

Principal Financial Group®

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Call participants

Executives

Dan Houston: Chairman, President & CEO

Deanna Strable: Executive Vice President & CFO

Kamal Bhatia: President - Principal Asset Management

Chris Littlefield: President - Retirement & Income Solutions

Humphrey Lee: Vice President - Investor Relations

Analysts

Joel Hurwitz - Dowling & Partners

Ryan Krueger - Keefe, Bruyette & Woods

Wes Carmichael - Autonomous Research

Jimmy Bhullar - J.P. Morgan Securities, Inc.

John Barnidge - Piper Sandler

Elyse Greenspan - Wells Fargo

Suneet Kamath - Jefferies LLC

Tom Gallagher - Evercore ISI

Wilma Burdis - Raymond James

Josh Shanker - Bank of America

Michael Ward - Citi

Presentation

Operator: Good morning, and welcome to the Principal Financial Group Second Quarter 2024 Financial Results Conference Call.

There will be a question-and-answer period, after the speakers have completed their prepared remarks. If you would like to ask a question at that time, simply press “*” and the number “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. We would ask that you be respectful of others and limit yourself to one question 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 Second Quarter 2024 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 Dan Houston and CFO, Deanna Strable, will deliver some prepared remarks. We will then open up the call for questions. Other members of senior management will also be available for Q&A.

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

Additionally, some of the comments made during this conference call may refer to non-GAAP financial measures. Reconciliations of the non-GAAP financial measures to the most directly comparable U.S. GAAP

financial measures may be found in our earnings release, financial supplements and slide presentation. As a reminder, we are hosting our 2024 Investor Day on Monday, November 18th, in New York. We look forward to seeing many of you at this event. Dan.

Dan Houston:

Thanks, Humphrey, and welcome to everyone on the call. This morning, I will discuss key milestones and highlights from the second quarter, as we continue executing our strategy with discipline and focus to deliver strong results for our customers and shareholders. Deanna will follow with additional details on our results and our capital position.

Starting with the results for the second quarter, we reported \$386 million of non-GAAP operating earnings, or \$1.63 per diluted share, a 7% increase in EPS over the second quarter of 2023. The year-over-year growth in earnings was driven by a 6% increase in net revenue due to business growth and favorable markets, compared to a year ago.

Having said this, we are in a very bifurcated market environment. While performance of the S&P 500 has been very strong this year, performance has been heavily concentrated in a handful of large technology stocks.

Meanwhile, mid-cap, small-cap, and international equities have lagged the market-weighted S&P 500 throughout the first half of 2024 and were mostly negative in the second quarter. This has impacted diversified active asset managers like Principal. Market performance for our total managed AUM was 0.4% in the second quarter and 8% on a trailing 12-month basis.

Despite this mixed market performance, we have confidence in the second half of the year, and we expect our full year results to be aligned with our 2024 outlook.

We returned \$415 million of capital to shareholders in the second quarter, including \$250 million of share repurchases. We also raised our common stock dividend for the fifth consecutive quarter, aligning with our targeted 40% dividend payout ratio.

We ended the quarter with total company-managed AUM of \$699 billion. Foreign currency translation headwinds of \$9 billion in the quarter and \$20 billion over the last 12 months impacted AUM.

Now turning to the businesses. In Retirement, we continue to experience positive fundamentals. Recurring deposits increased by more than 7%, compared to a year-ago quarter. This was driven by 10% growth in recurring deposits for small and mid-sized businesses, as well as strong growth in average participant deferrals and employer matches across the entire block.

While year-over-year plan sales have been impacted by fewer large plans in motion, we continue to generate strong growth in transfer deposits, which were up 13% in the quarter. This was again driven by the growth in the SMB market.

Contract retention has improved significantly and is helping to offset elevated participant withdrawals in the second quarter. Withdrawals are higher in the second quarter, primarily due to impact of favorable markets on account values, along with a slight increase in withdrawal rates.

We generated another strong quarter of pension risk transfer sales. With nearly \$1 billion in the second quarter, year-to-date sales have surpassed \$1.7 billion at attractive returns. Importantly, our defined benefits business continues to be a valuable source of PRT new business, with nearly 25% of our year-to-date contracts coming from existing defined benefit customer relationships.

We remain an industry leader in PRT, ranking third in both premium and contracts according to LIMRA's first quarter report. We also strengthened our leadership position in ESOP in the second quarter, announcing the acquisition of Ascensus' employee stock ownership plan business.

