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PRESENTATION

Operator

Gentlemen, thank you for standing by. Welcome to the CNO Financial Group first-quarter 2024 earnings call. (Operator Instructions) I would now like to hand this conference call over to our host, Adam Auvil.

Adam Auvil - *CNO Financial Group Inc - Vice President, Investor Relations & Sustainability*

Good morning, and thank you for joining us on CNO Financial Group's first-quarter 2024 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 the 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-Q and post it on our website on or before May 6.

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 presentation contains 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 presentation, we will be making performance comparisons, and unless otherwise specified, any comparisons made will refer to changes between first-quarter 2024 and first-quarter 2023.

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

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Thanks, Adam. Good morning, everyone, and thank you for joining us. CNO delivered another strong quarter of operating performance, building on our 2023 momentum and track record of sustainable growth. Our first quarter results were among the best operating metrics we've generated in the past several years with respect to consumer and worksite sales, our distribution force and new products. Our consumer and worksite businesses posted our seventh consecutive quarter of sales production growth and our fifth consecutive quarter in producing agent counts.

Total new annualized premium was up 8%, benefiting from successful distribution force metrics in both divisions. Our dedicated teams delivered sales growth in nearly all product categories. We posted solid and sustainable earnings with operating earnings per share of \$0.52. Results benefited from favorable insurance product margin, reflecting growth in the business and continued expansion of the portfolio book yield, which continues to benefit from higher interest rates.

The new money rate exceeded 6% for a fifth consecutive quarter. The only material item that offset our strong operating results in the quarter was \$24.3 million of unfavorable mark-to-market pretax impacts on real estate partnerships within our alternative investments.

Despite these impacts, total net investment income was up in the quarter. Capital and liquidity remain well above target levels after returning \$57 million to shareholders. Book value per diluted share, excluding AOCI, was \$34.97, up 10%. The underlying fundamentals of our business are sound, as demonstrated by sales momentum in both consumer and work site, a growing distribution force, continued solid and sustainable earnings, our excellent capital position and no change to our full year guidance.

Turning to slide 5. This quarter, we introduced an expanded growth scorecard. This is our first significant change to this document since 2018. As we continue to enhance our focus on sustainable profitable growth, the refreshed scorecard focuses on the three key drivers of our performance: production, distribution, and investments in capital.

We are pleased that nearly all metrics are up in the quarter. I especially want to draw your attention to our consistent growth in book value per share. I'll discuss each division in the next two slides. Paul will cover investments in capital in more detail during his remarks.

Beginning with the Consumer division on slide 6, our consumer business posted a very strong start to the year. We continue to be pleased with the solid execution and sustainable sales growth. Our unique capabilities marry a virtual connection with our established in-person agent force to complete the critical last mile of sales and service delivery. These capabilities remain a key differentiator and driver of our growth. Life and health NAP was up 7%.

Health NAP was up 22%, bolstered by a positive reception from consumers to our new health products. Our Medicare portfolio delivered impressive results during the quarter. Medicare Supplement NAP was up 24% and Medicare Advantage sales were up 38%.

As a reminder, Medicare Advantage fees and sales are not reflected in NAP. By offering both Medicare Supplement and Medicare Advantage products, we provide more coverage options for customers. The balance and diversification of our Medicare portfolio is an important part of how we serve the middle-income market.

While interest in Medicare products peaks in the fourth quarter during the annual enrollment period, Medicare distribution is a year-round business for CNO. With nearly 11,000 people turning age 65 every day in the United States, first-time customers, who are new to Medicare, are most in need of the service and expertise provided by our field agents. We are uniquely positioned to help them make an educated choice for their coverage.

Long-term care NAP was up 71% on the continued strength of our recently launched long-term care fundamental plus product. 99% of these policies have benefit periods of two years or less and more than 90% have benefit periods of one year or less. These plans cover essential costs for one to two years and provide a balanced and affordable approach to funding care for our clients. Life production was down slightly to prior year as direct-to-consumer life NAP moderated in the quarter due to our decision to proactively reduce television marketing spend. Agent sold Life NAP was flat due to a challenging comparable.

Our D2C advertising is rooted in a price disciplined and measured strategy built on decades of market experience. We maintain an opportunistic approach scaling our marketing expenditure up or down based on advertising market. As a reminder, television advertising costs are not capitalized and typically fluctuate during presidential election years. We expect 2024 to follow a similar pattern.

Our web and digital D2C capabilities are also instrumental in generating sales. Our teams are working hard to ensure that these channels continue to reach more customers. Life NAP from web and digital channels was up 13% in the quarter and now accounts for approximately 25% of all D2C life sales. Our diverse lead generation and distribution capabilities enable us to adapt to changing market environments and provide balance and stability to our results.

Annuity collected premiums in the quarter were up 6% and account values were up 4%. As I shared last quarter, our captive distribution model and the long-term relationships that our agents build with customers provide stability to this block. Persistency remains with an expected levels in light of the current interest rate environment.

