

Principal Financial Group®



4Q 2024 Earnings and 2025 Outlook Call Transcript

February 7, 2025

8:00 a.m. CT

Nasdaq: PFG

Call participants

Executives

Deanna Strable: President & CEO

Kamal Bhatia: President - Principal Asset Management

Amy Friedrich: President – Benefits & Protection

Chris Littlefield: President - Retirement & Income Solutions

Joel Pitz: - Interim CFO

Humphrey Lee: Vice President - Investor Relations

Analysts

Ryan Krueger - Keefe, Bruyette & Woods

Joel Hurwitz - Dowling & Partners

Wilma Burdis - Raymond James

Alex Scott – Barclays

Jimmy Bhullar – JP Morgan

Jack Matten - BMO

John Barnidge - Piper Sandler

Suneet Kamath - Jefferies LLC

Presentation

Operator: Good morning, and welcome to the Principal Financial Group Fourth 2024 Financial Results and 2025 Outlook Conference Call.

There will be a question and answer period after the speakers have completed their prepared remarks. To ask a question during the session you will need to press Star One One on your telephone. To withdraw your question, please press Star One One again. We would ask that you be respectful of others and limit your questions to one and a follow-up, so we can get to everyone in the queue.

I would now like to turn the conference call over to Humphrey Lee, Vice President of Investor Relations.

Humphrey Lee: Thank you. And good morning. Welcome to Principal Financial Group's fourth quarter and full year 2024 earnings and 2025 Outlook 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 Deanna Strable and Interim CFO, Joel Pitz, will deliver some prepared remarks. We will then open the call for questions. Members of senior management are also available for Q&A.

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 U.S. GAAP financial measures may be found in our earnings release, financial supplement and slide presentation. Deanna?

Deanna Strable:

Thanks, Humphrey. And welcome to everyone on the call. Before I begin this morning, I'd like to recognize Dan Houston for his leadership as our CEO over the last 10 years. He has been instrumental in setting our growth agenda and has led us through significant transformation. Principal is in a position of strength today and is well positioned for continued growth, thanks to his tireless leadership.

It has been an honor to work alongside Dan over the last seven years as his CFO. I look forward to building upon the strong foundation we've established under Dan's leadership.

I am extremely grateful to continue to have him serve as the Executive Chair of our Board. This morning, I will discuss key milestones and highlights from the fourth quarter and full year 2024. Joel will follow with additional details. Principal delivered a strong 2024. We began the year with an ambitious outlook.

We committed to growing earnings per share in the 9% to 12% range, targeting a 75% to 85% free capital flow conversion and expanding our ROE toward our targeted range of 14% to 16%. I'm extremely pleased that we've delivered on this guidance.

Our adjusted non-GAAP earnings per share growth in 2024 was 11%, with a strong 16% increase in the fourth quarter. This was driven by strong top line growth across the enterprise, as well as the benefits from equity market tailwinds, which more than offset impacts from foreign currency.

Our free capital flow conversion ratio ended the year at the midpoint of our 75% to 85% target, and we improved our ROE by 90 basis points

year-over-year and are on track to achieve our 14% to 16% target in 2025.

Our strong capital position and free capital flow enabled us to deliver on our capital deployment guidance. We returned \$1.7 billion of capital to shareholders in 2024.

Our total capital return to shareholders included share buybacks which were above the midpoint of our targeted range and a 10% increase in our annual common stock dividend.

Our Board of Directors just approved a new share repurchase authorization for \$1.5 billion. This is in addition to the nearly \$800 million remaining under the prior authorization at the end of the year.

At our recent Investor Day, we laid out our strategic areas of focus for sustained growth, the broad retirement ecosystem, small and mid-sized businesses and global asset management. I'm happy to highlight some of our achievements related to these.

As part of our retirement ecosystem strategy, we recently expanded our suite of target date offerings to now include both personalized and passive options, addressing the evolving needs of plan sponsors and participants.

Our differentiated capabilities across retirement and asset management also led to an off-platform retirement investment mandate win of nearly \$1 billion into our hybrid target date in the fourth quarter. This highlights our opportunity to unlock incremental value at the intersection of our businesses.

Over decades, we have built a resilient and valuable SMB customer base. This segment is large, with significant opportunities for growth.

We remain uniquely positioned to serve this market and look to expand on our leadership position in a disciplined way. In RIS, we continue to

experience strong growth in this segment, with 8% recurring deposit growth in 2024 outpacing the large case segment.

In Specialty Benefits, our customers, on average, have more than three products with us, up 4% compared to 2023. We have deep customer relationships, a strong leadership position and a long track record of above-market growth in the attractive SMB segment.

In Asset Management, we continue to expand our private and multi-asset solutions, gaining traction in next-generation real estate and credit strategies with clients globally.

Our largest real estate fund data center growth and income fund has currently raised over \$3.6 billion across 11 countries in 18 months. This will materialize through net cash flow over time. Notably, new institutional clients represent 36% of the fund's total commitments.

Beyond real estate, we are advancing our private and multi-asset capabilities including the launch of a private credit REIT fund and the build-out of a private infrastructure debt team.

Our clear strategy and strong execution across these three distinct growth platforms delivered strong results in 2024 and will continue going forward. We ended 2024 with \$712 billion of total company-managed AUM, down 4% sequentially but up 3% from 2023.

Strong market performance despite market volatility in the final weeks of the year more than offset the impacts from FX and net cash flow. Total company net cash flow improved for both the fourth quarter and full year 2024 compared to the year ago periods.

Specifically, positive institutional and retail flows in the quarter helped to partially offset what is typically our weakest quarter due to seasonality in U.S. retirement sales and lapse activity. Now turning to our business segments.

In Retirement, we generated strong revenue and earnings growth in 2024. This was driven by favorable market conditions and continued growth in our business due to the breadth and depth of our integrated suite of retirement solutions spanning recordkeeping, asset management and retirement income. The underlying fundamentals across retirement remain healthy. Recurring deposits for our total block in 2024 increased 7% over 2023, driven by the strength in the SMB segment.

