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Q2 2026 Earnings Call

CORPORATE PARTICIPANTS

Humphrey Lee
Vice President-Investor Relations, Principal Financial Group, Inc.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

Joel Pitz
Executive Vice President & Chief Financial Officer, Principal Financial Group, Inc.

Amy C. Friedrich
President-Benefits & Protection, Principal Financial Group, Inc.

Kamal Bhatia
President & Chief Executive Officer-Principal Asset Management, Principal Financial Group, Inc.

Christopher J. Littlefield
President-Retirement & Income Solutions, Principal Financial Group, Inc.

OTHER PARTICIPANTS

Wes Carmichael
Analyst, Wells Fargo

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Wilma Burdis
Analyst, Raymond James & Associates, Inc.

Joel Robert Hurwitz
Analyst, Dowling & Partners Securities LLC

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Suneet Kamath
Analyst, Jefferies LLC

Joshua Shanker
Analyst, BofA Securities, Inc.

Michael Ward
Analyst, UBS

Alex Scott
Analyst, Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Principal Financial Group Second Quarter 2026 Financial Results Conference Call. There will be a question-and-answer period after the speakers have completed their prepared remarks. [Operator Instructions]

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

Humphrey Lee

Vice President-Investor Relations, Principal Financial Group, Inc.

Thank you, and good morning. Welcome to Principal Financial Group's second quarter 2026 earnings 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 CFO, Joel Pitz will deliver 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 US 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.

Deanna?

Deanna D. Strable-Soethout

Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

Thanks, Humphrey, and good morning to everyone on the call. This morning, I'll cover our second quarter performance, the progress we're making against our strategic priorities, and updates on our business portfolio. Joel will then provide additional details on our financial results and capital position.

Turning to slide 2, we delivered another strong quarter, demonstrating the earnings power of our diversified business model and continued execution across the enterprise. Adjusted non-GAAP earnings per share increased 17% year-over-year and 15% on a year-to-date basis, both above the high end of our target range. This was supported by strong enterprise earnings growth of 13%, with 6% net revenue growth and 200 basis points of margin expansion.

Earnings growth was primarily driven by favorable underwriting results and improved mortality within our Benefits and Protection business, strong RIS fundamentals, and positive market conditions for our fee-based businesses. This more than offset the revenue impact from Investment Management net cash flow.

We are delivering on our capital deployment plans. In the second quarter, we returned nearly $430 million of capital to shareholders, including $250 million in share repurchases and nearly $180 million in common stock dividends. This brought our total capital return to shareholders to $800 million through the first half of the year, with $450 million of share repurchases and $350 million of common stock dividends. In addition, we raised our common stock dividend for the 13th consecutive quarter, an 8% increase on both a quarterly and trailing 12-month basis.

Moving to slide 3, our strategic priorities continue to drive sustained growth across the enterprise. We strengthened our leadership in retirement, advanced our position in the small and mid-sized business segment, and continue to leverage the scale of our Global Asset Management platform to meet evolving client needs.

Within the retirement ecosystem, which includes recordkeeping Asset Management, Income Solutions and Advice, we're seeing strong momentum across the platform. Transfer deposits increased 30% year-over-year. Recurring deposits increased 6%, and participant engagement remained healthy, with growth in both plan participation and average contributions.

Our customers continue to consolidate retirement savings on to our platform, resulting in $1.7 billion of roll-ins during the quarter and more than $7 billion over the trailing 12 months, both up nearly 20%. We are further expanding capabilities across the retirement ecosystem. During the quarter, we broadened our retirement income offering through new lifetime income builder CITs, helping participants move seamlessly from saving for retirement to generating dependable income in retirement.

This reflects our focus on delivering solutions that support plan participants across the key stages of their financial lives. Our retirement investment expertise continues to gain traction with third-party platforms, reflected in DCIO sales of $2 billion in the quarter and nearly $8 billion over the trailing 12 months.

Finally, we had $500 million of PRT sales in the quarter after a slow start to the year for the industry. For the small and mid-sized business segment, our differentiated capabilities and deep expertise continue to drive results across retirement and benefits. In retirement, the SMB market remains a key contributor to growth. Transfer deposits grew 16% over the trailing 12 months, reflecting continued strength in client activity and long-term momentum.

Recurring deposits increased 6% on both a year-over-year and trailing 12-month basis, demonstrating growth and ongoing contributions from both employers and employees. In Benefits and Protection, our SMB segment continues to deliver growth and deepen customer relationships.

Specialty Benefits sales increased 11% year-over-year, reflecting continued demand for our solutions and strong new business momentum. We are building on that momentum by deepening relationships with existing clients, with products per customer increasing steadily in the last several years, moving from 2.9 three years ago to nearly 3.2 today.

Turning to Global Asset Management, I'd like to briefly address net cash flow before moving to key highlights. We had total company net outflows of approximately $11 billion in the quarter, concentrated in a small number of US active equity strategies, which are experiencing acute headwinds in an unusual market environment despite having extraordinary performance for many years.

Notwithstanding recent net cash flow, our investment teams have maintained a disciplined approach, and have a track record of successfully navigating periods of market dislocation in the past, supported by steady leadership and consistent investment processes. I am encouraged by the underlying momentum across the broader asset management platform, particularly in areas designed to support long-term client needs, including private markets, international and institutional solutions.

Moving to key highlights. Investment Management gross sales increased 2% year-over-year and 13% on a trailing 12-month basis, supported by client demand for our investment capabilities and the strength of our distribution relationships. Private markets assets under management increased 10% year-over-year, while International Pension assets under management increased 18%.

