

Principal Financial Group®

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Call participants

Executives

Dan Houston: Chairman, President & CEO

Deanna Strable: Executive VP & CFO

Amy Friedrich: President - U.S. Insurance Solutions

Pat Halter: President - Global Asset Management

Chris Littlefield: President - Retirement & Income Solutions

Humphrey Lee: VP - Investor Relations

Analysts

John Barnidge: Piper Sandler

Erik Bass: Autonomous Research

Alex Scott: Goldman Sachs

Wilma Burdis: Raymond James

Ryan Krueger: KBW

Tom Gallagher: Evercore ISI

Suneet Kamath: Jefferies

Tracy Benguigui: Barclays

Josh Shanker: Bank of America

Michael Ward: Citi

Presentation

Operator: Good morning, and welcome to the Principal Financial Group Third Quarter 2022 Financial Results Conference Call.

There will be a question-and-answer period, after the speakers have completed their prepared remarks. If you would like to ask a question at that time, simply press “*” and the number “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue.

We would ask you to please be respectful of others and limit your questions to one and one follow up, so that we get to everyone in the queue.

I would now like to turn the conference over to Humphrey Lee, Vice President, Investor Relations. Please go ahead, sir.

Humphrey Lee: Thank you and good morning. Welcome to Principal Financial Group's Third Quarter 2022 Conference Call. As always, materials related to today's call are available on our website at investors.principal.com.

Following a reading of the Safe Harbor provision, CEO, Dan Houston, and CFO, Deanna Strable, will deliver prepared remarks. Then we'll open the call for questions. Others available for Q&A include Chris Littlefield, Retirement and Income Solutions, Pat Halter, Asset Management, and Amy Friedrich, U.S. Insurance Solutions.

Some of the comments made during this conference call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. The company does not revise or update them to reflect new information, subsequent events or changes in strategy.

Risks and uncertainties that could cause actual results to differ, materially, from those expressed or implied are discussed in the

company's most recent annual report on Form 10-K, filed by the company with the U.S. Securities and Exchange Commission.

Additionally, some of the comments made during this conference call may refer to non-GAAP financial measures. Reconciliations of the non-GAAP financial measures to the most directly comparable US GAAP financial measures may be found in our earnings release, financial supplement and slide presentation. Dan?

Dan Houston:

Thanks Humphrey, and welcome to everyone on the call. This morning, I'll touch on key performance and business highlights for the third quarter. Deanna will follow with additional details on our financial results, including our annual assumption review and an update on our financial and capital position.

Our third quarter results demonstrate the strength, resilience and value of our diversified business strategy. We remain focused on aligning expenses with revenues to help offset some of the near-term pressure on our fee-based margins from unfavorable equity and fixed income market performance. At the same time, we continue investing for growth to fulfill customer needs and expand our capabilities to support our growth drivers.

Starting on Slide 2, we reported \$427 million of non-GAAP operating earnings, or \$1.69 per diluted share in the third quarter. Excluding significant variances, earnings per share of \$1.60 decreased 2% from the third quarter of 2021.

We returned more than \$600 million of capital to shareholders in the quarter and \$1.9 billion year-to-date, through share repurchases and common stock dividends.

We also paid down \$300 million of debt that matured during the quarter, a commitment we made coming out of our strategic review to lower our leverage ratio and maintain a strong financial profile.

We closed the third quarter with \$608 billion of total company AUM, pressured by unfavorable equity and fixed income performance, as well as foreign exchange headwinds in the quarter.

Our long-term relative investment performance remains strong, and our short-term relative performance improved over the second quarter, despite continued market volatility. This performance is further enhanced by the strong absolute returns and other alpha-producing funds, which are not included in the Morningstar ratings.

Third quarter total company net cash flow was a positive \$2.4 billion. This included \$2.3 billion of PGI managed net cash flow driven by strong institutional flows across equities, real estate and specialty fixed income. Our differentiated investment solutions and our diversified distribution across institutional, wealth and retirement channels helped generate nearly \$7 billion of positive total company net cash flow, year-to-date.

Earlier this month, we launched an extension of the Principal brand to further spotlight our investment capabilities. By launching Principal Asset Management, we can more clearly leverage the strong brand equity of Principal, while also highlighting our deep local knowledge, distinct global perspectives and investment capabilities. This launch aligns with investments in our client digital experience, global insights program and the development of new products and alternative investment options, including model portfolios and direct lending.

We're supporting small-to-midsized business customers in the U.S., as they continue to weather macro volatility and a tight labor market. In response to these market dynamics, businesses are prioritizing wages and maintaining or expanding benefits to attract and retain employees, and it's showing positively in our results.

And retirement, compared to a year ago, recurring deposits and RIS-Fee increased 10%, as the number of people deferring is up 5%, the average deferral per participant increased 4%, the number of people receiving a match is up 7% and the average match per participant also increased 7%.

We've also seen a 12% increase in Specialty Benefits premium and fees, over the year ago quarter. Over half the growth was driven by net new business, as we deepen relationships with our existing customers while attracting new customers. We're winning market share; our capabilities, expertise, and local presence sets us apart from the competition.

Our strategic focus on the business market in Life Insurance is working. Compared to a year ago, sales of non-qualified deferred compensation and business owner solutions more than doubled for the quarter and increased 74%, year-to-date. In total, third quarter Life Insurance sales increased 15%, compared to the prior year quarter, as our decision to focus solely on the business market has more than made up for the reduction in the retail market.