Client assets in brokerage and advisory were up 32% for the quarter to a record \$3.4 billion. New accounts were up 8%. Four consecutive quarters of brokerage and advisory growth reflect an agent force that is building enduring relationships with clients. When combined with our annuity account values, our clients now entrust us with more than \$15 billion of their assets.

Successful agent recruiting and retention fuel our sales momentum. Recruiting was up 12%, our seventh consecutive quarter of agent force gains. Producing agent count was up 8%, the fifth consecutive quarter of growth. Our proprietary agent referral and retention programs drove strong recruiting results. Agent metrics also benefited from new initiatives that are leveraging technology to increase the effectiveness and efficiency of our online recruiting presence.

Next, slide 7 in our Worksite Division performance. Our Worksite Division is also off to a strong start. Life and health insurance sales were up 19%. In seven of the past eight quarters, worksite insurance sales have delivered at least 15% growth. As I shared last quarter, this level of sustained growth underscores the significant value that our worksite insurance offerings bring to employers and their employees.

Services fee sales were up 9%. This metric reflects the annual contract value of benefit services sold in the first quarter and is a leading indicator of fee revenue growth. Advancing our benefit services strategy remains a priority for 2024 and beyond.

Producing agent count was up 28%, our eighth consecutive quarter of growth. First year producing agent count was up 36%. We are seeing solid agent retention across all cohorts and are experiencing healthy productivity levels.

Recruiting was up 32% year over year, driven by agent referrals that were up 50% in the quarter. Our results underscore the attractiveness of our agent opportunity with Optavise. As a reminder, agents who are recommended to us through our proprietary, personal referral program typically stay with the company longer and are more productive.

Ongoing enhancements to our agent training and onboarding programs continue to support growth in producing agent count and agent productivity. Recent investments in a new learning management system and other digital tools are improving both the personalization and flexibility of how we deliver education to our agents.

This quarter, we continue to advance several initiatives designed to accelerate worksite sales growth, add customer value and expand our market reach. First, new product offerings continue to be well received by both employers and employees. Our refreshed accident insurance product, which launched last June, was up 43% in the quarter. Our new critical illness product, which was introduced in the fourth quarter, was up 5%.

Second, our geographic expansion initiative accounted for 40% of our total sales growth in the quarter. This program targets areas where we've identified strategic opportunities to grow our market share and footprint. Lastly, we rolled out a client acquisition program to help agents cultivate and add value to new worksite group clients. The program launched late last year, and we're already experiencing early success. New group clients were up 65% for the quarter.

And with that, I'll turn it over to Paul.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Thank you, Gary, and good morning, everyone. Turning to the financial highlights on slide 8, our operating earnings in the quarter reflect strong insurance product margins and continued growth in net investment income allocated to products. This reflects growth in the business and continued improvement in the book yield of the investment portfolio as we put new money to work at levels above the portfolio yield.

Offsetting those favorable trends was a decrease in net investment income not allocated to products which includes our alternative investments, which I'll come back to in a moment. We generated solid free cash flow in the period.

Capital ratios and liquidity remain well above target levels, and we deployed \$40 million of capital on share repurchases in the quarter, contributing to a 3% reduction in weighted average diluted shares outstanding year over year. On a trailing 12-month basis, operating return on equity was 9.7% as reported and 8.5% ex significant items.

Turning to slide 9, insurance product margin was strong in the quarter, reflecting growth in the business and claims experience generally in line with expectations. The results highlight the benefit of our diverse product mix with some puts and takes, but in total, stable and growing. Traditional life margins benefited from lower advertising expense.

Annuity margins in general were impacted by higher surrenders but within expected levels in the context of the current interest rate environment. Fixed indexed annuity margins also reflected moderating spreads, but in line with our pricing and target returns.

Turning to slide 10. The new money rate in the quarter was 6.17%, the fifth consecutive quarter above 6%. And certainly a positive result and accretive to the portfolio's book yield in the quarter. The average yield on allocated investments was 4.70% in the quarter, up 8 basis points year over year. The increase in yield along with growth in the business drove a 4% increase in net investment income allocated to products for the quarter.

Total investment income reflects \$24 million of net unfavorable mark-to-market impacts on certain real estate partnerships within our alternative investment portfolio. This is against our expectation in 1Q of a \$14 million to \$16 million pretax gain. Even with the underperformance in the alternative investment portfolio, total net investment income increased 2.5% year over year.

Our new investments in the quarter comprised approximately \$750 million of assets with an average rating of A and an average duration of seven years. Our new investments are summarized in more detail on slides 21 and 22 of the presentation.

Turning to slide 11. Approximately 97% of our fixed maturity portfolio at quarter end was investment grade rated with an average rating of A, reflecting our up in quality actions over the past several years. In the last 12 months, the allocation to single A rated or higher securities is up 270 basis points. The BBB allocation is down 250 basis points and the high-yield allocation is down 20 basis points.