The number of individuals deferring and receiving employer matches are up 3% compared to fourth quarter of 2023. In addition, the dollar amount of these deferrals and matches increased by over 7% during the same period.

There is growing interest and participation in employer-sponsored retirement plans. Employers and plan sponsors are choosing to partner with us because of our full suite of solutions we offer and how we serve advisers, plan sponsors and participants. And while higher account values driven by strong equity markets over the last couple of years has led to an increase in withdrawal amounts, we are encouraged that the rate of participant withdrawals stabilized in the quarter.

Contact retention rates also improved substantially in 2024 compared to the previous two years. Better retention and an improved sales pipeline are generating strong momentum in our business. Pension risk transfer sales were nearly \$900 million in the fourth quarter, bringing our full year sales to over \$3 billion at attractive returns. The PRT market remains robust, and we are positioned to take advantage of it.

Our defined benefits business continues to be a valuable source for PRT new business, with nearly 40% of our 2024 new contracts coming from existing defined benefit customer relationships.

In Asset Management, we realigned our businesses into investment management and international pension in the fourth quarter. Asset Management ended the year with \$683 billion of AUM.

Strong market performance in 2024 was partially offset by nearly \$28 billion of FX impacts. Net flows for the year improved compared to 2023 in investment management as nonaffiliated flows benefited from improvement across all channels.

We continue to evolve our global asset management business, positioning against new opportunities for growth and even stronger client outcomes. Our strategic focus remains on attractive businesses that leverage our competitive differentiators and leadership positions.

As evidence of this evolution, we recently took several actions to streamline our business portfolio within asset management. Most impactful is Hong Kong, where a changing regulatory environment necessitates us evolving our presence in the market, focusing on our core expertise of retirement asset management while pursuing a new partnership with an industry leader in pension services.

Our transaction with Bank Consortium Trust, or BCT, when approved, will transition our MPF schemes to BCT and expand our role as an investment manager with assets from the combined pension schemes. The financial impact has been factored into our outlook.

Turning to benefits and protection, we continue to generate above-market growth of 7% in Specialty Benefits in 2024. This reflects net new business growth while maintaining pricing discipline.

In life, our focus on the business owner is resonating as our business market premium and fees grew over 16% in 2024.

As I look at the opportunities in front of us, I am confident in our ability to drive value through deeper market penetration in SMB, expanding our offering within the retirement ecosystem and sharpening our focus in global asset management.

Before turning it over to Joel, I'd like to highlight two important recognitions we received recently. Principal was named one of America's Most JUST Companies by JUST Capital, ranking #11 on the

2025 Just 100 list. This recognition reflects our leadership in the industry and our commitment to serving our employees, customers, communities and shareholders.

Additionally, for the 13th consecutive year, Principal Asset Management was named a Best Place to Work in Money Management by Pensions and Investments, earning this recognition every year since the inception of the award. Recognitions like this reinforce our culture and core values, help us attract and retain top talent and allow us to stand out in the competitive marketplace. We closed 2024 with momentum across our diverse portfolio of businesses.

Our success is a testament to the focus and hard work of our 20,000 global employees. Their ongoing commitment to excellence and to our customers enabled us to seize opportunities and has set the stage for future growth. Joel?

Joel Pitz:

Thanks, Deanna. Good morning to everyone on the call. I'll walk through our financial performance for the fourth quarter and full year, provide updates on our investment portfolio and capital position and share details of our outlook for 2025.

As shown on Slides three and four, excluding significant variances, full year non-GAAP operating earnings were \$1.8 billion or \$7.65 per diluted share. This represents an 11% increase in EPS over 2023, comfortably within our 9% to 12% EPS guidance. Results for the quarter were equally strong, with non-GAAP operating earnings excluding significant variances of \$485 million or \$2.10 per diluted share, a 16% increase over the year ago quarter. You can find the significant variance items on Slide 17 through 19.

Full year reported net income excluding exited business was \$1.5 billion, with modest credit losses and drift, both slightly better than our expectations at the beginning of the year. Non-GAAP operating ROE for 2024 excluding our actuarial assumption review was 13.7%, an improvement of 90 basis points compared to the year ago period. We remain on track to deliver our 14% to 16% targeted ROE by 2025.

2024 equity markets created favorable tailwinds with strong total returns across major indices. The S&P 500 gained 25% for the year, with more modest growth in small cap, mid-cap, real estate and international equities.

Our diversified equity asset mix, along with our allocation to fixed income asset classes, results in market performance that varies from the S&P 500. This underscores the importance of recognizing the asset mix within our AUM, which can be found in the Appendix on Slide 16.

Foreign exchange rates negatively impacted AUM by \$28 billion for the full year and \$17 billion for the quarter. Despite this impact, equity market performance more than offset the FX impacts for the full year. The following commentary excludes significant variances.

Our full year results demonstrate the strength of our integrated businesses, which enabled us to deliver on our 2024 enterprise guidance of 9% to 12% EPS growth.

We delivered top line growth of 5% across the company in 2024. This, coupled with expense discipline while investing in our business, resulted in non-GAAP margin expansion of 60 basis points during the year.

Starting with RIS, full year pretax operating earnings increased 9% over 2023, driven by strong business growth, favorable market conditions and higher net investment income. Net revenue growth of 7% for the full year exceeded our long-term target and our guidance for 2024. The 40% margin was at the high end of our guided range.

These results highlight our disciplined focus on profitable revenue growth, supported by favorable macroeconomic tailwinds. Principal Asset Management delivered strong results for the year.

Specifically, investment management's pretax operating earnings increased 6% over 2023, driven by higher management fees resulting from strong market performance. Full year operating margin of 35% expanded 100 basis points from a year ago, a noteworthy accomplishment in a year with limited contributions from performance fees.

