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Principal Financial Group, Inc. (PFG)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Principal Financial Group Third Quarter 2025 Financial Results Conference Call. There will be a question-and-answer period after the speakers have completed their prepared remarks. [Operator Instructions] We would ask that you be respectful of others and limit yourself to one question and a follow-up so we can get through everyone in the queue.

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

Humphrey Lee

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

Thank you, and good morning. Welcome to Principal Financial Group's third quarter 2025 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 discuss our strong third quarter performance and the continued execution of our strategy, focused on delivering sustained growth across our diversified businesses. Joel will then provide additional details on our financial results and capital position.

Turning to slide 2, our third quarter results build on the momentum of the first half of the year and demonstrate another period of strong performance toward our financial targets. We delivered 13% adjusted earnings per share growth year-over-year and 14% year-to-date, above our target range. Our return on equity expanded significantly the last year and is now at the high end of our target range. And our year-to-date free capital flow conversion ratio of over 90% is tracking above target.

Additionally, we returned \$400 million of capital to shareholders in the quarter, including \$225 million of share repurchases. We also raised our common stock dividend for the ninth consecutive quarter, an 8% increase on both a quarterly and full year basis. These results were driven by strong business fundamentals across the company, including enterprise net revenue growth of 4%, margin expansion of 180 basis points and positive

enterprise net cash flow. Given the strong performance through the first three quarters and our business momentum, we fully expect to deliver on our full year enterprise financial targets.

Moving to slide 3, we continue to make progress on our strategic priorities highlighted at our 2024 Investor Day. As a reminder, we're focused on three significant profit pools where we are uniquely positioned to win, the broad retirement ecosystem, small and mid-sized businesses and global asset management.

Let's start with the retirement ecosystem, in which we offer a comprehensive suite of capabilities across recordkeeping, asset management, wealth management and income solutions. We're seeing strong momentum across key metrics. Workplace Savings and Retirement Solutions, our WSRS transfer deposits, grew 13% year-over-year, demonstrating the strength of our retirement recordkeeping platform and the breadth of our distribution reach. We're serving an increasing number of participants, and the participants we serve are saving more. This is evidenced by a 3% increase in the number of participants deferring into their retirement plans compared to the year-ago quarter, with average deferrals up 2%.

Total RIS sales of \$7 billion increased 8% year-over-year, with strong growth in WSRS and pension risk transfer. On a year-to-date basis, nearly one-third of our PRT premiums came from existing defined benefit clients. Additionally, nearly half of our year-to-date nonqualified life insurance sales are part of a total retirement solution with RIS. Our retirement investment expertise, an important growth driver within the retirement ecosystem, continues to gain traction with third-party retirement platforms, as evidenced by DCIO sales of \$2 billion in the quarter. These connections within and across businesses demonstrate our power across retirement and reinforce our unique competitive advantage in delivering retirement solutions to employers and their employees.

Moving to our small and mid-sized business segment. Our differentiated capabilities and deep expertise in this attractive segment continues to drive results. WSRS SMB recurring deposits grew 8% and transfer deposits increased 27% compared to the year-ago quarter.

In Benefits & Protection, our business continues to show growth and resiliency. Employment growth for our block was nearly 2% on a trailing 12-month basis, and we're seeing continued success in deepening relationships. Based on our latest insights, employee retention remains a top priority for small business owners and executives, and we're well-positioned to help them achieve their goals with our comprehensive suite of solutions.

In global asset management, we're generating strong momentum with gross sales in investment management of \$32 billion, up 19% year-over-year. Revenue on these sales is up even more. Our private markets capabilities remain attractive to clients globally, generating net inflows of \$1.7 billion in the quarter. Private's AUM grew 9% year-over-year as strong demand continues across our real estate, infrastructure, and private credit strategies. Additionally, our ETF business delivered net inflows of \$500 million in the quarter and \$1.3 billion year-to-date. These results reflect the strength of our diversified business mix across asset class, geography and client base.

Looking across our three long-term strategic focus areas, I'm encouraged by the momentum. The breadth of our retirement solutions, our leadership position in serving small and mid-sized businesses and our expanding global asset management capabilities create multiple paths for sustained growth. These competitive advantages, combined with our integrated business model and strong execution, position us well to capitalize on the significant opportunities ahead while creating value for our customers, shareholders and employees.

Before I turn this over to Joel, I want to acknowledge our recent release of the fourth annual Global Financial Inclusion Index, which tracks how governments, employers and financial systems around the globe are advancing financial inclusion. Since the index launch, we've seen how digital solutions have emerged as a powerful driver of

progress, helping people make informed choices and achieve greater financial security. Markets making the fastest gains are embracing fintech solutions that expand access, while embedding financial, education and safeguards. While current economic uncertainty has temporarily impacted employer financial inclusion programs, it's encouraging to see governments and financial systems stepping up. The findings highlight the tremendous opportunities ahead and reinforce our important mission to help people feel more confident in their financial decisions. Joel?

Joel Pitz

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

Thanks, Deanna. This morning, I'll share the key contributors to our strong financial performance for the quarter, as well as details of our capital position. As shown on slide 4, we reported non-GAAP operating earnings of \$474 million or \$2.10 per share, a 19% increase year-over-year. And on a year-to-date basis, reported EPS increased 21%. Excluding significant variances, non-GAAP operating earnings were \$523 million, an increase of 9% year-over-year, an EPS of \$2.32, increased 13%. On a year-to-date basis, adjusted EPS increased 14%. While not on the slide, third quarter reported net income excluding exited business was \$466 million, an increase of 11% over the prior-year quarter with minimal credit losses.

Turning to capital and liquidity. We ended the quarter in a strong position with \$1.6 billion of excess and available capital. This includes \$800 million at the holding company at our targeted level. \$350 million in our subsidiaries and \$400 million in excess of our targeted 375% risk-based capital ratio, which was estimated at 400% at quarter-end. We returned approximately \$400 million to shareholders in the third quarter, including \$225 million of share repurchases and \$173 million of common stock dividends. We are confident we will deliver on our full year capital return target of \$1.4 billion to \$1.7 billion, including \$700 million to \$1 billion of share repurchases.