Our active ETF business continues to see healthy growth, generating $500 million of net inflows in the quarter and $2 billion over the trailing 12 months. During the quarter, we expanded our ETF capabilities with the launch of a new fixed income ETF suite, broadening access to our investment expertise and providing clients with more flexible investment solutions aligned to their evolving portfolio needs. Looking across these three growth drivers, I'm proud of our year-to-date results and our ability to execute.

Before I hand it over to Joel, I have a couple of updates related to our business portfolio. Earlier this month, we announced an agreement to acquire Beam Benefits. A digital first employee benefits company focused on the SMB market. The company has over 25,000 employer customers and generated $175 million of premium in 2025.

This acquisition strengthens our position in the SMB segment by expanding our customer reach and adding digital first distribution capabilities, a powerful complement to our existing benefits platform. Importantly, the transaction remains aligned with our overall capital framework with no change to our 2026 capital deployment plan or EPS growth targets.

Finally, I'm pleased to share that we have completed the transition of our Hong Kong pension business to BCT. This move strengthens our focus as a top provider of Retirement investment solutions to the region. In closing, we have momentum across the business, supported by disciplined execution and the dedication of our 19,000 employees around the world. We are in a strong position to continue delivering on our financial targets. Joel.

Joel Pitz

Executive Vice President & Chief Financial Officer, Principal Financial Group, Inc.

Thanks, Deanna. Good morning to everyone on the call. This morning, I'll share key highlights of our financial performance for the second quarter, as well as details on our capital position.

Starting on slide 4 non-GAAP operating earnings were $547 million, an increase of 12% year-over-year, with earnings per share up $2.50, an increase of 16%. Significant variances detailed on slide 12 had a positive after tax impact of $18 million or $0.08 per share in the second quarter. Excluding these items, non-GAAP operating earnings were $529 million, up 13% year-over-year, while earnings per share of $2.42 increased 17% above the high end of our target range.

Total company margin of 32% expanded 200 basis points on net revenue growth of 6%. This demonstrates the strength of our underlying businesses while continuing to invest in strategic priorities. Non-GAAP operating ROE, excluding significant variances, was 16.4%, improving 120 basis points year-over-year above the midpoint of our 15% to 17% targeted range. Net income, excluding exit business was $535 million, an increase of 24% year-over-year with minimal credit losses.

Turning to capital and liquidity. We ended the quarter in a strong position with over $1.6 billion of excess and available capital. This includes $950 million at the holding company, $300 million in our subsidiaries, and $350 million in excess of our targeted 3.75% risk based capital ratio, which is approximately 400% at quarter end. In the second quarter, we returned $427 million to shareholders, including $250 million of share repurchases and $177 million of dividends. This brings year-to-date deployments to $800 million, and we remain on track to deliver on our full year capital deployment target of $1.5 billion to $1.8 billion.

Last night we announced an $0.84 per share dividend payable in the third quarter. This is a $0.02 increase from the prior quarter and 8% higher than a year ago, demonstrating an ongoing commitment to our 40% dividend payout ratio. Total company managed AUM ended the quarter at $808 billion, an increase of 5% from first quarter 2026 and 7% from the year ago quarter.

Moving to the businesses, the following excludes significant variances. Turning to RIS as shown on slide 5, pre-tax operating earnings increased 8% year-over-year, supported by 5% net revenue growth and continued expense discipline. Operating margin of 41% expanded 120 basis points compared to the year ago quarter slightly above the high end of our target range. This reflects our focus on profitable revenue growth, expense management and strong business fundamentals.

As Deanna mentioned, fundamentals across the business remain healthy, highlighted by robust transfer deposits and steady recurring deposit growth. These trends speak to the sustained demand for our solutions and the strength of our customer relationships.

Turning to slide 6 Principal Asset Management delivered earnings growth of 6% on AUM growth and margin expansion. Within Investment Management pre-tax operating earnings increased 4% from the prior year quarter. Slightly higher revenue along with expense discipline, more than offset elevated severance within the quarter. This resulted in a 110-basis point improvement in operating margin.

Performance fees were relatively muted in the quarter due to timing, but we continue to expect full year 2026 performance fees to be in line with 2025. Moving to International Pension, pre-tax operating earnings increased 11% year-over-year, driven by favorable foreign currency impacts and growth in the business. Operating margin improved 50 basis points to over 47%, well within our target range. AUM increased 6% from the prior quarter and 18% year-over-year to a record $169 billion.

Turning to slide 7, Benefits and Protection generated strong pre-tax operating earnings of $191 million, a 29% year-over-year increase. This was driven by favorable Specialty Benefits underwriting results and improved life mortality. Starting with Specialty Benefits, premium fees increased 4% year-over-year. We continue to expect growth to increase in the second half of the year and the acquisition of Beam Benefits will provide an additional uplift upon close.

Record pre-tax operating earnings of $162 million, up 29% year-over-year, reflects more favorable underwriting experience and business growth. The Specialty Benefits loss ratio of 57.4% improved 280 basis points compared to the year ago quarter with better results across all products. This drove improved operating margin of 19%, up 360 basis points year-over-year and above our target range.

In life insurance, pre-tax operating earnings of $29 million increased 29% year-over-year, driven by improved mortality experience. This contributed to a 13% operating margin, up 350 basis points year-over-year within our target range. Turning to the corporate segment, losses were elevated due to continued investment in the business. We expect to come in at the high end of our targeted range for the full year.

To recap, we have delivered 15% EPS growth year-to-date, demonstrating the strength, resilience and benefits of our diversified portfolio. The strategic actions we are taking this year enable us to focus on higher growth opportunities. The agreement to acquire Beam Benefits, the transition of our Hong Kong business to asset management and the pending sale of our Chile annuity business further optimized our portfolio. We remain well positioned to deliver on our financial targets supported by strong fundamentals, a healthy capital position, and continued focus on our strategic priorities.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from Wes Carmichael from Wells Fargo.

