A guide to understanding Asset-In-Kind (AIK) transfers for pension buyouts
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. MetLife has experience in the AIK process for both public and private assets associated with pension buyout.

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.

MetLife may need to seek and obtain the approval of the New York State Department of Financial Services for any proposed asset-in-kind transaction. When regulatory approval is required, MetLife cannot accept an AIK transfer until it 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 MetLife 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, MetLife’s funding of the target portfolio can be subject to delay, depending on the production constraints or portfolio diversification requirements of the enterprise.

To the extent the buyout premium payment is made in the form of AIK with positive spread to the U.S. Treasury curve, the impact of MetLife’s spread loss during the funding period may be mitigated. Ultimately, this mitigation results in a more attractive yield or spread for MetLife over the life of the transaction and potentially a more attractive 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 assets with return characteristics similar to those in the MetLife target portfolio could reduce the premium.

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

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

Payment in the form of AIK also provides the benefit of reducing risk during the transition period from current plan status to the insurer. If a portion of the client’s illiquid assets are deemed acceptable by MetLife, the AIK approach can also reduce the need for the client to dispose of some illiquid assets prior to 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 liquidation rights.

2. Assets are reviewed for credit quality, liquidity and ALM
   MetLife 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, MetLife 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 received
   Other steps in the AIK process include: receipt of 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, MetLife and the client will 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), MetLife 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.

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

MetLife is flexible with respect to assets 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 MetLife.

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 MetLife invests.

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

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

MetLife generally prefers 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, smaller positions spread across multiple managers, or older vintages (prior to 2006)
• Direct private equity investments not part of a diversified investment partnership
**MetLife’s target mix**

The table below illustrates a sample MetLife target mix and directional indication of how longer duration liabilities might change that mix. This mix represents the assets MetLife would likely hold post-closing over the life of the transaction. MetLife will generally consider the asset classes outlined below as potential for AIK.

<table>
<thead>
<tr>
<th>Asset class</th>
<th>Illustrative allocation for intermediate duration buyout</th>
<th>Directional Δ for longer duration buyout</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Government</td>
<td>1% to 5%</td>
<td>↑</td>
</tr>
<tr>
<td>IG public corporate</td>
<td>20% to 60%</td>
<td>↑</td>
</tr>
<tr>
<td>Structured assets*</td>
<td>2% to 10%</td>
<td>↓</td>
</tr>
<tr>
<td>IG private corporate</td>
<td>20% to 60%</td>
<td>↓</td>
</tr>
<tr>
<td>BIG public corporate</td>
<td>3% to 8%</td>
<td>↓</td>
</tr>
<tr>
<td>Commercial mortgage</td>
<td>15% to 25%</td>
<td>↓</td>
</tr>
<tr>
<td>Agricultural mortgage</td>
<td>5% to 10%</td>
<td>↓</td>
</tr>
<tr>
<td>Alternative assets &amp; real estate equity</td>
<td>3% to 8%</td>
<td>↑</td>
</tr>
</tbody>
</table>

* Includes ABS, MBS, CMBS

MetLife is willing to work with clients to find a mutually beneficial solution. The information provided here with respect to acceptable AIK should only be viewed as high-level guidance. The AIK population is negotiable and depends in part on valuation, which is covered later in this brochure.
MetLife’s diversified global portfolio

- $492.8 Billion of Managed Assets*
- Portfolio includes public structures and privately originated assets
- 800+ Associates**

Impact of AIK transfers on pricing

The impact of an AIK transfer on transaction pricing will vary based on a number of factors, including:

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

As outlined in the MetLife target mix chart, an AIK transfer can lower the price of a buyout transaction relative to an all-cash transaction to the extent the transfer reduces MetLife’s funding delay (in terms of time or spread lost during the interim funding period).

Assets with minimal or no 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 MetLife’s target portfolio or AIK mixes that provide material spread during MetLife’s interim funding period can result in price improvement for the client.

* As of 6/30/17. See final page for non-GAAP financial information, definitions and/or reconciliations.
** Includes investment professionals and support staff.
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 components of AIK, MetLife proposes 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, MetLife proposes “dry run” asset valuations for the public AIK assets be conducted and results reviewed in detail by all parties. This ensures both MetLife 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 as of the most recent quarter-end partnership statement. At closing, an adjustment will be made to fund valuation to adjust for cash flows into/out of the funds between the valuation date and the transaction closing date.