Last night, we announced a \$0.79 common stock dividend payable in the fourth quarter. This is a \$0.01 increase from the dividend paid in the third quarter and an 8% increase over both the year-ago quarter and trailing 12-month period. This aligns with our targeted 40% dividend payout ratio and demonstrates our confidence in continued growth and strong capital generation.

Moving to AUM and net cash flow, markets created tailwinds in the quarter, with positive results across US and international equities, fixed income and real estate. Total company managed AUM of \$784 billion, increased 4% sequentially, driven primarily by strong market performance along with positive net cash flow. Total company net cash flow was \$400 million in the quarter, a sequential and year-over-year improvement, driven by investment management flows. As Deanna mentioned this was largely driven by strong private inflows.

Moving to the businesses, the following commentary excludes significant variances, which can be found on slide 10. Significant variances this quarter include a net unfavorable impact to GAAP earnings from our actuarial assumption review, primarily driven by model refinements. It is important to note the actuarial assumption review impacts our GAAP only and non-cash, and therefore, has no impact on free capital flow for the enterprise. The remaining significant variances are a slight net positive.

Starting with RIS, and as shown on slide 5, third quarter top line growth was 4%, towards the upper end of our target range, driven by growth in the business and favorable markets. This, coupled with expense discipline, while investing in the business, resulted in a 42% margin, a 130 basis point improvement over the third quarter of 2024. Pre-tax operating earnings of \$315 million increased 8% from the prior-year quarter, driven by growth in the business and margin expansion. As Deanna noted, fundamentals across the business remain healthy. Total WSRS recurring deposits grew 5% on a trailing 12-month basis with our SMB segment continuing to outperform

at 8% growth over the same period. Additionally, consistent with the first half of the year, withdrawal rates in the quarter remained stable.

Turning to slide 6. Principal Asset Management delivered strong earnings on revenue growth and margin expansion. Within Investment Management, pre-tax operating earnings increased 9% from the prior-year quarter. Management fees increased 5% year-over-year, driven by higher AUM and a stable fee rate against the backdrop of industry fee pressure. This, along with continued expense discipline, contributed to a 180 basis point improvement in Investment Management's quarterly operating margin. Net cash flow was \$800 million in the quarter, supported by inflows in privates, with two large wins in private real estate equity, as well as positive flows in high yield, emerging market fixed income and active equity ETF strategies.

Moving to International Pension, we delivered record reported AUM of \$151 billion, an increase of 9% year-over-year. Operating margin of 47%, expanded 180 basis points from the prior-year quarter and remains comfortably within our targeted range.

Turning to slide 7. Specialty Benefits pre-tax operating earnings were \$147 million, a record quarter. This was an increase of 28%, compared to the year-ago quarter, driven by more favorable underwriting results and business growth. These results reflect our focus on pricing discipline and profitable growth. Total our SBD loss ratio improved 340 basis points, compared to the year-ago quarter and was below our target range. These results were driven by favorable group life and group disability underwriting, as well as a 100 basis point improvement in the dental loss ratio. Operating margin of 17%, expanded 330 basis points, compared to the year-ago quarter and is above the high-end of our target range.

In Life Insurance, premium fees increased 3%, compared to the third quarter of 2024, a strong business market growth of 11% continues to outpace the runoff of the legacy Life Insurance business. Mortality in the quarter was better than expected, but slightly less favorable than a year-ago quarter. In closing, our strong enterprise performance reflects successful execution of our strategy and strong fundamentals. Our diversified business demonstrates its strength through profitable growth and expanded margins. As Deanna highlighted, this momentum, coupled with our year-to-date performance, reinforces our confidence in delivering on full year enterprise financial targets have positioned us well for sustained long-term performance.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Jack Matten with BMO Capital Markets. Your line is open.

Jack Matten

Analyst, BMO Capital Markets Corp.

Q

Hey, good morning. So, the first question on margins, I'm just wondering if you'd expect to continue seeing strong margin expansion kind of in line with the 180 basis points this quarter if market performance remains strong. And I guess, relatedly, can you discuss areas where Principal is either accelerating or expanding its investments in growth initiatives?

Deanna D. Strable-Soethout

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

A

Yeah, thanks, Jack, for the question. Obviously, the margin expansion in the current quarter was impacted by both strong underwriting results, as well as very disciplined expense management. I'll have Joel talk about that, and then, maybe ask each of the presidents to maybe highlight a few areas where we're investing in the business.

Joel Pitz

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

A

Yeah, thanks for the question, Jack. From a margin perspective, we certainly expect margins to continue to expand. But importantly, while investing in the business, as you said. So, this quarter was no different than what we've done in the past, but we're going to make sure that we ensure that expenses grow at a much slower pace than revenues. And as you said, we had margin expansion of 180 basis points at the enterprise level and on [ph] TTM basis was a 100 basis point improvement. Once again (00:17:14-00:17:19) we'll continue to actively and responsibly manage expenses, in particular in the fee-based businesses where you do see some macro benefits emerging. We're going to continue invest meaningfully on that regard.

Deanna D. Strable-Soethout

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

A

Chris, maybe highlight a few investments that you guys are focusing?

Christopher J. Littlefield

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

A

Yeah, sure. Good morning, Jack. Obviously, margin was strong for RIS this quarter, and we continue to sort of guide toward the upper-end of our margin range. And despite that strong margin performance, we're making a lot of significant investments both in modernizing our recordkeeping capabilities, as well as building out our capabilities to serve the individual customers [ph] and (00:17:56) retirement plans. So, we're making very significant investments and still being able to deliver at [ph] our margin (00:17:01).

Deanna D. Strable-Soethout

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

A

Amy.

Amy C. Friedrich

President-Benefits & Protection, Principal Financial Group, Inc.