As you can see from the pie chart, approximately 2.5% of our portfolio for \$630 million is allocated to alternative investments. And as you can see in the pie chart on the next slide, slide 12, our alternatives include an allocation to real estate partnerships. These are performed well over the long-term, and we expect will continue to perform well through the current cycle and beyond. But the market-driven mark-to-market impacts on the real estate partnerships adversely impacted the results for the quarter, driven by the annual appraisal of the underlying real estate assets in the context of higher cap rates in the current higher interest rate environment.

The book value of these real estate partnerships was \$86 million at March 31, so quite small in both absolute and relative terms. It's also important to note that the underlying properties in these partnerships are 100% occupied by investment-grade tenants, including notable Fortune 150 companies. They are in long-term, non-cancelable leases, and they continue to produce stable cash flows at the property level and stable cash distributions to CNO as reflected in each of the last 12 months and quarterly distribution columns in the table on the slide.

Away from alternative investments and commenting more broadly on commercial real estate exposure, our commercial mortgage loans and CMBS continued to perform according to our expectations, reflecting conservative underwriting and proactive management. We have again included some of the summary metrics in slides 23 and 24 of the presentation.

Turning to slide 13. Our capital position remains strong. At quarter end, our consolidated risk-based capital ratio is 391%. Holdco liquidity was \$223 million and leverage was just under 23%.

Turning to Slide 14 and our 2024 guidance. We are maintaining all guidance ranges for the year. This includes operating earnings per share in the range of \$3.10 to \$3.30 for the year, excluding significant items. This affirmation includes an expectation that alternative investments generated a return more in line with the long-term run rate assumption of between 9% and 10% for the balance of the year, consistent with our initial guidance assumptions. We also continue to expect that fee income will be slightly down year over year, but with a slight change to the seasonal weighting.

We now expect roughly one-third of the full year earnings came in the first quarter and the balance will come in the fourth quarter with the second and third quarters roughly breakeven. Given the first quarter results, the full year operating EPS is more likely to come in at the lower end of the range than the higher end of the range. But our point estimate for the full year remains comfortably inside of the earnings per share range.

We continue to expect excess cash flow to the holding company in the range of \$140 million to \$200 million. As stated in our remarks last quarter, the high end of the range assumes status quo. In particular, no deterioration in economic conditions, and no material change in the risk profile of our investment portfolio.

Finally, we will continue to manage to a consolidated risk-based capital ratio of 375% in our USbased insurance companies, minimum holdco liquidity of \$150 million and target leverage between 25% and 28%.

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

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Thanks, Paul. Last month, we published our sixth annual letter to shareholders. In it, we emphasize the perspective that we have shared in several forms. CNO is a growth story that offers compelling long-term shareholder value creation.

Our business model is unique and valuable. We say what we will do then we do what we say, and we back our commitments with a track record of execution. As we look to the remainder of 2024, we remain squarely focused on profitable growth and shareholder return opportunity. We thank you for your support of and interest in CNO Financial Group.

We will now open it up to questions. Operator?

QUESTIONS AND ANSWERS

Operator

Keith, if you'd like to register a question, please press star, followed by one on your telephone keypad, ensuring you are unmuted locally. If you'd like to withdraw your question at any time you can do so by pressing star, followed by two. As a reminder to ask your question, it's stopped well, let's buy them.

Last question comes from the line of Ryan Krueger of Stifel Your line is now open. Please go ahead.

Ryan Krueger - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Morning. My first question was on life advertising. Can you just give us some more thoughts around what you're seeing in the external environment for advertising costs and how that's influencing the level of spend and how that could play out as the year goes on with the political election?

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

Yes. Hey, Ryan. This is Gary, thanks for the question. We see this happen at every election cycle. So we're expecting the similar pattern and it's starting to play itself through. And the bottom line is that advertising costs are going up. We track very carefully our yield. We track the marketing costs for the premiums that come in to the number of phone calls and so on. And a number of different metrics that our people track. And when we believe that the advertising costs get too high to perform against those metrics, we back off and you'll recall we've done that a past election cycles. I expect that's going to happen here again in 2024. We'll wait and see. But if I were a betting man, that's what I think's going to happen. So we see the cost going up. Therefore, we see the yield going down and we'll back off opportunistically if we see that change or if opportunities present themselves, we'll step back on the gas pedal.

Ryan Krueger - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Got it. Thanks. And then on long-term care anymore, can you provide any more color on what you saw in the quarter? It looked like the claims were favorable. And then to Tom, things bounced around there a little bit in terms of LTC margins on any, if any, rough sense of kind of what you view as a more normalized level at this point?

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

Hey, Ryan, it's Paul. I'd say that our our claims experience and the margins for long-term care in the quarter were generally in line with our expectations, and it certainly does reflect the growth in the business. There was slightly more favorable new run rate in the wake of the assumption unlocking in the fourth quarter. But I think that by-and-large captures how we're thinking about the LTC margin in the quarter.

Ryan Krueger - *Stifel, Nicolaus & Company, Incorporated - Analyst*

Okay. Got it. Thank you.

Operator

Thank you. The next question comes from the line of John Barnidge of Piper Sandler. Your line is open. Please go ahead.