International pensions pretax operating earnings were relatively flat compared to 2023 due to \$26 million of FX impacts in the year. On a constant currency basis, earnings increased 9%, driven by 4% growth in net revenue.

Operating margin improved by 100 basis points, reflecting growth and strong execution in our targeted markets. Although we revised the presentation, it is worth noting that PGI delivered on full year guidance, as did Principal International on a constant currency basis.

Specialty Benefits continues to deliver attractive premium and fees growth, up 7% compared to full year 2023. Quarter-over-quarter comparisons are impacted by a large single premium sale in the fourth quarter of 2023, which makes direct comparisons less meaningful. Notably, Specialty Benefits produced record earnings in the fourth quarter as well as full year 2024.

Loss ratio for the year of 60.4% was favorable and at the low end of our guided range. An operating margin of 15% was above the midpoint of our guided range. These results underscore the effectiveness of management actions to drive profitable growth.

In our Life business, growth in our business market continues to outpace the roll-off of the legacy block. Full year life premium and fees increased 1% overall, with business market premium and fees up 16% year-over-year.

We executed another YRT reinsurance transaction as we continue to derisk the legacy Life portfolio. This had an immaterial impact on earnings and a slight decrease to premium and fees. Excluding the 2024 reinsurance transactions, premium and fees growth was 3% in 2024.

Turning to our investment portfolio. We maintain a well-diversified and high-quality portfolio that aligns with our liability profile, is well positioned to perform across a variety of economic conditions.

While commercial mortgage loans may still be on some investors' minds, our portfolio is of high quality. With an average loan-to-value ratio of 50% and debt service coverage ratio of 2.3 times, we continue to re-underwrite our office loans each quarter.

After successfully resolving our 2024 office loan maturities, we entered 2025 with continued optimism. Maturities in the coming year are lower than in 2024 at \$310 million.

We are off to a good start, with \$75 million already having been paid off. Revival and capital market activity will help the office market continue its recovery path. For more detailed information, we have provided supplemental investment slides available on our website. Turning to capital and liquidity we ended the year in a very strong position, with \$1.6 billion of excess and available capital. This includes \$830 million at the holding company, above our \$800 million targeted level, \$300 million in our subsidiaries, and \$430 million in excess of our targeted 375% risk-based capital ratio, which is 404% at year-end.

On a full year basis, we delivered 80% free capital flow conversion, comfortably within our 75% to 85% targeted range. As shown on Slide 3, we returned \$1.7 billion to shareholders in 2024 including \$1 billion via share repurchases and \$660 million in common stock dividends.

As Deanna noted previously this was above the midpoint of our 2024 guidance. This included just under \$470 million of capital returned to shareholders in the fourth quarter, \$300 million in share repurchases and \$170 million in dividends.

Last night, we announced a \$0.75 common stock dividend, payable in the first quarter. This represents a \$0.02 increase over the prior quarter's dividend, a 10% dividend growth rate on a trailing 12-month basis and aligns with our targeted 40% dividend payout ratio, underscoring our confidence in continued growth and strong performance.

Our results reinforce our balanced approach to capital deployment, creating long-term value for shareholders while maintaining financial flexibility to support growth opportunities. Turning to our outlook, starting on Slide 11.

We are well positioned to deliver on our enterprise long-term financial targets again in 2025. These were reaffirmed at Investor Day, with 9% to 12% growth in earnings per share, 75% to 85% free capital flow conversion and 14% to 16% return on equity.

As a reminder, these targets are excluding significant variances. We expect to see even stronger EPS growth on a reported basis.

We remain committed to returning excess capital to shareholders and are targeting \$1.4 billion to \$1.7 billion of capital deployments in 2025. This includes \$700 million to \$1 billion of share repurchases and a 40% dividend payout ratio.

Our guidance assumes run rate variable investment income, or VII. We will continue to quantify the impact to reported results from higher lower-than-expected VII and a significant variance in our earnings cost throughout the year. For 2025, we expect VII to improve compared to 2024. Turning to our business units.

Slide 12 outlines our 2025 enterprise outlook, medium-term business unit expectations for 2025 through 2027 and modeling considerations for 2025. Business unit guidance assumes normal market conditions. Taken together, this guidance reinforces our confidence in the sustained delivery of our financial targets at the enterprise level.

In RIS, building on the strong results in 2024, we are revising our margin guidance upward, and net revenue guidance of 2% to 5% remains intact.

In investment management, medium-term guidance reflects the underlying strength of our global asset management business. We expect revenue growth and margin to be within these ranges in 2025.

In international pension, our guidance looks different from what we showed in the past for Principal International due to the resegmentation and a change in the net revenue metric to better align with the rest of the enterprise.

We expect net revenue to be at the midpoint of the range on a constant currency basis, but below the range on a reported basis due to the strengthening of the U.S. dollar relative to last year. Margin is expected to improve from 2024 levels, be at the low end of the range in 2025 and improving thereafter.

In Specialty Benefits, the dental market was dynamic during 2024. We maintained our underwriting discipline, resulting in lower sales in the second half of the year.

As a result, we are revising our medium-term premium and fees guidance to 6% to 9%, which remains above industry growth. In 2025, we expect growth to be near the low end of this range, with growth improving throughout the year.

The ongoing discipline in underwriting is contributing to continued strength in our block, leading us to improve our loss ratio and margin

targets, reflecting confidence in the overall business fundamentals and health of this business.

In Life, premium and fees growth is expected to be at or above the high end of the range for the year, with high-teens growth in our business market block, partially offset by the runoff of our legacy block.

Our revised margin guidance reflects improvement over 2024. Before opening for questions, I want to remind you of a few seasonality impacts. In Investment Management, the first quarter is typically our lowest quarter for earnings due to the seasonality of deferred compensation and elevated payroll taxes.

Specifically, we expect approximately \$40 million of seasonally higher expenses in the first quarter with no impact to full year outlook. In Specialty Benefits, dental claims are typically higher in the first half of the year.

