

Principal Financial Group®

1Q 2022 Earnings Call Transcript

April 29, 2022

9:00 a.m. CT

Nasdaq: PFG



Call participants

Executives

Dan Houston: Chairman, President & CEO

Deanna Strable: Executive VP & CFO

Amy Friedrich: President - U.S. Insurance Solutions

Pat Halter: President - Global Asset Management

Chris Littlefield: President - Retirement & Income Solutions

Humphrey Lee: VP - Investor Relations

Analysts

John Barnidge: Piper Sandler

Tom Gallagher: Evercore ISI

Ryan Krueger: KBW

Erik Bass: Autonomous Research

Tracy Benguigui: Barclays

Suneet Kamath: Jefferies

Jimmy Bhullar: J.P. Morgan

Alex Scott: Goldman Sachs

Presentation

Operator: Good morning, and welcome to the Principal Financial Group First Quarter 2022 Financial Results Conference Call. There will be a question and answer period after the speakers have completed their prepared remarks. If you would like to ask a question at that time, simply press star and then the number one on your telephone keypad. We would ask that you be respectful of others and limit your questions to one and a follow up so we can get to everyone in the queue. I would now like to turn the conference call over to Humphrey Lee, Vice President of Investor Relations.

Humphrey Lee: Thank you and good morning. Welcome to Principal Financial Group's First Quarter 2022 Conference Call. As always, materials related to today's call are available on our website at investors.principal.com. Following a reading of the safe harbor provision, CEO, Dan Houston; and CFO, Deanna Strable, will deliver some prepared remarks. Then, we will open the call for questions. Others available for the Q&A session include Chris Littlefield, Retirement and Income Solutions; Pat Halter, Global Asset Management; and Amy Friedrich US Insurance Solutions.

Some of the comments made during this conference call may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act. The company does not revise or update them to reflect new information, subsequent events or changes in strategy. Risks and uncertainties that could cause actual results to differ materially from those expressed or implied are discussed in the company's most recent annual report on Form 10-K filed by the company with the 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. Dan?

Dan Houston:

Thanks, Humphrey, and welcome to everyone on the call. This morning, I will share the progress we're making against our financial targets and touch on key performance highlights for the quarter. Deanna will follow with additional detail around our first quarter results as well as our current financial and capital position.

Before we dive in, I have a few important business updates to share. We continue to work towards the second quarter close of the transactions to reinsure our US retail fixed annuities and ULSG blocks. As shared previously, we expect approximately \$800 million of deployable proceeds upon closing and through additional capital management actions.

In China, CCB Pension Management, a subsidiary of China Construction Bank, recently announced they are in the final stages of seeking regulatory approval for Principal to acquire a minority stake of more than 17% in the pension company. CCB is the second largest bank in the world and we've had a strong relationship with them for over 17 years through our asset management joint venture. We look forward to receiving final approval and expanding our relationship to leverage our global retirement and asset management expertise through our partnership. We plan to share more details once the transaction closes.

Lastly, the integration of the Institutional Retirement and Trust business is now complete as the final piece, the trust and custody business successfully migrated to principal during the first quarter. The IRT acquisition added scale and elevated our position to a top retirement provider, including number 3 provider of defined contribution plans based on the number of participants and the number 1 position for defined benefit, nonqualified deferred compensation and ESOP based on the number of plans. It gave us new capabilities, including an industry-leading depth and breadth of retirement offerings through total retirement solutions. It's providing new revenue opportunities, including IRA rollovers, managed accounts and proprietary asset management. And as a result of the acquisition, we benefited from growth in the sales pipeline, driven by our new consultant relationships.

Turning to our financial highlights on Slide 4, amid market volatility, ongoing impacts from the pandemic and geopolitical events and uncertainties, our first quarter results highlight the focus, strength and resiliency of our diversified business strategy. In the first quarter, we reported \$429 million of non-GAAP earnings or \$1.63 per diluted share. Excluding significant variances, earnings increased 8% over the first quarter of 2021.

We continued to deliver on our strengthened capital deployment strategy to return excess capital to shareholders. In the first quarter, we returned nearly \$900 million through share repurchases and common stock dividends.

We closed the first quarter with \$714 billion of total company AUM, a 7% increase over the first quarter of 2021.

Now turning to our business highlights. Focused execution on our growth drivers of Retirement, Asset Management and Benefits and Protection continue to fuel growth across the businesses.