John Barnidge - *Piper Sandler Companies - Analyst*

Good morning. Thank you for the opportunity. You talked about there are surrender trends in the first quarter and annuities looks like they were increased with outflows. Can you talk about the surrender trends in 2Q 2014 date because it seemed like it was a one-off, or is this something that is persisting amid HIGHER markets generally?

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

Hey, John, this is Gary. I'll make some general comments and then I'll let Paul and others jump in if they want to add to it well, I we generally don't provide guidance ahead of the quarter. So in terms of telling you how 2Q is going to shape up, we generally don't do that. However, I will make some general observations on given the interest rate environment, we should expect surrenders to run higher than, say, a couple of years ago when interest rates were considerably lower. Our persistency models account for that. We're expecting that so they will run higher than, say, a

couple of years ago. But I would remind all of our shareholders that we benefit from some things in the marketplace that maybe some of our competitors don't. First, our annuities are produced exclusively by our captive distribution network, and we have certain policies and procedures in place where they don't have an incentive to churn business. That's number one. Number two, remember that our target market typically doesn't get called on as frequently as say, ultra-high net worth individuals simply because they don't have the asset pool that attracts a lot of distribution to call on them regularly. So our products aren't regularly facing that type of a high level of competition third, like most other players, the product design that we have on our annuities has surrender charges. So particularly in the first several years that the typical 1010, whether it's their surrender charges for roughly 10 years. But typically in the first few years, there's really a significant disincentive even at the consumer level, but to surrender. So for those reasons, we expect our surrenders to be higher than the recent past, but we expect not to suffer the same degree of pressure that some other players in the industry will experience on Paul or Jeremy, would you like to add anything to my comments?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Gary, the only the only thing I'd add is that on surrenders are certainly higher today than they were before. This rate cycle began on, but they've been reasonably stable over the last the last few months and within our expectations in the current in the context of the current rate environment.

John Barnidge - Piper Sandler Companies - Analyst

Thank you. For that. And my follow-up question I give you the level of annuity earnings achieved in the first quarter is run ratable.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Hey, John, it's Paul on. I mean, the margin was was impacted certainly by by the surrenders and sort of a tertiary impact is that some of the policies that are surrendering had had higher spreads. So spreads have moderated, but still within our pricing and target return levels on?

Yes, it's it bounces around a bit whether the current quarter is a run ratable to your question. And I'd say within the volatility from quarter to quarter?

Yes. And the account values continue to grow over the long run. We would expect that as mark as spreads sort of stabilize and then you should expect growth along with the growth of the business?

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Yes, John, there's a business, Gary. There's only one perspective I'd add to that. Remember that we benefit from a pretty diverse product portfolio in any given quarter one product's going to run hot ones is going to run cool. There's going to be some movement. I would just remind everybody that we've reaffirmed our annual guidance, and that's probably the strongest tested, but we can give you as to how we think the consolidated portfolio will perform.

John Barnidge - Piper Sandler Companies - Analyst

Thanks for the answers, Gary, Paul. Thank you.

Operator

Thanks, Kim. The next question comes from the line of West Carmichael of autonomous. Your line is open. Please go ahead.

Wes Carmichael - *Autonomous Research - Analyst*

Hey, good morning and thanks for taking my question. Last week, we got the final published fiduciary rule from the Department of Labor, and I realize it's a pretty big document, but can you help us maybe with your current thinking around any impacts to an increase in compliance costs, recruiting or any sales impacts associated with?

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

Hey, Wes, this is Gary. Thanks for the question. So so you're right, it is around the Luminous rule and it is rather recent.

Let me start with kind of the conclusion and tell you that at CNO, we're not expecting any particular notable adverse developments as a result of that. Now that said, I want to put an asterisk on CNO as a member of the ACLI and we sit on the Board and the ACLI and I think laid out a pretty cogent case as to why the industry as opposed to the rule and we share some of those views. But to your specific question, in terms of the significant impact casino we don't expect.

Wes Carmichael - *Autonomous Research - Analyst*

Got it. Thanks, Gary. And I just want to come back to the real estate mark-to-market in the quarter.

I think you pointed to most of that are being driven by annual appraisals.

I guess what I'd like to get your perspective on is if we could continue to see some volatility in that portfolio through the balance of the year if you think really there's not going to be maybe anything significant additional March until we get to the first quarter of next year?

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

Yes, this is Paul on Eric. I'd invite you to provide some color?

Eric Johnson - *CNO Financial Group Inc - Chief Investment Officer; President, Chief Executive Officer - 40/86 Advisors*

Yes, sure. Good morning, Les and Paul. If you think about it, we went through a year last year where if you believe of increase statistics, the office market was down somewhere between 18% and 20% on the year. And you know, certainly the ongoing it's a tough neighborhood. The ongoing credit cycle reset and office values is probably closer to that. And at the end of the ballgame in the beginning of the ballgame, that recovery will take some time and may not be a straight line. The one way of thinking about the ongoing valuation here. Is that done?