Similar to the pattern in 2024, these factors will contribute to earnings being meaningfully higher in the second half than the first half of 2025. Additionally, they drive the seasonal pattern of free capital flow, which is typically lightest in the first half of the year and increases in the second half.

We have good momentum as we start 2025 with a strong capital position, and we are well positioned to deliver on our long-term financial targets.

We are grounded in our growth drivers of the retirement ecosystem, small and mid-sized businesses and global asset management while continuing to drive long-term shareholder value.

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

Operator: At this time I would like to remind everyone that to ask a question, press star One One on your telephone. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from Ryan Krueger from KBW.

Ryan Krueger: Hey thanks good morning. My first question was, can you provide some initial thoughts on the pension reform that was passed in Chile and how to think about how that may impact Principal going forward?

Deanna Strable: Yes. Thanks, Ryan, for the question. I'll give a brief comment and then pass it over to Kamal. As you know we've been in Chile for a long time and we remain committed to supporting our customers there.

We are optimistic that this reform will provide additional clarity on how we navigate the future, but will take time to play out. With that, I'll ask Kamal to give a further update on what we're seeing there?

Kamal Bhatia: Sure. Thanks, Deanna. Good morning Ryan. Just to add to Deanna's comments. So first, the reform will bring some positive changes. Particularly, they are reaffirming the defined contribution system, which is important to us and reducing Encaje, which will improve -- which will help improve the system's efficiency.

We also anticipate a smoother transition to target data investment vehicles, which we believe is a key step forward for the marketplace. At this stage, we are confident in our ability to navigate these changes over time as we have done in the past and are optimistic about the long-term outlook for our business in Chile.

Deanna Strable: Yes, Ryan. And obviously we'll continue to update as more of this gets firmed up as we move forward. But do you have an additional question?

Ryan Krueger: Yes. This is a bit of a higher level question. There has been more talk of, I guess, particularly by alternative asset managers about getting more

private assets within 401(k) plans. Would be interested in your thoughts on that and how that could evolve over time for the industry.

Deanna Strable: Yes. As you know we've obviously have a focus on private and have been in real estate for decades, but I'll see if Chris has some comments specifically around privates within the 401(k) lineup.

Chris Littlefield: Yes. Thanks for the question, Ryan. Yes. I think we see, and I think the industry sees some significant opportunity for increased use of privates in retirement plans. There's obviously some regulatory hurdles that need to be overcome and some other issues in terms of liquidity buffers and the like that would need to be paired along for retirement customers.

So we do think that there is significant potential for privates in retirement, but I think there is a little bit of work to do still on the regulatory environment and getting a product in a vehicle that works for sort of retirement customers.

And I think that will take a little bit of time before we see momentum. I think you'll see it initially packaged in target dates or managed account offerings. So I think you'll see some innovation in that space over the course of the next year or two.

Deanna Strable Thanks, Ryan, for the questions.

Ryan Krueger: Thank you.

Operator: Our next question comes from the line of Joel Hurwitz with Dowling & Partners.

Joel Hurwitz: Hey good morning. I wanted to unpack some of the comments you guys made on RIS flows.

Could you provide some more color on just the level of stabilization you saw with participant withdrawals? And then just how much contract

lapses improve year-over-year? And then, I guess, just any color on the pipeline as we enter 2025 and how the outlook at least maybe for the first quarter looks on flows?

Deanna Strable: Yes, Joel, thanks for the question. RIS had a great year when you look at the revenue growth and how that translated into margin and earnings. And as we've talked about in the past, that really is our primary focus.

But I'll have Chris talk about all the specifics that you mentioned there, both for the year and the quarter as well as we think about first quarter of '25.

Chris Littlefield: Yes. Thanks, Joel. And thanks for that, Deanna. I think as we've stated in previous quarters, before I dive deeply into flows, I mean we do prioritize revenue and margin over flows. Flows are important, but our focus is on generating profitable revenue growth, which we did in '24, exceeding our net revenue guidance and being at the top end of our margin.

So we feel really good about that. I think as you all know on the call as well rising equity markets are positive for our fee-based businesses, but they do create pressures for us in other metrics including net flows and fee revenue rates.

In the fourth quarter, our fee-based flows were improved sequentially and over the year ago because we saw a healthy recurring deposit growth of over 6%.

We saw strong transfer deposits. And we had record retention in WSRS, which resulted largely from a slightly lower participant withdrawal rate as well as lower contract lapses, particularly in the large market.

So again, what we saw in the fourth quarter is lower withdrawal rate. And so all of the flows are really attributable to those higher-performing equity markets.

I think another thing that I want to note with respect to flows is if you look at the sort of full year, we are seeing pressure from VA lapses, VAs with GMWB of about \$1 billion over the course of 2024. And many of those are being exchanged into our RILA, which are registered index-linked annuity product with income, and we're capturing a very significant percentage in RILA, but that is converting from a fee-based flow to a spread-based flow.

So we are seeing that dynamic as well. The other thing I'd say about flows is we do see -- continue to see very good health and SMB flows. Our recurring deposit growth is higher than the averages, and we're seeing positive net cash flow in SMB. So again, we feel really good about the position in SMB.

As we turn to the outlook for 2025, we currently forecast the participant withdrawal rate will stabilize and that we'll continue to see health and recurring and transfer deposits, but we do expect the flows to be impacted by higher market performance and the lingering impact of the strong equity markets from 2024.

We expect to see continued net outflows from the VA traditional block, which is an overall industry trend, but capturing those -- some of those are a good portion of those in RILA.

In the first quarter, we do know that we have one large market outflow of about \$2.3 billion with minimal fee revenue impact. A client, again, as we look at profitable business that we chose to terminate that relationship, but that will be one outflow in the first quarter. And then we expect to see a more normalized, maybe slightly lower contract retention rate compared to the record retention we saw in 2024.

