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CORPORATE PARTICIPANTS

Adam Auvil *CNO Financial Group, Inc. - VP of Corporate Development*

Eric Ronald Johnson *CNO Financial Group, Inc. - CIO*

Gary Chandru Bhojwani *CNO Financial Group, Inc. - CEO & Director*

Paul Harrington McDonough *CNO Financial Group, Inc. - CFO & Executive VP*

CONFERENCE CALL PARTICIPANTS

Daniel Basch Bergman *Jefferies LLC, Research Division - Equity Analyst*

Mark Alan Dwelle *RBC Capital Markets, Research Division - Director of Insurance Equity Research*

Zachary Ben Byer *Autonomous Research US LP - Equity Research Associate*

PRESENTATION

Operator

Ladies and gentlemen, welcome to the CNO Financial Group Fourth Quarter 2022 Earnings Results Call. My name is Glen, and I'll be your moderator for today's call. (Operator Instructions)

I will now hand you over to your host, Adam Auvil to begin.

Adam Auvil - CNO Financial Group, Inc. - VP of Corporate Development

Good morning, and thank you for joining us on CNO Financial Group's Fourth Quarter 2022 Earnings Conference Call. Today's presentation will include remarks from Gary Bhojwani, Chief Executive Officer; and Paul McDonough, Chief Financial Officer. Following the presentation, we will also have other business leaders available for the question-and-answer period.

During this conference call, we will be referring to information contained in yesterday's press release. You can obtain this release by visiting the media section of our website at cnoinc.com. This morning's presentation is also available in the Investors section of our website and was filed in a Form 8-K yesterday. We expect to file our Form 10-K and post it on our website on or before February 24.

Let me remind you that any forward-looking statements we make today are subject to a number of factors, which may cause actual results to be materially different than those contemplated by the forward-looking statements. Today's presentations contain a number of non-GAAP measures, which should not be considered as substitutes for the most directly comparable GAAP measures. You'll find a reconciliation of the non-GAAP measures to the corresponding GAAP measures in the appendix. Throughout the presentations, we will be making performance comparisons, and unless otherwise specified, any comparisons made will be referring to changes between fourth quarter 2022 and fourth quarter 2021.

With that, I'll turn the call over to Gary.

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Thanks, Adam. Good morning, everyone, and thank you for joining us. We reported operating earnings per share of \$2.33, which reflects ongoing market volatility, moderation in our alternative investment returns and favorable onetime actuarial benefits from the prior year that did not repeat in 2022. Adjusting for these items, we delivered sustainable earnings with strong underlying margins across our product portfolio and rising new money rates supporting investment and income results. Paul will cover these items in greater detail. We remain pleased with how the full year sales momentum and solid fundamentals have positioned us for 2023 and beyond.

Turning to sales results-- recent strategic investments to accelerate growth resulted in strong production momentum across both divisions. We generated double-digit year-over-year sales growth in direct-to-consumer life, annuities and our worksite insurance businesses. Notable investments in 2022 included enhancing our Medicare product offerings and capabilities with new Medicare supplement plans and more Medicare Advantage products offered on myhealthpolicy.com. These investments contributed to a strong Medicare selling season during the fourth quarter.

We also launched Optavise, our unified worksite brand, which was well received by the market as a one-stop shop for a comprehensive set of worksite solutions to maximize employee benefit programs. In early 2022, AM Best upgraded the financial strength rating of CNO's life and health subsidiaries from A minus to A, continuing our strong track record of upgrades. We returned \$245 million to shareholders in the year, including \$180 million in share buybacks. Weighted average share count outstanding was reduced by 10%. Our key capital metrics ended the year strong and remained above target levels. We increased book value per diluted share, excluding AOCI, by 11% and are nearing \$30 per diluted share.

Turning to slide 5 and our growth scorecard. Our sales performance in the quarter continues to illustrate the strength and attractiveness of our distribution model and diverse product portfolio. I'll discuss each division in the next 2 slides.

Beginning with the Consumer division on slide 6. The integration of our agent field force and direct-to-consumer distribution continues to open up more opportunities for us to serve our middle income customers and drive growth in our Consumer division. Sales momentum remained strong in the fourth quarter and capped off a solid production year. Full year and fourth quarter results were driven primarily by annuities, direct-to-consumer life sales and a strong Medicare annual enrollment period. Life and health sales were up 3% for the quarter.