No, if you think you can think about cap rates as a as a as a proxy to a degree and if you look at maybe 150 basis point move in cap rates, that's that's probably worth \$10 million of valuation, meaning that it takes a really strong move in cap rates to to affect the material change in valuation? Are you dealing with here long term assets with a stable and I. that are refinanced with long-term fixed rate financing with 100% occupancy, meaning that you're kind of a kind of all along cash flow short leveraged trade. And so I think during the during the year, you're not going to see a whole lot of volatility in at the end of the year, depending on the kind of a point to point from the revaluation beyond that, that's what you produce from, I think, 20, we're not going to replicate 2023. And but there could be some favorable development during during 2024 or some additional unfavorable development. If you think about it during the period before 20 before this first quarter, you know, it was a revaluation on these properties were, but in aggregate up maybe \$10 million, \$12 million and gave back 20 of it in 2023. So that should suggest to you that 2023 is probably the outlier and probably won't replicate itself.

Wes Carmichael - *Autonomous Research - Analyst*

Thanks a helpful.

Eric Johnson - *CNO Financial Group Inc - Chief Investment Officer; President, Chief Executive Officer - 40|86 Advisors*

You're welcome.

Operator

Your next question comes from the line of Scott Helena of RBC Capital Markets. Your line is open. Please go ahead.

Scott Heleniak - *RBC Capital Markets - Analyst*

Yes, good morning. The Medicare Advantage and Medicare Supplement you had strong growth trends there? Yes, for a while. But Tom, just wondering if you could talk about the drivers there, whether that's market share, agent productivity. Obviously, the demographics are working in a way if you can talk about that a little bit. And then just anything you can add on what you're seeing out there in the competitive landscape in those areas and those product lines, I'd be great.

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

Yes. Hey, Scott, this is Gary. Thanks for the question. Yes, you're right. We've been very, very pleased with the success we've seen for several quarters now, I think there are a number of things working for us. Number one, as you point out, the demographics are definitely working for us at 11,000 people a day retiring. So demand for the products continues to be very strong on virtually every retiree, at least looks at Medicare Advantage or Medicare Supplement, not all. And by, of course, the virtually every single one looks. It's the closest thing we have to auto insurance in our business. And so that's one thing that's helping us more unique casino. There's a handful of things that we've done. First, we've invested pretty substantially in our online platform, particularly for Medicare Advantage. We now represent virtually all of the major carriers in just about every jurisdiction and we've got a technology platform that I think is quite good. The feedback that we're getting and the success we're seeing with that, third, we can marry that technology offering with face-to-face agents for those consumers that want it. That's one thing I think that really sets us apart. If I look back over the last three to five years, we've seen a number of entrants come into the space with a purely technology offering. And in my opinion, the fatal flaw in those models is that they only appeal to people who want to buy on the lowest price, they don't really have the ability to provide that kitchen table service that we can provide. So that's something that's really helped us. I mean, I think our agents have done a fantastic job. I should have started with this big reserve in our Navy. Someone presented a credit here for the work they're doing out there, helping people understand and knocking on doors and so on.

And finally, a final thing that you need casino, we undertook a repricing of our Medicare Supplement policy. Remember, we manufacture Medicare Supplement and we distribute Medicare Advantage. So we undertook a repricing of that. And that happened to coincide with some regulatory pressures being put on Medicare Advantage that I think was leading more consumers back to Medicare supplement. And historically it had been looking at it. So all of these things have come together. Some of them are across the industry. Some of them are unique to CNO. But I think all of these things have come together to give us a really nice tailwind. And of course, the thing I want to remind everybody of this wasn't in your question, but I think this is really critical to remember. When you think about our business model, what makes us unique among life insurers, we regard Medicare as oftentimes the first step the way we get into the door of the household, then we build the relationship where we talk to those customers about annuities or long-term care or life insurance or what have you. So the ability to supplement, if you will, Medicare Advantage and Medicare Supplement really make sure that those relationships are built on a much broader and deeper foundation. But let us grow and keep those customers with us. So I would point to all of those things, thoughts to why we're doing well and why I think more importantly, we'll continue to do well.

Scott Heleniak - RBC Capital Markets - Analyst

Okay. That's really helpful.

And then just so anything anything new or any changes on a competitive front in that in that area? I mean, it sounds like you're gaining market share, but is there anything you can point to or is just the execution you've kind of talked about the reasons you've talked about?

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Yes. I mean, I'd like to give the credit to our to our agents and the execution that they're out there doing it every day. I think there have been some market trends. I know there's been regulatory pressures I alluded to this a little bit. It's particularly on some of the Medicare Advantage distributors. I'm I don't think that pressure is about to go away anytime soon. I think that the government is taking close look at some of these practices and policies, and that's created some pressure for humm. I'm not going to comment on how it impacted their businesses, but I'll just say we continue to do the right things the right way with great people that are out there executing every day.

Scott Heleniak - RBC Capital Markets - Analyst

Yes, that's fair enough.

