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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Brighthouse Financials second quarter 2024 earnings conference call. My name is Victor, and I'll be your coordinator today. (Operator Instructions) As a reminder, the conference is being recorded for replay purposes. I now hand the presentation over to Dana Amante, Head of Investor Relations. Ms. Amante, you may proceed.

Dana Amante - *Brighthouse Financial Inc - Head of Investor Relations*

Thank you, and good morning. Welcome to Brighthouse Financial second quarter 2024 earnings call. Materials for today's call were released last night and can be found on the Investor Relations section of our website. We encourage you to review all of these materials.

Today, you will hear from Eric Steigerwalt, our President and Chief Executive Officer, and Ed Spehar, our Chief Financial Officer. Following our prepared remarks, we will open the call up for a question-and-answer period.

Also here with us today to participate in the discussions are Myles Lambert, our Chief Distribution and Marketing Officer; David Rosenbaum, Head of Product and Underwriting, and John Rosenthal, our Chief Investment Officer.

Before we begin, I'd like to note that our discussion during this call may include forward-looking statements within the meaning of the federal securities laws. Brighthouse Financial's actual results may differ materially from the results anticipated in the forward-looking statements as a result of risks and uncertainties described from time to time in Brighthouse Financial's filings with the SEC.

Information discussed on today's call speaks only as of today, August 8, 2024. The company undertakes no obligation to update any information discussed on today's call. During this call, we will be discussing certain financial measures that are not based on generally accepted accounting principles, also known as non-GAAP measures.

Reconciliation of these non-GAAP measures on a historical basis to the most directly comparable GAAP measures and related definitions may be found in our earnings release, slide presentation and financial supplement. And finally, references to statutory results, including certain statutory-based measures used by management are preliminary due to the timing of the filing of the statutory statements.

And now I'll turn the call over to our CEO, Eric Steigerwalt.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Thank you, Dana. Good morning to everyone and thank you for joining the call. While the second quarter had many positive developments, including record sales of our flagship Shield Annuities, the first deposits received through BlackRock's LifePath Paycheck and strong adjusted earnings results. Our preliminary statutory results were disappointing. Our estimated statutory combined risk-based capital or RBC ratio was between 380% and 400%, which is at or modestly below the low end of our target range of 400% to 450% in normal markets.

I would like to provide a few perspectives on the change in statutory capital and our estimated RBC ratio, and Ed will provide more details during his prepared remarks. As we have said in the past, the financial and risk management strategy at Brighthouse was founded on maintaining a strong capital position at our life insurance companies as defined by a target combined RBC ratio of between 400% and 450% normal market conditions, coupled with substantial liquidity at the holding company.

In the second quarter, our capital and liquidity position remained strong, but the RBC ratio declined driven by the underlying performance of our variable annuity or VA and Shield business, resulting in an approximately $600 million decline in statutory combined total adjusted capital.

However, we have maintained a robust liquidity position, with liquid assets at the holding company of $1.2 billion as of June 30. While our capital and liquidity position remains strong. We are not pleased with our statutory results this year.

To that end, we have been actively engaged in a number of specific initiatives, including reinsurance opportunities, which are designed to improve capital efficiency, unlock capital and restore the RBC ratio to the target range within the next 6 months to 12 months.

Importantly, we believe that our strong capital and liquidity position supports continued capital return to shareholders. Although the year-to-date results are below our plan, we continue to be pleased with the progress we have made de-risking the company since our separation from MetLife.

Since year-end 2017, our spread-based business has grown by over 225% on an account value basis, primarily driven by continued growth in our Shield business, and our variable annuity account value has decreased by approximately 27% over that same period.

Along the way, we also substantially de-risked the company by lowering our equity risk tolerance before the pandemic and moving from a tactical to strategic position on interest rate risk in 2022 when long-term interest rates were roughly 3.50% to 4%. Now let me turn to our continued progress on executing our focused strategy.