This acquisition closed on July 1st, solidifying our position as the number one ESOP provider in the US with a 30% market share. We added 800 more employer customers and over 165,000 new ESOP participants.

This acquisition is aligned with our focus on small to medium-sized businesses and expands our current ESOP offering, a critical piece of our full suite of workplace retirement offerings. It also adds talent to our workforce and provides greater value and enhanced products and services for our customers.

Turning to Principal Asset Management. PGI continues to build on the sales momentum from the first quarter. We are seeing continued strong retail demand for our suite of mutual funds and ETF offerings.

On the institutional side, private real estate and specialty fixed-income capabilities remain in demand. We had approximately \$500 million of net cash flow into private real estate. This level of net cash flow is consistent with the average, over the past six quarters. Despite the second quarter momentum, we reported negative net cash flow of just over \$2 billion.

The net outflows was driven by a large lower-fee fixed-income redemption from a corporate client, as well as stable value products outflows. We expect the second half of the year to improve, as investors are increasingly looking to move money out of cash and into risk-based assets across both, public and private markets. We continue to look for opportunities to invest for our clients and remain optimistic about this growing momentum.

During the quarter, we launched the Principal Private Credit Fund, offering exposure to middle-market loans with enhanced yield and return to retail investors. We are also seeing increased institutional interest in the team, resulting in \$150 million of sales in the quarter.

We also announced the launch of our new private infrastructure debt capability and the hiring of an industry veteran to lead this venture.

These actions add to our expertise in public listed infrastructure, real estate debt and alternative credit.

Finally, we have enhanced our investment performance disclosure to include both equal-weighted and asset-weighted performance against the Morningstar peer group and composite benchmarks. We continue to be focused on providing strong long-term performance, across our investment lineup.

Principal International ended the quarter with \$171 billion of total reported AUM. Favorable market performance was more than offset by foreign currency headwinds, primarily in Brazil.

Net cash flow was slightly positive in the second quarter, with contributions from Southeast Asia and Hong Kong offsetting small outflows in Latin America. As a reminder, flows are strongest in the first and third quarter for Principal International, primarily due to the seasonality of sales in Brazil. We expect to have a strong net cash flow in the second half of the year.

In Benefits and Protection, we generated above-market premium and fee growth in Specialty Benefits. This growth is being driven by record year-to-date sales and strong retention, along with employment and wage growth. Once again, more than half of our growth came from our net new business, demonstrating our competitive advantage and leadership position in the underserved small to mid-sized market.

We continue to grow faster than the industry by deepening relationships with key distribution partners and with our customers. To highlight this, the average number of coverages per in-force customer continues to increase and now exceeds three coverage per group benefits customer for the first time.

I'm excited about the opportunities across Principal and remain confident our focus on higher-growth markets, combined with our integrated product portfolio and important distribution partnerships, will continue to create value and drive growth.

Before turning it over to Deanna, I'd like to highlight that Principal celebrated its 145th anniversary, earlier this month. I'm incredibly proud of the way our company and our 20,000 employees continue to meet the changing needs of approximately 64 million customers. We remain focused on providing access to financial security for more people, businesses and communities around the globe. 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 details of our capital position.

Second quarter reported net income was \$353 million. Excluding exited business, net income was \$356 million with minimal credit losses of \$25 million.

Non-GAAP operating ROE of 13.1% improved by 80 basis points, compared to the year ago period. We continue to trend toward our 14% to 16% target. Excluding significant variances, second quarter non-GAAP operating earnings were \$415 million, or \$1.76 per diluted share.

EPS increased 4%, compared to the second quarter of 2023. This was driven by top line growth and improved markets, partially offset by foreign currency translation impacts and a higher effective tax rate.

During the quarter, we had one-time expenses, including state tax items and severance costs, impacting our results by approximately \$0.09 per share. The one-time expenses impacted both PGI and the Corporate segment. While we are not considering these as significant variances, our second quarter earnings per share growth would have been over 9% compared to the second quarter of 2023, adjusting for these expenses.

Foreign exchange rates continue to be a headwind to earnings compared to both the sequential and year ago quarter, as the US dollar strengthened against Latin American currencies.

Based on our earnings for the first half of 2024 and our forecast for the remainder of the year, we remain on track to deliver full-year EPS growth on both a reported and adjusted basis, aligned with our 2024 guidance of 9% to 12%. This implies strong growth across our businesses in the second half of the year.