As I shared last quarter, these results are against a tough comparable after record sales in the second half of 2021 in the state of Washington due to new legislation. Adjusting for these sales, Life and Health NAP was up 7%. Direct-to-consumer life sales were up 9% for the quarter and 10% for the year. This is the seventh consecutive quarter of sales growth for D2C Life. The full year reflects the third consecutive year of double-digit growth. Efficient advertising spend, enhanced distribution and solid policy conversion rates are delivering sustainable growth in this channel. Supplemental health sales were up 26% for the quarter and 9% for the year.

We were also very pleased with the performance of our Medicare business. Our approach to Medicare includes manufactured Medicare Supplement plan and a broad offering of third-party Medicare Advantage and Part D prescription drug plans. During the year, we expanded the number of Medicare Advantage plans we offer through our digital health marketplace, myHealthPolicy.com. Through this platform, consumers can compare plans and enroll online, over the phone or through an agent. Medicare Advantage policies were down 1% for the quarter but up 6% for the year. This contributed to third-party fee revenue growth of 34%. As a reminder, MA policies drive fee revenue and are not reflected in NAV.

As I mentioned at the top of the call, we launched our new, more competitive Medicare Supplement plans earlier this year, and we are pleased to see the product gain traction with agents and policyholders. After the launch, we saw a sharp acceleration in sales growth. Med Supp was up 16% sequentially in the third quarter and picked up steam during the AEP in the fourth quarter. Med Supp NAP ended the fourth quarter up 30% sequentially and up 14% versus the comparable quarter. During AEP, we were able to instantly connect inbound callers responding to one of our marketing campaigns with the bankers (technical difficulty).

Our agents have local knowledge and are uniquely suited to assist consumers with their enrollment decisions. They can also meet in person. This program accounted for roughly 10% of our Medicare Advantage enrollments. In aggregate, local agents achieved a higher conversion rate on these calls than our call center tele-agents. Most importantly, we hope these burgeoning relationships represent the potential for future cross sales.

Our approach to Medicare products and distribution is just one illustration of how our diverse product portfolio and omnichannel distribution model are a competitive strength in the market. Our key differentiator is the unique ability to marry a virtual connection with our established in-person agent force, who complete the critical last mile of sales and service delivery.

Annuity collected premiums were up 8% for the quarter and 15% over the prior year. This is our ninth consecutive quarter of comparable period growth. As a reminder, we primarily sell fixed index annuities, which provide consumers with protection of principal, a potential for upside based on the positive changes to a market index and the ability to generate predictable income. Higher demand for these products generally coincides with periods of rising interest rates and uncertain equity markets. Client assets in Brokerage & Advisory were down 9% year-over-year to \$2.6 billion

due to ongoing market volatility and declining equity values. More importantly, net inflows and new accounts were up, continuing this positive trend from prior quarters. Combined with our annuity account values, we now manage more than \$13 billion in assets for our clients.

Our agent recruiting had positive momentum throughout the year. We attribute this performance through a combination of successful recruiting strategies that we've put in place over the past several years. The softening labor market also drove more candidates to our career opportunity. We were up 4% for the quarter, which represented our fourth consecutive quarter of recruiting gains. As a reminder, it does take time for a new agent to meet the minimal level of production to be counted as a producing agent. Field producing agent count was down 3%. This is a steady improvement over third quarter and indicates that we are at or near an inflection point. Veteran agent retention and productivity remains solid. Agent productivity was up 6% for the full year. Our registered agent count increased 6% from the prior year, expanding the number of securities professionals embedded in our branch offices to serve our customers.

Turning to slide 7 and our Worksite Division performance. The fourth quarter is an important selling season for our worksite business because most employers conducted employee benefits enrollment from October to December. We are pleased to post our best worksite insurance sales quarter since the start of the pandemic. Insurance sales were up 8% for the quarter and up 20% for the full year. This is the seventh consecutive quarter of year-over-year growth and follows 2 previous quarters of double-digit growth. This growth can be attributed to strong retention of our existing employer customers, stable employee persistency within these employer groups and growth in producing agent counts.