In the second quarter, corporate expenses were $200 million, bringing year-to-date corporate expenses through June 30 to $407 million, which is approximately 6% lower compared with the same period in 2023. While we expect expenses to increase in the second half of 2024, we still anticipate full year 2024 corporate expenses to be lower than full year 2023 corporate expenses.

We remain committed to disciplined expense management and continue to evaluate potential areas of improvement to manage expenses and generate additional savings over the next several years. Moving to distribution and sales. I'm proud of the success of our distribution franchise, I've said that before. The second quarter sales results further demonstrate our complementary and diversified suite of annuity and life insurance products.

Year-to-date, through June 30, total annuity sales were $5.3 billion, consistent with the same period in 2023. We remain a leader in the registered index-linked annuity market with record sales of our Shield annuities, which exceeded $2 billion in the quarter. Year-to-date, Shield sales exceeded $3.9 billion, a record level for the first half of the year and an increase of 23% over the same period in 2023. Also contributing to total annuity sales in the first half of 2024 were $351 million in fixed indexed annuity or FIA sales, a 60% increase over 2023 driven by our SecureKey product, which was launched last November.

The growth in Shield and FIA was offset by lower fixed deferred annuity sales. As we mentioned on our first quarter earnings call, we expected second quarter fixed deferred annuity sales to be lower as we transition to a new reinsurer for this product. That went into effect in June of this year. Life insurance sales in the second quarter were $28 million, which contributed to record year-to-date life insurance sales of $57 million, an increase of approximately 19% compared with the same period of 2023.

I am pleased with the continued steady growth in both our annuity and life insurance sales, and we continue to focus on refreshing our products over time. Last month, as an example, we launched our newest iteration of our Shield product, along with new enhancements to our SmartCare product suite. I am also extremely excited about BlackRock's LifePath Paycheck that launched at the end of April.

In the quarter, we received our first deposits of over $340 million through this innovative solution. We expect inflows associated with LifePath Paycheck to be uneven on a quarter-to-quarter basis as defined contribution plans implement the solution. So we do not expect much activity in the third quarter, but we expect more activity in the fourth quarter. We are thrilled with the launch and LifePath Paycheck success to date.

In addition, year-to-date through August 2, we repurchased $151 million of our common stock, with $64 million repurchased in the second quarter and an additional $25 million of common stock repurchased through August 2. We continue to believe that our strong capital and liquidity position supports our commitment to returning capital to shareholders through common stock repurchases.

In closing, while we had many successes in the quarter, we have a number of specific initiatives underway designed to improve capital efficiency, unlock capital and return the RBC ratio to our target range within the next 6 months to 12 months.

We have successfully managed through many challenges over the last several years related to macroeconomic volatility, regulatory changes, and of course, a global pandemic. With our disciplined and focused execution, we have accomplished a significant amount over the last several years and we expect to continue that progress in the future. We have a strategy in place that we are focused on executing and I look forward to updating you on our progress later this year.

I will now turn the call over to Ed to discuss our second quarter financial results in some more detail.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Thank you, Eric, and good morning, everyone. I will begin with commentary on our preliminary statutory results and the change in capital in the second quarter and then close with a review of our adjusted earnings.

As of June 30, 2024, our statutory combined risk-based capital or RBC ratio was estimated to be between 380% and 400%, which as Eric mentioned, is at or modestly below the lower end of our target range of 400% to 450% in normal market conditions. Our statutory combined total adjusted capital or TAC, was $5.4 billion at June 30, down from $6 billion as of March 31, and we had a normalized statutory loss of approximately $600 million in the quarter.

The statutory results in the quarter were driven by the performance of our variable annuity or VA and Shield business as a result of 3 primary factors. First, basis risk, which as we have said before, fluctuates quarter-to-quarter, accounted for almost 40% of the normalized statutory loss in the quarter. Basis risk refers to the difference between the performance of separate account funds and the corresponding hedges linked to various market indices.