All that being said, again, net cash flow is a measure, and it's -- and we do look at it. but flows all have a different profile on revenue and profit, and our focus is really remaining disciplined on pricing, generating profitable revenue growth and delivering on our net revenue and margin guidance in 2025.

Deanna Strable: We hope that helps. You have an additional question?

Joel Hurwitz: Yes. Then just shifting to sort of real estate transactional activity. What are you expecting for '25? And just any more color on variable investment income expectations and performance fees in Investment Management for the year?

Deanna Strable: Yes. Thank you for that question. Obviously real estate is a core competency, both as we drive flows to unaffiliated clients, but also within our general account.

I'm going to ask Kamal to give some general comments regarding kind of the state of the real estate market. And then I'll ask Joel to add in specific color regarding our general account and the implications on VII.

Kamal Bhatia: Good morning Joel. So let me pick up where Deanna left off on the state of the real estate market. So from where we sit, we do see commercial real estate sort of entering this early stages of a gradual but probably a more volatile recovery period than we have seen in the past.

One of the things that has started to happen is we are actually seeing real transactional activity happen in the marketplace. And in parallel, there has been robust growth in CRE credit that is available to real estate transactions. Those are very important signals for this market to continue to expand.

In fact, when you look at 4Q, there has been a substantial increase in equity transaction activity, 32% year-over-year.

So clearly, transactions are starting to happen now which is important because it leads to price discovery, and that allowed the marketplace to find a floor. The CMBS market has been unusually strong. We had over \$100 billion of new issuance just in 2024.

So that's certainly helping on the credit side. Just to look at our own book in 4Q, we almost put \$1.9 billion of private capital to work. That was up from \$1 billion earlier in the year. So almost 2x increase. So I feel confident on the transactional side. I'll turn it over to Joel on the second part.

Joel Pitz:

Yes. So Joel, good morning and thanks for the question. We do expect improved returns in 2025 relative to 2024 for all of our VII portfolio. And importantly, with key asset classes at or approaching long-term expectations in '25. And as you know within our alts portfolio, real estate is a very prominent part of that, making up 50% of our portfolio, and we have much less concentration in PE and hedge funds.

Real estate returns have improved from 2023 to 2024, and we expect that trend to continue in 2025. Given our strong capabilities that Kamal referenced, we invest directly in real estate. Therefore, these assets are not fair valued every quarter, as will be the case if we're investing under a fund structure.

So as you can see in the investment supplement that we provided on Slide 5, these real estate properties are sitting in a meaningful unrealized gain position.

So this appreciation and those unrealized gains will be recognized at the time of sale, resulting in some quarterly volatility within our VII metric. When this emerges, we'll be sure to highlight that activity over time on which we expect to be weighted towards the middle and latter half of the year in 2025.

So in summary, with some volatility along the way due to timing of sales, we do expect relevant improvement in VII for the upcoming year.

Deanna Strable:

Joel does that help?

Joel Hurwitz:

It helps yes thank you.

Deanna Strable: We'll move to the next question.

Operator: The next question comes from Wilma Burdis from Raymond James.

Wilma Burdis: Hey, good morning. There's been some litigation in the larger end of the PRT market. I understand that the set up is different for PSG. Given some of that's been more -- a little bit more focused on the offshore model.

But could you see this moving into the smaller end of the market? Or have you, I guess, observed any activity yet?

Deanna Strable: Yes. Thanks, Wilma, for the question. We've obviously been in the PRT business for decades, have a great expertise there, and I'll see if Chris can directly answer your question regarding the recent litigation.

Chris Littlefield: Yes. Thanks, Wilma. I mean I think as Deanna pointed out, we've been in this business for over 80 years and haven't ever missed a payment to a customer. I think we haven't seen the litigation migrate down.

I think certainly, it's focused more on a fee-backed providers of PRT transactions with one notable exception in a more traditional carrier.

I suspect that they'll wait and see how those lawsuits turn out in terms of the validity of those lawsuits are not, again, I note, I don't believe any of those customers have not received their payments under those transactions.

So you know I think from our perspective, it hasn't impacted our business. We haven't seen a lot of activity in the small to midsized business, and we remain a very trusted, reliable provider of risk transfer solutions for people that have pensions.

Deanna Strable: Thanks, Wilma, for that. We had a great PRT year, and we are confident that that's going to continue as we move into 2025. Do you have an additional question?

Wilma Burdis: Yes, 80 years is a pretty good track record. Yes. Can you just talk a little bit about what's going on in Specialty Benefits that you're exercising a little underwriting discipline in 2025?

Deanna Strable: Yes. Thanks, Wilma, for the question. Specialty Benefits had an incredible quarter and a really great year when you look at it from an earnings perspective, which again is -- our focus has been for decades on making sure we're driving profitable growth. And with that, I'll move it over to Amy to talk specifically about what we're seeing and how that translates to our discipline and our approach to underwriting and pricing.

Amy Friedrich: Sure. Thanks, Wilma. Thanks, Deanna. I do think when we look at SBD looking across all of the metrics that we've given guidance on for outlook, it's probably helpful to understand how the underwriting discipline comes back in. So just as a -- just as a reminder, we've tightened both the loss ratio and the margin ranges for our outlook.

So we're moving the margin to the lower end up to 13% and then the loss ratio down to 64%. So we've also adjusted that overall premium growth to reflect those competitive factors that are really at the heart of your question.

So when I look at the competition, what we're seeing is, especially in the second half of 2024, we saw the market get a little bit more aggressive. We think that will continue in 2025. And the product that we've probably seen the most competitive pressures on is dental.

We, along with the whole industry, have experienced pretty high utilization of dental, and that's meant that we're doing some repricing in 2024. So this has impacted some of the new sales in the back half of 2024, and it will impact, we think, at least that front half of 2025.

Do keep in mind that we sell as a bundle of products. And so dental does tend to be a meaningful product in that bundle. And when dental is impacted, you can see some impact on some of the other products.