Our new worksite brand Optavise launched in mid-2022, and we remain pleased with the positive reception from the market as well as our captive agents. As a reminder, the Optavise brand unified our worksite capabilities into a one-stop shop for employers and employees. With Optavise, clients can access expert guidance, voluntary benefits, year round communications and advocacy services and benefits administration technology. We expect to capitalize on the capabilities of the Optavise brand and expand its market reach in 2023 and beyond.

During the fourth quarter, we were very pleased with the performance of our new hybrid enrollment platform, Optavise Now. The platform gives our agents greater flexibility to connect with employees wherever they are, including by video or over the phone. We experienced higher attendance and engagement with customers who leverage this technology and expect to expand its use with more clients in 2023. Optavise Now illustrates our unique capability to deliver the last mile of sales and service. It blends a virtual experience with the benefits of personal guidance from an in-person agent.

Producing agent counts were up 21% year-over-year and 7% sequentially. First year agent counts were up 60% year-over-year. We credit our worksite referral program for driving these results as agents who come to us by referral typically have higher retention and productivity. The Optavise brand has shown early signs of being a recruiting catalyst, and we expect it to generate interest in our agent opportunity.

We saw improved conversion rates of new to producing agents and increased productivity in the quarter. We credit recent improvements to our new agent onboarding and skill development programs for these positive trends. The integration of our fee-based businesses continues as expected. Fee revenue within the worksite division continues to benefit from cross-selling. We expect cross-sell activity to accelerate with all products and service offerings now under the Optavise brand.

With that, I'll turn it over to Paul.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Thanks, Gary, and good morning, everyone. Turning to the financial highlights on slide 8-- on balance, we reported solid earnings for the quarter and the full year with some pluses and minuses. On the plus side-- number one, continued strong and stable underlying insurance product margins; number two, significant improvement in COVID-related mortality impacts in our life products; three, increases in net investment income allocated to products, reflecting growth in the business-- and beginning in the third quarter, sequential improvement in the average yield on investments allocated to products; fourth, an increase in fee income; fifth, disciplined capital management, intentionally ending the year with RBC and Holdco liquidity above our targets, given where we are in the credit cycle, while still returning some excess capital to shareholders; and lastly, continued expense discipline, seeking to drive operating efficiencies while also investing in growth opportunities.

On that point, in the fourth quarter, we reduced our headcount by approximately 2%, resulting in run rate cost savings of about \$10 million. This was accomplished primarily through a voluntary early retirement program for eligible associates, which resulted in a \$7 million restructuring charge that's included in nonoperating income.

Offsetting these favorable dynamics were-- number one, moderating COVID-related benefits in our health product margin; number two, lower net investment income not allocated to product primarily reflecting lower returns on alternative investments; and three, fairly significant though largely noneconomic impacts to our fixed index annuity margin relating to the GAAP accounting for this product in the context of market volatility. As mentioned on our last earnings call, much of this has to do with the methodology that we use to draw the line between operating and nonoperating income for this product.

Incidentally, as we adopt LDTI in the first quarter of 2023, we'll also be updating our method of determining nonoperating income for our FIAs to better identify the volatile noneconomic impacts. We think this new methodology will be more in line with the method applied by peer companies. This should result in more stable FIA margins in operating income, more closely reflecting the true economics of the business and will be more comparable to the results of other companies.

All in all, on balance, a solid year, and we feel good about how we're positioned entering 2023. We'll provide more detail on our outlook for '23 at our Investor Day coming up in about 2 weeks on February 23. We also plan to provide some updated LDTI disclosures at that time. Then subsequent to that, we expect to provide a full financial supplement for 2021 and 2022 under LDTI, concurrent with our first quarter 2023 earnings release.

Turning to slide 9-- insurance product margin was down \$20 million or 9% in the fourth quarter as compared to the prior year period. Adjusting for the GAAP accounting impacts caused by market volatility on our FIA margins, COVID impacts across all of our products, the unfavorable interest-sensitive life unlocking in 4Q '22 and the favorable reinsurance recovery in 4Q '21 -- as referenced on the slide -- total margin was essentially flat, reflecting the continued strong and stable underlying dynamics of the business. We completed our annual GAAP actuarial assumption review in the fourth quarter, which resulted in no material impact to operating income in total with about a \$1 million favorable impact on annuity margin and about \$3 million unfavorable impact to interest-sensitive life margin.