Wes Carmichael
Analyst, Wells Fargo

Q

Hey, good morning. Thank you. First question was just on the Beam Benefits acquisition. Just wondering if we can get maybe a little bit more color on the strategic rationale there. And I know you said you don't expect any impact on 2026 capital deployment, but is there any impact to 2027?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, thanks, Wes, for the question. I'll have Amy talk about the strategic benefits of Beam Benefits and Joel to talk about how that might impact our plans going forward.

Amy C. Friedrich
President-Benefits & Protection, Principal Financial Group, Inc.

A

Yeah, Wes, thanks for the question. So when I think of Beam Benefits and again, I'm excited about that, we're not at close yet for this so my ability to talk specifically about some things is going to be a little bit limited. But regarding strategic rationale, when I think about expanding our reach into small and mid-sized business segment, I get excited about things that allow us to do that.

So Beam Benefits has some really interesting technology. They've got some great things they've done with their underwriting and quoting. But what they've also got is a great relationship with 25,000 small business employers and they have 400,000 members across the US. And so when I look at that base, combined with $175 million of premium, I get excited about how that is additive to the whole block.

What we know in our block is that we do a bunch of activity in what I would consider kind of that micro or small case. So when I look at their ability to put efficient – effectiveness and efficiency in that micro end and extend that potentially to the full block, I get excited about the potential that will give us for kind of bringing in that full capabilities. So the scale of business they have, the introduction of more footprint into small and mid-sized business owners. And then that extension of that potential effectiveness into our full block are the strategic rationale pieces that get me excited.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Joel?

Joel Pitz
Executive Vice President & Chief Financial Officer, Principal Financial Group, Inc.

A

And then Wes, as it relates to funding, sitting here at second quarter with $1.6 billion of excess available capital, the reality that our cash flow is typically back end weighted. And yes, we have more capital flow generation in the latter half of the year and we had the proceeds from the Chilean annuity sale that's coming in the latter half of the year as expected. We feel very good about our capital position and ability to deploy capital to our strategic objectives, like the Beam Benefits. As we mentioned in the release earlier this quarter as well, we don't expect any changes to our outlook guidance as it relates to earnings, free capital flow or ROE as well. So everything very much intact.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Wes, do you have a follow-up.

Wes Carmichael
Analyst, Wells Fargo

Q

Got it. I do. Thank you. Just the second one was on VII. It was a pretty good result in the quarter. It's roughly in line with long term expectations. And it's the first quarter in a while where I think that's kind of trended in line. So any color on expectations for the third quarter or going forward for VII?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

I'll have Joel take that one.

Joel Pitz
Executive Vice President & Chief Financial Officer, Principal Financial Group, Inc.

A

Yeah, Wes, very pleased with the result for the quarter, as you said, in line with expectations. And importantly, that was as a result of no real estate transactions in the quarter. So for the first half of the year, how heavily weighted we are within the real estate, within our alternatives portfolio, which is very unique relative to what you see from others, as we didn't have any real estate transaction activity in the first half of the year. So as we indicated in outlook, we expected there to be improvement in 2026 versus 2025 just as we had the year prior and fully expect that to continue not only for second quarter 2026 but also for the remaining quarters of 2026 as well.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Thanks, Wes.

Wes Carmichael
Analyst, Wells Fargo

Q

Thank you.

Operator: The next question comes from Ryan Krueger from KBW.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey, thanks. Good morning. I guess I'll shift to Investment Management, you talked about the drivers of the outflows in the quarter, but I was hoping to get a little bit more color on what you're seeing and thinking for the back half of the year. And, if you believe the elevated equity outflows are more isolated to the quarter or if there could be some ongoing headwinds there.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah. Thanks, Ryan, for the question. I will have Kamal address that.

Kamal Bhatia
President & Chief Executive Officer-Principal Asset Management, Principal Financial Group, Inc.

A

Sure. Good morning, Ryan. So since you asked about the outflows, let me address that directly because it was a meaningful number this quarter. The first most important point is that the impact is concentrated with a couple of US active equity strategies. Those strategies make up slightly more than 5% of our firm AUM. So it's not broad based across Global Asset Management. Few additional points to help you further with your question. This cohort of strategies is deeply affected by the acute and unusual market that has neither rewarded high quality companies or valuation of their stock picking.

I would note for you that these strategies have a very good long term track record of strong results and they particularly outperform in normal return markets. So based on historical cycles, we would expect this type of environment to normalize over time, but it is very difficult to predict the timing of market turns. To your question on this quarter, gross sales into 2Q were also impacted by conflict in Middle East as many institutional investors delayed mandates and engagements due to headlines and market volatility.

So with respect to rest of the year, we do anticipate net flows to be somewhat challenged. But I am cautiously optimistic. And one data point I would leave you on that is that our committed, not funded pipeline has now grown to around $10 billion this quarter. That is up from 1Q, which is a testament to the diversity of our capabilities and our channel reach.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Thanks, Ryan. Do you have a follow-up?

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks. Yeah, just, I think you – just two really quick related ones. One, I think the fee rate has trended down a bit. And in Investment Management, do you think we should kind of continue in that lower 28-basis point range and then can you quantify the severance impact this quarter?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, Kamal, I think there were a couple of drivers to that fee rate decline. And again, you can quantify the severance as well.

Kamal Bhatia
President & Chief Executive Officer-Principal Asset Management, Principal Financial Group, Inc.

A

Sure. So, Ryan, as you know, we – our fee rate generally has remained – the core fee rate has remained generally stable within a band. As you mentioned, this quarter was slightly softer, but generally within that range. Partly volatile public markets do create downward pressure given our business mix and outflows have some impact on it, as we continue to drive growth in private markets and particularly our international emerging local market clients. I do see more stabilization of these rates to drive more sustained growth and operating leverage. With respect to severance, you are right. We had elevated severance across IM and IP of around $7 million in the quarter. And partly that is given that we are always trying to actively manage our expenses to our revenue to continue to generate the strong margin and create operating leverage in the business.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Thanks, Ryan.