What we know though, is that over the long term, disciplined underwriting for all of our products is really critical to building and maintaining a profitable growth and a profitable block.

It's critical to maintaining stable predictable renewals, too. So it's not just that front end new sale. It's creating those stable predictable renewals that are -- both our brokers and our employer customers need from us.

When we think about our expertise in that small market, we've got to have something that's a bit more predictable in that small market. Cash flow concerns are very significant for small and mid-sized customers.

So keeping that stable, predictable flow is really important. And sometimes the trade-off is we'll take a little bit less -- looking a little bit less growthy to make sure that we've got the margin and make sure we've got the type of loss ratio that we need for that business.

So I'm really confident that that underwriting discipline is just part of the package over the course of time.

And our ability to grow above the industry is going to be focused on that knowledge of the SMB market, that broad and deep broker relationships we have, our use of technology and then the service that we provide.

So it's all a package, and I feel really comfortable with how 2025 looks.

Deanna Strable: Thanks, Wilma for all the questions.

Wilma Burdis: Thank you.

Operator: The next question comes from Alex Scott from Barclays.

Alex Scott: Hey good morning. First one, I have views on the free cash flow. It looked like the outlook for capital return is pretty strong. And I think in the last few years, it's sort of -- time has been in excess of what you guide to in terms of free cash flow conversion of earnings.

So I was just interested in commentary there. I mean is it further drawdown of excess capital? Or is the free cash flow conversion getting better? How do I think through all that?

Deanna Strable: Yes, Alex, thanks for the question. When we think about it, we look at both kind of the ongoing free cash flow that is generated for our business and then how that translates into our capital deployment.

And you're right, over the last few years, partially just because of how we've started each of the years and drawing that down, there's been a little bit higher of deployment from that perspective. But again, we like our business model and all I'll just ask Joel to add some additional flavor there.

Joel Pitz: Yes, Alex, thanks for the question. As you said, we're starting in a position of strength, \$1.6 billion of excess available capital coming into 2025. And if you look at our long-term guidance, which is 40% dividend payout ratio and share repurchase of 35% to 45%, our share buyback plan for 2025 is outsized.

A lot of that is because we do have a strong excess capital position coming into the year. And so again, really proud of the results that we're delivering there on that front.

And we feel really good about our \$700 million to \$1 billion target that we have for the year. We did hear some comments looking at the reports about it seems less. And the big reason it's less is because we drew down more coming into '25, and we did come in at '24.

If you look at our RBC ratio coming into the year, it was 427% coming into 2024. And as we sit here today, it's 404%. So again, we're still at excess, but just not the excess we had one year ago.

So again, outsized share buybacks, \$700 million to \$1 billion translates to about 40% to 60% payout ratio, above our guidance, and that's a product of our strong capital flow generation.

Deanna Strable: Thanks, Alex. Do you have a follow-up question?

Alex Scott: Yes. So for a follow-up, I wanted to ask about sort of what to expect on the fees on RIS. And I guess, just as I look at your margins, record levels or near record levels and Empower, same thing.

I think Empower had the best margins they've ever had in the history of the company and guided to more expansion next year.

So just thinking through how strong the profit margins are for your business and some of your biggest peers, what are you seeing in the competitive environment? I would think this is a pretty competitive business. Are you seeing signs that the strong margins are going to lead to more pricing competition?

Deanna Strable: Yes. Thanks, Alex. I'll ask Chris to address that.

Chris Littlefield: Yes. I mean without commenting on our competitors' margins, I mean I think our margin performance has been strong, and we expect it to improve from levels that we delivered in 2024. This has always been a very competitive market, and fee compression is something that we've consistently had to manage through and work through.

We're not seeing anything that's particularly unusual. From what we've generally seen, it's just competition.

I think there's also recognition that this is -- there's a lot of cost and complexity in managing a retirement business. And so I think there is

also a recognition that when you look at the services that we provide, there needs to be a reasonable return on the services that we provide.

So I don't think that there's sort of this irrational competition out there. I just think it's tough. The industry is consolidating.

We're at scale. We've - we've been part of that consolidation. I think that will continue. And as I've mentioned in the past, a lot of the consolidation is happening organically, not inorganically now.

Obviously you saw some smaller inorganic transactions. So I would say it's tough. It's a tough market environment. We are winning in it, and we have confidence that we will be able to continue to win as a scale player in the space.

Deanna Strable: And Chris, I think you've guided to that two to three basis point range, which is where we landed this year at the high end, just given the equity market improvement, and I think we're guiding to that same as we think about 2025 as well.

Alex Scott: Thank you.

Operator: The next question comes from Jimmy Bhullar from JPMorgan.

Jimmy Bhullar: Good morning. So first, I had a question for Chris on flows in the RISP business. And I realize there's some seasonality inflows as well but the flows have been negative for the past three years because of some of the things you discussed on the call earlier.

Is it reasonable to assume that there's not going to be a major change in your flows at least in the next one to two years? Or do you think there's a chance that they turn positive? And if yes, what would change?

Chris Littlefield: Yes. Thank you, Jimmy. And I think I've seen your prior notes and analysis as well. I think you've identified, there's some large macro

pressures from people that have been saving for many decades in the 401(k) systems that are now reaching retirement. And so we are certainly seeing some of that pressure in withdrawal rates.

So I don't see an inflection where it's going to immediately turn greatly positive here over the next couple of years, but I think you've also identified the demographic trend that we get through the next couple of years.

What we are seeing is the generations that are earlier in their working careers, are saving earlier in their careers and saving more than those that are in -- have been in the sort of the Generation X generation.

So we think the long-term dynamics are very positive for retirement, but we do see some short-term flow pressures, as I think you've rightly pointed out.

Deanna Strable: Yes. Even with those negative flows, Jimmy, our account values are increasing sizably over the last few years, which obviously then does translate into revenue and earnings. So do you have a follow-up question?