Turning to slide 10, this chart summarizes the largely noneconomic GAAP accounting impacts on our fixed index annuity margin over the last 5 quarters. We believe the noise in the GAAP results obscures the economic earnings dynamics of this product. As you can see from the table, adjusting for these impacts, our annuity margin is reasonably stable. Again, as we update our method of determining the nonoperating income component from our FIAs in the first quarter of '23, operating earnings from our FIA should be more stable -- again, more closely reflecting the true economics of the business.

The slight downward trend in the margin in '22 versus '21 -- even adjusting for these impacts -- despite significant growth in the account value over the 12-month period is due to 2 things-- first, some noise in the methodology that we use to allocate NII to products using reserves rather than account value; and second, some modest spread compression resulting from shortening duration to better match the liabilities and some asset turnover during the year, coupled with our up-in-quality bias. But nevertheless, still leaving us with a spread that's consistent with our pricing and generating attractive returns.

Turning to slide 11-- investment income allocated to products was up for a second quarter in a row as the new money rates above 5% over the last 9 months has reversed the trend of a declining yield. Investment income not allocated to products fell in the quarter as expected. The \$13 million decline reflects lower alternative investment returns, partially offset by favorable FHLB and FABN results. Our new investments comprised approximately \$570 million of assets with an average rating of AA minus and an average duration of 6.2 years. Our new investments are summarized in more detail on Slides 21 and 22 of the earnings presentation.

Turning to slide 12-- at quarter end, our invested assets totaled \$24 billion, down 16% year-over-year, reflecting declining market values in the quarter driven primarily by higher interest rates. Approximately 97% of our fixed maturity portfolio at quarter end was investment-grade rated with an average rating of single A, reflecting our up-in-quality actions over the last several quarters. In the last 12 months, the allocation to single A rated or higher securities is up 390 basis points. The BBB allocation is down 260 basis points and the high-yield allocation is down 130 basis points. These actions continue to position us well relative to potential economic downturn.

Turning to slide 13-- at quarter end, our consolidated RBC ratio was 384%, up from 375% at September 30, and our Holdco liquidity was \$167 million, \$17 million above our minimum target of \$150 million, and up from \$162 million at September 30. We are intentionally maintaining some excess capital above our targets given the near-term risk of recessionary economic pressures.

With that, I'll turn it back over to Gary.

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Thanks, Paul. We are pleased with our strong performance and the steady execution against our strategic priorities. We remain confident in our growth and shareholder return opportunity. Our market is growing but underserved. In times of economic certainty, the guidance and products we provide our clients is critical. Our distribution model and product portfolio continue to be a key differentiator in how we access and serve our market. Our sales momentum is strong, providing a solid foundation for future earnings, and our robust cash flow remains a cornerstone of our financial strength.

We are hosting our Investor Day at the New York Stock Exchange on Thursday, February 23. At the event, I will be joined by members of our management team to talk in greater detail about our business and the 2023 outlook. We hope to see you in person for the event. There will also be a video webcast option available. Please contact the Investor Relations team for registration instructions.

Before moving to Q&A, I wish to take a moment to acknowledge the heart-breaking loss of life and devastation from the earthquake in Turkey and Syria. Our thoughts go out to all who are impacted and to the first responders providing medical and humanitarian aid.

We will now open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Daniel Bergman from Jefferies.

Daniel Basch Bergman - Jefferies LLC, Research Division - Equity Analyst

To start, the favorable impact of COVID on your health underwriting margin has proved really remarkably durable, particularly in the supplemental health and LTC line. So, I just wanted to see if you had any updated thoughts on what's driving this and how long it might persist going forward? I mean, I would have expected that maybe the favorable underwriting trends might have been eroded somewhat by pricing changes at this point. So, any color on that and what you're seeing in terms of competition would be helpful.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

So, basically, what you're seeing flow through our earnings is us responding to the case experience, and so, we continue to experience some favorable case reserve development. In terms of what it looks like going forward, clearly, we've transitioned from a pandemic stage to an endemic stage -- I think our results will reflect that. The other dynamic is that under LDTI, much of the impacts from COVID, plus and minus, get offset by changes in reserves. So, the dynamic entering 2023 under LDTI will be a bit different.