A

Yeah, thanks, Jack. So, obviously, margin for the SBD businesses was exceptional this quarter. And then, when we look across the margin for life, that was within the range as well. So, I'd echo what Chris said. Again, we're meeting our margin targets or we're exceeding them in one of the businesses and we're still investing for the business. So, when I think of those key investments we're making, a lot of them are multi-year in nature and we've been working on some multi-year investments related to our front-end acquisition systems for our group benefits business, also some increased data exchange capabilities, and those are going to benefit our employer customers, as well as the brokers and advisors, who really have to recommend us for that business. So, I'm excited to see those capabilities coming to the marketplace in late 2025 and early 2026. Kamal?

Kamal Bhatia

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

A

Sure. Jack, good morning. Just – I'll highlight both IM and IP for you, both had excellent quarters on margin and I expect them to continue. On IM, the margin is around 36%, and it's largely aided by the results we highlighted in our cash flow, but also markets. And then, IP where net flows may not be that strong, we still have excellent margin and the drivers of our margin in both those businesses are slightly different.

In Investment Management, our investments continue to be around building new investment capabilities that will generate higher [ph] fee (00:19:32) revenue for us. You've seen that in our private markets area and we continue to do that now in public markets as well, particularly global equities, which we believe will actually add to our growth potential. In IP, our focus continues to be to optimize our sales distribution network across the various regions and leveraging the collaboration between IM and IP in those regions. So, that is probably the bigger area for investment in the IP area.

Deanna D. Strable-Soethout

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

A

Jack, did you have a follow-up?

Jack Matten

Analyst, BMO Capital Markets Corp.

Q

Yes, very helpful. Thank you. Yeah, follow-up on maybe on free capital flow conversion and it's been running at a healthy levels over 90%. I think, even if you back out the GAAP assumption review, is there anything notable you'd call that's driving that and how you would expect that to trend over the near-term?

Deanna D. Strable-Soethout

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

A

I'll ask Joel to address that.

Joel Pitz

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

A

Yeah. Thanks, Jack. We are in a very strong capital position as we end third quarter. We have the luxury of a very capital efficient mix of business, which affords us the ability to organically invest in our business again while freeing meaningful capital up for the benefit of shareholders. As such, we have and will continue to operate from a position of capital strength. And as you saw from our disclosure at the end of third quarter, we do have \$1.6 billion of excess and available capital. This is \$150 million higher than we had coming into the third quarter, while

investing in organic growth and deploying approximately \$400 million of capital in the form of share buybacks and dividends during the quarter. As signaled in the quarter last call, we expected and are deploying elevated levels of capital in latter part of the year. And you saw this in the third quarter with the \$400 million of capital deployed in the course of the quarter. \$225 million of which was in share buyback activity.

So, as we sit here today, we feel really good about our share buyback activity and positioning for the fourth quarter. Just as we had elevated third quarter deployment, we expect fourth quarter to be even further elevated. And so, we feel really good about our prospects for deploying capital in an optimal and strategic way from this point forward. And last but not least, we announced last night with the dividend that continues to be a priority for us. We increased our quarterly dividend by a \$0.01. And again, that's a testament to our commitment to growing our dividend and maintaining that 40% dividend payout ratio. So, Jack, I hope that helps.

Deanna D. Strable-Soethout

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

A

Jack, the only thing I'd add to that is obviously as we grow our fee-based businesses across the enterprise, that will provide some tailwinds to that free capital percentage as well.

Jack Matten

Analyst, BMO Capital Markets Corp.

Q

Got it. Thank you.

Operator: One moment for our next question. Our next question comes from Ryan Krueger with KBW. Your line is open.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hey, thanks. Good morning. First question is on Investment Management flows. Can you talk a little bit about any changes you're seeing in investor sentiment from your clients, in particular appetite for the areas that you're focused on in that business? And maybe a little bit of perspective on how the pipeline looks going forward as well?

Deanna D. Strable-Soethout

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

A

Kamal?

Kamal Bhatia

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

A

Sure. Good morning, Ryan. So, I think, let me just first start with the strong results this quarter. I think, as Deanna mentioned in her remarks, we had positive net cash flow of \$800 million. I think, equally impressive is, if you look at on a non-affiliated NCF, it was \$1.8 billion positive, which is largely with long-term mandates in private markets that not only contributes to the fee rate, but also revenue growth.

The other dynamic I would highlight for you is, is we had net cash flow growth this quarter across multiple channels. We actually had wins in global institutional, which I've highlighted to you in the past. We actually had positive net cash flow across our US retail platform, where we have had a change of trend, as well as in our local

managed products across Asia and LatAm. So, I think, the key observation I would give you is that our focus on having scale in global distribution is really kicking in and I expect that to continue over a period of time.

If I even look at our active ETF business, over 2025, our net AUM growth has been over \$3 billion in the last 12 months. So, we continue to expand in that business. What I would highlight for you with respect to the areas where we are seeing continued momentum, real estate, as I've highlighted for you in the prior few quarters, is actually seeing increased momentum.

I think, the cycle is slowly turning, but the most impressive piece for us is we are actually gaining market share, which I expect to continue as we expand our product lineup. And then the results in fixed income continue to be quite impressive, particularly our growth, we have seen in emerging markets fixed income is an area I would highlight where we continue to win mandates across the world. So, Ryan, hopefully that answers the question you had.

Ryan Krueger

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yes. Thank you. Just a quick one. Are performance fees still expected to be fairly modest in the fourth quarter? Has anything changed?

Deanna D. Strable-Soethout

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

A

Yeah, that's a great question. I'll have Kamal address that.

Kamal Bhatia

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

A

Yes, Ryan. So, yeah, performance fees are probably still expected to be the same level as they were in 2024. The area that I would highlight for you is we've actually seen an uptick in transaction and borrower fee activity. I think, as the markets have unclogged here a little bit, when I look at transaction borrower fee year-over-year, there's a slight improvement in there of 10% to 20%, but they're still below their long-term potential. Longer term, I would expect performance fees to tick up, but not yet where we are in the market cycle.