As we prepare for continued macroeconomic uncertainty, it's important to remember that our SMB customers are more weighted to the scientific and technical sectors, which tend to be more resilient during economic downturns, and we're less exposed to the hospitality and retail sectors, which tend to be more negatively impacted.

Internationally, our business continues to grow despite macro and political uncertainties. Brasilprev, our joint venture with Banco do Brasil has the highest market share of pension AUM and deposits in Brazil. This combined with the continued elevated local interest rates are driving growth in earnings.

In Chile, Cuprum has had six consecutive quarters of positive net RIM, the salary base upon which we earn fees, as well as positive net transfers of new customers meaning more Chileans are choosing to move their mandatory savings to Cuprum.

At our core, through our business strategy, company culture and our foundation, we strive to make financial security accessible to more people and businesses, around the globe. To do that successfully, we seek to understand the barriers to financial progress and identify opportunities to improve access and solutions.

This influenced our launch of the Principal Global Financial Inclusion Index, a global research study across 42 markets that examines how well a government, financial system, and employer base provide the tools and support to enable greater levels of financial inclusion and help more people reach financial security. Through the study, we can identify the structural gaps in financial inclusion and take steps to address them through strategy, partnerships and recommended policy, building a more productive and protected workforce and society, globally. Deanna?

Deanna Strable:

Thanks, Dan. Good morning to everyone on the call. This morning, I'll share the key contributors to our financial performance for the quarter, including impacts from the annual actuarial assumption review, and an update on our current financial and capital position.

Net income attributable to Principal was \$1.4 billion in the third quarter, reflecting \$1 billion of income from exited businesses. This benefit was primarily due to a change in the fair value of the funds withheld embedded derivative, which doesn't impact our capital or free cash flow and can be extremely volatile, quarter-to-quarter. Excluding the income from exited businesses, net income for the quarter was \$395 million with immaterial credit losses.

We reported non-GAAP operating earnings of \$427 million, or \$1.69, per diluted share. As detailed on slide 12, we had several significant variances, including impacts from our annual actuarial assumption review that had a net positive impact on non-GAAP operating earnings, during the third quarter.

On a pre-tax basis, net favorable impacts from the assumption review and COVID were partially offset by lower-than-expected variable investment income and Latin American Encaje performance. These had a net positive impact to reported non-GAAP operating earnings of \$30 million pre-tax, \$23 million after tax, and \$0.09 per diluted share.

The net positive \$86 million pre-tax impact from the annual assumption review was primarily driven by model refinements. We updated our models as part of an actuarial modernization project, in conjunction with

preparing for LDTI. This resulted in slightly lower reserve requirements for RIS-Spread and Individual Life.

While we didn't change our long-term interest rate assumptions, the starting point is approximately 125 basis points higher than where we expected rates to be, a year ago. Whereas we saw some positive impact from this change on the operating earnings component of the review, the most significant impact from higher interest rates was in net income on the reinsured ULSG block and did not impact non-GAAP operating earnings.

Specific to variable investment income, virtually no income from real estate sales and prepayment fees, as well as lower than expected but still positive alternative investment returns in the U.S., were partially offset by favorable returns in Principal International.

With approximately 40,000 U.S. COVID-related deaths in the quarter, we had a positive \$2 million pre-tax benefit as claims in Individual Life were more than offset by favorable impacts in RIS-Spread. Total COVID impacts in Specialty Benefits were immaterial, as \$1.6 million of group life and group disability claims were offset by claim terminations in individual disability.

Excluding the impacts of all of these significant variances, second quarter non-GAAP operating earnings were \$404 million, or \$1.60 per diluted share. This was a 2% decrease in EPS, compared to the third quarter of 2021, as the benefit from share repurchases and strong customer growth was more than offset by macroeconomic pressures on earnings.

Macroeconomic volatility continued in the third quarter and pressured earnings in our fee-based businesses. Unfavorable equity market and fixed income performance relative to both the prior quarter and year ago quarter, negatively impacted AUM, account values, fee revenue and margins in RIS-Fee and PGI.

Headwinds from foreign exchange rates pressured third quarter reported pre-tax operating earnings by a negative \$7 million, compared to the second quarter of 2022, a negative \$8 million, compared to the third quarter of 2021 and a negative \$19 million on a trailing 12-month basis.

We're taking actions across the enterprise on expenses, due to pressured fee revenue, as we have during previous periods of unfavorable macroeconomics, but there's a natural lag to the financial benefits. Some expenses naturally adjust, like incentive compensation and other variable costs, and we're reducing other expenses, while balancing and investing for growth.

Our efforts are paying off. Excluding significant variances, our third quarter compensation and other expenses were 4% lower than both the third quarter of 2021 and the second quarter. They increased a modest 2% on a trailing 12-month basis, relative to a 4.5% increase in net revenue.

Turning to the business units. The following comments on third quarter results excluded significant variances.

RIS-Fee pre-tax operating earnings and margin declined from the year ago quarter, primarily due to unfavorable equity and fixed income markets, pressuring fees and net revenue.

Momentum in PGI continued with \$2.3 billion of positive net cash flow. The overall management fee rate of approximately 29 basis points remained stable, despite pressures on revenues and margin from the unfavorable equity and fixed income markets and lower performance fees.