In US Insurance Solutions, we delivered tremendous growth in the first quarter after a strong 2021. The demand for benefits, robust hiring and favorable wage trends continue to increase across our target market of small- to medium-sized businesses.

Specialty Benefits premium and fees increased 10% compared to the first quarter of 2021, driven by record sales, strong retention and employment growth. Trailing twelve month employment growth was a record 4.7% for the total block.

In Individual Life, our focus on business market is resonating with distributors as we produce record nonqualified COLI sales and robust business owner sales. Over 50% of the COLI sales were part of a total retirement solution plan with RIS, highlighting the opportunity to build long-term multiproduct relationships with customers through integrated solutions. Our pipeline of new business continues to grow as

employers focus on benefits as one effective strategy to help them attract as well as retain talent.

In our US retirement business, RIS-Fee reoccurring deposits were strong and increased nearly 60% compared to a year ago quarter. This includes a 17% increase in our legacy block in addition to deposits from the IRT retirement participants. As the economic recovery continues, participants are saving more for retirement. Compared to a year ago, the average dollars of deferrals per participant has increased 5% and the average dollars of employer match per participant has increased 6%, both of which are fueling growth in reoccurring deposits. Additionally, the number of participants deferring across the block has increased more than 2.2 million over the same period, reflecting the full integration of the IRT retirement participants. The increase in deposits, strong sales and retention as well as a benefit from fewer dollars of withdrawals due to lower equity market performance, drove \$3 billion of positive account value net cash flow in the first quarter for RIS-Fee.

In Global Asset Management, PGI managed AUM of \$537 billion benefited from positive net cash flow and the addition of certain migrated IRT trust and custody assets. This was mostly offset by macroeconomic market conditions which negatively impacted equity and fixed income markets during the quarter. PGI delivered more than \$3 billion of positive net cash flow across both institutional and retail platforms, driven by our differentiated solutions within real estate, specialized income capabilities and alpha performing equity strategies.

Turning to investment performance on Slide 6. Market volatility, combined with a rotation from quality and growth to value investing impacted our short-term investment performance during the quarter. Our longer-term investment performance as well as real estate returns positions us to drive positive net cash flow and to attract and retain assets going forward.

Outside the US, our focus remains on growing our diversified fee-based revenue across our asset management and retirement business amid near-term macro and regulatory headwinds. Reported AUM for Principal

International was \$164 billion at the end of the quarter, driven by favorable foreign currency movements since the beginning of the year. AUM in China, which is not included in our reported AUM grew by 10% from the end of the year to \$193 billion with strong growth coming from retail clients.

Before I turn it over to Deanna, I want to highlight a notable recognition we recently received. Pensions and Investments, once again included Principal on its list of Best Places to Work in Money Management. We're proud to be 1 of only 5 companies that have been included every year in the award's 10-year history. This is just one example of how our employees and leaders continue to build a culture that makes people proud to work at Principal and deliver every day for our customers.

Deanna?

Deanna Strable: Thanks, Dan. Good morning to everyone on the call. This morning, I'll share the key contributors to our financial performance for the quarter as well as an update on our current financial and capital position. Our transformation into a higher growth, higher return, more capital-efficient company focused on our growth drivers is paying off.

As of the first quarter and excluding significant variances, non-GAAP EPS increased 13% over the year-ago quarter, and ROE improved 50 basis points from the end of the year to 14.5% and is well on the way to 15%.

Net income attributable to Principal was \$376 million in the first quarter, including \$53 million of net realized capital losses with \$20 million of credit losses.

Excluding significant variances, first quarter non-GAAP operating earnings of \$478 million or \$1.81 per diluted share increased 8% and 13%, respectively, compared to the first quarter of 2021. The non-GAAP operating earnings effective tax rate was approximately 15% on a reported basis and 16% excluding significant variances. For the full year, we continued to expect to be within the 17% to 20% guided range.

As detailed on Slide 14, we had several significant variances that had a net negative impact on non-GAAP operating earnings during the first quarter. Benefits from favorable variable investment income and inflation in Latin America were more than offset by COVID related claims, lower than expected encaje performance, higher DAC amortization and the final IRT integration costs. These had a net negative impact to reported non-GAAP operating earnings of \$63 million pretax, \$49 million after tax and approximately \$0.19 per diluted share.

Specific to variable investment income, RIS-Spread, Principal International and Individual Life benefited by a combined \$47 million pretax, primarily due to higher-than-expected alternative investment returns. This was partially offset by a negative \$32 million impact in corporate as the increase in interest rates and decline in equity investments negatively impacted some mark-to-market investments.