Second, the underperformance of equity hedges relative to Shield liability movement, accounted for approximately 30% of the loss in the quarter. We are seeing additional complexity associated with managing the VA and Shield risk on a combined basis, now that we have achieved a balanced risk profile, which I discussed on the first quarter earnings call, and post the implementation of the new statutory requirement at year-end 2023 to reflect all future anticipated hedges on our balance sheet. We have a number of initiatives underway designed to address these issues and one specific action that was implemented last month is stand-alone hedging for all Shield new business.

Finally, as discussed on the first quarter earnings call, we are now in a position where capital strain from new Shield business reduces normalized statutory earnings, and this accounted for approximately 10% of the loss in the quarter.

This dynamic contrasts with a capital benefit or a contribution to normalized statutory earnings associated with new Shield sales for most of our existence as a public company because of the historical risk offset provided by Shield to the variable annuity business.

As Eric said, we have a number of specific initiatives underway designed to unlock capital and improve capital efficiency, and one of these initiatives is related to Shield new business. While our RBC ratio was at or modestly below the lower end of our target range. Our liquidity position remains robust with holding company liquid assets of $1.2 billion as of June 30. We have a solid capital structure with no debt maturities until 2027 and annual non-dividend flows to the holding company that cover most of our fixed charges.

Moving to adjusted earnings results. Adjusted earnings were strong in the second quarter and approximately $60 million above our quarterly average run rate, driven by a higher underwriting margin and seasonal items, which include lower corporate expenses. There were no notable items in the quarter.

Second quarter adjusted earnings were $346 million or $5.57 per share, which compares with adjusted earnings less notable items of $268 million in the first quarter of 2024 and adjusted earnings of $271 million in the second quarter of 2023.

The underwriting margin was higher compared with the first quarter of 2024 and above our quarterly average run rate expectation. Net claims were favorable versus expectations as claim volume and severity of claims were lower in the second quarter. Corporate expenses were lower than our quarterly average run rate and were favorable sequentially.

Turning to the sequential results by segment. Adjusted earnings in the Annuities segment were $332 million in the quarter. Annuity results reflect a higher underwriting margin for our income annuities, higher fees and lower expenses sequentially. The Life segment reported adjusted earnings of $42 million in the quarter.

On a sequential basis, results reflect higher net investment income, partially offset by a lower underwriting margin. The adjusted loss of $30 million in the runoff segment reflects a higher underwriting margin sequentially.

Corporate & Other reported adjusted earnings of $2 million, which reflects higher net investment income and a higher tax benefit sequentially. To wrap up, we are committed to a strong balance sheet and an RBC ratio of 400% to 450% in normal markets. Our confidence in our financial position and ability to execute on initiatives to unlock capital and improve capital efficiency is reflected in our plan to continue our share repurchase program.

With that, I would like to turn the call over to the operator for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Wes Carmichael, Autonomous Research.

Wes Carmichael - *Autonomous Research US LP - Analyst*

Hey, good morning. Thanks for taking my question. Ed, I was hoping you could talk a little bit more about your comments on basis risk, and we've seen a little bit more volatility in equities this quarter and a pretty significant divergence between smaller cap stocks in the S&P 500. So I'm just trying to get a sense of if you think that's going to be an ongoing drag in the near-term.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah, good morning, Wes. So the answer to the question is no, because we believe that basis risk, and our work would suggest that this will continue, that it is volatile from quarter-to-quarter but there is no reason to expect it to be either positive long term or negative long-term. So this was a quarter where we had it as the biggest driver of the results, the norm stat loss. But it is not something that I would be forecasting either positive or negative going forward.

Wes Carmichael - *Autonomous Research US LP - Analyst*

Okay. That's helpful. Now the --

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Just one last thing to say. Sorry, Wes. Just to be clear though, we have never given quarterly guidance on norm stat earnings, because we don't feel that it's appropriate to be that precise about a number that can move around. And so when we focused on our outlook for norm stat, it's been more in the context of the long-term statutory free cash flow disclosures that we provide that are multiyear in nature.