Okay. And then I just a question to you on the persistency levels. You mentioned there consistent with your expectation in the script. Can you can you talk a little bit more about how that how that's kind of been trending over the past year by segment. Is there any more detail you can you can give on that just to give a little bit a sense of trend are they just stable?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

So Scott, you're asking about persistency trends for MedSup and MET advantage.

Yes, just to clarify, that's your question.

Yes, Jeremy, do you want to comment on that? German?

Jeremy Williams - CNO Financial Group Inc - Chief Actuary

Well, yes. And comment on that, this is Jeremy. On generally, they've been pretty stable. They've been a little bit higher on the on the MedSup maybe than what they were previous to that, but generally generally in line with expectations, nothing, nothing to really write home about fair.

Scott Heleniak - RBC Capital Markets - Analyst

Okay. Thanks a lot.

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Scott, if I could just add one perspective on that the more the more of our clients that have multiple products with us, conventional wisdom holds the better our persistency across the book should be. And in particular, the more of our clients that have annuities with us because remember, when a client and trust us with an annuity, it fundamentally changes the relationship. Most of our other products are regarded as expensive excuse me as expensive, I think about a consumer pays their monthly Medicare bill or their annual life insurance bill. They regard those as expensive when they buy an annuity from us that changes the relationship into one of an investment. And so the consumers that place those products with us are

more likely to stay with us across the product portfolio. And so as our annuity book has grown as the number of clients we have annuities with us has grown, we would expect to see that now one other thing we've been focusing our comments really on the consumer business, which makes up the majority of CNO, of course. But I do want to point out that our worksite business has also been doing very well, particularly on the persistency of the EV products that we're providing through employers to consumers are very highly valued by both the employee and the employer. And we've seen very strong persistency there as much as we focus our comments on consumer and I want to get a plug in for works, the folks that are doing a fantastic job, and we're seeing really, really seeing those products get appreciated.

Scott Heleniak - *RBC Capital Markets - Analyst*

Great, thanks.

Operator

Next question comes from the line of Suneet Kumar of Jefferies. Your line is now open. Please go ahead.

Suneet Kamath - *Jefferies - Analyst*

Yes, thanks. Good morning, everyone. So I guess for Paul, if I think about your EPS guidance backing out the first quarter, it looks like a pretty decent step-up in the balance of the year in terms of what's implied, I guess that you're expecting all to come back, but is there any other sort of big drivers that you expect that will get you to something closer to that in a mid to high 80s, low 90s kind of range Patient eight?

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

Yes. I mean, I'd say there's always puts and takes. And certainly in the first quarter, margin was was a bit favorable to our expectations on alts was clearly below expectations, as you know. And as I mentioned, we're assuming that alts will be more in line with the long-term run rate of between 9% and 10% the balance of the year. And in that context, as I mentioned in my earlier comments, the point estimate for EPS for the year is comfortably inside of that original three, 10 to three 30 EPS range. And as I mentioned before, certainly in the context of Q1, there's a higher chance that it comes in at the lower end of there at that range than when we sat here and in February.

Suneet Kamath - *Jefferies - Analyst*

Got it. So it's most of it, the alts recovering. I just want to see if there's anything other any other big pieces that we should be thinking about?

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

I mean, that's certainly an important assumption. But again, our expectation is that is that as actual results play out, there's always going to be puts and takes. And I think it's worth noting that although margin in total was generally in line with our expectations, it was kind of to the plus side of the range of expectations. And I think it's reasonable to assume that that trend continues to some extent, over the balance of the year.

Suneet Kamath - *Jefferies - Analyst*

Okay. Makes sense. And then I guess a maybe a bit bigger picture question for Gary. I think the issue of like field force management has become very topical in the eyes of the market. And so I was just wondering, especially as we think about the independent contractor model, 1099 employees or independent contractors, can you just talk a little bit about how you manage distribution risk within your overall organization?

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Sure. Thank you for the question. I mean, I recognize this topic is getting attention. So the first thing I want to assure all of our shareholders is that we have a very robust compliance program. We have different ways of monitoring the activities of our agent. And I also want to remind people that roughly one out of six or seven of our agents also hold the securities. Remember that when you have a securities license, there's a whole different level of compliance oversight scrutiny. And so on and so forth, above and beyond what an insurance agent experiences. So I think that the first thing to point out, the second thing to point out recognize that the nature of our field force. It's slightly different. And most of our offices, if you look at the leadership of most of our field offices, those leaders are W-2 employees. I believe that's a rather unique model. Now the downside is we because we own the offices, so to speak, we have a higher fixed cost base. And so that's the downside of our model but the upside is, I would argue, greater accountability, greater control and greater oversight on them than a model where we don't have that cost and that infrastructure.

