

ISSUER COMMENT

Guardian's Sale of RS Investments Is Credit Positive

From [Credit Outlook](#)

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On Friday, RS Investments (unrated), a wholly owned mutual fund business of [Guardian Life Insurance Company of America](#) (financial strength Aa2 stable), and Victory Capital (unrated) announced that Victory will acquire RS Investments from Guardian for an undisclosed amount. The sale of RS Investments, a mutual fund company specializing in US and global/international equities, is credit positive for Guardian because it will benefit from the divestiture of a non-core operation that is not at scale.

RS Investments operates in a sector separate from its life insurance parent and had roughly \$19 billion in assets under management as of 30 September 2015. The transaction is scheduled to close in the second quarter of 2016, pending regulatory approvals.

This is Guardian's second divestiture in 2015 of non-core operations. The first one, eMoney Advisor (unrated), was sold to [FMR LLC](#) (A2 stable) in the first quarter of 2015 for \$267 million, and the company recognized a \$150 million gain on the sale. The prolonged low interest rate environment has prompted insurance companies like Guardian to divest lower-returning businesses that are unlikely to achieve the scale needed to produce a competitive return on capital over the next few years. RS Investments' contribution to the total pre-tax operating earnings of Guardian was less than 5% through third-quarter 2015.

Guardian will likely use the proceeds from its recent divestitures and excess surplus from its strong capital position (company action level risk-based capital ratio of 527% at year-end 2014) to grow its other businesses, including its 401(k) business, which also has insufficient scale to be competitive, but is a core strategic business line for the company. Guardian will also likely try to further enhance its currently strong market position in group non-medical.

Guardian, a mutual life insurer, is one of the top five writers of participating whole life insurance policies, which supports its Aa2 financial strength rating, as well as a leading provider of group non-medical and individual disability insurance. RS Investments, a mutual fund company, offers investment management solutions for institutional and individual investors and the advisors who serve them.

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