In Principal International, pre-tax operating earnings continued to be pressured, as the regulatory fee reduction in Mexico and foreign exchange headwinds are masking underlying growth in the business. On a constant currency basis, pre-tax operating earnings increased 6% over the year ago quarter and increased 9%, over the second quarter.

In Specialty Benefits, premium and fees increased a strong 12% over the year ago quarter, fueled by record year-to-date sales, as well as strong retention and employment growth. Pre-tax operating earnings were flat, as strong growth in the business and lower group life mortality was offset by higher individual disability claim severity in the quarter.

Looking ahead to the fourth quarter, we anticipate another quarter of lower variable investment income, as well as low performance fees in PGI. Additionally, fourth quarter is typically the highest quarter for investment lineup changes and contract withdrawals in RIS-Fee as larger plans typically change providers at the end of the year.

I also want to remind you that our enterprise fourth quarter compensation and other expenses are typically higher than the other quarters, due to seasonality of certain expenses like marketing and IT. We expect the impact of seasonality will be lower this fourth quarter than our typical 7% to 10%, as we're taking action to manage expenses, relative to revenue.

Turning to capital and liquidity. We remain in a strong financial position and are focused on returning excess capital to shareholders. Excess and available capital is currently estimated to be \$1.4 billion and includes approximately \$900 million at the holding company, slightly higher than our \$800 million target, \$450 million in our subsidiaries, and \$100 million in excess of our targeted 400% risk-based capital ratio. We paid down \$300 million of long-term debt in the third quarter and improved our leverage ratio to 22%. This is 90 basis points lower than a year ago and within our 20% to 25% targeted range.

Despite the volatile environment, we remain in a strong financial position. We have the financial flexibility, discipline, and experience necessary to manage through this time of macro volatility and uncertainty.

As shown on slide three, we deployed \$2.2 billion of capital year-to-date including \$1.9 billion returned to shareholders and \$300 million of debt

reduction. In the third quarter, we returned over \$600 million to shareholders with \$450 million of share repurchases and \$157 million of common stock dividends. Last night, we announced a \$0.64 common stock dividend payable in the fourth quarter, in line with the dividend paid in the fourth quarter of 2021.

Despite significant macroeconomic pressures in 2022 with the S&P 500 daily average down 14% and fixed income returns down 20%, compared to our outlook, we continue to see a path to the lower end of our \$2.5 billion to \$3 billion capital return range.

We remain focused on maintaining our capital and liquidity targets at both the life company and the holding company and will continue with a disciplined approach to capital deployment in the current environment.

As we move forward, executing on our go-forward strategy and strengthen capital management approach, we will continue to invest in our growth drivers of retirement in the U.S. and select emerging markets, global asset management, and U.S. benefits and protection, all with an aim to drive long-term shareholder value.

This concludes our prepared remarks. Operator, please open the call for questions.

Operator:

Certainly. We'll now be conducting a question-and-answer session. If you would like to be placed in the question queue, please press "*", "1" on your telephone keypad. As a reminder, we ask you please ask one question and one follow up, then return to the queue. You may press "*", "2" if you would like to remove your question from the queue.

One moment, please, while we poll for questions.

Our first question is coming from John Barnidge from Piper Sandler. Your line is now live.

John Barnidge: Thank you very much. Deanna maybe on the VII impact, I think you had mentioned that you expect another quarter of lower VII and performance fees. When you had the call last quarter you talked about it being probably positive, but below expectations, which is where it ended up coming in. Can you maybe give an early look into that again, please?

Deanna Strable: Yes, I'll take a first shot and then ask Pat if he has anything to add. Obviously, a lot of volatility has happened in variable investment income, and we've benefited from that over the last couple of years but did see a little bit of a pressure in the third quarter.

As we sit here today and look into the fourth quarter, we do expect to see similar to slightly more pressured results in fourth quarter than what we saw, this quarter. I still think we will have a positive overall return, but the alts portion of that could turn to be slightly negative in the fourth quarter.

Pat Halter: John, just to add, prepayment income is going to be down as it has been in the third--in the second quarter and the third quarter. Real estate sales again, will be down like it was in the third quarter. So, we continue to see that being persistent as we go into the fourth quarter, John.

John Barnidge: Thank you. And then as far as a follow-up. Alternatives within Principal Global Investors has been really strong. I imagine the alternatives pipeline probably has unique characteristics different than fixed income and equity.

Given strength in what we saw in 3Q on the alternative side, what does the near-term outlook looks like for that pipeline and then also on equity and fixed income? Thank you.

Pat Halter: Yeah, John, first of all, we continue to see really strong, I think, support for all of our investment capabilities, including alternatives and continue to believe we have a very strong compelling offering across all asset classes in many markets throughout the world to continue to have confidence we can generate positive net cash flow, going forward.

Particularly in terms of institutional investors, they continue to be very strong and very interested in alternatives. And we continue to see increasing investor interest in alternatives really throughout the world, John.

And I think with the opportunities that are now being created and investors taking advantage of potentially some of the disruption, we continue to see a lot of engagement by investors to consider and to continue to believe that there is compelling opportunities in alternatives.

As you know, we've been very active in real estate, particularly in the four quadrants of real estate, so not only in private equity, but in the debt markets. And that, I think continues to offer compelling opportunities for investors.