Turning to the significant variances for the quarter as detailed on Slide 12. These impacted non-GAAP operating earnings by a net negative \$38 million pre-tax, \$29 million after-tax and approximately \$0.13 per diluted share.

Significant variances in the quarter include lower variable investment income in RIS and Benefits and Protection, unfavorable encaje performance in Principal International and a small GAAP-only regulatory closed-block dividend adjustment in Life Insurance. Variable investment income improved, sequentially, on stronger alternative returns. Real estate transactions were muted, and we had no prepayment fees in the quarter.

The second quarter non-GAAP operating earnings effective tax rate was higher than our guided range. This was primarily due to a decrease in the Iowa corporate tax rate, resulting in a non-cash remeasurement of our deferred tax assets. While this impacted our tax rate in the current quarter, it is a net long-term benefit. For the full year, we still expect to be within the 17% to 20% guided range.

Turning to the business units, the following comments exclude significant variances. RIS pre-tax operating earnings increased 10% over the second quarter of 2023, driven by growth in the business, higher net investment income and favorable market performance. Net revenue grew by nearly 8% and margins remained strong and at the high end of our guided range, while we continue to invest in the business to drive future growth.

PGI's pre-tax operating earnings increased 2% over the second quarter of 2023. Higher management fees from increasing AUM were partially

offset by the impact of recent redemptions, as well as immaterial performance fees.

Adjusted margin of approximately 35% is flat relative to the year ago quarter, an increase from a seasonal low in the first quarter. In the quarter, earnings and margins were impacted by approximately \$6 million of severance and other one-time expenses. In Principal International, pre-tax operating earnings decreased by 7%, compared to the second quarter of 2023. On a constant-currency basis, operating earnings were flat.

Strong growth in Latin America was offset by lower earnings from Asia. We are starting to see improvements in the macro climate in Asia. Combined with the continued strong performance in Latin America, we feel very good about a strong second half of the year.

Specialty Benefits pre-tax operating earnings increased 11% from the second quarter of 2023. This was driven by continued growth in the business and more favorable underwriting experience.

Underwriting results improved by 50 basis points compared to a year ago and highlights the diversification across product lines. Improved results in group life and group disability more than offset the higher dental seasonality. We expect the seasonality to moderate in the second half of the year.

In Life Insurance, we negotiated two risk-reducing YRT reinsurance contracts in the quarter for our existing business, as well as our transacted ULSG block. These actions locked in guaranteed rates and reduced our overall YRT risk, resulting in an immaterial impact on earnings.

Excluding the impact of these YRT related activities, premium fees grew 4% compared to the year ago quarter, at the top of our guidance range. This was driven by continued business market strength, where premium fees grew 15% in the quarter. Across the businesses, we

remain confident in delivering on our revenue growth and margin guidance for the full year, anchored to our long-term financial targets.

Turning to capital and liquidity, after thoughtful evaluation of our capital levels based on our business mix and capital at risk profile, we have revised our RBC target to a range of 375% to 400%. We believe this new target is more suitable for our liability profile and gives us additional flexibility to manage our capital based on external conditions and new business opportunities. We have no immediate plan to lower our RBC level and will operate prudently, within this range.

Our estimate of second quarter RBC ratio was 405%. Based on this new target, we have approximately \$1.6 billion of excess and available capital, including approximately \$800 million at the holding company, \$450 million excess above 375% RBC, and \$300 million in our subsidiaries.

As shown on Slide 3, we returned \$415 million to shareholders in the second quarter, including \$250 million of share repurchases and \$165 million of common stock dividends. This brings our year-to-date capital return to nearly \$800 million. We expect to deliver on our targeted 75% to 85% free capital flow for the full year.

As discussed on previous calls, due to the timing of capital generation, free capital flow tends to increase throughout the year. We are committed to returning excess capital to shareholders and continue to expect \$1.5 billion to \$1.8 billion of capital deployments for the full year, including \$800 million to \$1.1 billion of share repurchases. The previously mentioned ESOP acquisition had an immaterial impact to our capital deployment plans.

Last night, we announced a \$0.72 common stock dividend payable in the second quarter, a \$0.01 increase from the dividend paid in the third quarter and an 11% increase over the third quarter 2023 dividend.