Now I want to emphasize, the majority of our agents are in the 1090 10, 99 folks, and they do a fantastic job. But I think we've got this hybrid that makes us different than other players out there because we have leadership at the field level that are W-2 employees because the offices are ours as opposed to independently contracted 100%. And because we have a pretty significant population of our agents with a securities license. And again, the folks on this call probably know better than most when you have that type of a securities license, the degree of oversight and personal liability that you have is significant. So I think when you bring all of those things together, does that make it impossible for us to have a problem, of course, does it materially reduce the likelihood of a problem? And does it materially increase the visibility we'd have, meaning early warning signals and so on. I think. So I think we're in a good place and you know, you never want to be the CEO of that business. We're not going to have a problem because you just put that tempting fate. But but I feel very, very good about where we are on programs, our processes and the folks that we have overseeing leasing.

Suneet Kamath - Jefferies - Analyst

Okay. That's helpful. Thanks.

Operator

Your next question comes from the line of Wilmer budget of Raymond James. Your line is now open. Please go ahead.

Wilma Burdis - Raymond James - Analyst

Good morning. And could you discuss the path from current 9% ROE? What are we can see and achieve over time, how long might that take and what are some of the steps to get there? Thanks.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

A well-matched, Paul, on the question is asking for a specific number, and I'm sure it won't surprise you that I'm not going to give you a specific number, but I will say that Gary and the entire executive management team is very focused on what we can do to take our ROE, which no current run rate sort of 9.5 ish on to something that's more in line with the peer group, which would be, you know, 11 to 13, 12 to 14. We don't think there are any silver bullets, but we think there are lots of things that in aggregate over time will close the gap. And I can tell you that we're very focused on that. And I expect that we will we have achieved that objective over time.

Gary Bhojwani - CNO Financial Group Inc - Chief Executive Officer

Yes. Well, no, if I can jump in, I just want to add a couple of perspective. So I 100, as you would expect 100% agree with Paul um, I would also say Mike Ball there, we're not going to provide a specific guidance at this stage. But what I do want you to hear from me is we have line of sight on the

ability to improve our ROE. We know we can drive this higher number two. We know we need to drive this high. We absolutely have to get the ROE more in line with industry peers. And so that's a significant point of focus for us and we expect to deliver against it. We absolutely do.

Wilma Burdis - *Raymond James - Analyst*

Thanks. Just a quick follow-up on that. Could you identify a couple of the things that could help toward that goal?

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

Sure. I can give you just kind of in broad strokes, the kind of thing that you would expect we'd be looking at number one expenses. It's obviously a lever that we can pull, and that's something that we're looking at. Are there things that we can do with the in-force book, you know, to influence policyholder behavior. And there are some things we can do with pricing are obviously things we can do at pricing with new business and there are things that we can do that, that impact the denominator in the equation. So that's, you know, that's not a comprehensive list, but that's a fair assessment. The kinds of things that we're looking at and wellness, I'd like to add a perspective on that.

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

In terms of the sequencing, it, at least in my view, it was really critical to get the sales engine firing first, we had a fair bit of momentum going into COVID. And then obviously, COVID was unique to us. Of course, it screwed up a lot of things for a lot of different folks and it slowed us down. We felt it was absolutely imperative to get that sales engine firing again to get our recruiting where we need it to be to get our new product launches where they need to be to get our agent offerings to where they need to be. I think we've got a fair bit of momentum now now that we've got the sales engine, the top line, if you will, I think hiring in a consistent and sustainable way. Now it's time to make it more efficient as there was a sequencing on our part. This was it's not that we are just realizing that the ROE needs to improve with a conscious choice on our part to first focus on getting that top line momentum going, getting it sustainable. And now we need to turn our attention to making the machinery more efficient. And that's what we're focused on next We thank you.

Wilma Burdis - *Raymond James - Analyst*

And then could you talk about the opportunity to acquire distribution? You probably saw that Globe did not complete the distribution deal in 1Q, but it seems like there's some possible targets in the market?

Gary Bhojwani - *CNO Financial Group Inc - Chief Executive Officer*

Yes. We've we've seen targets over the years. We've looked at quite a few. As you know, we've done two rather small acquisitions over on the worksite side, at least on the consumer side, most of the acquisition opportunities we've seen. I just couldn't get my head around the valuations. They might be able to work for others. I just I couldn't get there on the math, but we're open to it. I mean, I want to send the signal that we definitely would consider the right opportunities, but at least if I think about the candidates we've looked at over the last three to four years, I just couldn't make the numbers work on the valuation side, Paul, you obviously looked at that stuff pretty carefully, Paul and Eric, as Eric runs Corporate Development for us. I don't know if you guys want to add any comments.

Paul McDonough - *CNO Financial Group Inc - Chief Financial Officer*

I think that captures it Gary.

Wilma Burdis - Raymond James - Analyst

Thank you.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Thank you.

Operator

Next question comes from Nicholas Lu have a call. Option line is open. Go ahead.

Nicholas Lu - Evercore ISI - Analyst

I think it's up for Tom Gallagher, but my question is the Paul, for the full year 24 guide, are you using a \$0.52 that you reported and operating as the Q. one earnings number or the normalized backing out the adverse alternatives of \$0.79. I just want to make sure I'm understanding that correctly.