Wes Carmichael - *Autonomous Research US LP - Analyst*

Yeah. Got it. And I think you talked a little bit about your initiatives on capital, including reinsurance, but also it sounds like sales in Shields are consuming some more capital at this point. So is that a lever or would you expect gross sales to continue to grow and maybe just use the insurance on new business?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Sure. So let me start with maybe how I would think about conceptually what we're trying to accomplish with these initiatives. So all of the initiatives that we are looking at, and we did mention reinsurance and we mentioned it as both in force as well as new business. They are all to benefit near-term capital generation and will not harm the long-term franchise value of the company. So the answer to the question about, is there any change in our view of growth and what we would like to accomplish, the answer is no.

We're very excited about our Shield product. We're very excited about LifePath Paycheck as two examples. So -- and you heard our comments on Life as well. So there is no intention to slow growth in our core business. Our thought process is similar to the actions we took back in 2022 to narrow the range of outcomes for market scenarios.

So when we were looking at the environment in '22 with interest rates up a lot, we decided that it made sense to trade some of the upside cash flows in good environments to create a much more favorable environment in [adverse] -- a much more favorable outcome in an adverse scenario. What we're looking at today, and you've seen it in all of our statutory free cash flow disclosures over the years is -- over the years is we show significant cash flows in out years. And there's always been a material improvement in the latter part of those projections versus the near-term.

So what we're trying to do here is think about trading some of the strong cash flows in the future to create a better statutory cash generation profile today. So that's one way I would think about this conceptually. When you talk about the impact of new Shield sales, this is clearly a change versus what we've had historically as a public company because it has gone from a capital generator to a capital user.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Hey, Wes, it's Eric. I'll just -- I'll just add in here. These initiatives were started earlier in the year, so before the second quarter. I mean, obviously, we're tying in here now the notion that both changes to the hedging program and these initiatives, which are material, will get us back to the 400% to 450% that we want to be at. I mean we're slightly below it right now. That doesn't overly concern me, because we've got $1.2 billion at the holding company.

We're continuing to buy back stock because we feel comfortable here. But these initiatives, of course, will serve double duty. They will not only work on capital efficiency, as I already said, but they will also help us restore our RBC ratio to the 400% to 450% that we want to operate in.

Wes Carmichael - *Autonomous Research US LP - Analyst*

Very helpful. Thank you.

Operator

Tom Gallagher, Evercore

Tom Gallagher - *Evercore ISI Institutional Equities - Analyst*

Good morning, guys. The first question is how long do you think it's going to take to execute these reinsurance contracts? Will it take 6 months to 12 months for those to begin or do you think it will happen sooner?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Hey, Tom, it's Ed. So our expectation is the combination of these initiatives and what we would anticipate from our results in the second half of the year, I mean, obviously, they can be volatile, but the combination of those two would get us back to our target range of 400% to 450% in normal markets by year-end.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Hey, Tom, it's Eric. I'll just add to this. Look, we've got a number of initiatives, right. So we're not dependent on any one, and these will happen when they happen. We started them previously. Some of the initiatives including some of the reinsurance initiatives could come on sooner than later but I expect various of these to come online over the coming quarters.

Tom Gallagher - *Evercore ISI Institutional Equities - Analyst*

Got you. That -- that's helpful, guys. And then the two other questions, if I could. One is just, after you would expect to fully implement these reinsurance arrangements, and let's just assume for a minute some of this volatility and hedge results, basis risk, et cetera, calms down and you have a neutral result. What -- what do you expect the pro forma free cash flow generation level to be?

And I get the point that it's going to be elevated now. It's going to reduce some of the future cash flow. But if you then said, okay, what is the normal run rate after you execute these? Just ballpark, I'm not looking for a precise number.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah, Tom, it's Ed. So we plan to put out the updated long-term statutory free cash flows in the first half of next year. And we're going back to our more normal schedule of disclosure on this versus last year we provided it in September because there were a couple of things happening in '23 that where it made sense for us to do that. Part of it was LDTI, part of it was the transition to fully in-house modeling results.