COVID continues to impact results in RIS-Spread and US Insurance Solutions. With approximately 153,000 US COVID-related deaths in the quarter, the net \$30 million after-tax impact was at the higher end of our rule of thumb.

Looking at macroeconomic factors in the quarter, the S&P 500 Index decreased 5% and the daily average decreased 3% compared to the fourth quarter. This negatively impacted fee revenue compared to the fourth quarter as well as DAC amortization in RIS-Fee. The daily average increased 16% from the year ago quarter, benefiting revenue, AUM and account values in RIS-Fee and PGI.

Foreign exchange rates were a tailwind compared to the fourth quarter and on a trailing twelve month basis, but a headwind relative to the year ago quarter. Impacts to reported pretax operating earnings included a positive \$3 million compared to fourth quarter 2021, a negative \$4 million compared to first quarter 2021 and a positive \$11 million on a trailing twelve month basis.

In RIS-Spread, pretax operating earnings were a record on a reported basis as strong net investment income, favorable experience gains and growth in the business boosted results.

Relative to the fourth quarter, PGI's margin and pretax operating earnings were pressured by expected expense seasonality and lower fee revenue, including a 4% decline in management fees as well as lower performance fees, which can be volatile quarter-to-quarter.

As we discussed on the outlook call, results in Principal International are being pressured by regulatory fee reductions in Mexico that went into effect at the beginning of the year. First quarter earnings were negatively impacted by approximately \$10 million as a result of the reduction. We acknowledge there are headwinds in Mexico and we're taking action to offset a portion of this impact in the near term through expense management. It's important to remember that the mandatory contributions in Mexico are scheduled to increase annually from 6.5% today to 15% in 2030, more than doubling retirement savings. This will provide financial security for our customers and long-term growth for Principal.

Specialty Benefits had a strong start to the year with a 60% first quarter loss ratio excluding COVID claims and a 10% increase in premium and fees over the first quarter of 2021.

As Dan mentioned, we continue to work toward a second quarter close of the reinsurance transaction and our expectations around the financial impacts haven't changed from what we shared on the outlook call. As a reminder, we'll have a year-to-date true-up that will transfer all of the associated revenue and earnings as of the beginning of the year.

Turning to capital and liquidity, we remain in a strong financial position and are focused on returning excess capital to shareholders. At the end of the first quarter, we had \$1.7 billion of excess and available capital, including \$1.4 billion at the holding company, higher than our \$800 million to cover 12 months of obligations, and approximately \$325 million in our subsidiaries. Our estimated risk-based capital ratio was

400% at the end of the quarter, in line with our target. We will continue to maintain a 20% to 25% leverage ratio and expect the ratio to improve once the transaction closes and as we pay down \$300 million of long-term debt set to mature later this year.

As shown on Slide 5, we are well on our way to returning our targeted \$2.5 billion to \$3 billion of capital to shareholders in 2022, including \$2 billion to \$2.3 billion of share repurchases. We returned nearly \$900 million of capital to our shareholders in the first quarter with \$167 million of common stock dividends and \$724 million through share repurchases. \$560 million of share repurchases was through a \$700 million accelerated share repurchase program, the balance of which will be completed in the second quarter.

Last night, we announced a \$0.64 common stock dividend payable in the second quarter, a 5% increase from the dividend paid in the second quarter of 2021. This is in line with our targeted 40% dividend payout ratio and reflects strong business performance.

As we move forward, executing on our go-forward strategy and strengthened capital deployment approach, we will continue to invest in our growth drivers of Retirement in the US and select emerging markets, Global Asset Management and US Benefits and Protection, all with an aim to drive long-term shareholder value.

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

Operator:

Thank you. At this time, I would like to remind everyone that to ask a question press star and then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

The first question comes from the line of John Barnidge with Piper Sandler. Your line is now open.

John Barnidge: Thank you very much. You've had strong growth in alternatives in PGI, higher fee product seems to be in secular demand. Can you maybe talk about that? And does this make you want to create more products for that business as well? Thanks.

Dan Houston: Yeah, good morning John, appreciate the question. And you're right, Pat and his team have been deliberately shifting and they've been doing it for years. And it's obviously paying off here as we continue to see the market cycle. But Pat, do you want to provide some feedback on the alts?