I was just in Japan and in South Korea--just arrived last night--and continue to see a lot of active conversation, a lot of interest in real assets, private asset capabilities, and compelling and even more increasing interest in specialized investment capabilities in fixed income, particularly, given the going-in yields that now fixed income is offerings.

So, the pipeline continues to be robust, John. The activity and dialogue continues to be quite active in alternatives, but also across all asset classes.

Dan Houston: John, is that helpful?

Operator: Thank you. Our next question is coming from Erik Bass from Autonomous Research. Your line is now live.

Erik Bass: Hi. Thank you. Firstly, for Deanna. On your comments about looking the path to achieving the low end of your total capital deployment targets for 2022. Just thinking specifically about buyback, do you see a path hitting the low end of the \$2 billion to \$2.3 billion, as well?

Dan Houston: Erik, we got an awful lot of feed static on the line. So, Deanna, will take a shot at and make sure we're answering the question, appropriately.

Deanna Strable: Erik, I think your question was regarding the ranges that we had talked about in outlook both regarding the total return to shareholders, as well as the share buybacks range. Is that correct?

Erik Bass: Yes, exactly.

Deanna Strable: Okay. So, I think as you all are aware, but I'll just reiterate it. But our outlook ranges were based on markets as of 12/31 of last year which, obviously, is much different than what we have experienced some, thus far this year. And I would say those ranges given really didn't contemplate the amount of macro pressure that we have seen.

Our focus is really on the total return to shareholder range, as in periods of extreme volatility, I'd say the split between dividends and buybacks can be different than what was originally contemplated.

And so, I feel better about the \$2.5 billion to \$3 billion than I do about the \$2 billion to \$2.3 billion of share buybacks, given where we sit, today. I actually feel being at the bottom end of that range given that amount of volatility that we've seen is a very strong result.

And I'm also confident in that 75% to 85% of free cash flow that we have targeted and are continuing to see as we look at results sitting here, today. So obviously, there's a lot of moving parts in that. Macro uncertainty does play into that. And as Dan mentioned, we'll continue to be prudent and disciplined, relative to our capital levels and capital return.

Dan Houston: Do you have a follow-up, Erik?

Erik Bass: Yes, and thank you for those comments. Dan, maybe a question for you. Just hoping you could provide an update on the expected timing of closing the China JV.

Dan Houston: Yeah. Okay. Very good. I think it was updated on the China situation. Again, we're getting a lot of static on the line, Erik. So, we actually feel very good about where we stand with China. For those who are less familiar, we've had a joint venture relationship with CCB, back to 2005.

This past summer, we received the regulatory approval to become a shareholder. We're in the final negotiations around the revisions to the

articles of association, as well as to update the register and to update the exchange. We feel very good about that. That would make us only one of three foreign providers of retirement services in the country.

I'd also remind you that it includes Pillars 1, 2 and 3, which is around the national provincial retirement savings, the enterprise annuity and lastly, the retirement funds of funds, all of which, by the way, we do business here in the United States.

So, at this point in time the conversations are healthy. We remain optimistic in reaching final conclusions to the negotiations here in the very near future. Does that help, Erik?

Erik Bass: Yes. Thank you.

Operator: Thank you. Your next question today is coming from Alex Scott from Goldman Sachs. Your line is now live.

Alex Scott: Hi. First one I had is on the expense commentary. I appreciate that there's revenue pressure, and I think the average daily value comps begin to be a bit more challenging, as we get into next quarter.

And so, I was just interested if you could provide any more color around what we should expect in terms of temporary reductions in margins and what's a reasonable way to think about time frame for something like that. I would think short-term outlook would probably be reasonable to kind of contemplate some of these things. So, any color would be helpful.

Dan Houston: Just a couple of quick comments, before throwing it over to Deanna. Erik, we've got--Alex, a very strong track record of going after expenses and aligning it with revenues while at the same time, we know we have to invest in the businesses around capabilities and technology and client experience. But again, I think our track record holds up quite well, and Deanna has been here a big part of that and oversees that function on a very daily basis. So, Deanna?

Deanna Strable: Yeah, just a couple of questions. Obviously, as we sit here today, we have kind of three levels of activities around thinking about our expense levels. One, we have Chris and his team very focused on making sure that we deliver on the synergies from our IRT integration.

We also have stranded costs from our transactions around retail fixed annuities and ULSG. I'd say on both of those, we're actually running slightly ahead of where we thought we would be, relative to those.

And then add on that kind of the third one which we, obviously, don't ignore, which is the pressures that the current macro environment has had on our revenues and how we, ultimately, need to get our margins back in line. That takes some time. There's some lag in when you pull levers and when that actually shows up, but I'd say, the team is collectively focused on that, while still making sure that we don't sacrifice any investments, it's going to ultimately drive long-term shareholder growth.

I talked about in the prepared remarks, if you look--whether you look at third quarter or trailing 12 months, I think our expenses are looking really good. And if I actually go to kind of the full year look, sitting here today, we actually expect our expenses to be down in '22, relative to '21 and feel good about continuing to address that, as we move into 2023.

Dan Houston: Follow-up, Alex?

Alex Scott: Got it. Yes. The other one I had is just on the commentary you provided on RIS-Fee. Around--at the end of the year, there's a bit more change in hands of plans than at other times during the year. In terms of switching, I think it's been more benign, I think in recent years because of the pandemic.

