Retirement Income
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The Bucket

By Editorial Staff *Thu, May 8, 2014*

Brief or late-breaking items from Prudential Financial, Jefferson National, and T. Rowe Price.

Rising VA account values boost Prudential operating income in 1Q 2014

Prudential Financial, Inc. reported after-tax adjusted operating income for its Financial Services Businesses of $1.137 billion ($2.40 per Common share) for the first quarter of 2014, compared to $1.072 billion ($2.27 per Common share) for the year-ago quarter.

Net income for the Financial Services Businesses attributable to Prudential Financial, Inc. was $1.225 billion ($2.59 per Common share) for the first quarter of 2014, compared to a net loss of $735 million ($1.58 per Common share) for the year-ago quarter. Information regarding adjusted operating income, a non-GAAP measure, is provided below.

“Our Annuities, Retirement, and Asset Management businesses are benefiting from sustained growth of account values and assets under management, driving strong underlying earnings momentum,” said Chairman and Chief Executive Officer John Strangfeld, in a release.

Adjusted operating income was not calculated under generally accepted accounting principles (GAAP), Prudential said. It provided a reconciliation of adjusted operating income to the most comparable GAAP measure.

The U.S. Retirement Solutions and Investment Management division reported adjusted operating income of $945 million for the first quarter of 2014, compared to $769 million in the year-ago quarter.

The Individual Annuities segment reported adjusted operating income of $388 million in the current quarter, compared to $372 million in the year-ago quarter. Current quarter results include a charge of $21 million and results for the year-ago quarter include a benefit of $62 million, in each case reflecting an updated estimate of profitability for this business driven largely by market performance in relation to our assumptions.

Excluding the effect of the foregoing items, adjusted operating income for the Individual Annuities segment increased $99 million from the year-ago quarter, primarily reflecting higher asset-based fees due to growth in variable annuity account values.

The Retirement segment reported adjusted operating income of $364 million for the current quarter, compared to $228 million in the year-ago quarter. The increase reflected a $123 million greater net contribution from investment results.

"We estimate that returns on non-coupon investments in the current quarter were about $80 million above average expectations. The remainder of the increase in Retirement segment adjusted operating income reflected higher fees associated with growth in account values," the release said.

The Asset Management segment reported adjusted operating income of $193 million for the current quarter, compared to $169 million in the year-ago quarter. The increase was driven by higher asset management fees reflecting growth in assets under management, net of expenses.

Jefferson National adds more alternative funds to its low-cost VA

In an ongoing effort to help registered investment advisors and other fee-based advisers trade liquid alternatives on a tax-deferred basis, Jefferson National has added eight new investment options, including six alternative strategies, to its low-fee Monument Advisor deferred variable annuity.

The new options include Tortoise VIP MLP & Pipeline Portfolio, PIMCO All Asset All Authority Portfolio, along with Direxion VP Indexed Managed Futures Strategy Fund, Goldman Sachs Variable Insurance Trust Multi-Strategy Alternatives Portfolio, Oppenheimer Diversified Alternatives Fund/VA, and Legg Mason BW Absolute Return Opportunities, a non-traditional bond fund. [4]

Jefferson National's suite of Dimensional Funds now includes with DFA VA Global Moderate Allocation Portfolio. The new lineup also includes the actively managed, socially responsible Calvert VP SRI Balanced Portfolio. and social responsibility factors.

In late March, Jefferson National launched the JNF SSgA Retirement Income Portfolio, a managed volatility fund.

T. Rowe Price launches new "unrestrained" high-yield bond fund

Calling all fixed income investors with an appetite for higher returns and a tolerance for higher risk (but not much appetite for fixed indexed annuities).

T. Rowe Price, which manages $26.6 billion in so-called junk bond funds, has launched the Credit Opportunities Fund, a high-yield bond fund whose managers will have "few restraints" in bond selection and looking for "opportunities in credit that extend beyond traditional fixed rate bonds," the Baltimore-based no-load fund company said in a release.

The fund will be managed by Paul Karpers, who also serves as portfolio manager for the T. Rowe Price Institutional High Yield Fund for U.S. institutional investors and the T. Rowe Price Funds SICAV–Global High Yield Bond Fund for non-U.S. institutions domiciled in qualifying jurisdictions.

Karpers will have considerable latitude to invest across a range of securities and credit situations:

- No limits on below investment-grade or unrated bonds. These may include distressed or defaulted securities.
- Up to 50% of assets in bank loans. These floating rate securities, with periodically resetting coupons, typically involve borrowers with significant debt loads and can offer the potential for high yields.
- Up to 20% in securitized instruments backed by a pool of assets, such as residential or commercial mortgages and loans.
- Up to 10% in equities or equity-like securities, typically with a focus on deep-value situations and credit themes.
- Up to 10% in trade claims—outstanding obligations of companies in bankruptcy. Investors can purchase these claims from creditors, often at a deep discount.
- May purchase both U.S. and non-U.S. issuers, including emerging markets securities.
- Up to 50% in nondollar-denominated securities (although holdings denominated in other currencies are expected to typically be hedged back to the U.S. dollar).

  - May use derivatives, such as credit default swaps and options, to express a positive or negative view of an issuer's credit quality.

Investors can access the strategy through Investor Class shares of the fund, Advisor Class shares (PAOPX), or the Institutional Credit Opportunities Fund (TRXPX). The net expense ratio is estimated to be 0.90% for the Investor Class shares, 1.00% for the Advisor Class shares, and 0.65% for the institutional fund. The minimum initial investment in the Credit Opportunities Fund is $2,500, or $1,000 for retirement accounts or gifts or transfers to minors (UGMA/UTMA) accounts. The Institutional Credit Opportunities Fund generally requires a $1 million minimum initial investment.