Pat Halter: Yeah, John. Thanks for the question. It really starts first with client interest, and we continue to see some very, very strong interest in alts, particularly real assets and in the private space. As you probably know, we are one of the largest real estate investment management organizations worldwide. And so we're going to continue to build on the differentiated capabilities we have within real estate and offer those capabilities through all the different channels that we serve today. And we think there's a lot of runway in terms of not only in institutional space, but also in the retirement space. And then ultimately, as high net worth individuals continue to seek out new alternative investment strategy. So, I think we're going to continue to absolutely grow in our real estate capabilities.

We also have some very strong private credit capabilities and we think that's a place that also has significant growth potential. And so, we'll be continuing to build out our private credit capabilities going forward. Beyond that, we'll continue to seek out new capabilities that we think the marketplace desires, things like hybrid debt, more private equity capabilities would be something that we'd like to sort of aspire to continue to also build out. So, we will lean in towards alternatives because client demand is increasing and I think because we have strong capabilities in that arena, John.

John Barnidge: Fantastic! And then a follow-up. Strong movement in group sales across all products. Can you maybe talk about that, the health of the small business because I know that's a large portion of your consumer base?

Dan Houston: It's a great observation. Clearly, small business is open for business in the US for sure. Amy, you want to provide some additional detail?

Amy Friedrich: Yeah, John. Thanks for the question. Yes, it's clear that the small business strategy is working. And so when we look at those small business dynamics, they are hiring, they're taking care of their key executives, and they're worried about competing with all sized businesses in terms of what they do for their key executives and how they attract and retain talent. And so we're really seeing ourselves as the beneficiary of a competitive wage market, a competitive labor market, but probably even more importantly, this is the expression of really what's been years of a build for us at a local market.

We have experienced folks who are well seasoned and well developed relationships in our local market. And what we're seeing is we have products that are attractive, underwriting that is disciplined and growth that we see is very strong which is going to continue to be strong. So those macro conditions as well as our own brand and our own developments in technology and processes and relationships that are really paying off for us, and we see that continuing in 2022.

Dan Houston: This might be a good time to reintroduce Chris Littlefield to investors who's new to the role, replacing Renee Schaaf, although he's not new to the industry. He's formally been CEO of 2 other publicly traded companies. I know he knows a number of the analysts on the call today, but honestly, in replacing Renee, he's got responsibility for our RIS-Fee and Spread business. So maybe, Chris, to follow on John's comments with regards to the small, medium-sized business market. How are you seeing that for the retirement space?

Chris Littlefield: Yeah. Thank you, Dan. John, good to talk to you again. I think we see the same strength in the retirement space as well. I mean we continue to see strong employment growth across all segments of our business and certainly see growth in small business. We see an uptick in adoption of plans as well as increases in matches across all segments. So we really

see the same strong employment tailwinds in the retirement side of our business as we see it in the Group Benefits side. Thank you, John, for the question.

John Barnidge: Thank you.

Operator: Our next question comes from the line of Tom Gallagher with Evercore. Your line is now open.

Tom Gallagher: Good morning. Hey, Dan, I recognize you probably can't give specific comments on the China Construction Bank deal that you mentioned. Can you at least indicate whether you would expect that to consume a meaningful amount of your capital from a size standpoint? And would that potentially reduce the size of buybacks? Or it sounded to me like you were still planning on doing the buyback ranges that you had guided to for 2022.

Dan Houston: Yes, Tom, I appreciate the question. I'll have Deanna follow-up here. I just want to be on the record with this. And many of you have followed Principal for a very long time and you have known that it has been our long-term desire to expand our relationship with CCB. And I remind investors, it's the second largest bank in the world. We've had a relationship on asset management and the retail mutual fund business since 2005. It's a very healthy relationship. You heard in my prepared comments that we are buying a minority interest in what is already a well-established retirement company.

What makes them a little bit unique, Tom, is they have pillars 1, 2 and 3. So it allows them to manage money for the national and provincial retirement savings pools as well as the enterprise annuity, which has probably been the most common conversation with investors in the past. And then lastly, Pillar 3 is around private retirement funds of funds. So, this is just a terrific win for Principal. We're very excited, and I'll have Deanna sort of finish up with some additional details around the transaction.

Deanna Strable: Yeah, Tom, just as a follow-up there, this was factored into our 2022 capital deployment plans. If you remember back to outlook call, there was a waterfall chart there that showed kind of beginning of the year to the end of the year and there was a placeholder in there for M&A and/or additional share buyback. So that would have been included in that and thus does not have any impact on what we've talked about regarding return to shareholders in the year 2022. We will obviously give more financial details, capital, earnings implications of that transaction once it's disclosed. But as Dan said, we're very excited about the opportunity and the prospects going forward.