  Generally, it is customary for fund partnerships to permit transfer of limited partner interests only at quarter-ends so, MetLife will work with the client to ensure a smooth transition of private partnerships on the quarter-end as close as feasibly possible to the transaction closing date.
MetLife is one of the largest global institutional investors with over $490 billion in managed assets. With more than 750 investment professionals around the world, MetLife Investments has depth and breadth across many asset classes and markets. Our full-time credit analysts and sector specialists conduct first-hand, fundamental analysis and closely track emerging markets.

MetLife considers asset-liability management to be a core competency, and we carefully match assets to liabilities across our global businesses. We focus on the value of each asset and on the relative value of asset classes, optimizing returns within given risk constraints. We see risk management as part of our culture; it is everybody’s responsibility and woven throughout our investment process with dedicated systems, procedures, processes and models.

MetLife has significant alternative asset management expertise. Our alternatives team has experience across all sectors including:

- Buyouts, Hedge Funds
- Venture Capital
- Distressed Securities
- Mezzanine
- Energy
- Hedge Funds

We have a deep and experienced global team of 16 professionals who have extensive third party relationships with leading secondary investors.
About MetLife

MetLife, Inc., through its subsidiaries and affiliates (“MetLife”), is one of the largest providers of life insurance products in the world. Founded in 1868, MetLife is a global provider of life insurance, annuities, employee benefits and asset management. Serving approximately 100 million customers, MetLife has operations in nearly 50 countries and holds leading market positions in the United States, Japan, Latin America, Asia, Europe and the Middle East.

As a result of the attention to customer service excellence, MetLife’s Retirement & Income Solutions Customer Solutions Center has been recognized for the second year in a row by J.D. Power by providing “An Outstanding Customer Service Experience” for the Live Phone Channel.

Our J.D. Power certified Customer Solutions Center is your guarantee of outstanding customer service:

- **Rigorous Certification Process** — As an independent unbiased third party, the J.D. Power certification process directly addresses the performance of our Customer Solutions Center
- **National Customer Service Benchmarking** — Our Customer Solutions Center scored in the required top 20% of customer service results compiled in the J.D. Power cross industry customer satisfaction research
- **Continuous Improvement** — Detailed reports are provided at each point in the certification process offering MetLife the opportunity for constant refinement of our systems and processes providing our Customer Solutions Center professional the tools needed to deliver outstanding service
- **Annual Review** — Our Customer Solutions Center must be recertified each year ensuring a consistent and outstanding customer experience

J.D. Power 2017 Certified Contact Center Program℠ recognition is based on successful completion of an audit and exceeding a customer satisfaction benchmark through a survey of recent servicing interactions. For more information, visit www.jdpower.com/ccc.

www.metlife.com/pensions
Explanatory Note on Non-GAAP Financial Information

Managed Assets (as defined below) is a financial measure based on methodologies other than accounting principles generally accepted in the United States of America ("GAAP"). MetLife utilizes “Managed Assets” to describe assets in its general account investment portfolio which are actively managed and reflected at estimated fair value. MetLife believes the use of Managed Assets enhances the understanding and comparability of its general account investment portfolio by excluding assets such as policy loans, other invested assets, and commercial mortgage loans held by consolidated securitization entities (“CSEs”), as substantially all of those assets are not actively managed in MetLife’s general account investment portfolio. Fair value option securities are also excluded as they are primarily comprised of contractholder-directed unit-linked investments, where the contractholder, and not MetLife, directs the investment of these funds. Mortgage loans and certain real estate investments have also been adjusted from carrying value to estimated fair value. Managed Assets is a non-GAAP financial measure, and should not be viewed as a substitute for Total Investments, the most directly comparable GAAP measure. A reconciliation of Total Investments to Managed Assets is set forth in the table below. Additional information about MetLife’s investments is available in MetLife, Inc.’s Quarterly Financial Supplement for the quarter ended June 30, 2017 and MetLife Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2017, each of which may be accessed through MetLife’s Investor Relations web page at http://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.

<table>
<thead>
<tr>
<th>Reconciliation of total investments to managed assets</th>
<th>6/30/2017</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total investments</strong></td>
<td>$514.0</td>
</tr>
<tr>
<td>• Plus cash and cash equivalents</td>
<td>17.3</td>
</tr>
<tr>
<td>• Plus fair value adjustments</td>
<td>7.1</td>
</tr>
<tr>
<td>• Less commercial mortgage loans held by CSEs</td>
<td>0.1</td>
</tr>
<tr>
<td>• Less policy loans</td>
<td>11.1</td>
</tr>
<tr>
<td>• Less other invested assets</td>
<td>19.6</td>
</tr>
<tr>
<td>• Less fair value option and trading securities</td>
<td>14.8</td>
</tr>
<tr>
<td><strong>Managed assets</strong></td>
<td>$492.8</td>
</tr>
</tbody>
</table>