Deanna D. Strable-Soethout

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

A

Yeah, Ryan and as you know, performance fees, borrower fees, transaction fees can be volatile quarter-to-quarter, but it's great to see the 5% increase in management fees year-over-year because, again that's the momentum of the business that's going to drive margin and growth across the enterprise.

Operator: Thank you. One moment for our next question. Our next question comes from John Barnidge with Piper Sandler. Your line is open.

John Barnidge

Analyst, Piper Sandler & Co.

Q

Good morning. Thanks for the opportunity. The [ph] Barings (00:26:02) strategic partnership, do you have any visibility into whether that relationship fee rate enhancing versus the blended fee rate at Principal Asset Management and possible other similar opportunities? Thank you.

Deanna D. Strable-Soethout

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

A

Yeah, I'll maybe ask Joel and Kamal to add to that. Obviously, a large proportion of our general account is managed by our internal asset management business, but we have for a long time also used third-party providers in areas that we feel are critical for us, meeting our strategic asset allocation, but also meet our return and risk thresholds as well. And so, we were happy to announce the [ph] Barings (00:26:42) partnership and it gave us a unique opportunity to partner with them, but also have some co-investment opportunity as well. So, maybe I'll have Kamal address that, and then ultimately, if Joel has anything to add as well.

Kamal Bhatia

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

A

Sure. Good morning, John. And thanks for highlighting that partnership. So, it's part of our strategy to continue expanding our private market expertise. As Deanna highlighted, part of this partnership is to assist on the general account side. But what's most unique about this partnership is we have historically done both origination and portfolio management in the private markets area. And the [ph] Barings (00:27:22) partnership is unique because they had unique strength in origination in an asset class that they had an edge in. And we continue to play the role of being the portfolio manager, the underwriter of those transactions, which also is our expertise. So, we're looking at unique opportunities that expands our business base, but also creates value for Principal overall.

Deanna D. Strable-Soethout

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

A

Joel, did you have anything to add?

Joel Pitz

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

A

Yeah, and John, just to comment that we have the luxury of great in-house capabilities. So, within our general account, we can meet the needs through our investment capabilities, where we manage about 95% of the general account portfolio. And we'll continue to look at collaborative ways [ph] and whereby (00:28:00) we can partner with others in order to augment those capabilities that we need to support our general account. And Barings is a great example of that.

Deanna D. Strable-Soethout

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

A

John, did you have a follow-up?

John Barnidge

Analyst, Piper Sandler & Co.

Q

Yeah, thank you. My follow-up is on the 401(k) business, was the baby boomer generation more and more retiring and pulling down on those retirement dollars. Flows might not be the best metric to look at as much as profit growth. But my question is on that secular headwind to flows. What does that make you think about the consolidation in the 401(k) more broadly, given the leading position the company has? Or is it really just more about winning business that comes to market? Thank you.

Deanna D. Strable-Soethout

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

A

Yeah, I'll have Chris address that.

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

A

Yeah. Good morning, John. Thanks for the question. I think, as I've mentioned in prior quarters, consolidation is definitely happening in the industry and there's two ways the consolidation happens, right? It's happened through large M&A transactions, which we saw few years ago, and we've seen more muted activity on the inorganic side over the last couple of years. But what's really happening is there's been a real shakeout of lower scale players. And so, we are seeing the benefits from being able to win more plans from those players. And I don't think over the long-term the market is going to be able to sustain. What is the current about 40 different recordkeepers in the industry.

We believe that that's going to shrink closer to single-digits sometime over the next 10 years. And as the number three player, we expect to be a real beneficiary from that consolidation and we see that in overall results. So, we will continue, scale is important. We will continue to evaluate our position. We're comfortable with our position now and we're focused more on how do we continue to drive organic growth in our business than on any large transaction at this point in time.

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

A

Yeah. The other thing I'd say, John, and you started your question out here, Chris has continued to reiterate that revenue growth is his focus. Obviously, there's some dynamics within just looking at flows, whether it be the market impact, the baby boomer generation, as you talked about, and just the overall fact that positive macro, even though positive to our overall business, can be punitive to net cash flow. And so, ultimately, that team has been very focused on driving profitable revenue growth. And I think this quarter is another great demonstration of that success.

John Barnidge*Analyst, Piper Sandler & Co.*

Q

Thank you.

Operator: One moment for our next question. Our next question comes from Jimmy Bhullar with JPMorgan. Your line is open.

Jimmy S. Bhullar*Analyst, JPMorgan Securities LLC*

Q

Hey, good morning. First, just had a question for Kamal on net flows in asset management. I think, if you look at your commentary over the past year, it's been fairly positive and flows had been weak, but this quarter obviously showed a turnaround. To what extent do you think it's the beginning of a trend, given the favorable market backdrop that you have? And how do you think about like the weaker investment performance that you've seen recently factoring into your net flow expectations over the next year?

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

A

Sure.

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

A

Go ahead, Kamal.

Kamal Bhatia

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

A

Sure. Jimmy, good morning and thanks for highlighting the turnaround. You've always been a believer in us, so I appreciate that. With respect to your question around the sustainability of the trend and what's driving it. I will tell you that the quality of flows we are actually seeing this quarter is actually quite high. When I look at the clients who are giving us the mandates, they tend to be more longer term in nature. And they're also putting it in areas that are in the trough of a market cycle.

So, I expect returns to be quite strong in those areas as we move forward. It certainly helps with the sustainability of our flows. I think, as Deanna highlighted, one of the other things we did this quarter is not only were cash flow positive, our management fee rate was 5% higher, which is generally bucking the industry trend and something we continue to focus on. So, when I look forward, I think, 4Q has always been an active quarter for rebalancing and a lot of strategic allocation happens. This year, given the strength of the marketplace, it could be more active than usual, and that is something that other peers are also going to experience. So, there will be higher volatility of allocation changes happening.