Ryan Krueger
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you.

Operator: The next question comes from Wilma Burdis from Raymond James. Wilma, your line may be on mute.

Wilma Burdis
Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning. Can you go into some of the specific driving lower dental ratios versus prior years and how we can expect that to evolve? Thank you.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, I'll ask Amy to address that. It was great to see such great results in Specialty Benefits this quarter and also very broad based loss ratio improvement across all the products. And as you know, that team's been very focused on dental as we've tried to ensure that we continue to focus on profitable growth. But I'll have Amy get into the details.

Amy C. Friedrich
President-Benefits & Protection, Principal Financial Group, Inc.

A

Yeah. Wilma, thanks. So when I think of dental and Deanna has definitely hit the right point at the beginning, which is – we have intentionally been taking a lot of efforts against our dental portfolio. It's a product. Just as a quick reminder, it's a product that definitely has a lot of inflationary and cost inflation sits on top of that. It's also a product that when your utilization or severity begins to kind of move differently on you, you can – you have the ability to kind of change that pricing. But one of the things that really underpins that is if you have the ability to impact some of that dental network.

So I'm going to go first to some of the pieces we've done on that dental network optimization. We know that as the dental network ownership structure, maybe even private equity, some other things entering into some of that ownership structure, the ability to stay really current on understanding how the providers are utilizing that network and where we're seeing more of our members utilize which services, being able to line up those schedules and do that in a way that's very dynamic is really paying off for our owned dental network.

What I'd also point to is when I think of dental investment, I also put the announcement of the acquisition we did in first quarter that dental net acquisition as an investment in that, that's going to have a little bit of regional impact. But in Alabama, it brought us 1,500 providers in network. It's the largest network in the state and that gives us the ability to serve our customers even better in those states and to impact the claims cost that they're feeling on those visits to the dentist.

So those investments in dental network are also paying off on a regional basis. We're also making sure that the pricing changes we made in the past are persisting through our block. So all of those changes that we've made, investments in dental network, optimizing that network and also doing the things that we need to do for our pricing changes are making it so when I look at the second half of the year, my assumption is that loss ratio, not just from a seasonality basis but from the intentional impacts we've been taking on that, will continue to go down.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.
A

Thanks, Wilma. Do you have a follow-up?

Wilma Burdis
Analyst, Raymond James & Associates, Inc.
Q

Yes, thank you. How can we expect the Beam acquisition to improve the existing business and where will we see the biggest impact? Thank you.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.
A

Yeah. I'll again, turn that back over to Amy.

Amy C. Friedrich
President-Benefits & Protection, Principal Financial Group, Inc.
A

Yeah. So I feel like always need to start with this. We are not close, on that acquisition announcement yet and so somewhat limited in what I can offer. But I would say here's how I'm thinking about it. I'm thinking about being Beam Benefits, I went through the strategic rationale in the question that was asked earlier. I do think when we think of both revenue and expense synergies, there are things in both categories. So I'll give you a quick example, Beam currently leases their dental network today. So we would expect from an expense synergy and a fairly immediate one to remove some of those lease network costs. Additionally, they've got a quoting and acquisition front end in that small micro-market that I see again I mentioned before, it's really efficient, but it's also really effective and I would expect we could bring those capabilities across our broader small case market block.

So again, taking them across our broader market block means 10 times the power that they're currently able to put against their own block. So bringing them across the broader block would free up capability to win more business for us, even slightly up market because we aren't spending as much time and attention kind of doing those things down market. So I would expect some of those results to certainly come through on premium and fee growth. And I would expect those results to also come through on some of the efficiency we think we can drive against our expense ratio.

Deanna D. Strable-Soethout A
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

Yeah, Wilma, just a few follow up comments to that. As Amy said, we're very excited about this acquisition. It's a very strong company in the SMB benefits space in and of itself, and it will really complement our strong performance that we've had in that business over decades. I think you know, and we've said it a lot, we have a high bar for M&A. Every target has to have strong strategic fit, be financially accretive and have very strong cultural alignment. And Beam definitely meets all of these criteria and we're very excited about having them join Principal.

Wilma Burdis Q
Analyst, Raymond James & Associates, Inc.

Thank you very much.

Operator: The next question comes from Joel Hurwitz from Dowling & Partners.

Joel Robert Hurwitz Q
Analyst, Dowling & Partners Securities LLC

Hey, good morning. Amy, one more for you sticking with the benefits business, can you just unpack what you saw on some of the other group businesses with the life and disability results continuing to run very favorable.

Deanna D. Strable-Soethout A
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

Yeah, I'll have Amy talk about that and really talk about the drivers this quarter, but also how she's kind of thinking about both sustainability of loss ratio and earnings on a go forward basis.

Amy C. Friedrich A
President-Benefits & Protection, Principal Financial Group, Inc.

Yeah, Joel.

Joel Robert Hurwitz Q
Analyst, Dowling & Partners Securities LLC

Okay.

Amy C. Friedrich A
President-Benefits & Protection, Principal Financial Group, Inc.

So when I think about that underwriting performance, it really was across all the lines of business. So that improved performance, the performance of 57.4% was across all our product groupings. Probably the more notable ones are the ones that we want to dig into a little bit more our dental disability and life. You heard some comments just on dental, but dental results were improved and continued to be attributable to that dental network optimization efforts as well as past pricing actions.