I mean, are you seeing any evidence that that's picking up this year? And I also just wanted to see, should I interpret that piece of the commentary as that's an opportunity or a risk for you all? Do you expect to be a beneficiary of switching? So those were the questions there.

Dan Houston: Chris, please.

Chris Littlefield: Yeah, thanks, Alex. Thanks for the question. So, I mean I think as a reminder and I think as Dan pointed out in his remarks, the underlying fundamentals of the RIS-Fee business are really, really strong with strong recurring deposits, strong client retention, year-to-date, strong

deferrals and matching performance. So, we're seeing really strong underlying drivers.

All that being said, we certainly are seeing an uptick in participant withdrawal activity, and some contract lapses. And so, we generally do see seasonality in the fourth quarter, as Deanna pointed out, as investment lineup changes are made and as plans change for the January 1, year. So, we would expect to see some of that.

We do expect that there may be some pent-up demand in that, as well, but we are expecting the full year to be a positive from an AV net cash flow basis. And we're sitting at about \$5.4 billion positive, year-to-date. So, I mean, we feel like we're in a good position with a strong underlying performance, but we do expect to see some higher outflows in the fourth quarter.

Alex Scott: Got it. Okay. Thank you.

Dan Houston: Thanks, Alex.

Operator: Thank you. Next question today is coming from Wilma Burdis from Raymond James. Your line is now live.

Wilma Burdis: Hey. Good morning. Just a question for Amy. I just wanted to get some color on the elevated Individual Disability claims. I think it was on severity. Could you just give us some color if it's concentrated through large claims or anything else?

Dan Houston: Thanks, Wilma, for the question. Amy.

Amy Friedrich: Yeah, sure. Thanks, again. So, I don't see it concentrated primarily in large claims. So, just to clear a couple of questions on that, not COVID-related. I don't really see it as a couple of large claims. I look at it more as when I look at severity, when you take apart the pieces, it was more elevated severity on the new claims that came in this quarter, and then the claims that recovered or terminated had a little bit lower severity. So, just a combination of those two factors sort of move that result around.

I do want to note, trailing 12 months is a much better metric to look, to look at trends. So, when you're looking at this year's trailing 12 months versus last year's trailing 12 months, they're virtually identical. So, we're not really seeing a trend, there. And it's also probably worth noting that,

in fourth quarter 2021, we saw a very similar kind of variance to the loss ratio, but on the positive direction. So, the full year results are really more helpful to look at, across the block.

So, no concerns from my perspective. The additional color I would have if is this is normal noise that comes in on a quarterly basis. I love the role that income protection plays in our product portfolio, and I'm very comfortable that we're managing it.

Wilma Burdis: That makes sense. Yes, somewhat--a little bit of variability. And then, on the Life sales, really strong, up 15%. And then, I think, that was a lot more, if you're just talking about the business side. Is that something that's sustainable, or--I think, usually Life sales are a bit more mild, so looking for some color.

Dan Houston: Yeah, and I'll have Amy follow up here in the details. But I just want to reiterate, Wilma, that when we came out to investors and reframed our go-forward strategy, it was very intentional around this business market because we saw the potential and we saw that diverting these energies towards this opportunity was significant.

So, we're not surprised by the take up in the marketplace and having our teams really focused. And frankly, the economic environment, perhaps up until--within the last six months, would lend itself to business owner executive solutions and non-qualified deferred comp. But, Amy, your outlook here?

Amy Friedrich: Yeah-no, you've got it right, Dan. When I look at the outlook, what I see is, there probably was from last year or the year before, a little bit of pent-up demand on the nonqualified side. So, there might be a little bunchiness in terms of what we're seeing on non-qualified this year that doesn't continue exactly in pattern, next year.

But what I'm also seeing is the pickup on our business owner and executive solution story has been really strong. So, I would look ahead for strong growth and strong sales patterns within that business owner marketplace, as well as that non-qualified and COLI marketplace.

Dan Houston: Thanks, Wilma.

Wilma Burdis: Thank you.

Operator: Thank you. Your next question is coming from Ryan Krueger from KBW. Your line is now live.

Ryan Krueger: Hi. Thanks. Good morning. I had a question on the RIS-Fee fee rate. I think it's probably more challenging than normal to calculate it from our end, because we don't have the right average account value. But it did look like the fee rate went up at least some this quarter, relative to the last few quarters.

So, I was hoping you could comment on that. And also, to what extent some of the IRT record-keeping business may be linked to more participants than asset values.

Dan Houston: Very good. Chris, please.

Chris Littlefield: Yeah, so I'll take the first one--the last one first. So on IRT, yes, certainly on the large end of the market and some of those customers are more tied to participant fee rates than on asset values. So that is--that certainly is the case.

With respect to the fee rate, we certainly are seeing some benefits in our Principal branded capture and as well as a shift in the GA and guaranteed products, which are providing a bit of a revenue lift.

Obviously, in a risk-off environment, the guaranteed products attract more flows and those generate a bit more revenue for us. So, that's where you're seeing a little bit of that lift. Obviously, that can change, depending on what happens with markets, but we are definitely seeing some of that benefit coming through.