Dan Houston: Hopefully that helps, Tom.

Tom Gallagher: That does, thanks Dan, Deanna. So just my follow-up is Deanna, can you comment on the sequential decline in expenses at PGI that you would expect into 2Q? I know seasonally, Q1 is on the high side. Just want to get a sense if you can give kind of a dollar range. I was thinking maybe \$10 million to \$15 million reduction seem reasonable given what's happened historically. But if you could provide any color on that?

Deanna Strable: Yeah. I think at a high level, you're in the right ballpark, but I'll see if Pat has anything else to add on to that.

Pat Halter: Yes, Tom, I think what you're referring to is sort of this every first quarter of the year, we had a sort of a true-up in terms of expenses relative to long-term compensation and payroll taxes. And that does have an increase in the first quarter expense structure for PGI. And it's probably going to be more around \$15 million in terms of what that expense is and you should not expect to see that expense in the second quarter.

Tom Gallagher: That's great. Thanks Pat.

Operator: Our next question comes from the line of Ryan Krueger with KBW. Your line is now open.

Ryan Krueger: Hi, thanks, good morning. Within PGI, could you discuss how the rising interest rate environment is or could affect demand for your products and your flow outlook going forward?

Dan Houston: Pat?

Pat Halter: Yes, Ryan. I think one of the things that's great, I think about our suite of investment capabilities, we have some very strong income-producing investment capabilities and the actual sort of rise in interest rates are starting to create some very interesting absolute returns, again, in fixed income. So we're starting to see, again, some pivot more towards interesting conversation around the absolute returns that things like emerging market debt, preferreds, high yield sort of debt is producing through the asset returns. So that's one sort of aspect of it.

Clearly within our existing block because we do have a total return sort of portfolio of fixed income, the rise in interest rates has created somewhat of a headwind in terms of mark-to-market on an existing block in terms of AUM. But from a client perspective, we're seeing some very interesting, I think eyeballs again on fixed income in terms of allocations.

Ryan Krueger: Got it. Thanks. And then, Deanna, do you have preliminary estimate on what the true-up impact would be in the second quarter after the reinsurance transaction closes?

Deanna Strable: Yes, Ryan, just as a reminder and you're correct, there will be a true-up in the quarter that the transaction closes to transfer those economics to the counterparty. I don't have the estimate in the first quarter, but we will be transparent regarding the impact, and I would say it's still an alignment of what we talked about as the outlook call regarding those pieces that will impact earnings in the year. And if you remember, that was a total of about \$130 million of after-tax impact including the earnings from those blocks, stranded costs as well as lost revenue in PGI. But regarding the first quarter true-up, we'll make sure you have that in once those transactions close.

Dan Houston: Thanks Ryan.

Ryan Krueger: Thank you.

Operator: Our next question comes from the line of Erik Bass with Autonomous. Your line is now open.

Erik Bass: Hi, thank you. Maybe to start, one, to follow up on Ryan's question on PGI net flows. I just was hoping you could provide some more color on the trends in the first quarter and sort of the dynamics between retail and institutional. And then with markets continuing to sell off in the second quarter, are you seeing any changes in demand or the institutional pipeline? And is it taking longer for anything to fund?

Dan Houston: Pat, please?

Pat Halter: Yes, Eric. Thanks for the question. We had, I think, a very across the board, strong net cash flow in the first quarter, both in some of the income-orientated investments that I highlighted earlier along with real estate that we discussed a little bit earlier, along with some alpha generating equity strategies. We're continuing to see that strong demand in the second quarter, Ryan, and it's actually in those 3 areas again.

We're continuing to see some very strong institutional demand, particularly in real estate and in the high alpha generation equity capabilities. And then in terms of retail, the continuation of, I think, the storyline toward desires and strong alpha equity capabilities continues and we continue to see flow there, so I'm quite constructive on the second quarter yet in terms of the continuation of what we're seeing from the first quarter.

Erik Bass: Great. Thank you. And then one question I just noticed in the slide deck, I think your sensitivity now to a change in 100 basis points of interest rates is 1% to 2% of earnings. I think it had historically been less than 1%. So just was curious why this has increased especially since you're exiting

SGUL and fixed annuities, which I thought would have been more rate-sensitive pieces of your business.

Dan Houston: Deanna?