Daniel Basch Bergman - Jefferies LLC, Research Division - Equity Analyst

Got it, that's helpful. Then, maybe, just switching gears a little bit, with capital levels now having rebounded to above your minimum targets-- just any thoughts you can share on how you're thinking about the cadence or pace of share buybacks going forward? I mean, should we expect you to be back closer to your run rate level of capital return in the near term? Or if not, how soon might it take for that to revert to more fully reflect your free cash flow generation versus a desire to build a more material capital buffer above those minimum targets given some of the macro and credit uncertainty you talked about -- any thoughts on that would be great.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Sure. So, Dan, we'll provide a bit more perspective in the outlook that we share at the Investor Day in a couple of weeks. But, I'd offer a couple of comments now. Number one, we'll continue to be a little bit cautious in the early part of the year -- again, just given where we are and the potential for recessionary economic pressures. Having said that, I think you should expect that we would settle into a run rate over the course of '23 -- a bit more perhaps in the latter half of the year than the first half of the year.

Operator

(Operator Instructions) We have-- our next question comes from Zach Byer from Autonomous.

Zachary Ben Byer - Autonomous Research US LP - Equity Research Associate

So, recruiting was up 4% year-over-year, but total producing agent count declined 3%. Just kind of curious, what dynamics are you seeing in your agent force? Can you talk about the agent retention trends and the timeline for getting new agents up to producing status?

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Yes, Zach, this is Gary. So, just a couple of comments on that. So, first of all, just a reminder that the way companies define what constitutes a producing agent varies from company to company. In other words, this isn't a GAAP term that you can compare across companies. The simplest way to think about it is it takes time -- let's say, we recruit a new agent in January -- it typically takes anywhere from 2 to 6 months for them to really get up to a reasonable production level. So, you always see producing agent count lagging new agent recruitment. If you look in our case -- what we've been trying to get our shareholders to understand is -- we've seen new agent recruitment grow nicely, which is a really good leading indicator and a good sign.

We've also seen the decline in producing agent count shrink every quarter. So, the pace of decline is going down, which is a sign that we are at or near the bottom, and we would expect producing agent count to turn up. Now, all of that is important and necessary and a good leading indicator, but I would tell you that the most important thing is the productivity of the agents, and you've seen us demonstrate continued increases in that productivity. While we always need new agents -- and it's important that we bring in new agents and we get them producing -- the most important thing is the productivity, and that's continued to trend very positively for quite some time.

Zach, did that answer your question?

Zachary Ben Byer - Autonomous Research US LP - Equity Research Associate

Yes, that did. My second question is just around expenses. So, you took some action in 4Q, but how are you thinking about the level of expenses going forward? Should we expect them to decline? Or did the savings that you've taken just offset pressures from inflation and natural growth in the cost base?

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Zach, it's Paul. So, again, we'll provide more perspective on the outlook at Investor Day, but I'd offer a couple of comments. Number one, the expenses in the quarter-- in the fourth quarter, particularly not allocated to products were a bit below our annualized run rate. But, I'd say the full year 2022 expenses were in line with our expectations. Going forward, as we continue to grow the business, I think you should expect some growth in expenses, but we will continue to try to strike the right balance between being as efficient as we possibly can be, while also investing in growth in the business. I think this-- the action that we took in the fourth quarter is proof to the point that we try very hard to be as efficient as possible.

Operator

(Operator Instructions) Our next question comes from Mark Dwelle from RBC.

Mark Alan Dwelle - RBC Capital Markets, Research Division - Director of Insurance Equity Research

Just a couple of questions mainly related to the health segment. Supplemental sales were pretty strong and the Medicare Supplement sales, in particular, were pretty strong. But, there wasn't really any notable change in margin in the quarter. So, how long is the transmission time between when you get the sales and when that starts to show up in potentially improved margins?

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Mark, it's Paul. So, yes, generally, you've got some strain in the first year, even on a GAAP basis from new sales. So, sales this year tend to contribute to margin in the following year and in subsequent years.

Mark Alan Dwelle - RBC Capital Markets, Research Division - Director of Insurance Equity Research

So, the lag would be measured in years or in quarters?