One sentiment signal I could give you to your question that we continue to track is the questions we get in our RFPs. While overall RFP volume as we enter 4Q here is lower than it is in 2024, generally across the industry and for us. We are sort of starting to see a shift in the type of questions we get. They're shifting to focus more on exploration and new idea requests, rather than active allocation among existing mandates. So, I do believe the investors, after the run-up in markets are looking for new products, new ideas or areas that have generally been under allocated to highlighted global equities as one of those areas where I do believe I think there'll be more allocation coming. With respect to timing of flows, it can be very difficult to predict. But what I can tell you, I remain very, very confident that the second half for Asset Management and IM flows will be much stronger than the first half for our business.

Deanna D. Strable-Soethout

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

A

Jimmy, did you have a follow-up?

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Yeah, and then on just the part about performance, is that factoring into, because I think if I look across your various asset classes, the performance recently, the numbers seem a little weaker than they've been in the past. Is that factoring into your net flows and pipeline?

Kamal Bhatia

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

A

So, if you decompose the performance drivers, a very large part of our underperformance has come in our multi-asset products. In certain target date funds, our hybrid target date fund continues to perform very well, but the active product has underperformed and yes, it has had impact in both on and off platform retirement flows, particularly [indiscernible] (00:34:17) and our off platform business. So, certainly, an area we continue to pay a lot of attention.

Our performance in other areas like international equity has become stronger over time. So, I would highlight that for you. And our performance, we actually are just hitting a three-year number on our data center product that we launched, which continues to have very, very strong performance. So, there are certain areas that continue to do well and the areas that are weak, we continue to enhance our risk management talent and tools and we continue to add new talent in areas where performance has been weak and that's generally on the equity side for us.

Deanna D. Strable-Soethout

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

A

Yeah, I think, Jimmy, obviously, as Kamal reiterated, delivering alpha generation is a long-term priority. Obviously in markets like we've seen where equity performance has been concentrated in a fewer number of names, you can see some volatility quarter-to-quarter, but ultimately, again, our focus is staying close to our customers, making sure we understand what's important to them and delivering alpha generation. So, we'll stay focused there and ultimately continue to focus on driving revenue growth for our clients and for our shareholders.

Jimmy S. Bhullar

Analyst, JPMorgan Securities LLC

Q

Okay. Thank you.

Operator: One moment for our next question. Our next question comes from Wilma Burdis with Raymond James. Your line is open.

Wilma Burdis

Analyst, Raymond James & Associates, Inc.

Q

Hey, good morning. Could you talk a little bit more about where you are on growing the spread base balances in RIS? And which products you're most focused on to grow that spread business and what you're finding most favorable today? Thanks.

Deanna D. Strable-Soethout

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

A

Yeah, Wilma, thanks for the question. Obviously, there's a number of categories of types of sales within the spread business, including supporting our WSRS platform as well. But I'll have Chris get into some more details on where our focus is.

Christopher J. Littlefield

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

A

Yeah, good morning. Thanks, Wilma, thanks for the question. Yeah, I mean, we've seen really nice performance in spread based over the last several quarters. And our emphasis as we talked about in prior quarters is really continuing to figure out how to drive revenue growth within our retirement plans, which includes how do we sell our guaranteed products at a faster pace. We've seen very nice inflows and growth in our [ph] WS or SGA (00:36:38) products sold through retirement plans.

We also have seen nice performance over the last several years in PRT. We had a very strong PRT quarter this year, and as we've talked about, we're not so much focused on volume there. We're focused more on returns. But despite the industry backdrop of declines, we continue to see strong performance in PRT and we're going to be – continue to be disciplined there and focus in our target market, which is in the smaller segments of the market, not the jumbo side, which is where most of the pressure has been felt on PRT.

And then lastly with respect to our annuities business, we've seen very nice growth in the RILA business over the last several years that provides a lifetime income product for our customers. We focus primarily on serving the lifetime income needs of our retirement customers. And so that is why that exists there. So – and across all of those, we've seen really nice growth on the spread based side and not just growth, but growth at really nice returns.

Deanna D. Strable-Soethout

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

Wilma, do you have a follow-up?

A

Wilma Burdis

Analyst, Raymond James & Associates, Inc.

Yes. And then, Amy, maybe you could talk a little bit about the – what drove the favorable loss ratios in Specialty Benefits and what you're seeing there as far as the upcoming quarters? Thanks.

Q

Deanna D. Strable-Soethout

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

I'll have Amy address that one.

A

Amy C. Friedrich

President-Benefits & Protection, Principal Financial Group, Inc.

Yeah, thanks for the question. It was a fantastic quarter in terms of underwriting results. And so, I think, the first thing I would note is really there's not one particular product that's driving it. We're seeing really nice performance from group disability. That is specifically, driven by lower LTD incidence in this quarter. We're also seeing really nice performance from group life that's driven by lower frequency. As Joel noted in his opening comments, we had a 100 basis point improvement in our loss ratio also for dental. So, we're seeing a nice return and improvement kind of back to the path that we want for our dental business.

A

For supplemental health, again, I would say that one is performing as we expected. We want that business on a run rate basis to perform a little bit higher in terms of loss ratio than it had been doing earlier in the year or late into last year. So, I would say the types of loss ratios that business is putting down is kind of what we would expect. And then there's also the individual disability business, which performs very well.

So I think the driver is we're focused on the right marketplaces. We're in that small to medium-sized business marketplace. They know they have needs. We're able to grow in that marketplace. And we're able to do that in a rate that we can drive both great benefits that we put in the hands of those business owners, but also appropriate profit for us. So I see the balance of that paying out. We don't have to necessarily go outside of our underwriting guidelines very often. We don't have to put planned maximum in – maximums in that we're uncomfortable, and we're growing the right pieces of business.

The last piece I would note there is that our worksite business and our voluntary practices, voluntary participation, worksite array of products that we offer, we're really growing that piece as well. That piece gives us a nice bit of margin expansion over time as the shift of business begins to be a bit more voluntary. And it's helping our results as that supplemental health line begins to grow.

Deanna D. Strable-Soethout

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

Thanks, Wilma, for those questions.