Deanna Strable: Yeah. So, we did update that at the outlook call and did reflect kind of the go-forward kind of prospects there. I think we have a better understanding of the impact on some of the fee levels within PGI and RIS that we've reflected in there just given the fact that a portion of that AUM is fixed income. And so again, I think it's still modest, probably relative to most of our insurance peers. It's positive on a long-term basis but can have some short-term pressures just given the impact on AUM.

Dan Houston: That was under the category of a refresh as we looked at prior experiences and what that looked like. So, I think it's in large part a refinement, Erik.

Erik Bass: Got it. And just where would the biggest benefits come through by business line?

Deanna Strable: Yes. Ultimately, you're going to see it in a number of places. But again, it can take some time to emerge. Obviously, net investment income, you'll see benefits from. So obviously, that would be primarily in Spread and the insurance businesses. You'll have some impact ultimately on our pension costs, which actually gets spread across all of our businesses. Claim reserves and capital backing our insurance businesses would benefit as well. And so again, primarily the benefits would be in more of the annuity and insurance businesses.

Erik Bass: Got it. Thank you.

Dan Houston: Thank you, Erik. I appreciate it.

Operator: Our next question comes from the line of Tracy Benguigui with Barclays. Your line is now open.

Tracy Benguigui: Thank you. Good morning. I'm wondering if you could shed some color on your view of favorable non-COVID-19 group life claims that you saw in Specialty Benefits?

Dan Houston: Yes. Absolutely. Amy, can handle that.

Amy Friedrich: Yes. So Tracy, one of the things to keep in mind about our block of group life is that our block of group life is going to be primarily underwritten for small cases. The plan designs are going to be designed around those small cases. So when we're looking at small case, they're going to have the ability to have the rate kind of line up with the experience that we're seeing on them on a more frequently than some of the other folks who are writing in that large case marketplace. So, we have the ability to kind of get that rate and claims lined up pretty closely together.

What we are seeing in that block of business though is that our average claim size is probably going to be smaller than some of our peer competitors just from the plan designs we're writing in that space. So, we're seeing what I would consider sort of normal positive volatility on that non-COVID group life block. But again, Principal's group life block is probably going to have some characteristics to it that could behave differently than the rest of the industry.

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

Tracy Benguigui: No, that's very helpful. Yes, maybe sticking with Specialty Benefits. If you could also touch on the increase in your individual disability loss ratio if I should read into that in any way.

Amy Friedrich: Thanks, Tracy. Yeah, I would not read into that in any way. I would look at the things that happened within individual disability as 1 or 2 claims can move some things around. Ultimately, it's a combination of new claims, kind of the incidence of those as well as the termination. So I'm seeing what I would consider regular and appropriate patterns for our block of business on the new claims we're putting on as well as the

termination on rates on those. So, I'm not seeing anything COVID or non-COVID that looks out of pattern.

Tracy Benguigui: That was very clear. Thank you.

Operator: Thank you. Our next question comes from the line of Suneet Kamath with Jefferies. Your line is now open.

Suneet Kamath: Great! Thank you. Just curious on RIS-Spread. I think Deanna, in your comments, you mentioned it was a record result even on a normalized basis, the results came in much better than your guidance. So could you just unpack that? And I think you mentioned a couple of things, but if you could give us any specificity on what drove it, that would be helpful.

Deanna Strable: Yeah, I'll make some comments and then see if Chris wants to add in as well. You know do keep in mind, Suneet, that the current quarter results do include retail fixed annuities so that will be adjusted out once the transaction closes. We also saw some positive volatility and experience gains. Those again tend to be stronger in the first part of the year and then normalize out for the rest of the year. But I would probably still point you back to our outlook ranges for the full year and really focused on those post-transaction ranges for both revenue growth and margins. But again, first quarter was a really strong start to the year and some of that trends, I think will continue, some will see some volatility quarter-to-quarter.

Dan Houston: Chris, anything to add?

Chris Littlefield: No, I think she covered it well. Thank you.

Dan Houston: Excellent.

Suneet Kamath: Okay. And then I guess my follow-up is on Mexico. Obviously, you guys guided to the reduction in fees, but we were a little surprised to see that business produce a loss. And it looked like there is some volatility in NII.

So I guess, wondering if you think that business can return to profitability. And then relatedly, is that an area where you guys would think about inorganic growth?

Dan Houston: Yes. So, let me take it and I'll throw to Deanna as well as tag team this a little bit. The first thing I'd say is we've been talking about this for some time. But in spite of the regulatory fee reductions that occurred earlier in the year, we do see a path forward for that business in large part because the contributions are going to start scaling up from 6.5% to 15% up until 2030.