Ryan Krueger: Got it. Thanks. And then, I guess, just on RIS-Fee margins. I guess, do you have any--you guided originally the 25% to 29% for the year. Obviously, markets are a headwind. But, I guess, any thoughts on kind of how to think about the margin trajectory as you--maybe once you take some of the expense actions?

Chris Littlefield: Yes. I think, certainly, the original guidance was tied to a original macro environment, we're hitting significant headwinds, not just on the equity side, but also on the fixed income side. So, that was having an impact. So, I would say, what I would say is, as far as we're willing to go out, I think the third quarter is probably a good read into the fourth quarter. We

think that those trends will be relatively consistent. And then, as we get into '23, we got a lot of noise around LDTI and we'll try to provide updated guidance on our outlook call it in the first quarter.

Dan Houston:

Ryan, one thing, and I covered it in my prepared comments and Chris hit on it, as well. If you look at those underlying fundamentals of growing the number of participants, the deferrals, the recurring deposits the matching contributions, the most recently passed for 2023 higher limits for deferrals and the potential retire secure 2.0, there's just a lot of support for the workplace for people to save for retirement.

So again, I think most of the diminution in the economics there was attributable to the macro, as opposed to the underlying fundamentals of the business. Thanks for the question.

Chris Littlefield:

Thank you.

Operator:

Thank you. Next question is coming from Tom Gallagher from Evercore ISI. Your line is now live.

Tom Gallagher:

Good morning. First, just Deanna, a follow-up on the buyback. So, I just want to make sure I've understood your position on it, correctly. So the- it sounds like you're going to come in below the \$2 billion for the year, from what you said. But would you say this quarter's \$450 million is a reasonable run rate to expect for Q4, or should we expect something lower than that?

Deanna Strable:

I think it will probably be in that range. I'd say the wild--there's two wildcards there, right. So, one wild card would be where does macro kind of end up and how that relates to fee levels and, ultimately, earnings for the quarter.

And then again, thinking through kind of the recession outlook and whether you decided to go all the way down to your targeted levels or if you kept a little bit of dry powder as you go into '23 and then deploy as you kind of get more clarity on the recession.

I think we'd be in that ballpark on having the ability to deploy, but we'll take that second to obviously be very prudent and disciplined and, ultimately, making sure we have more clarity on the economic outlook into '23.

Tom Gallagher: That's helpful. And then my follow-up is just a question on PGI revenues. I'm just trying to get a sense for the transactional type revenues. I think I, for the most part, have my arms around the fee revenue stream there.

But when I try and quantify kind of a ballpark range of transactional-type revenues, I get to something around 10% of your total revenues. Could you give me some sense for whether that's, directionally, close? And if so, any commentary on where you would expect those revenues to trend over the next couple of quarters whether you would expect pressure or you think those might be stable or go up. Thanks.

Dan Houston: Pat, please.

Pat Halter: Yeah, Tom. The transactional revenue would be, predominantly, whether we have more performance fees, whether we have more of those fees coming off by origination operation, within the private asset classes. And I would say on the--first the performance fees, my guess we'll see some muted performance fees for next couple of quarters, ahead. I think the market conditions don't really allow for us to take advantage as much as we want to, in terms of harvesting some of the gains we have in our real estate portfolio. We think there's probably a better entry point when transaction volume starts to increase in the marketplace. So, those will probably be muted for the next couple of quarters.

On transaction fees relative to our mortgage origination and other sort of debt origination activities, I guess those will continue to be pretty consistent, as we go into the next quarter or two, Tom.

Dan Houston: Does that help, Tom?

Tom Gallagher: That does. Thanks.

Dan Houston: Okay thank you for your question. Have a good one.

Operator: Our next question today is coming from Suneet Kamath from Jefferies. Your line is now live.

Suneet Kamath: Yeah, thanks. So, you guys have some unique perspective given your focus on the SMB market. And from listening to what you're saying about trends, it doesn't seem like your customers are behaving in a way that would suggest a recession is going to happen next year, even though it's been probably the most telegraphed recession I think we've ever had.

So, just curious, what are you hearing from your customers? I don't know if you want to take it from RIS-Fee or even Specialty Benefits. I mean, how are they preparing for what's going to be, potentially, a challenging economic environment next year?

Dan Houston: Yeah, ironically, we've just had a lot of touch points. I know Chris held a client conference where he had his client circle. But Amy just literally, within the last two weeks, is back from the Inc. 500, where we had a chance to hear directly from a lot of our clients and SMBs, more broadly. So, let me have Amy make her comments and then maybe Chris can pile on. Amy.

Amy Friedrich: Yeah. Suneet, you're, I mean they understand, and they do believe that there is a recession that could happen. So, I don't get the sense from talking directly with business owners and then relying on some of the primary research that we do with things like the well-being index. It's not that they don't understand that there's recessionary risk out there.

It's more that they've had to fight so hard for getting the right talent, finding them and placing them, getting them in the right sort of tranche of the wages that's seen as competitive, that they're saying in the list of activities I would take against recessionary pressures, this isn't the top of my list.

So, I think the good news is, if you're in the retirement business, if you're in the benefits business, they're saying, that's not where I'm going to go first to take action, to try to manage through recessionary pressures.

So, one of the reasons you're hearing, I think as much positive sentiment from us is because we're seeing through our conversations and through our primary research that they're simply not going to go there, first.

Dan Houston: Chris, anything to add?

