife's global businesses. We reposition our portfolio based on relative value and our view of the economy and financial markets. We maintain our focus on appropriate levels of diversification and asset quality.



Impact of AIK transfers on pricing

The transaction pricing impact to the client of an AIK transfer as part of the buyout premium payment will vary based on a number of factors, including:

- Class of assets
- Spread/yield of assets
- Characteristics of the liability tranche (size, duration) to be funded

An AIK transfer can lower the price of a buyout transaction relative to an all-cash transaction to the extent the transfer reduces our funding delay (in terms of time or credit spread lost during the interim funding period).

Assets with minimal or no credit spread such as U.S. Treasury securities will offer no pricing benefit versus a 100% cash transaction. Conversely, AIK mixes that are closely aligned to our target portfolio or AIK mixes that provide material credit spread during our interim funding period can result in price improvement for the client.

Valuation of AIK assets

A critical step in the AIK process for pension buyouts is the agreement on a valuation source for the various assets transferred.

For liquid, publicly traded AIK, we propose a valuation at (mid) via an industry-accepted pricing vendor. Generally, assets will be valued as of the end of day the business day immediately preceding the transaction closing. It is generally not preferable to close a pension buyout transaction on a Monday or a day immediately following a holiday, as such an approach exposes both parties to additional market volatility/ asset price risk.

Leading up to the transaction closing date, we propose “dry run” asset valuations for the public AIK be conducted and the results reviewed in detail by all parties. This ensures that both the issuing MetLife company and the client agree on a valuation approach and other details in advance of the official transaction closing.

Typically, private assets such as private equity funds and hedge funds will be valued based on the most recent quarter-end partnership statement. At closing, an adjustment will be made to fund valuations to adjust for cash flows into/out of the funds between the valuation date and the transaction closing date.

Generally, it is customary for private fund general partners to permit transfer of fund interests only at quarter-ends, so we will work with the client to ensure a smooth transition of private fund interests on the quarter-end as close as feasibly possible to the transaction closing date.

MetLife Investment Management (MIM)

MetLife Investment Management believes that performance begins with preparation. We are primarily a bottom-up, fundamental research-based investment firm. We rely on our in-house, proprietary research efforts coupled with nimble trading to build relative value driven portfolios that aim to provide attractive risk-reward characteristics. We take a team approach to managing our clients' portfolios, with ideas generated by portfolio managers, research analysts and traders alike. At MetLife Investment Management, we believe there is no substitute for experience, and our experience has been tested through various market environments.

To support our goal of providing clients with strong, risk-adjusted returns and tailored solutions across our core competencies, MetLife Investment Management leverages the broader resources and 150-year history of MetLife. Our robust fundamental research and risk-management capabilities have been utilized across market cycles and support our investment process and deal sourcing.

Why MetLife Investment Management

- Over 150 years of investment experience
- Extensive experience across Public Fixed Income, Private Capital and Real Estate
- Tenured senior-investment team
- Deep fundamental research
- Proprietary risk-management modeling and stress-testing processes
- Diverse institutional investor base, including insurance companies, corporate plans, public and private pension plans, endowments, foundations and sovereign wealth funds

Our advantage

MetLife Retirement & Income Solutions is here to help guide the far-reaching, consequential pension decisions that will impact hundreds, even thousands, of lives for years. We share your commitment of providing plan participants with a guaranteed pension benefit. With access to a team specializing in pension risk transfers, you can feel confident about partnering with us to help offset the potential financial and regulatory risk associated with your company's pension plan, so both your company and your retirees can have a more secure future.

Support

Work with a dedicated team — with a single point of contact — to develop the right solution that can reduce your company's financial risk and protect your retirees' financial futures.

Expertise

MetLife wrote the first group annuity contract in 1921, so you can rely on our over 100 years of experience in the industry.

Simple

We provide a seamless implementation and onboarding process, including education for retirees.

Superior service

We provide first-rate customer service for current and future retirees. And we use leading edge technology to constantly evaluate and improve our processes.

For more information or to schedule a visit, please contact:



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Explanatory Note

The following information is relevant to an understanding of our assets under management (“AUM”) managed by MetLife Investment Management, LLC and certain of its affiliates (“MIM”). MIM is MetLife, Inc.’s institutional investment management business. Our definitions may differ from those used by other companies.

General Account AUM (“GA AUM”) is used by MetLife to describe assets in its general account (“GA”) investment portfolio. GA AUM is stated at estimated fair value, and is comprised of GA total investments, the portion of the GA investment portfolio classified within assets held-for-sale, and cash and cash equivalents, excluding policy loans, contract holder-directed equity securities, fair value option securities, mortgage loans originated for third parties and certain other invested assets. Mortgage loans, net of mortgage loans originated for third parties (“net mortgage loans”) (including commercial (“net commercial mortgage loans”), agricultural (“net agricultural mortgage loans”) and residential mortgage loans) and real estate equity (including real estate and real estate joint ventures) included in GA AUM (at net asset value, net of deduction for encumbering debt) have been adjusted from carrying value to estimated fair value. Classification of GA AUM by sector is based on the nature and characteristics of the underlying investments which can vary from how they are classified under GAAP. Accordingly, the underlying investments within certain real estate and real estate joint ventures that are primarily net commercial mortgage loans (at net asset value, net of deduction for encumbering debt) have been reclassified to exclude them from real estate equity and include them as net commercial mortgage loans.

Additional information about MetLife’s general account investment portfolio is available in MetLife, Inc.’s quarterly financial materials for the quarter ended March 31, 2024, which may be accessed through MetLife’s Investor Relations web page at <https://investor.metlife.com>.

Guarantees apply to certain insurance and annuity products (not securities, variable or investment advisory products) and are subject to product terms, exclusions and limitations and the insurer’s claims-paying ability and financial strength.

Group annuity contracts can be issued by Metropolitan Life Insurance Company, 200 Park Ave., New York, NY 10166 or Metropolitan Tower Life Insurance Company, 5601 South 59th St., Lincoln, NE 68516. Like most group annuity contracts, MetLife group annuities contain certain limitations, exclusions and terms for keeping them in force. Ask a MetLife representative for costs and complete details.

All guarantees are subject to the financial strength and claims-paying ability of Metropolitan Life Insurance Company or Metropolitan Tower Life Insurance Company.

1. As of March 31, 2024. At estimated fair value. See Explanatory Note.
2. Net mortgage loans excludes \$7.5 billion of mortgage loans originated for third parties at estimated fair value.
3. Cash and Short-Term Investments includes cash equivalents.