This is a significant pool of capital in Mexico. We think that the legislative and regulatory changes have been made. So we know what the operating model needs to be. We know that we've got a shortfall as it relates to revenue relative to the expenses. As Deanna said in her prepared comments, we're in a position to take that expense out and get it into proper alignment. So, a good path and with that, I'll throw it to Deanna to talk to the numbers specifically.

Deanna Strable: Yes. Just one comment there that you may not be aware of Mexico did have a hit from encaje in the quarter. That would have been in the magnitude of \$4 million to \$5 million. And so after that, earnings would have been slightly positive in the quarter. So I just wanted to make sure that you understood. I don't think we explicitly split out the significant variances by country, but that was the impact in Mexico.

Suneet Kamath: And then inorganic growth there, is that still on the table? Or is the something you'd be interested in?

Dan Houston: Right now, we're focusing on growth in an organic way. We're looking very closely at all the options and we think there are things we could do from a distribution perspective. There are some things we can do to manage our expenses, but we don't see that the path forward in Mexico would involve a large acquisition, let's say, in order to change our long-term view of the Mexico market. Does that help, Suneet?

Suneet Kamath: Yes, that's pretty clear, Dan.

Operator: Our next question comes from the line of Jimmy Bhullar with JP Morgan. Your line is now open.

Jimmy Bhullar: Hi, good morning. First, I had a question on just PGI investment performance. And if we look at one year numbers, they seem weaker than 3-year, 5-year or longer term. So wondering if you could just comment on what's causing that? Or like is it market driven, some of the big asset classes you're out of style or what's going on there? And how does this affect your views on your flows over the next year or two?

Dan Houston: Jimmy, I appreciate the question. I'm reminded of the old adage you're only good as your most recent quarter. But as we know, PGI has put a lot of very solid quarters back-to-back for many years and you're right. The 1-year performance is soft. I don't know Pat and his team have been interrogating those -- the rationale and why we find ourselves in a position today. So Pat, Please?

Pat Halter: Yes, Jimmy, thanks for the question. I think one of the things that just to highlight is there has been a fairly significant shift over the last couple of quarters relative to investors and how our performance has behaved relative to our style of investee versus what the marketplace is providing. And we have a very biased sort of approach on the equity side to growth and to quality. And value really has definitely outperformed growth in the marketplace and quality has not served well in the marketplace in the last few quarters.

And some of the sort of sectors that have been very much driving, I think, some of the returns in the value space, energy and commodities, which have been big winners. That's not where we spend a lot of our focus in terms of quality and growth. So there has been, I think, a factor tilt that has caused the one year numbers to be as they are.

That being said, as I mentioned earlier in my earlier responses, investors continue to look at our 3- and 5-year numbers in terms of their decision-

making. And we continue to see in some of our real strong alpha producing capabilities really in small cap and mid cap and actually in large cap in terms of our capabilities with Aligned and Blue Chip. We're continuing to see very strong 3- and 5-year numbers, and that's continuing to attract capital to us in terms of sales activity and retention. So, we'll continue to be very focused on obviously navigating short-term performance. But we still have, I think, a very strong long-term investment sort of alpha generation platform here and we have confidence that, that will endure ourselves as we go forward.

Jimmy Bhullar: Okay. And then on your retirement business, I think when you initially took on the wealth block in the trust and custody assets, the income dropped because of lower interest rates. I think now you've changed product a little bit, but how do you think about that business with the increase in rates that we've seen recently?

Dan Houston: Yes, I start with the fact that I think it's nice to have the trust and custody misses fully moved over along with the retirement business and there's a clear path forward with a lot of momentum, and I'll ask Chris to speak to your specific question.

Chris Littlefield: Yes, yes. Thanks, Jimmy. I think what you're referencing is our Principal deposit sweep program products. So, we have moved that over from a revenue share to on a Principal Bank and we've seen that sweep deposits increase as we've clawed back a great deal of the revenue with that product. At the end of the quarter, we're sitting at about \$2.4 billion of assets in the program and that was up a bit over the first quarter and we continue to see opportunities to potentially grow that.

But we want to give it a little bit of time to evaluate the performance, how it behaves and the risk appetite and returns before we increase our exposure there. But overall, we manage that now more as a net investment margin business -- net interest margin business and wouldn't expect to see big swings or big upsides or downsides as a result of that product.