Jimmy Bhullar: Yes. Just for Amy on employee benefits, you've been in the process of repricing your dental book, I think, a couple of years now. But should we assume that that's done completely? Or is that an ongoing process? And margins, if we look stand-alone on dental, won't normalize until beyond 2025?

Deanna Strable: Amy, you can address that.

Amy Friedrich: Yes. Yes. So I would say the bulk of those actions are moving through our block right now. So what that really means is some of them are already going to be coming through the results that we see, and some of them will continue to flow through the first half of the year.

I think the really important point to your question is are we going to see margins look better for dental if we looked at that as a stand-alone entity in 2025? And the answer is yes. I do expect the loss ratio to look a bit more like historical patterns. And I expect the production that comes from that line to look positive in 2025.

What I would make sure to put back into is we rarely sell any of these products alone. So again, these are always going to be a function of a bundle. I think we mentioned it in some of our opening comments.

We're up -- our average bundle, whether you're talking about new sale or in-force, is up over three coverages for products. So it's rare that any of our relationships really just rely on any one product in terms of how we price and work with them.

Deanna Strable: Yes. And Jimmy, a couple of things there. One of the advantages of focusing on the SMB business is almost all of our business only has a one-year rate guarantee.

And then the other thing that I think is really important, really builds on Amy's last point, which is because there's bundles, you also have seen that we've had very positive underwriting results in life and disability. And so from a bundle perspective, we can take all of that into account, and they may see a little bit of increase in their dental rates.

But as we look at the overall package, we can mute that increase across all of the products. And so again, feel good about how we're approaching that profitable growth and expect to see continued great results out of Specialty Benefits.

So thank you, Jimmy.

Jimmy Bhullar: Thank you.

Operator: The next question comes from Jack Matten from BMO Capital Markets.

Jack Matten: Hi good morning. The first question I had is on the international pension growth guidance. And I know you resegmented and changed the definition of net revenue there.

I guess if you adjust for those two things, was there any change at all to the growth outlook? I know you mentioned changes in Hong Kong. That changed throughout it at all, and were there any offsets in your other markets?

Deanna Strable: Yes, Yes. First of all, thanks for initiating coverage. And we look forward to interacting with you more as we go forward. I'll ask Joel to address that.

Obviously, FX continues to be pressure as we think of international pension and we did have some in Encaje impacts as well. But maybe as we think about the guidance, you can give some specific aspects there?

Joel Pitz: Yes. So Jack, thanks for the question. On the international pension front, it's very similar to what we had in 2024. So on a constant currency basis, what we had in 2024 was 4% growth in revenues and 9% growth in earnings.

As you fast forward to what we expect for 2025, it's going to be more of the same. It's going to be -- if you look at the midpoint of the range, it's all due to FX is why we're being drawn down to relatively flat year-over-year.

But importantly, there's going to be continued margin expansion within that business. In 2024, there was a 100 basis point margin expansion within that business, and we're expecting continued expansion in 2025 and beyond. So really well positioned in those targeted markets and feel really good about the growth prospects within that business.

Deanna Strable: Jack, do you have a follow-up question?

Jack Matten: Yes. And a follow-up on the investment management net cash flows. It seems like deposits are pretty healthy, but withdrawals continue to be somewhat elevated. I guess if you could just touch on trends impacting your net flows there and how you see things developing going into 2025.

Deanna Strable: Yes. I'll ask Kamal to give some color on that. If you do look at our overall net cash flow on an AUM level for the enterprise, even though it's still negative, we have saw a significant improvement, both for the quarter and the full year.

But I'll ask Kamal to give some specifics on the drivers there and also how we're thinking about that as we go into 2025.

Kamal Bhatia: Sure, good morning Jack. So I'll start with maybe the international pension piece first, when and give you more color on the rest.

One thing I would highlight for you in addition to what Joel said is we actually also had positive net cash flow in our international pension business. When you look at '24, we actually had positive \$600 million of net cash flow growth.

So not only managing the business well but we're actually attracting new dollars in a very mature business. But just turning back to Investment Management, I would say very, very strong results. Chris did talk about some of the affiliated flows.

But when I look at nonaffiliated flows, we had a very strong quarter, almost \$500 million of positive net cash flow. And the diversity of our cash flow is increasing. These flows came from multiple distribution channels for our clients, and they also came from a lot of international geographies, which is quite valuable for us.

Just to highlight, net flows and international institutional were particularly strong. We had over a \$2 billion large mandate win in

credit. And then Deanna earlier talked about almost \$1 billion win in U.S. retirement solutions. So really strong wins in that space.

If I look at full year from our local regional clients, we had almost \$2.7 billion positive net cash flow for all of 2024, a significant milestone for us. And sequentially, year-over-year, nonaffiliated cash flow is up by \$6.5 billion. And I'll just remind you, this is what we laid out at Investor Day, the power of global asset management as we diversify our client base and channels, you could see that in those numbers.

To the second part that Deanna raised, which is what do I see moving forward. I think we mentioned earlier that we are exceeding target on our largest real estate fundraise till date.

It's going to be not only a milestone for us with respect to growing our business, we've actually added over 50 new sizable relationships across the world beyond just the clients we have historically had in public pensions.

We have new relationships with foreign insurance companies now. We've added premier U.S. endowment and foundations and now we also have regional asset managers in Asia who are investing with us.

So I would highlight that the momentum will continue to grow on the private market side. And the last thing I would highlight for you, as I look forward, we were also recently just highlighted as the top-performing investment grade U.S. bond fund this year in 2024, and that's a category that actually continues to get active management flows.

So hopefully, that helped you.

Deanna Strable: Thanks Jack for the question.

Jack Matten: Thank you.

Operator: The next question comes from John Barnidge from Piper Sandler.

John Barnidge: Good morning, thanks for the opportunity. So the Hong Kong change and then the YRT in the quarter kind of show a perpetual focus on improvement here. How much further derisking do you see either in international markets or within the life insurance business?