I had noted that dental seasonality probably is present a little bit in second quarter and we did see that tick up just a little bit in second quarter as we expected. Again, it wasn't as market as we saw in last year's second quarter, but we did see that and that was something that we had anticipated. Disability was really driven by lower incidence and that's across all disability lines. I should note there that recoveries for group LTD were right in line with expectations. So this was an incidence driven over-performance, not really a recoveries or severity driven over-performance.

Group life. And again, we sometimes don't talk as much about group life, but again, group life continues to perform well and that was driven by lower frequency as well. So the full year outlook remains favorable. And I do want to mention that I now expect loss ratios to emerge below the low end of the guidance range for the full year. When I deconstruct that more towards the second half, we've talked a little bit about dental loss ratios continuing to trend down given those past pricing actions, network optimization as well as normal second half seasonality.

I don't expect disability loss ratios to improve further from first half results and I do think it's appropriate to expect some upward movement in products like Group LTD from the first half, but certainly not back to historical levels. I think it's worth noting that wage growth, which is an important factor for a product like disability, is positive and it's holding steady in our block. And employment growth is also positive and tracking to our expectations as well.

So when I summarize all that, I'm really pleased with our underwriting performance across FTD. I think the way we run our business with consistent underwriting discipline that's balanced with an eye towards growth has really been on display this first half of the year. I'd reiterate then that I expect full year underwriting results for SBD in total to emerge below the end of the range on that 60% to 64% that was communicated in outlook. And we do expect dental underwriting results to improve that second half driven by both seasonality and network optimization.

Deanna D. Strable-Soethout A
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

Thanks, Joel. Next question or a follow-up?

Joel Robert Hurwitz Q
Analyst, Dowling & Partners Securities LLC

Yeah, thank you for that. That was very helpful. And Deanna, maybe just going back to M&A, want to get your thoughts on potential further M&A for Principal, right. There were some media reports out earlier this month suggesting interest in larger scale deals. Just your thoughts on whether it's further M&A in Retirement asset management or benefits?

Deanna D. Strable-Soethout A
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

Yeah, I'll start with just a boilerplate answer, which is we don't comment on market rumors. What I would say is that as many of you've heard me talk about before, our M&A philosophy has not changed and we have a very high bar for any transaction. We're not going to shy away from pursuing M&A. You saw that with Beam, but any transaction has to be a financial, strategic and cultural fit. And we view M&A more as an opportunistic accelerator than a requirement with organic growth being our primary path to achieving our objectives.

I'd also say we're not interested in doing deals solely for scale, especially one that would require a premium paid to transact. And ultimately, we're really looking for transactions that bring us new strategic capabilities that literally can be scaled across the overall enterprise. I think I'll come back to Beam Benefits as a really good example of that, it added capabilities, it strengthened our SMB value proposition. And those are the types of things that we'll be focused on as we go forward.

Joel Robert Hurwitz
Analyst, Dowling & Partners Securities LLC

Q

Makes sense. Thank you.

Operator: The next question comes from Pablo Singzon from JPMorgan.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. In the Retirement business, there are structural reasons why I think flows will have a negative bias. Right? So think about caps on contributions and large balances that are available for withdrawal. But I guess if you think about other metrics such as client count and number of active participants have, how have those measures been trending for Principal?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, I'll ask Chris to address that.

Christopher J. Littlefield
President-Retirement & Income Solutions, Principal Financial Group, Inc.

A

Yeah. Good morning, Pablo, and thanks for the question. Yeah, if you just look at sort of participant growth, we've shown consistent participant growth over the last several quarters. So we are seeing positive trends in participant growth, participants with account values. We've seen deferrals rising and on top of that, we see really strong retention. So all of those underlying fundamentals in the business are really strong. On plan counts also, we see really good growth. We have de-emphasized a bit the micro market. So that has a lot of plan count but also comes with a little less economics. And so we've really focused on those areas and those plans that gave us greater assets, greater opportunities to look at investment mandates and the like. And so we have trended a little bit up. So you would see our plan count staying flat to maybe slightly down. But participants up, deferrals up, retention very high, transfer deposits and new sale wins also very strong over the past several quarters.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, Pablo, I think if you look across our Retirement fundamentals remain strong across the things that we're focused on. And we've talked about how market increase does have a negative impact on flows, but a positive impact on revenue and earnings. And ultimately, Chris and his team continue to do a great job focused on, again, strong fundamentals and driving revenue growth. So do you have a follow-up question?

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Q

Yes, I do. Thank you. So my follow-up is for Amy just on group benefits. So I think, Principal is not unique in that most of – most other group insurers have experienced good results as well in their line. So I was wondering have the good results affected the competitive environment in any way? Are you seeing other companies are start to bring down prices to filter in these very good margins that they're experiencing? Thank you.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, I'll have Amy talk about that. But I do think you have to remember two things that are different about our block of business. One is the SMB focus and one is the portfolio of premiums where dental continues to have a significant impact on our overall bundle. But Amy, if you'll talk about the competitive nature.

Amy C. Friedrich
President-Benefits & Protection, Principal Financial Group, Inc.

A

Yeah, I'll answer kind of just broadly about the competitive environment that I'm seeing. And then I'll go dig down into our block just a little bit more. General competitive environment, I think we had we had commented a few times in past calls and this is probably more last year and maybe even the prior year. That we were seeing some pricing in dental that we just simply didn't want to participate in. We didn't think it would give us the profitability that we needed. We were willing to say we'll slow growth down a little bit so that we can get the type of underwriting results we think really drive and build a great business. I'd point back to we feel like that tradeoff was definitely the right one to make.