A

Wilma Burdis

Analyst, Raymond James & Associates, Inc.

Thank you.

Q

Operator: One moment for our next question. Our next question comes from Joel Hurwitz with Dowling Partners (sic) [Dowling & Partners] (00:40:16). Your line is open.

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Hey. Good morning. So, first, wanted to get an update on the capital deployment outlook. Joel, you mentioned the pace should increase again in Q4. But I guess, what would drive you guys towards the higher end of that \$1.4 billion to \$1.7 billion capital return range? Because if I just look at your excess capital position, it's very strong. And Q4s are typically the strongest capital generation quarter. Any reason why you wouldn't really accelerate and lean into buybacks where the stock's at now?

Q

Deanna D. Strable-Soethout

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

Yeah. Joel, thanks for the question. I think if you have followed us for [ph] a year (00:40:51), you know that we have a very balanced and disciplined approach to capital deployment and ultimately, also want to make sure that we're delivering consistent and growing capital return to our shareholders over time. And so it can be volatile quarter-to-quarter, but ultimately, we are focused on delivering strong returns to our shareholders and returning excess capital to shareholders over time. But I'll have Joel address your specific question.

A

Joel Pitz

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

Yeah. And Joel, you raised a good point. We are sitting in a great position from a capital perspective at \$1.6 billion, as you mentioned. And as we signaled in last quarter's call, we did do outsized or higher, I guess, third quarter share buybacks than we did in the first half of the year. So, as you know well, the first half of the year, we did about \$350 million in share buybacks. We did \$225 million in the third quarter. And we certainly expect elevated levels from there in the fourth quarter. And so what happened in the third quarter is we did have very positive free capital flow conversion, while still investing in the business. And we just feel really good about the optionality we're afforded as it relates to investing for organic growth, as well as delivering meaningful share – meaningful capital back to shareholders. So, again, you will see some outsized fourth quarter share buybacks relative to what you saw in third quarter. Does that help, Joel?

A

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Okay. That helps. Thank you. And then, just shifting back to Specialty Benefits. Amy, any early outlook on how 1/1 renewals in new business is shaping up? Just how is the competitive landscape looking at this point? And do you see a path to have top line return back to that long-term growth range in 2016?

Q

Deanna D. Strable-Soethout

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

Yeah. I'll ask Amy to address that.

A

Amy C. Friedrich

President-Benefits & Protection, Principal Financial Group, Inc.

Yeah. Thanks, Joel. So just before I directly get back after it, and Joel did a really nice job covering this in his opening comments, but when you look at the stats, like, earnings up 28% year-over-year, margins expanding by 330 basis points, underwriting improving at 340 basis points, I think the trade-off we've been talking about is sometimes a bit slower growth is what you do to drive the profitability that you need for the business. So I feel like that trade-off is working really, really well.

A

That said, when I look ahead at 1/1 business, I think we're seeing more opportunities to write profitable business than we saw at the same time last year. So we are seeing things come to market that look attractive to us. We're winning against some of those bids. And I like what we're doing with respect to both renewals and new sale as I look ahead. So I had listed before a couple of those multi-year technology initiatives. Those are really starting to bear fruit and will in late, yet in fourth quarter 2025 and into 2026. And I feel like those investments are really positioning us to move closer to that low end of that range. Now, I know we'll have more to say about that in our next earnings and outlook call, but I feel good about the volume that I'm seeing right now.

Deanna D. Strable-Soethout

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

Yeah, Joel. And I think, as Amy highlighted, we continue to balance pricing discipline with our competitive positioning. And ultimately, we aren't going to chase growth for the sake of growth. And we've done that successfully for decades, and I don't see that not continuing as we look out into the future.

A

Joel Robert Hurwitz

Analyst, Dowling & Partners Securities LLC

Got it. Thank you.

Q

Operator: One moment for our next question. Our next question comes from Suneet Kamath from Jefferies. Your line is open.

Suneet Kamath

Analyst, Jefferies LLC

Great. Thanks. I wanted to ask about private credit. Obviously, we've had some flare-ups here in the past couple of weeks. And I know your portfolio is a little – maybe a little bit different than other companies, given its tilt towards real estate. But really just curious what you're seeing in terms of the private credit markets, both in terms of performance, competition, and just overall credit quality?

Q

Deanna D. Strable-Soethout

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

Yeah. Suneet, thanks for the question. I think there's two aspects of our private credit perspective. One is within our general account, which I'll ask Joel to address and one with – is within how we think about private credit with our third-party investors as well. So, I'll maybe ask Joel to start and Kamal to add on to that.

A

Joel Pitz

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

A

Yeah. So, Suneet, thanks for the question. A really good proof point for our managing credit losses is a testament to our third quarter losses, which is about \$8 million after tax, as you can see within the financial supplement. The credit losses from securities were at very low levels in Q2 2025 as well. So what you saw a little bit in Q3 was a few impairments, which was very de minimis. No commonality or reason within the industry as it relates to those credits. And importantly, the portfolio credit loss remains below our model long-term run rate estimate.

Success of any underwriting depends on the quality of the underwriting. And we're real proud of our practices in that regard, whether it's public or private. We remain really confident in our underwriting standards. We continue to focus on diversification, quality, and liquidity profiles that meet our liability needs, which, as you know, are very conducive to investing in privates, given our liability profile. So, given our quality and well-diversified portfolio, the credit risk is very manageable and as I said before, remains below long-term expectations and is certainly factored into our capital and deployment expectations.

Deanna D. Strable-Soethout

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

A

Kamal?

Kamal Bhatia

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

A

Sure. Good morning, Suneet. So I'll go to the two points you raised, which is how have we done from a performance perspective and what are my overall observations about the industry and the market dynamics. So, first, I think, as Joel highlighted, our own exposure in private credit is relatively modest. And it's quite aligned with our risk and [ph] ALM (00:46:35) parameters. One of the highlights I would give you is we've had no direct exposure to some of the names that have been mentioned in the news recently. The quality of the holdings we have in our business are largely underpinned by the extreme focus on underwriting. In fact, we have a very high selection ratio. The number of deals we look at, the number of deals we underwrite and participate in. Somewhere one out of seven deals only makes it through the funnel.