Deanna Strable: Yes. The first thing I would say there is, as you know I was very involved in our recent strategic review that led to some really sizable changes to our business portfolio, but more importantly, put us in a great position to deliver on our strategic and financial objectives.

We have what the portfolio we need to deliver on what we laid out.

But we will obviously continuously assess our portfolio, make changes as needed, derisk where it makes sense or in places where we just don't see the path to driving growth, we'll make the decisions to make pivots there.

And you did mention the one that we highlighted in this call which was somewhat driven by the regulatory changes that are happening in that market. And so again, bottom line, we feel good about where we're at, both from a product portfolio perspective, then specifically in life and how we think about our risk exposure.

But obviously we'll continue to stay disciplined as we look at those facts going forward.

John Barnidge: Thanks you and my follow-up question, completely understand the primary focus of principal serving the small, medium-sized customer.

But within your retirement and benefits business, can you talk about how much exposure or non exposure? You have to government nonprofit or government contracting in your businesses? Thank you.

Deanna Strable: Yes. I'll maybe just ask Amy and Chris to quickly address that. And if we don't have the answers here today, we'll make sure we get back to you. But Chris, anything from a retirement perspective?

Chris Littlefield: I would say that we are not a large player in the governmental marketplace, John. So I don't have the exact composition of our business. We have some, but we're not known as a very large player in the governmental end of the business. But we could follow up with more details on the composition.

Amy Friedrich: Yes. This is Amy. I'll chime in. I would agree with Chris's comment, I might even take it one step further for the Specialty Benefits business and say we are just not a player in the government marketplace. That's not been where we've seen some of our historical growth.

And they tend to operate with a different set of variables that just don't align as clearly with how we build our machine and process and pricing and technology. And so we're just simply not a player in that market.

Deanna Strable: Thanks John for these questions.

John Barnidge: Thank you.

Operator: The last question comes from Suneet Kamath from Jefferies.

Suneet Kamath: Hi thanks. Deanna, I wanted to ask about M&A now that you're in the seat. Your 0% to 10% capital allocation suggests kind of small deals.

But if something big were to come along, similar to kind of IRT, is that the kind of thing you look at and say, we know how to do these deals, if it pencils out, we'd be interested? Or is it sort of the other way, where we've already done a big deal and we'd rather just focus on what we have and maybe take advantage of some lapses? Just want to get your sense as you're now the CEO.

Deanna Strable: Yes, Suneet, I'll start with -- obviously I was involved in our strategy around M&A, pretty integral as forward. So I don't think you would expect any significant changes there.

What I would say is we are inquisitive about M&A opportunities across all of our businesses. And if we did them, they would be focused around the growth areas that we really talked about at Investor Day. Yes. The allocation within our total capital allocation, that 0 to 10 is small.

The other thing you have to marry that with is we have a very low leverage ratio. And so if something did come across that met all of our three thresholds, which is cultural fit, financial fit and strategic fit, we have the capabilities to lean into that if it made sense.

But I'd also say the bar is high as we think about M&A and how they fit into our overall growth platform going forward. I will kind of come back to where I started, is if you look at our financial targets, we don't need M&A activity to reach those.

We feel our organic growth engines can deliver on those results. And ultimately, we'll continue to be disciplined, but obviously inquisitive about additions that would make sense.

Suneet Kamath: Got it. And then just a real quick for Chris. Any thoughts around these in-plan annuity products for target date funds that a lot of asset managers are rolling out?

Deanna Strable: Yes, Chris.

Chris Littlefield: Yes. Thanks, Suneet. So we think they're promising. I think as I've mentioned probably on prior quarters, I think the opportunity to package them in some sort of target date fund or a managed account solution, is probably the best solution to increase penetration.

So we're getting on the shelf. So more and more planned sponsors are open to having it as an option in the plan lineup, we're still just not seeing a tremendous amount of participant deposits and utilization yet.

But I do think that will change as people start understanding it and as those designs improve and change and enhance over the next little bit. So a lot of activity. I think you'll see a lot of activity from us and others over the course of the next year or two in this space.

And I do think if you think about sort of that last frontier to address, it's really how do you convert the savings that Americans have accumulated in their 401(k) plan into that guaranteed retirement income for them that they won't outlive. And so I do think that there's some real promise here, but it's still early days in terms of utilization.

Deanna Strable: Thanks, Suneet, for your questions.

Suneet Kamath: Thanks.

Operator: We have reached the end of the Q&A. Ms. Strable, your closing comments, please.

Deanna Strable: Yes. Thank you. As we close today's call I want to reiterate that 2024 was a strong year, capped off by a very strong quarter. We delivered on all of our enterprise objectives, and we're well positioned to continue this success in 2025.

Our ability to access and grow in the most attractive parts of the market, combined with our disciplined approach to everything we do, positions us well for the future. We remain focused on executing the strategy that we laid out at Investor Day, and those priorities guide our decisions every day as we navigate this evolving landscape.

Thank you for your time today, for your questions and your continued support of Principal. We look forward to connecting with many of you in the near future. Have a great day.

Operator: Thank you. This concludes today's conference call. You may now disconnect your lines at this time. We thank you for your participation.

About Principal Financial Group¹

Principal Financial Group[®] (Nasdaq: PFG) is a global financial company with approximately 20,000 employees¹ passionate about improving the wealth and well-being of people and businesses. In business for 145 years, we're helping approximately 70 million customers¹ plan, protect, invest, and retire, while working to support the communities where we do business, and build a diverse, inclusive workforce. Principal[®] is proud to be recognized as one of the 2024 World's Most Ethical Companies[®] by Ethisphere², a member of the Bloomberg Gender Equality Index, and a "Best Places to Work in Money Management³." Learn more about Principal and our commitment to sustainability, inclusion and purpose at [principal.com](https://www.principal.com).

¹ As of December 31, 2024

² Ethisphere, 2024

³ Pensions & Investments, 2023