So we plan to put that out. To give you a view of kind of normal free cash flow at this point, I think -- I think it's challenging. I think if you look at the historical record, you will see that there is a fair amount of volatility, but the average has been just under $400 million of norm stat earnings a year. Now that was driven by two big years, right? We had a big year in 2019, which is when we de-risked equities and took a large dividend in 2020 to reflect that after benefiting from -- I think what was a risk profile we thought made sense to change.

And also in 2022, when we made about $1 billion of norm stat, which was benefited from the positioning on rates heading into a rising rate environment. So you'll see that there's been a fair amount of fluctuation. That's the average over five years.

And I'd say we have the disclosures that we put out in September. But again, those are -- we put those out in September. And so I would be careful of that given the fact that we are where we are today. But it's not possible for me to give you a number right now in advance of the free cash flow work. I don't think that would be appropriate.

Tom Gallagher - *Evercore ISI Institutional Equities - Analyst*

Okay. I guess we can sort of back into something based on your RBC improvement guidance as well. But the final question I had is just on hedging. I heard what you said about hedging new sales on a stand-alone basis for Shield.

And then I guess my question is, given that most of the loss this quarter was driven by hedging performance of both Shield and VA, do you need to make changes there? Are there -- is it something about the new framework that's creating greater volatility? What are you doing about both the VA stand-alone volatility and the Shield volatility? And what's your level of confidence that we'll see less breakage going forward?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah, Tom. So let me -- let me take there are a couple of questions in there, I think. So I'd start off by saying that we're pursuing multiple avenues to address what is a somewhat more complex system now that we have this new statutory requirement and we have this balanced risk profile between Shield and VA. And just to emphasize here that the inflection point for this book of business was anticipated and desired, and we have been talking about it for years.

So we shouldn't lose sight of the fact that moving from the type of risk that we had when we separated from MetLife to where we are today has been a very significant accomplishment. So it has entailed some level of complexity, especially now that we have this new statutory requirement.

And so I'd say a few things about the new statutory requirement. We do have a more complex situation than others based on work we've done in industry sources because of the fact that we manage VA and Shield together and that we're focused on statutory. So that does create a slightly different situation for us.

I'd also point out that there's always been some fluctuations in our results. I mean I talked about that in response to Wes's question. I'd say what's different now is we do have the relative size of Shield versus VA, which has changed over time given the significant growth in Shield and no growth in VA, given that it's most of it, a lot of it is just a legacy block.

The other thing that I want to -- just to give you an example of, we've talked about this Shield going from a capital generator to a capital consumer. If we take this quarter and we think about the net impact of Shield in our norm stat results, the net impact of Shield with this funding growth as well as the some volatility in the performance of the equity hedges relative to the Shield liability. That hurt our norm stat earnings this quarter by about $250 million.

If you go back over time and we would have had the same quarter that we had this quarter for this Shield fluctuation, the net impact would have been about $100 million. And the reason for that change is because you go from generating capital with Shield to consuming capital. So that's why you're seeing a little bit more pronounced volatility and it's a driver of certain actions that we are taking to try to mitigate it.

Tom Gallagher - *Evercore ISI Institutional Equities - Analyst*

Got you. And then that's super helpful. And then just anything on VA that you think you need to change from hedging?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah. I don't know that I would say. I think the idea here is that we are pursuing different avenues for simplicity, making it simplified. It will never be simple, as you know, but simplifying, and so I think that is -- that's going to be a key driver of how we manage the risk overall.

Tom Gallagher - *Evercore ISI Institutional Equities - Analyst*

Okay, thanks.

Operator

Elyse Greenspan, Wells Fargo.

Elyse Greenspan - *Wells Fargo Securities, LLC - Analyst*

Hi, thanks. Good morning. I guess my first question, you guys obviously have a good amount of capital at parent. Why not, A, just downstream some capital to help shore up the RBC position right away? And then B, I guess, can you just provide more details on why you guys I guess, did not or choosing not to take a pause with the buyback program here?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Hi, Elyse, I'll start, and I think Eric probably is going to want to add something here. I just -- just starting off, first of all, our capital return plan isn't dependent on cash from the operating company. So I mean, I think that's -- that's an important point to make. I would say that given our performance in the first half, which is off of our plan, it doesn't seem likely today that we would take money up from Brighthouse Life Insurance Company. But we'll see how the second half plays out before we make a final decision later this year.