This continues to align with our targeted 40% dividend payout ratio and demonstrates our confidence in continued growth and overall

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

Our investment portfolio remains high quality, aligned with our liability profile, and well-positioned for a variety of economic conditions. The commercial mortgage loan portfolio remains healthy.

Coming into the year, we had \$510 million of office loan maturities in 2024. All maturities, to date, have been paid off or resolved, and we have \$290 million remaining. The underlying metrics on these loans remains strong, and we continue to work with our borrowers to pay off or refinance the remaining maturities.

In closing, we are confident of our ability to deliver on our enterprise 2024 targets. These include a 9% to 12% growth in earnings per share, increasing return on equity, and 75% to 85% free capital flow conversion.

We are encouraged by the underlying fundamentals of our businesses and expect growth to accelerate in the second half of the year. We are grounded in our growth drivers of Retirement, Asset Management and Benefits and Protection and executing on a strategy focused on continuing to drive long-term shareholder value.

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

Operator:

At this time, I would like to remind everyone that, to ask a question, press “*” and then the number “1” on your telephone keypad. We’ll pause for just a moment to compile the Q&A roster.

The first question comes from Joel Hurwitz with Dowling & Partners. Please go ahead.

Joel Hurwitz: Hey, good morning. In Retirement, fee revenue looked a little light of what I was expecting and it looks to be on some further fee rate compression. I know last quarter, we discussed the impact of some of the business having non-asset-based fees. But even factoring that in, it looks like there was a bit of an acceleration of the fee rate decline. Anything unusual in the quarter, any other dynamics that I should be thinking about with retirement fee levels?

Dan Houston: Yeah. Good morning, Joel. I appreciate the question. I'll just have Chris go and tee that up for you. Chris.

Chris Littlefield: Yeah, thanks for the question, Joel. I mean, I think, again, I'd start with when we look at our net revenue growth of 8%, we feel really good about where net revenue is coming in for the year. But when we look at fee rate, we were down less than a basis point, sequentially, and down about 2 basis points on a trailing 12-month basis during a period of significant market outperformance. And we think the trailing 12-month view is the best way to view fee revenue rate, given the fluctuations that occur in between the quarters, whether that's market performance or timing of consulting and other billable services.

But if I were to highlight sort of four things, I'd highlight four things with respect to the fee revenue rate. First, as you noted, that fee-based revenue is not all tied to assets. So that average AV, which is the denominator, increases faster than the numerator, particularly when you have significant market outperformance like we've seen over the last couple of quarters.

Second, the pattern of market performance matters, and that market decline in April resulted in a notable difference in monthly average AV. So that's another factor I'd highlight. Third, while point to point look at the S&P 500 is a conventional gauge for looking at market performance, as we pointed out in our investor slides, our equity exposure is more diversified and we saw less correlation to the S&P 500.

And so, we outlined those specific exposures in fee-based in the investor presentation, excuse me, the investor presentations. And while large cap performed well during the second quarter, small-cap, mid-cap, international, fixed income and real estate were all flat to negative.

So we didn't see anything notable. We continue to sort of be confident in our guidance at 2 basis points to 3 basis points over a full year in normal markets, and outperformance in the markets can fluctuate that a bit. And I'd reiterate again, with respect to our guidance, we believe that we're going to be at or above our net revenue guidance for the full year and at the top of our margin guidance. So feel really good about our performance.

Dan Houston: Does that help, Joel?

Joel Hurwitz: Yeah, that was helpful. Thank you. I guess just, Chris, I'll stick with you in Retirement. How much of your defined contribution business is now in guaranteed or spread-based products? And I guess, how has that grown in recent years?

Chris Littlefield: Yeah, I think you can--that's actually another factor I actually should have pointed out with respect to the fee revenue rate, Joel, so thank you for the prompt there. We definitely are seeing an increase in the use of guaranteed account products in WSRS. And that's been something that we've been really focused on trying to get a better penetration of.

And so, what you're seeing is some of that is coming, the economics are coming out of fee and they're showing up in spread. And so, it is growing. We're definitely seeing an increase in our ability to earn placements of our guaranteed products in WSRS and seeing good success there?

Joel Hurwitz: Okay. Thank you.

Dan Houston: Thanks Joel.

Operator: Thank you. The next question is coming from Ryan Krueger of KBW. Please go ahead.