Chris Littlefield: No. I think that's right. I mean, I think certainly there's been this competition for talent, and it continues to benefit our businesses and they aren't really going to pulling the lever on people, first.

Dan Houston: Suneet, do you have a follow-up?

Suneet Ka.math: I do. I wanted to pivot to capital, real quick if I could. Just Deanna, on your comments on share repurchases and kind of the macro-outlook, can you just provide some sense in terms of what you're seeing on the balance sheet in terms of asset classes, maybe a watch list?

I mean just--I know you said that it makes sense to have some caution going into next year. But just curious what you're, if anything, particularly focused on in terms of where we could see some pressure. Thanks.

Deanna Strable: Yeah, I'll maybe take a little bit of a flavor there and then ask Pat to add on. We feel really good about our balance sheet. And obviously, our exposure to credit was lessened out of the actual transaction.

Actually, if we sit here today, we're going to see a very modest impact from drift and impairments, as we sit here into '22; are expecting slightly more as we think about 2023.

But really, take a really deep look both from a top-down and a bottom-up approach and don't see any real problem areas. Our quality, as you see in the appendix of our deck is at a very, very high level, and we feel really good about where we're at.

Having said that, obviously, with a recession on that, we need to continue to be disciplined. But as I said, our credit exposure and our balance sheet will position us well, as we move into 2023. But Pat, do you have anything to add then?

Pat Halter: Yes. Suneet, maybe just a couple of things to add. Obviously, we're very respectful of the environment we're in, but we actually have a great deal of confidence in the portfolio. It's well positioned.

I would say, we technically had position of bias in the portfolio to be a little higher quality in assets, given the sort of market conditions right now, and our new money investing is more defensive.

If you kind of look at our portfolio, our high-yield portfolio is very defensive. It's skewed towards BB investments, and we're defensive

there. I think our structured securities portfolio, 95% is in the single A or higher. I think we have a very strong track record in performance in real estate. So, we've done a very deep dive in commercial mortgages on real estate holdings, and that seems to hold up very well.

Our overall portfolio and the mortgage portfolio is a 45% loan to value and 2.5x debt service coverage. So, as we continue to examine and to continue to have a very disciplined, intensive approach on our portfolio, I think it's well structured, well positioned for a recessionary environment.

Dan Houston: Appreciate the questions, Suneet.

Suneet Kamath: Yeah. Thanks, Dan.

Operator: Thank you. Next question today is coming from Tracy Benguigui from Barclays. Your line is now live.

Tracy Benguigui: Thank you. I want to follow up on your comments that you expect low performance fees in PGI in the fourth quarter. Can you speak to some of the underlying performance you're seeing so far, quarter-to-date, that helped inform that view?

Pat Halter: Yeah, so, in terms of the real estate markets where we've had most of our performance fees generated, Tracy, we are starting to see, clearly, some valuation reductions in the private equity space. And I think that would be sort of no surprise, given the macro environment and the continued, I think, slowdown in the demand curve, relative to the aggressive Central Bank monetary policy.

So, there is, I think, a pause going on relative to valuation increases and we'll probably see some diminution in values over the next two, three quarters to reflect the demand function that...

Tracy Benguigui: I think I got most of it. Thank you. I'll move on to my next question.

Dan Houston: Okay.

Tracy Benguigui: Trying to do a read-through on your assumption update. I guess, going into the quarter, I didn't think life insurers would transition into LDTI, but it feels like you're doing that in a way, given your comments on the model update in risk spread Individual Life. It just feels a bit transitory. I just want to know if I'm thinking about this the right way?

Dan Houston: Transitory and complex, but Deanna will respond, accordingly.

Deanna Strable: Yeah, Tracy. Thanks for the question. Obviously, we don't officially transition into LDTI, until early '23. But we've been on a journey for a couple of years now getting prepared for that. And part of that is obviously to be compliant, but it also afforded us the opportunity to go back and kind of modernize our systems and our processes. We converted a lot of our actuarial balances to a new system. And a lot of that was completed not intentionally, but around the same time as when we did the actuarial review.

And so, we felt like it was prudent to actually incorporate what we were seeing and changes in those reserve values into this review. So, what you saw there, again, about 80% of the impact of the AAR was in model refinement. That is a number that's more sizable than what you might expect. But actually, it was right around about 0.3% reduction in the reserve balances, especially on the PRT business. So, very slight reduction in that, but because we had just completed it, we felt it made sense to actually reflect it in our results.

Tracy Benguigui: Thank you.

Dan Houston: Thanks for the question, Tracy. Thank you.

Operator: Thank you. Next question is coming from Josh Shanker from Bank of America. Your line is now live.

Josh Shanker: Yeah, thank you for taking my question. I wanted to talk a little about Mexico and understand what the regulatory fee changes there, what the future of that business looks like and whether Principal is still the best owner for that kind of business.

Dan Houston: Yeah, it's a good question, Josh. I appreciate that. And this is something that we also review on an ongoing basis. For those of you who are less familiar with what's transpired in the Afore business, the regulators reduced the maximum amount you can charge related to the asset fees for purposes of providing this compulsory model, within the Afore in Mexico.

We've already divested ourselves in Mexico of the Life and Annuity business. We have an institutional retail and retirement asset management business, as well as this Afore, which again, we manage a

lot of those assets. So, we're looking at that very closely for what's necessary to be successful around scale and capabilities.