Now we are continuing to see more opportunities to write business at rates that makes sense. Here's one of the things I'll start blending in though, our block of business and Deanna mentioned this in one of her opening comments, and I think it's worth us coming back to. One of the opening comments Deanna made was that our average employer relationships across our whole benefits block is continuing to grow. So that's nearly at 3.2 products today. So that means a product. And again, there's lot of people who want to sort of dissect with me what's going on with disability, what's going on with dental, what's going on with this specific product. But when I look at a product like disability, for us it's rarely standalone.

So in fact, over 95% of our disability premium is going to be tied to another product. So that means when we look at admin, servicing, product designs, and pricing, we do that all, whether it's new case or renewal, it's designed with that multiple product in mind. And I bring that up because I do think the pricing flexibility, the product design flexibility, even some of the administrative flexibility that gives us across that bundle simply isn't present for some of our competitors.

So, in the end, when we end up winning in that small to mid-size space, it's often because that bundle is outperforming, and that bundle is giving us the ability to have the flexibility that we need in that marketplace.

So, product by product, yes, we do see some competitiveness. We see some pockets where we wouldn't participate in that pricing. But for our market position, which is relatively unique in that small and mid-size case with that bundle, we see that we're getting the types of rates and pricing that we need to drive the type of growth we think makes great sense for this business.

Pablo S. Singzon
Analyst, JPMorgan Securities LLC

Q

Thanks, Amy.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Thanks, Pablo. Next question.

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

Suneet Kamath
Analyst, Jefferies LLC

Q

Thanks. Good morning. I wanted to go back to Beam for a second. Deanna, I think in the past you've talked about an M&A budget of 0% to 10% of net income. That would probably put you somewhere in the $150 million to $200 million. Is Beam in line with that range or is it bigger? And if it's bigger, does it mean that you're sort of out of the M&A game for a while?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, I think when I've talked about that in the past, I mean, first of all, thank you for the question. I have talked about how we will dedicate 0% to 10% of our annual free cash flow toward M&A. But I've also talked about one of the reasons that we keep our leverage ratio at such a low level is that will also give us additional flexibility.

And so, again, we will continue to be inquisitive around M&A activities, and ultimately, it's the combination of both of those as well as things like the proceeds from divestitures as well that we'll continue to look to deploy both organically and inorganically as we continue to focus on driving long-term shareholder value.

Suneet Kamath
Analyst, Jefferies LLC

Q

Okay. Got it. And then, I guess you had mentioned it earlier in the call. You talked about not doing a scale deal or not doing exclusively a scale deal. But when we think about the defined contribution business, how do you think about scale?

I've heard it expressed in terms of AUM, I've heard it expressed in terms of participant head count. Just curious kind of where you think companies need be to have scale and how you think technology advancements could influence that? Thanks.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, I'll have Chris address that. Obviously, there's not one science definition of scale, and it really goes into the ability to compete, as well as the ability to continue investing in your platform, which – the great news is I feel that we have the scale needed in our Retirement business to compete, but I'll have Chris add to that as well.

Christopher J. Littlefield
President-Retirement & Income Solutions, Principal Financial Group, Inc.

A

Yeah, thanks for the question. I think, Deanna hit the spot, handled it. But I think when we look at scale, we look at multiple measures of scale. We think the most important right now is the number of participants that you serve because that's where we believe the future value will accrete from. And so, that's kind of how we think about scale. At 14 million Americans covered by the plans that we serve, we feel like we're at scale.

That doesn't mean that we won't look to get scale. But as I've mentioned on past calls, we already see a lot of the consolidation happening. It may not be as active inorganically as it has been in the past, but it's definitely happening organically and the plans and participants are moving to the larger scale players, like us, as top three in participant count in the 401(k) space to be able to serve their needs, invest in platform, and be able to provide them solutions that they need to get to and through their retirement.

And so, we feel very well positioned given where we're at. So, we look at multiple measures, but we've probably lean a little heavily toward participant because we believe that's where future value will drive.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Thanks, Suneet, for your questions.

Suneet Kamath
Analyst, Jefferies LLC

Q

Yes. Thank you.

Operator: The next question comes from Josh Shanker from Bank of America.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

Yes. Thank you for taking my question. Appreciate. I guess, Kamal, again, I just want to follow up a little more with Ryan's questions about the outflows in the equity strategies. Over the past [ph] quarter-to-date (00:44:31) period, our quality is back in favor, although maybe it's just factor trading with semis down or who knows the reasons why.

But factor trading seems to be a key positioning for a lot of investors. A, is a return of the kind of stocks that you own and specialize in going to be a benefit that we should see inflows in the quarter? Or B is this factor trading sort of experience going to be a weight on flows for the foreseeable future?

Kamal Bhatia
President & Chief Executive Officer-Principal Asset Management, Principal Financial Group, Inc.

A

Yeah. Good morning, Josh.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah. Go ahead, Kamal.

Kamal Bhatia
President & Chief Executive Officer-Principal Asset Management, Principal Financial Group, Inc.

A

Yeah, it's a great question. So, let me start with part A first, which was right on, which is how you highlighted this market has been highly unusual and abnormal. Particularly, you highlighted the quality abnormality in the marketplace.

One statistic just to further highlight that within our book, we have observed that over the last year that dispersion has worsened substantially. In fact, when you look at US companies, the highest quality companies on the period ending 6/30 returned 4%, whereas the lowest quality companies returned 70%.

So, to your question, there could be some longer-term statistical aberration, but that gap is too large, and it has to normalize over a period of time. And as that gap normalizes, clearly, it will benefit our style of investing.

Even though this is early to see, in 3Q, for the month of July, as those factors have reversed, our performance has become quite strong for that short period. So, I do think the market is going to normalize and we will benefit from it. And longer term, when these momentum trades reverse and certain style of investing like our quality style of investing comes back in vogue, flows do follow. They do take time.