We have the equivalent of 85 RBC points at the holding company, with no reliance on cash to cover fixed charges and no debt coming due until 2027. So I would say that where we are today with the first half results is the reason that I've said for years that a life insurance company should always have a conservative cash position at the holding company. We don't feel the need to change our approach on repurchase because of the combination of where we are with holding company cash, where we are with the initiatives and where we are with where we think things are going to play out.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Hi, Elyse, it's Eric. Obviously, I agree with what Ed just said. I would just add, look, we're slightly below our targeted range, okay? I am not happy with our statutory earnings, as you can imagine. But where we stand from sort of a capital position, slightly below the normal operating range where we generally want to be, $1.2 billion at the holding company and no debt coming due until '27, I just don't see any reason that we need to downstream anything right now.

We're just going to operate the way we operate right now, and we are going to work on both the initiatives that I talked about and the specific hedging initiatives that Ed talked about. So I think between the two of us, there's the answer.

Elyse Greenspan - *Wells Fargo Securities, LLC - Analyst*

Thanks. And then my follow-up -- it sounds like from your comments earlier in the call in response to some of the questions, right, that there's obviously multiple initiatives at play here in terms of just reinsurance and potential block deals. So is the right way to think about it that -- I guess, regardless, and it sounds like there's some -- you expect some benefit from just your business in RBC in the back half, but regardless that we should see, I guess, potentially multiple transactions as you look to get back within that range before the end of the year?

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

I mean certainly, there should be some transactions, multiple. I don't know, we'll have to see how this plays out. I mean, look, when I said, and I think Ed reiterated it in his comments as well, 6 months to 12 months here. Look, we don't want to be cavalier about just saying. There's -- getting back to our 400% to 450% range will happen in the course of a couple of weeks. That just doesn't seem appropriate to do that. We've never operated that way and I've never spoken that way.

So I'm saying, we feel comfortable that we can be within our target range within 6 months to 12 months. Do I think we're going to be in our target range before the end of the year? I do. But I think it's prudent to throw a range out like I just did, and is there a possibility of more than one initiative coming to fruition before year-end? Yes, there is. I think that answered your question.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

So Elyse, I would just -- let me just add one thing on this because I would like to focus on the word initiative rather than transaction, because I think transactions suggest sort of some long lead time and some -- I would just encourage you to think about this a little bit more broadly and focus on initiatives versus transaction.

Elyse Greenspan - *Wells Fargo Securities, LLC - Analyst*

Okay. Thanks, Ed.

Operator

Suneet Kamath, Jefferies.

Suneet Kamath - *Jefferies LLC - Analyst*

Thanks. Going back to RBC for a minute. I guess as I think about it for the past sort of three quarters, we've had some sort of RBC issue that came as a bit of a surprise to us, at least to us externally. I guess the first question is -- did this, what happened here in the second quarter come as a surprise to you? What pieces of the TAC decline were you sort of thinking, okay, this could happen? And then what pieces were sort of a surprise?

And then relatedly, obviously, here in the third quarter, we've seen volatility spike. How confident are you that your RBC might not take another step down before you start to put in these initiatives to build it back up. Thanks.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Hey, good morning, Suneet. So I would start off by saying that 70% roughly of this norm stat loss would be what I would call something that was not anticipated. Now we do anticipate basis risk, but we anticipate that over time, it's zero. So it was negative. And that is why I would throw it in that 70% of the performance here.

The other comment that I would make is that with this -- I've talked about the Shield that doesn't allow for as much, much -- as much margin I guess, to handle volatility now that it's gone from a capital contributor to a capital consumer.