Ryan Krueger: Hey. Good morning. Your full year guidance and what--and the EPS for the first half of the year seems to imply a pretty good step-up in EPS in the second half of the year. I was hoping you could touch on some of the key factors that's driving that. I know there's dental seasonality, but what other factors are causing you to take that step-up?

Dan Houston: Yeah. Before I have Deanna answer that question, Ryan, just know that we spent a lot of time looking at the underlying businesses themselves to understand what the growth is, and we've got a lot of historical precedents relative to the--how these tend to mature and to get to where we're at today. And we feel, as I said in my earlier comments, quite confident on our ability to hit that. With that, I'll let Deanna answer that, specifically.

Deanna Strable: Yeah, thanks, Ryan, for the question. Let me spend a little bit of time sizing kind of that step-up that you referred to and then talk about the drivers that make us feel confident in our full year performance.

First, I do acknowledge that there, like you mentioned, appears to be the need for a meaningful increase in our second half results for us to meet guidance. But I also want you to understand that we would not be reconfirming our outlook, if we didn't have the business and financial fundamentals to support it.

Second, I want to just make sure we're all thinking of the numbers in the right way. So our 9% to 12% EPS growth refers to our adjusted EPS growth off of the adjusted \$6.92 in 2023. And so, if you do the math on that, that would imply an average of slightly over \$2 per quarter in the next two quarters to get us within that range compared to the actual average \$1.76 per quarter in the first half of the year, or \$1.80, if you factor out the one-time expenses and taxes in the second quarter that we don't expect to recur.

There are a number of factors that naturally cause our EPS to be higher in the second half. The most meaningful of these is one of those that you just mentioned is the seasonality, but not just in SBD, but also in PGI, that impacts their--those two segments' performance in the first half of any year. In addition, the natural growth of all of our businesses, as well as the reduced share count, will also contribute to a second--a higher EPS as the year progresses.

And then I think my last point, which could be helpful and add further support to this is I point you back to the pattern of our EPS in 2023. In that year, we averaged \$1.65 in the first half and \$1.82 in the second half. So that's a delta of \$0.17. And if you adjust that for our share buyback activity, that would add an additional \$0.05 to that amount, making a \$0.20 increase this year, a continuation of a pattern we've experienced as recently as last year.

So hopeful that that additional detail provides further support to our confidence. And bottom line, as long as macro continues to cooperate, I see a clear path to our full year guidance of 9% to 12%.

Dan Houston: Thanks, Deanna.

Ryan Krueger: Thanks, Deanna.

Dan Houston: Anything else, Ryan.

Operator: The next question is coming from Wesley Carmichael of Autonomous Research. Please go ahead.

Wes Carmichael: Hey, good morning. Thanks for taking my question. On PGI and expenses, I know you mentioned there were some severance costs, but it seems like expenses didn't come down quite as much as you were expecting last quarter. So just wondering if you have any color on what drove expenses higher this quarter and how we should think about that for the rest of the year.

Dan Houston: Wes, good morning, appreciate the question. And as you might expect, you also have investments in the business that we have to continue to make as we think about how we pivot in part from the public to the private. So with that, I'll have Kamal add some additional color.

Kamal Bhatia: Thank you, Dan. Thank you, Wes. So I think as you mentioned, this quarter, we did have, as we mentioned in the notes to you, that we did have some severance cost of roughly \$6 million that was staff-related. But before I go there, I think it's worth reminding that the asset management business is a highly competitive business and we are constantly adapting our investment model.

So one of the things we'll continue to do is look at our capabilities and talent, where appropriate, and adjust it. So to your question, expenses were elevated also with respect to the reinvestments we are making back in the business. In particular, I'll point you to Dan's comments around infrastructure debt.

We are particularly focused on making sure we have the capabilities for the future, as we adjust our business mix. In addition to that, I think from an OE perspective, you will see there were some market adjustments due to the nature of our AUM, but we remain confident in our expense management capability, and we also remain confident in the outlook guidance we gave you, too, on margin.

Dan Houston: Do you have a follow up, Wes?

Wes Carmichael: Yeah. No, thank you. In pension risk transfer, I guess you guys had \$1 billion in sales in the quarter. Last quarter, some competitors were making some comments and mostly related to, I think private equity-related companies, but around lawsuits against plan sponsors kind of chilling volumes in that market. So just wondering what you're seeing in the pipeline, if that still looks pretty robust?

Dan Houston: Chris, do you want to provide some color on that?