To your second order question, which is a good one, what has changed in the marketplace is a lot of new products, particularly very niche ETFs do exploit these anomalies more than historically have been exploited. So, the market has changed over time where particularly retail investors can get access to these flow trends, and it could persist longer than you like. In fact, over the last 12 to 18 months, that's been one of the reason why the abnormality has persisted longer than we would have liked. So, hopefully, that answers your question, Josh.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

Yeah, yeah. Let's presume that one year from today, the performance is outstanding because the styles that you guys specialize in are in vogue. Is that going to take time to turn the train? Do you expect still in 3Q 2026, maybe 4Q 2026 that the muscle memory of how people have been behaving for last couple of years is a drag on the flows, or at this point in time it's really quarter-to-quarter?

Kamal Bhatia
President & Chief Executive Officer-Principal Asset Management, Principal Financial Group, Inc.

A

Look, first, predicting timing of a marketing turn is very difficult. I would also highlight for you predicting an immediate flow reversal or even predicting it over the next six months would not be prudent.

I could, however, point you to what I see with client behavior. One behavior that I would highlight for you is, in our retail book, where we have a lot of shareholders who have been owners of these strategies, there is a subset of clients that continues to add new money to the strategy that believes in the process and looks at dislocation. So, I would say it does take time. It's very difficult to predict timing, but there is a certain subset of clients that that keeps on adding money to these strategies. So, it will take longer compared to the past.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Thanks, Josh, for your questions.

Joshua Shanker
Analyst, BofA Securities, Inc.

Q

[indiscernible] (00:48:30)

Operator: The next question comes from Mike Ward from UBS.

Michael Ward
Analyst, UBS

Q

Thanks, guys. Good morning. Just on back to benefits, so definitely, solid result there. And sounds like you guys expected to get seasonally better in the back half. But I'm wondering, you also kind of characterized it as favorable in 2Q. So, like if we think about kind of like a normal year, I'm just wondering if you could kind of help quantify how this result compare to kind of a normal quarter?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.
A

You cut out a little bit, Mike. Was that specific to dental or more broader across Specialty Benefits?

Michael Ward
Analyst, UBS
Q

Well, I guess both would be very helpful, but it was Benefits mainly.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.
A

Yeah. I'll have Amy talk about that on an earnings perspective. Obviously, every quarter, you're going to have some positive outliers and some places where you have pressure. I think the great news is Specialty Benefits had a phenomenal quarter. And I think, ultimately there's pieces of that that we feel will continue to benefit us going forward. But I'll have Amy go a little bit deeper on her outlook for earnings as we go forward.

Amy C. Friedrich
President-Benefits & Protection, Principal Financial Group, Inc.
A

Yeah. So, I'm probably going to head up to the top of the question, which is sort of that getting after the spirit of the sustainability of earnings in total. And so, we have to start with the underwriting results because those underwriting results are clearly what's been driving that performance. So, I'm really pleased with those underwriting results. And what I said is, we want to sustain those where it makes sense. I've given a little bit of color earlier on the call with some of those answers, and in terms of what I think will happen with dental.

With dental, I do think we see that second half seasonality, which tends to be better. We tend to improve that from first half of the year. And then, our intentional efforts that we've been taking with past pricing actions and network investments and improvements should continue to pay off. So, I'd say, first, we do expect dental underwriting results to continue to improve in the second half of the year, and that will be helpful in terms of that earnings emergence.

I'd also say that we do expect total premium and growth to accelerate in the second half of the year. So, I don't think we've really addressed that at this point. So, that second half of the year should look like better premium and fee growth than we have seen in the first half of the year. And again, this isn't just driven by new sales.

Persistency plays a role in that, but there's also been a build going on for us behind the scenes about capabilities on things like building capabilities to improve participation for our voluntary products. Those are also adding in an organic way to our premium base, and that's a boost then obviously for earnings growth as well.

The third thing is, we've talked a bit on this call about some of the acquisitions we've been making. Our story historically has been nearly purely organic. We've added a little inorganic dimension to that, and that should help us in terms of our future growth prospects.

And then, finally, I'd kind of come back to the goal of this whole business is not to just have great underwriting results. We'll certainly take them when those emerge, but it's to really make sure we balance profit and growth. We deliver to the customers the things that protect those small and growing businesses, and ultimately then also help us drive that earnings growth.

So, our current underwriting results put us in what I think is a really enviable position to consider some pricing decreases over time, returning some of those back to our customers to help the customers grow, but then also helping our price competitive, so that we grow. Our intention is to keep that SBD growth engine going strong over time, and continuing to see that build from earnings growth.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.
A

And Mike, the other thing I would mention and Amy answered this earlier in the call is that the driver across all of the loss ratios in the quarter was really incidence and frequency rather than severity.

Severity tends to be lumpy, and can be more quickly returned to the norm, whereas incidence and frequency-driven underwriting results tend to last longer because it shows a trend across your entire block of business. So, that'd be the other point I'd make there as well. Do you have a follow-up up question?

Michael Ward
Analyst, UBS
Q

Thanks. Yeah, no, that was very comprehensive. I was hoping to ask Kamal just about the environment, including in fixed income and across the business, frankly. But like, is there a dynamic where there's just so much new money going into AI and data center build-outs where you guys participate, but maybe in a more measured way. Like, how frothy is that market, that asset class?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.
A

Yeah. And I do think that question gets to a broader discussion on how he feels about the entire platform that he has. And I think there are some great strengths both on the private side as well as fixed income. But Kamal, I'll have you add.

Kamal Bhatia
President & Chief Executive Officer-Principal Asset Management, Principal Financial Group, Inc.
A

Sure. Good morning, Mike. Great question. So, you had two-part question. One was just our fixed income book and how do I feel about that? And then, the second part is a little bit more in the private market area related to data center. So, let me start with the fixed income business we have, I actually feel quite good about it.