But specifically on your question about the market environment seeming to be a little bit more unsettled today given what we've seen in the last couple of weeks, I would say if you go back and look at the decision we made in the fourth quarter of 2022 to cut our share buyback in half. And at the time, we said we were doing that because we were a little concerned about credit. Now obviously, the credit been, fine, but that was a motivator for us.

I would say, in concert with that, it wouldn't be surprising to you, I don't think, to assume that if we're worried a little bit about credit, we probably weren't overly excited about the equity market. Again, that was premature. But if you look at our profile, we show in our modeling substantial gains in a significant bear market. Now we're not hoping for that.

But I would say that we have tactically been more conservative on big equity market down moves than what I would consider to be our normal strategic positioning. So that has cost us some norm stat earnings in 2023 and year-to-date 2024.

Suneet Kamath - *Jefferies LLC - Analyst*

Got it. Okay. So better positioned against market volatility. Okay, and then, I guess, now that we have LifePath Paycheck and we have Shield consuming capital, where are you in terms of just capital consumption due to sales? Like what is the strain level that you're at now? I think in the past, Ed, you talked about 5 RBC points. Is that significantly higher now with LPP and Shield on its own?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah, Suneet, I would say that with Shield, that is definitely a factor that we are considering as we look at these capital efficiencies, specifically on the capital efficiency side of the initiatives that we've referred to.

Suneet Kamath - *Jefferies LLC - Analyst*

Okay. And if I could just throw one more in. The higher costs that you talked about at the corporate level in the second half, is that just seasonality or is that some expenses related to some of these initiatives that you're considering?

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Hey, Suneet, it's Eric. You're talking about second half costs being slightly higher than first half?

Suneet Kamath - *Jefferies LLC - Analyst*

Yeah, I think that's what you said.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Yeah. I mean generally, our fourth quarter is the highest, and I know that's the situation in a lot of companies. So I would say, yeah, maybe a little bit of it could be with respect to some of the initiatives, but I think mostly that's just seasonality.

I mean, we've had two very good quarters. The second quarter with respect to corporate expenses was the lowest that we've ever had. So while we're going to keep our belt tight no matter what, generally we'll have expenses in the second half a little higher, and I think you know that. But it's -- I don't expect it to be crazy. We are going to be incredibly disciplined about expenses as we move into the second half of the year. So I would just call it seasonality.

Suneet Kamath - *Jefferies LLC - Analyst*

Okay. Thanks.

Operator

Hey, Wilma Burdis, Raymond James.

Wilma Burdis - *Raymond James & Associates, Inc. - Analyst*

Hey, good morning. Could you talk a little bit about the trajectory for BlackRock flows? I understand you noted, a little bit lumpy. But is there any color you could give on the coming quarters? Thanks.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Sure. It's Eric. We don't expect a lot in the third quarter but we are expecting more in the fourth. Obviously, this is still pretty new. We're bringing on a lot of new companies quarter after quarter after quarter. But we do have enough insights here for the next two, and I just gave you those.

Wilma Burdis - *Raymond James & Associates, Inc. - Analyst*

Okay, thank you. And then I know you've talked a lot about the buyback, but could you just talk about the pace? Is there any -- I know you're continuing, but will there be any pullback or maybe even any possibilities to lean in? Thanks

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Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Sorry about that. I began a great answer without my microphone on. So as we have said in the past, we have not been forward-looking on what we're doing with respect to the buybacks. But I think it's reasonable to at least assume that it's going to be roughly the same for the foreseeable future.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah. Wilma, I would just add, we've not been forward-looking. We have said historically that we have been opportunistic.

Wilma Burdis - *Raymond James & Associates, Inc. - Analyst*

Thank you.

Operator

Ryan Krueger, KBW.