Dan Houston: Jimmy, we talked in the last quarter that we were trying to make up for that roughly \$70 million shortfall and the structure is allowing us to recover some of that. And so again, we like what we're able to navigate here to recover some of those revenues as originally projected to investors.

Jimmy Bhullar: Thank you.

Dan Houston: Thank you.

Operator: And our last question is from Alex Scott with Goldman Sachs.

Alex Scott: Hi, thanks for taking the question. My first one is just on expense flexibility in light of the market correction that we've experienced here. Could you discuss your expense base and just how to think through what portion of it is more variable versus the portion that's fixed and how we should expect that to play out?

Dan Houston: I appreciate the question, Alex. The one thing I just want to remind investors of is we have a long-standing history of aligning our expenses with revenues. And we've gone through a lot of cycles over the years and even as we divest businesses and acquire these businesses, we've always prioritized the alignment of those matters. It's a great question given the current volatility. Deanna, please?

Deanna Strable: Yeah. Thanks, Alex. We can follow up with you to some of the specific splits on the expenses. But I kind of go back to what Dan talked about. Whenever you have a quick move in the markets, there can be some lag in our ability to adjust our expenses. But our management team is really focused on that. We have a proven history of that.

If I look at quarter-over-quarter, even with net revenue up in the 4% to 6% range, our comp and other is only up less than 2%. And if you go back to a trailing 12-month basis, when we saw 12% to 14% increase in revenue, our comp and other is only up 9 and so it is something we look at. We take very, very seriously. You might see some lag relative to that,

but no doubt that we will continue to focus on adjusting the expense base either through variable natural basis or other actions to make sure that we're producing margins that these businesses should produce.

Dan Houston: Do you have follow-up, Alex?

Alex Scott: Yeah. Maybe a quick unrelated follow-up. Just with the closing of the Wells Fargo IRT business, are there any sort of quarter-over-quarter considerations that we should think about heading into 2Q, just in light like a full quarter of having it on board. I don't know if TSA fees and so forth go away or I'm sure it's part of your outlook, but just wondering if there's anything that is fully closed that we should think about?

Dan Houston: Yeah. I'll throw it to Deanna here in a second. What I would tell you is we've been doing it all along and peeling back those expenses as we've taken over more of the responsibility. What I can reaffirm is that we're very much on track with all the original projections that we had laid out with regards to expense synergies and revenue synergies, and I talked a little bit about that in my prepared comments. But Deanna, anything to add?

Deanna Strable: Yeah. I'll make a few comments and then see if Chris has anything to add. So the first thing is integration costs are now complete. So you'll no longer having that come through from a significant variance perspective and then even though we have seen a ramp down of TSA and a start of the synergies, that will obviously ramp up, now that is all complete. And so you will see that flowing through both RIS-Fee's expenses as well as total company and you'll see some more of that as we go through the rest of the year.

Dan Houston: Chris, anything to add?

Chris Littlefield: No, I think you captured. I mean, we'll see the TSA runoff primed mostly in the first quarter, and integration costs are complete. So I mean, I think see and we said over the course of the year, we would see margin improve if normal markets existed due to increased expense synergies

from the acquisition. So, I think you'll see that through the back half of the year.

Dan Houston: Very good. Thanks, Chris. Thanks, Alex, for the question.

Alex Scott: Thank you.

Operator: And we have reached the end of our Q&A. Mr. Houston, your closing comments, please.

Dan Houston: First, thank you for taking the time this morning, and we look forward to getting completion on the ULSG and the retail fixed annuity transaction. We feel very good about where we're at with regards to return of capital to shareholders and again right on track with where we're at, probably equally as excited about the momentum we have in our go-forward strategy and executing on that consistently. We're going to continue to invest in our growth businesses. We're going to continue to invest in talent and we're going to take out expenses that don't add value.

I'd also be remiss if I didn't say how fortunate we are to have Humphrey Lee join the team. It's been wonderful onboarding him these last 90 days. I know he's reached out to a lot of the sell side and we'll certainly work with the buy side. We want to make sure that the information we're providing to you is transparent that resonates and we'll continue to look for opportunities to continue to improve our disclosures to investors. And frankly, we very much look forward to coming out and visiting with you in person in the very near future. Thank you and have a wonderful day.

Operator: Thank you for participating in today's conference call. This call will be available for replay beginning at approximately 1 p.m. Eastern Time until end of the day, May 6, 2022. 1872237 is the access code for the replay. The number to dial for the replay is (855) 859-2056 for US and Canadian callers or (404) 537-3406 for international callers. You may now disconnect.

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