And then the other thing I would highlight for you is most of our vehicles have very low leverage ratio. One of the challenges in the industry has been is a lot of vehicles today in the industry have very high leverage ratios just by the way they were designed. So I would say, we remain quite focused on underwriting, and the portfolio is doing quite well. When I even look at 3Q, we had lower non-accrual rates and higher quality loan distribution compared to the rest of the industry.

Now going back to the industry dynamic, I do think it deserves some caution. The asset class has grown quite rapidly. The amount of capital that is being expected to invest has also grown quite rapidly. And my personal view on this remains that the risk of accidents in this space is really around entities that have to deploy very large amounts of capital very quickly and constantly.

Deanna D. Strable-Soethout

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

A

Hope that helps, Suneet.

Suneet Kamath*Analyst, Jefferies LLC*

Q

Yeah. That's very helpful. And then, my second question is just on the wealth management opportunity that you guys have talked about. I think you've mentioned having, I think it's 500 advisors that are helping your plan participants handle retirement. Can you just maybe provide some metrics on that? What sort of penetration are you having? Is it leading to better asset retention within the franchise? Just – I don't think we've seen any metrics, so I'm just curious if there's [indiscernible] (00:48:27) willing to share?

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

A

Yeah. Suneet, thanks for recognizing that. We did highlight at our 2024 Investor Day that this was a priority for us, but we also highlighted that it was a long-term build and it would take time before it actually moved into critical metrics that we would track and share. But I'll ask Chris just to talk about some of the things that we're watching. I think it's 200 advisors that we have licensed to actually have the advice conversations. But Chris, can you add some additional color?

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

A

Yeah. Yeah. Thanks for that, Suneet. Yes. As Deanna mentioned, it is going to be a long-term build. And we did, at the end of last year, so fourth quarter last year, begin the introduction of our advisory services with 200 salary-based advisors. And we've seen very nice early indications of the success of that program. First of all, we have about 90% plan sponsor adoption of the service, so making it available to participants that call in and need help. So, very strong plan sponsor adoption. We've also seen a very nice increase [ph] in this year of (00:49:37) the number of clients that we're serving, individuals we're serving. And so we've seen about a double-digit increase in our advisory and retail customers served through our workplace personal investing solutions.

And then another sort of green shoot, I would say, is that we've also seen a nearly 20% increase in roll-ins this year. So people that have a prior plan and then are moving to an employer that's [ph] not (00:50:01) served by Principal, we've seen a 20% increase in the amount of their rollover transfers and roll-in transfers into Principal plans. So those are early days, but those are good early metrics. And we remain very optimistic about the long-term value, but the short term is going to be a bit more muted as we continue to build our capabilities.

Suneet Kamath*Analyst, Jefferies LLC*

Q

Got it. Thank you.

Operator: One moment...

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

A

Thanks, Suneet, for the questions.

Operator: Sorry. One moment for our next question. Our next question comes from Tom Gallagher with Evercore ISI. Your line is open.

Thomas Gallagher*Analyst, Evercore ISI*

Q

Good morning. First question for Kamal. The – really question on CRE. All returns, flows in asset management, and the commercial mortgage loan exposure to your general account, those all look pretty good this quarter. And I've kind of viewed that, we'll call it, overall market exposure as being very important for Principal as a firm. And seeing everything kind of being more choppy in the past, all looking better this quarter, do you think we're at a better inflection point here broadly on those issues? Because I look at a mega CRE investor like Blackstone, and they had, I would say, more mixed results this quarter. I look at your results, it kind of looked better across the board. So curious what you're thinking there?

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

A

Yeah. Obviously, we have been a leader in real estate for decades. I'm very proud of our long-term position. And when you're a leader for decades, that means you have navigated multiple economic cycles, both for our own balance sheet as well as our clients. It's been a tough couple of years from a real estate perspective, but I think we're feeling better relative to where we are in the cycle. But I'll let Kamal add some additional perspective.

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

A

Yeah. Thank you, Deanna. Tom, good morning. It's a great question and very timely. So, I think you asked two things. One is just our own real estate book and where do we see it and the strong results we continue to deliver and the inflection point question. So, first, I would say, when I look back over three years, I would say CRE or commercial real estate has probably been in the strongest position over the last three years. It's obviously coming off of a trough. And I would say, as the year has gone by, we have seen more stability both on the occupancy side, but more importantly for somebody like us on the pricing power of many of the properties we manage or underwrite.

The more important thing over the last few quarters has been that capital flows are improving as well. So our own year-to-date private market cash flow is going to reach \$3 billion. And I certainly expect that to improve over time. The big change more recently probably has been the transaction volume. Compared to last year, we are about 17% up year-to-date comparisons. Q4 tends to be a little bit more. Last year, Q4 was very, very strong. So you may see a slight lowering of transaction volume, but still up 10%.

I think that the question you raised, there is going to be a big dispersion in real estate winners and losers in this market cycle. One of the things that we see is that the people who don't have any redemption queues in their products are actually going to have a benefit of putting fresh capital to work at much more better valuations. And they will get back to getting higher IRRs from that refresh of the book. I believe those managers will outperform and get market share. And that's where I see the strength of the Principal franchise being positioned.

The other benefit we have is our book is largely institutional or comes from our insurance company, which provides us the right match to where the market opportunity is and the liability needs are. So I think those two forces are definitely going to help our business and our market position.

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

A

Thanks, Tom. Do you have any additional question?

Thomas Gallagher*Analyst, Evercore ISI*

I do, Deanna. And this one's for you. Just – and I think you and Chris have both sort of answered the question, but I just wanted to rephrase it. Just view of M&A, because if I go back several years ago, Principal was very, we'll call it, M&A-focused from a capital deployment and now it's mainly common dividends and buybacks and minimal M&A. Would you still – is your philosophy still very much along those lines? Or would you consider if there were lumpy defined contribution type assets that came to the market, would you still take a hard look at those? Because I think there might be some more lumpy, larger properties that are coming to market in the next year or two. So, just curious what your philosophy on those situations might be?