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

Hey, thanks. Good morning. On the initiatives that you're looking into, I think most of the questions have been revolving around external reinsurance but is internal reinsurance also part of the potential initiatives that you're looking to?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Hey, good morning, Ryan. so a couple of things. First of all, we already have a lot of capital efficiency, we believe, with our reinsurance captive, Brighthouse Reinsurance Company at Delaware. So we are benefiting from a captive in our structure. The second thing I would say is that the state of the reinsurance market today, we believe that we can avail ourselves of the attractive characteristics of certain structures without necessarily creating the structures ourselves.

The final thing I would say is we are always looking at and considering different options. Given where we've talked today about initiatives where we expect them to have a material impact in a reasonable period of time, that's something also to consider versus the idea of the lead time and the effort involved in creating the type of structure you're talking about, especially if you feel like you can lever those structures already as they exist in the marketplace. Hopefully, that gives you some sense of where our head is on this.

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

Got it. Thank you. And then maybe just on the holding company. Can you give us some sense of where you target minimum liquidity at the holding company, whether it be something like 2 times fixed charge coverage or anything you can help us to think about what the minimum buffer you'd like to have there?

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

Yeah. Ryan, it's Ed again. So I think this is a good quarter to remind people of what I have said repeatedly over the years, which is we don't give out that minimum buffer target because it's situational. And I've given you examples in the past of where are we in terms of debt maturities, right? Because the amount of cash you're going to want to have if you have a debt maturity in the next 12 months to 24 months, it's going to be different than if you have a debt maturity that's beyond 24 months, for example.

Where are you based on what might be happening in the market environment, what might be happening on an idiosyncratic basis, we're very happy to be sitting here with $1.2 billion of cash right now as we're talking about the fact that we're at or slightly below the low end of the target range in normal markets because 85 RBC points at the holding company is a very nice position to have.

So I'm not going to give a number, but I will say that when you talk about these minimums that others have referred to, they frequently look at some coverage relative to fixed charges, right? And in my comments today and in the past, I've said we don't need holding company cash for fixed charges. We have most of those fixed charges covered by non-dividend flows, and also the amount of money that we have consistently taken up from New England Life Insurance Company, which is a runoff entity.

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

Thank you.

Operator

Thank you. (Operator Instructions)

John Barnidge, Piper Sandler.

John Barnidge - *Piper Sandler & Co. - Analyst*

Good morning. Thanks for the opportunity. My first question, can you talk about your exposure sensitivity to floaters, should rates decline, please?

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Hey, John, we didn't quite catch that. Could you just repeat it?

John Barnidge - *Piper Sandler & Co. - Analyst*

Yeah, sure. Can you talk about your exposure or sensitivity to floaters should rates decline, please?

John Rosenthal - *Brighthouse Financial Inc - Executive Vice President, Chief Investment Officer*

Hey, John, it's John. Our floating rate assets generally back floating rate or short-term liabilities. So any net margin impact from declining short-term rates should really be minor.

John Barnidge - *Piper Sandler & Co. - Analyst*

Okay. Great. And then my follow-up question. Is there an opportunity for external partnerships to alleviate some of the capital strain brought about executing on that opportunity for not just Shield, but now LifePath Paycheck? I don't know, maybe an external asset management partnership beyond just the reinsurance that you're exploring? Thank you.

Eric Steigerwalt - *Brighthouse Financial Inc - President, Chief Executive Officer, Director*

Thanks, John, it's Eric. While we don't have any plans right now with respect to LPP, look, we'll consider anything. We're constantly evaluating opportunities. So I think it's a good question. We'll see what might happen in the future. I don't have anything really on LPP specifically, though.

Edward Spehar - *Brighthouse Financial Inc - Chief Financial Officer, Executive Vice President*

I would just add, we're obviously very happy with the position we're in with I don't know if you can pick a better company to be partnered with on an initiative like this. So we're very happy about that.

John Barnidge - *Piper Sandler & Co. - Analyst*

Thank you.

Operator

Thank you. I'm not showing any further questions in the queue. I would now like to turn the call back over to Dana Amante for any closing remarks.

Dana Amante - *Brighthouse Financial Inc - Head of Investor Relations*

Thank you, Victor, and thank you, everyone, for joining the call today. Have a great day.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.