Just last week, we had our Mexican Board meeting here in Des Moines. The following day, we actually held Brazil. So, I would just tell you that we are taking a very close look at it. It is something that is top of mind for us looking for the right path forward. And as we've shown in the past, strategically, we'll make the right decisions to be successful long term. Deanna?

Deanna Strable: Yeah, Josh. The only thing I would note there, and I know you're probably aware of that, but the regulatory change actually front-loaded the reduction in the fee prior to actually increasing the deferral percentages.

And so, we will see some incremental benefit from over the next few years as that fee--the deferral rate goes up I think it's 1% a year. And so, that will start in 2023 and flow through our results.

Dan Houston: Does that help Mike--Josh?

Josh Shanker: Yeah, that's great. And then one other thing I sort of talked about it with, Scott, last night but I wanted to just to confirm. There's nothing trending in Individual Disability here with the numbers. It's just some quarters have a frequency pop and there's nothing that you see going on through 4Q '22 that gives you any reason to believe that doesn't back off?

Dan Houston: Amy, is it keeping you up at night?

Amy Friedrich: No, it's not keeping me up at night. We've looked at industry, we've looked at diagnosis, we've looked at region. I'm very comfortable that there's nothing that's emerging, as a trend. If there is, we'll be transparent about that. We'll let you know if we're worried about it.

Again, I'd go back to in fourth quarter of 2021, we saw an almost equally sized positive variance in the same block. And so again, better to look for trends in the trailing 12 months. And we're not seeing anything there.

Dan Houston: I appreciate the question.

Josh Shanker: Thank you.

Operator: Thank you. Next question is coming from Michael Ward from Citi. Your line is now live.

Michael Ward: Hi guys. Thank you for taking my question. I guess, just wondering if you could maybe update on the level of interaction you might be having with the activists from last year and kind of how you're thinking about your business mix, going forward?

Should we think about you as doing more or considering more divestments, or on the other hand, should we think about you maybe even getting acquisitive, given the capital flexibility? And I'm kind of thinking a year or two from now.

Dan Houston: Yeah. You know, what I would say is, we're out talking to all of our shareholders on a very regular basis, and that's a regular part of what Deanna and I do. And I would tell you that--and many of them are on this call today, there's broad support for our go-forward strategy.

We've been sharing our insights and perspective on what's working and what's not working. But again, this diversified business model that we have resonates with investors. Our capital deployment strategy has resonated with investors. Our commitment to the common stock dividend of 40% payout has resonated. And so, we believe we already have in place what needs to happen. And a lot of the burden now is on us for continued execution.

Love the SMB market. I love what Pat and his team are doing around asset management that really provides the jet fuel for us to drive our international and domestic businesses. And as you've heard Amy discuss today, that Insurance business continues to get more focused and refined, and it fits with the overall enterprise strategy. So, I would say all investors have found that the new go-forward strategy is the proper one. Did you have a follow-up to that, Mike?

Michael Ward: Thank you, Dan. Yes. I appreciate that. But just quickly on RIS-Fee, again, kind of echoing questions on the fee rate. Chris, I guess I interpreted your comments to potentially mean that part of why RIS-Fee revenues are hanging in there is partially from inflows to what I think would be variable annuities with guarantees. I was wondering if you could clarify that.

And then maybe, is there any chance you could help quantify the contribution to earnings for RIS-Fee that comes from VA.

Chris Littlefield: Yeah, so, let me make sure—I'd back up on the fee rate here because it's not related to VA. It's really about the benefit that we're seeing from, certainly, the higher investment yields that we're getting from GA flows, so guaranteed product flows, right.

So again, as you see market volatility, you do see people taking on higher allocations of guaranteed products which, generally, drive better revenue for us. We also, for clarity, see some benefits from PDSP which we've talked about in the past. So, those increases in interest rates also flow through our PDSP, and we get uplift on that in the revenue rate, as well. So, it's unrelated to VA.

Dan Houston: Does that help, Mike?

Michael Ward: Yes, very much. Thank you.

Dan Houston: Okay. Thanks for the questions.

Operator: Thank you. We've reached end of our question-and-answer session. I'd like to turn the floor back over to Mr. Houston for any further closing comments.

Dan Houston: Thank you, Operator. And maybe just piling on to Suneet's observation about the market is telegraphing a recession. We don't know if it is, or it isn't. We do anticipate volatility, as we have in these last 143 years. I've been here for the 38 of those. And about every seven to 10 years you do see market dislocations and disruption. And we've got a track record of managing expenses, growing revenues, serving the needs of our small to medium-sized business and institutional customers, aligning expenses with our revenues and making sure that capital deployment is very responsible.

So, again we, this management team has been through this cycle before and whatever it deals us we'll manage it, accordingly. We look forward to being on the road with you in the next few months before the next earnings call updating you on some of these factors. So, with that, have a great weekend. Thank you.

Operator: Thank you for participating in today's conference call. This call will be available for replay beginning at approximately 12:00 p.m. Eastern Time until end of day October 31st, 2022.

To access the replay please use the code 1373-3517; once again, to access the replay the codes 1373-3517. The number to dial is 877-660-6853 for U.S. and Canadian callers or 201-612-7415.

That does conclude today's teleconference Webcast. You may disconnect your lines at this time and have a wonderful day. We thank you for your participation, today.

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