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

So, the first thing I would say is, just because I'm sitting in a different seat, our philosophy here at Principal around how we approach inorganic opportunities isn't changing. We're going to continue to be really disciplined and focused and ensure that anything that we take a run at that one has strategic alignment, one can give us capabilities that can allow us to even increase our growth potential, has to meet our financial targets. And if we're bringing on people, it has to be very culturally aligned with how we function on a day-to-day basis.

The first thing I'd point out that we can meet our financial targets on an organic basis. And so first and foremost, that's the focus of our team, is to execute without – at a very high level to ensure that we're focused on that. We will be inquisitive, and we have the capital flexibility to look at opportunities that are out there. But there's a high bar, and that high bar exists whether it's an organic deployment of capital or an inorganic deployment of capital.

We recognize that scale is going to be critical, especially in some of our businesses. And so it's important for us to be inquisitive around those opportunities and ultimately lean into those that come our way that does meet those financial, strategic, and cultural thresholds. And ultimately, I think you'll see the same level of discipline as we've had in the past.

As I sit here today, we've had three years or four years where we were integrating successfully the Wells Fargo acquisition. We were then focused on divesting of a few of our perspectives. And sitting here today, we can be on our front foot, being able to lean into growth opportunities, both [indiscernible] (00:57:00) with the same level of discipline that we've had in the past.

Thomas Gallagher*Analyst, Evercore ISI*

Great. Thanks for that color, Deanna.

Operator: One moment for our next question. Our final question comes from Wes Carmichael with Autonomous Research. Your line is open.

Wes Carmichael*Analyst, Autonomous Research US LP*

Hey. Good morning. I just wanted to come back to the assumption review in the Life Insurance segment. Just curious if there is any colors – color on the drivers of experience-related assumptions if that's lapse or mortality? And just how should we think about the model refinements? Is that in the rearview mirror, or should that kind of continue going forward?

Deanna D. Strable-Soethout

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

A

Yeah. I'll maybe see if Joel can add some color there. I think this is something we do with discipline on an annual basis. And ultimately, we also then take the opportunity to step back to say, does anything that we found as part of that review change how we think about our business on a go-forward basis? And I think the answer to that second question is there was nothing that we saw or put through our GAAP financials that makes us think differently about our business or the ability to meet our financial targets going forward. But I'll maybe ask Joel to give a little more double-click on the Life impacts in the quarter.

Joel Pitz

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

A

Yeah. Thanks for the question, Wes. And Deanna said exactly right. The impact, as I noted in my opening remarks, reflects a range of technical model updates and experience, as you mentioned. And these are normal course refinements to this long-term business. And we remain confident in the business. [ph] I think it's (00:58:35) important to take that away as well. The Life impact is modest in scale relative to the overall size of our business.

As it relates to model refinements specifically, that was two-thirds of the impact, not only the enterprise, but also Life. And this really reflects refinements on how [indiscernible] (00:58:50) behavior and product cash flows are reflected in the models across a number of products. So think about it like it is added sophistication to our models, is how I view refinements.

As for the experience, that was about one-third of the impact in Life, and there was not a single driver behind the change. Again, this outcome reflects our disciplined process of updating the assumptions based on our own experience and industry experience. And importantly, the adjustments span across multiple products rather than be concentrated in any one area.

So as noted in the prepared remarks and also to reinforce here, it's reflective of a broad range of model refinements and experience updates. It's GAAP only, non-cash. It has no impact on our free capital flow for the enterprise. And importantly, it's immaterial to the ongoing run rate, which is actually reflected in our third quarter results. And it certainly does not impact our outlook or expectations on the future growth and profitability of not only in Life business, but also the enterprise in total.

Deanna D. Strable-Soethout

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

A

Thanks, Wes. Do you have a follow-up question?

Wes Carmichael

Analyst, Autonomous Research US LP

Q

I do. Thank you. Just one quick one maybe, but any insight into how VII, variable investment income is shaping up for the fourth quarter? It did sound [ph] seeing Kamal's (01:00:00) remarks like maybe there's a bit of real estate transaction momentum. So just curious if there's any foresight into that?

Deanna D. Strable-Soethout

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

A

I'll ask Joel to address that.

Joel Pitz

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

A

Yeah. So, VII performed very well in the third quarter amongst all asset classes. From a reporting perspective, the real estate was the reason why we were below long-term expectations within operating earnings. But importantly, within the real estate portfolio, we did have a gain manifest itself below the line or in NRCG, about \$25 million due to a transaction that occurred in the third quarter that doesn't get [ph] OE (01:00:36) treatment. And when you look at that in conjunction with what we report above the line, we're very much aligned not only for all other asset classes, but also real estate as well.

And so in last quarter, we signaled that there would be more transaction activity in the latter half of the year. That certainly manifests itself in the third quarter, and we expect more of the same in the fourth quarter. So, our VII outlook remains, just as it was going into third quarter, very optimistic for the latter half of the year.

Deanna D. Strable-Soethout

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

A

Thanks, Wes, for those questions.

Wes Carmichael

Analyst, Autonomous Research US LP

Q

Great. Thank you so much.

Operator: We have 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, your questions, and your [ph] engagement (01:01:17). Our strong third quarter and year-to-date results reaffirm the strength of our strategy and our discipline around execution, which is driving strong profitable growth, expanded ROE, and robust free capital flow. We continue to see momentum across our strategic priorities. Our position across the retirement ecosystem is strong. Our SMB relationships are growing and deepening, and our global asset management platform is scaling with purpose.

I am thankful every day to our almost 20,000 employees that wake up committed to serving our customers. We're focused on providing long-term value to our customers, as well as our shareholders, and remain well-positioned to deliver on our full year financial commitment. We look forward to connecting with many of you in the months ahead. Have a great day.

Operator: Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.

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