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Hey, Tom, we're using 52 the as reported.

Got you. And then that being the case that that's a \$0.27 delta, it's actually to me you're, I guess, slightly raising two above the range, your underwriting expectations on considering that alternative adjustment.

Nicholas Lu - Evercore ISI - Analyst

So if that's true what when you assess the businesses, what's outperforming or at least performing at the top end of the range from an operating standpoint and what is not like when you just assess the various businesses and what you're seeing in Q1 so far?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Sure. So Tom, I'd make two points number one on. I think you'd expect that when we initially put our guidance out, we were kind of solving for the midpoint. And as I mentioned in the context of the first quarter, you'd expect that we'd be there's a higher probability we end up lower in the range. So that is I'd encourage you to factor that into your thinking.

And then in terms of, you know, what else might be better than than than previously contemplated. A part of the dynamic is on better run rates in certain products in the wake of the the on the fourth quarter unlocking, which wasn't fully contemplated and baked into the the initial guidance, check them, if that makes sense.

Nicholas Lu - Evercore ISI - Analyst

And yes, on the sorry, guys. And anything else you would add to that, Paul?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

No, I just I just was going to ask if you were following that logic?

Nicholas Lu - Evercore ISI - Analyst

I am Yes. The just a question on the statutory earnings in the quarter, they were a bit soft and I think there's normally some seasonal weakness in Q1 or what drove the weaker stat earnings in the quarter? And how how are the LTC. stat earnings relative to GAAP? Because I saw GAAP obviously was pretty favorable on long-term care. Did you see a similar benefit in statutory?

Paul McDonough - CNO Financial Group Inc - Chief Financial Officer

Yes. So a few things I think worth noting there time. Number one, Q1 is seasonally lower, as you mentioned. And then with respect to long-term care, that's pretty significant. First, your sales strength given the growth in long-term care. So there's a pretty significant gap to stat difference there. So that's all pretax.

And then the other thing to point out is that the taxes are quite high. So we had \$23 million of pretax stat income and then \$27 million of taxes resulting in the \$4 million stat tax loss. And on the taxes, there are really two things that are driving what appears to be an elevated level of taxes. One is that and you had increased taxable income relative to the stat earnings for our FIA. business. And that's in the context of favorable equity market movements, which increased the stat reserves more than the tax reserves on. So that's a big driver.

And then the second is the fact that our US OpCos are now paying the US holdco for use of NOLs on which at the OpCo level were fully utilized as of 3Q of last year. So those are the primary things that but I would emphasize as you think about the stat results.

Nicholas Lu - Evercore ISI - Analyst

That's helpful. And then a final question for I guess it would be, Eric, just on the investment portfolio. So you about a third of your alternative investments are in commercial real estate. And just given I would say, the ongoing pressure on that asset class, would you expect to have results for the year that come in below plan. And I ask that because you do have some peers like MetLife that have lowered their return expectations in that asset class this year.

Eric Johnson - CNO Financial Group Inc - Chief Investment Officer; President, Chief Executive Officer - 40/86 Advisors

And Tom Good morning or good afternoon, almost at this point. So as I think about things and the first quarter, you know, I think we're trending toward normalized results in our P. allocation which, you know, on a total return basis was probably in the in the hand in the kind of mid-single digits in the quarter.

Private credit, a very similar outcome, mid kind of mid single digits on the quarter and you know, stabilizing and in a reasonable way, infrastructure the same and all of which offset Bye bye from. So I'm going to excuse me, the institutional funds on the real estate side produced a marginally positive return on the quarter. And looking back over the trailing quarters, I think that that allocation is moving toward a more normalized result also. And so really, it's just this one particular or \$80 million-ish piece of the of the old allocation that that produced a materially negative and outside the our expectations return on the quarter. That's obviously not going to replicate itself every quarter. So I think as we particularly look towards is that the trailing part of the year that you're part of the year ahead of us on either reason to think that I mean, we're looking toward normalized returns now on nothing is for sure, and markets are just have an inherent uncertainty of what you know, as well as I thought the trends we are seeing suggests to us that that you know, and the actions we're taking in developing the portfolio. As you know, we, for example, are completed \$100 million I co-lead with with largely EPA allocation, the tail end of next year. And that will we think will have a good influence as we get past the J curve in that later this year. So I.

Yes, I'm I look forward to future earnings calls or I don't have to talk about this because it's producing the results that it expects to. And I think that they I can foresee readily.

Nicholas Lu - *Evercore ISI - Analyst*

Okay. Thanks for the color.

Eric Johnson - *CNO Financial Group Inc - Chief Investment Officer; President, Chief Executive Officer - 40/86 Advisors*

You're welcome.

Operator

As there are no additional questions at this time. I'd like to hand the conference call back over to Adam Holt for closing remarks.

Adam Auvil - *CNO Financial Group Inc - Vice President, Investor Relations & Sustainability*

Thank you, operator, and thank you all for participating in today's call, please reach out to the Investor Relations team if you have any further questions. Have a great rest of your day.

Operator

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

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