Couple of reasons for that. Earlier in the call, there were questions on how our investment performance is doing, and our investment performance in fixed income continues to improve. Particularly, when I look at our client engagement in areas like high yield credit, our ETF business is benefiting from them internationally. We have done quite well with emerging market debt, so that's allowed us to scale up and in US, we have a pretty strong muni credit strategies.

Deanna also mentioned we continue to innovate. She mentioned earlier in her comments, we recently launched a unique set of innovative fixed income ETFs. So, I do think our fixed income business on the public side continues to scale up, and over time, will contribute more to our earnings power and our growth power.

The data center question is a good one. So, first, right off the bat, our focus in the AI data center space is pretty much as a real estate equity investor. We don't generally tend to participate on the private credit side of that equation, where there has been recently more concern on the size of deals that has been done and the risk involved there. My view of this is that even on the real estate equity side, on the data center side, it is becoming more nuanced.

One of the key things is the business has moved away from being less about technology and more about being real estate. You have heard noise around the challenges of acquiring properties, getting power access, the challenges of working through the regulatory environment. My view is the winners in this space will require real estate negotiation skills, and it will be lumpy, but that's going to be key in this space.

So, from my side, I think we are on the right side of how that plays out, where the value creation would happen. And we also tend to generally focus on the small to mid-market size of those deals, which I do think stay under the radar, which allows us to create returns and value for our shareholders.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.
A

Thanks, Mike, for the questions.

Michael Ward
Analyst, UBS
Q

Thank you.

Operator: Our final question comes from Alex Scott from Barclays.

Alex Scott
Analyst, Barclays Capital, Inc.
Q

Hey, thanks for fitting me in. I wanted to ask a higher level one about expense margins as we head into the back half of the year. I know some of your businesses, I think tend to generate a little bit better margin in the back half of the year. And how you approach the tradeoff between investing in the business and letting it flow through to earnings?

And I ask this just because there's a fair amount of tech spend that's being contemplated out there probably and you also have the benefit of markets that you're back in some of your businesses, too. So, just any thoughts on how you'll approach that at a high-level?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.
A

Yeah, I'll make a couple of comments and then have Joel add on. I think if you looked at us and followed us for years, you know that we have a proven track record of aligning expenses with revenue and ultimately still making investments in the business because we need to make sure that we're driving those capabilities that will drive sustained long-term growth.

If I even look at the last year with only 2% increase in expenses and knowing the investments that we're making across AI, across technology, across driving enhanced capabilities. And again, that's relative to a 5% increase in revenue. We're going to continue to have that discipline, but also not shrink ourselves to greatness, make sure that we're investing in growth.

And I think the other thing I'd mention is, as Kamal mentioned, when we do see a business that has some more revenue headwinds, that business will lean even further into how do they make sure that they're aligning expenses with revenue outlook as well. But I'll see if Joel has some additional comments.

Joel Pitz
Executive Vice President & Chief Financial Officer, Principal Financial Group, Inc.

A

Hey, Alex. The only thing I'll add is that we have the privilege of being at scale within all of our businesses. We're well-positioned in all the markets we're at. We're very differentiated. We know how to compete and where to compete, and which allows us to be very effective in that regards. And you've heard us say and Deanna said it before, we're going to meaningfully say as we can, meaningfully invest.

And so, again, the reality that we need to invest in our business isn't going to be excuse not to hit our numbers. We're continuing to make sure we extract savings where we can and should, so we can make those meaningful investments to position our company for not only short-term, but also long-term success.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Thanks for all that. Appreciate it.

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

You have a follow-up?

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Yeah. A quick follow-up on Investment Management. And I just noticed the Morningstar data that you guys provide in your deck. The 10-year equity performance, declined a bit more meaningfully. And I assume it probably just has to do with something rolling off, but it was a pretty big move. And I just wanted to understand, like, what kind of impact does that specifically have? Is that a metric to people focus on and could there be a tail to the outflows just associated with some of those metrics getting a little worse?

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

A

Yeah, I'll have Kamal address that.

Kamal Bhatia
President & Chief Executive Officer-Principal Asset Management, Principal Financial Group, Inc.

A

Yeah. Good morning. So, the 10-year number is important. I would argue that it's way more important on the alpha side, given that's what institutions focus on. The Morningstar metrics are important, but probably the three and five-year number is a more important metric in that regard.

You rightfully observed that some of the equity performance has deteriorated on the Morningstar 10-year number. I explained earlier that a lot of it is driven by our style of investing, which clearly given the normal market, the recent returns have suffered given the market conditions and that obviously rolls into the 10-year number.

One of the things I will highlight for one of the strategies, one of our larger strategies, the 10-year number, even on Morningstar is still very strong. And my view of this is our larger AUM strategies, where their 10-year number stands and if they are of institutional interest, how they are performing. So, I feel good from an alpha perspective on those strategies, but certainly monitoring the Morningstar numbers is important for us. It's important for our retirement clients as well. So, we continue to stay focused on it.

Alex Scott
Analyst, Barclays Capital, Inc.

Q

Got it. Thank you.

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

Deanna D. Strable-Soethout
Chair, President & Chief Executive Officer, Principal Financial Group, Inc.

Thank you. As we close today's call, I want to thank all of you for your time and questions. As you look at our second quarter results, it reflects disciplined execution, the strength of our strategy, and value from diversification of our businesses. We are driving sustainable growth with balanced contributions across revenue growth, margin expansion, and impact of capital deployment.

In addition, the actions we're taking to sharpen our portfolio, alongside momentum, a healthy capital position and strong fundamentals positions us well to deliver on our targets and deliver long-term value for shareholders. We look forward to connecting with many of you in the months ahead. Thank you, again, for your time and have a great day.

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