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Well, I suppose, on sort of a trailing 12-month basis, but in general, over the course of 2022, the sales growth will translate to earnings growth in subsequent years.

Mark Alan Dwelle - RBC Capital Markets, Research Division - Director of Insurance Equity Research

Got it. Then, with respect-- I know you made some changes to the supplement product. I mean, what's the feedback been like from agents force as far as the salability and acceptance on that from the customer standpoint? I mean, obviously, the numbers are pretty good, but are there more tweaks on the way? Or have you kind of landed on a winner?

Gary Chandru Bhojwani - CNO Financial Group, Inc. - CEO & Director

Mark, this is Gary. We feel pretty good about the way the Med Supp product has been received by the market. The feedback from the agents has been good. I would tell you that there is the potential for some further tweaks, but probably on a state-by-state basis. In other words, at the present time, we're not aware of major tweaks that need to be made nationwide. Now, all that said, the AEP just ended, and we're still collecting feedback and we'll work with our agents. If we see something, we'll certainly keep our options open, but I would expect it to be more in the range of tweaks as opposed to wholesale changes.

One last observation-- remember that Med Supp is the product that we manufacture and therefore, the one that's most susceptible to these types of tweaks and changes. We're also pretty pleased with the performance of our Med Advantage business, and remember, that's products where we distribute the product, and we continue to get better, frankly, at our online platform and bringing customers there and working with our agents and so on and so forth. So, we expect to continue to see growth there. Again, those are products we distribute not manufacturer.

Mark Alan Dwelle - *RBC Capital Markets, Research Division - Director of Insurance Equity Research*

Appreciate the thoughts, and I'm sure we'll get more insights on all of that at Investor Day in a few weeks.

Gary Chandru Bhojwani - *CNO Financial Group, Inc. - CEO & Director*

Absolutely.

Operator

(Operator Instructions) We have a follow-up question from Zach Byer from Autonomous.

Zachary Ben Byer - *Autonomous Research US LP - Equity Research Associate*

Just kind of curious on the benefits of higher interest rates. So, obviously, they've been rising, and that's been a positive for earnings, but how should we think about any uplift going forward? Should NII allocated to the products be on an upward trajectory? And is there still some upside to earnings in spreads in your FHLB lending business?

Paul Harrington McDonough - *CNO Financial Group, Inc. - CFO & Executive VP*

Sure. So, Zach, I'll offer some comments and then I'll invite Eric to provide some perspective on those 2 programs. So, absolutely, directionally higher rates are good for us, good for the industry. They've already contributed to a meaningful inflection point with the portfolio yield increasing sequentially in both the third and fourth quarter. We haven't gotten yet to a point where it's increasing year-over-year, but I think we're approaching that. As long as rates stay where they are and perhaps a little bit higher, we should reach that point over the next few quarters. So, all good.

Eric, maybe I'll turn it over to you to comment on FHLB and FABN.

Eric Ronald Johnson - *CNO Financial Group, Inc. - CIO*

Sure, and thanks for the question. To follow-up on something Paul said a couple of times, at Investor Day, we'll have some comments around the trajectory of NII in some ways. I believe that there can be some good guys there on a sustained basis going forward. One of them is -- obviously depending on market conditions -- higher new money rate feeding into higher book yields feeding into more NII. A second one, as we continue to expand the institutional funding programs, be it FHLB or FABN, not only will the -- hopefully, over time, we'll see the AUM from those programs expand, hence more money -- but we will recycle some of the existing inventory in the existing AUM expanding spread.

Then thirdly, as long as circumstances make sense. We have some floating rate exposure on the books that benefit from-- has benefited from the shape of the yield curve, and that's played through well also. So, at Investor Day, you can expect that I'll have some comments around this and put some dimensions around it. But, I do think there is opportunity there for something that can really impact the bottom line.

Paul Harrington McDonough - CNO Financial Group, Inc. - CFO & Executive VP

Zach, does that answer your question?

Zachary Ben Byer - Autonomous Research US LP - Equity Research Associate

Yes, that does, thank you.

Operator

We have no further questions on the line. I will now hand back to Adam for closing remarks.

Adam Auvil - CNO Financial Group, Inc. - VP of Corporate Development

Thank you for your support of and interest in CNO Financial Group.

Operator

Thank you. Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.

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