Chris Littlefield: Yeah, thanks, Wes. Yeah, no, we still see the market as pretty robust. I think the market overall is--industry expectations are \$30 billion to \$40 billion in PRT for the year, and we don't see that really slowing down. And certainly, we took an opportunity to, in the second quarter, to put on some additional nice PRT business. We're exceeding our targeted returns and getting nice opportunities on PRT. And so, not seeing anything from a macro basis that would suggest that the PRT market is slowing down.

Wes Carmichael: Thank you.

Dan Houston: Thanks, Wes.

Operator: Thank you. The next question is coming from Jimmy Bhullar of JPMorgan. Please go ahead.

Jimmy Bhullar: Hey, good morning. So first, just a question on PGI net flows. I think each of the past few quarters, you've outlined sort of low fee mandates pressuring your flows. I'm just wondering if the business that you've lost, did that become low fee mandate over time or was it such when it came on? And how is your approach to such blocks of business different than when you might have put this business on?

Dan Houston: Yeah, it's a great question and you certainly have different generations of these investments and they all have a little bit of a unique story, but I'll have Kamal provide some additional detail on the most recent quarter.

Kamal Bhatia: Absolutely. Jimmy, that's a great question. So let me just start with this quarter. And I think your question was both on what the net cash flows look like but the low fee nature of these net cash flows. So as we highlighted, we had almost a \$900 million outflow in a single mandate, a long-duration, fixed-income mandate.

To your question, these were always low fee. They did not become low fee over a period of time and they were with us for a while. In addition, I think it is worth highlighting that if you look at our net cash flow--and Dan mentioned this--I think our durable sources of net cash flow remain quite strong, in particular, almost \$500 million of real estate flows, which are very high revenue and high margin for us.

And we also highlighted that as we continue to expand our business mix, \$150 million of flows in private credit, which are obviously both high revenue and high margin as well. So, we do feel good about the mix of our business with respect to the assets we are bringing in or in asset classes that have a durable trend and have higher revenue. And unfortunately, the mandates we did lose were in lower revenue mandates. Hopefully, that answers the question.

Jimmy Bhullar: Sure. And just relatedly, if I look at your performance, it's still good, but not as great as it had been, and the five-year, 10-year track records look better than the most recent years. Is that having any impact on your ability to retain or generate new inflows?

Dan Houston: Yeah, it's a great question. And obviously, that gets a lot of attention. As a matter of fact, Deanna and I and Kamal and his leaders get together frequently to interrogate the sources of underperformance where they are and had a very robust conversation in the last couple of weeks. It's why we've enhanced the slide deck to provide you with a different perspective on asset-weighted and equal-weighted perspective.

But again, I think Kamal and his team have done a really good job of truly understanding where these sources of underperformance are and, frankly, how good performance is in many of our strategies. Kamal, do you want to provide some additional insight?

Kamal Bhatia: Absolutely. So Jimmy, first, let me acknowledge investment performance is very important to us. I think as a top-tier investment manager, so I do acknowledge your comments. But I will go further, I

think to your question. We haven't really seen a direct correlation to short-term performance on flows, particularly across our business mix.

I'll point you to two data points we provided you this quarter. One, we have added to our updates to you, asset-weighted values for this quarter because they better reflect where our clients are invested to provide you a complete picture of our business.

And if you look at that data which we are providing to you both on peer relative basis and alpha basis, the numbers are quite strong. You could see, in particular, two strategies I would highlight for you. Mid-cap strategy, which is a large strategy for us, has top-quartile, short and long-term performance. In addition, hybrid target dates, which is an area of strength for us, has very strong long-term performance.

The other thing I would point to you and you'll see this in your charts, is almost 80% of our strategies are beating their benchmark, almost 150 basis points of alpha through the most recent period, which is the key decision for our institutional clients. So that gives me comfort that we are producing the investment results that we would keep there.

And then lastly, as you know, we continue to be focused on our market position in real estate. And our marquee real estate private equity strategy that has beaten their peers--peer-based benchmark had its first absolute positive net return, since 3Q '22. So, I do feel that we are focused on performance, but the data doesn't give me concern at this stage.

Jimmy Bhullar: Thank you.

Dan Houston: Thanks Jimmy.

Operator: Thank you. The next question is coming from John Barnidge of Piper Sandler. Please go ahead.

John Barnidge: Good morning. Thank you for the opportunity. Given you're exceeding targeted returns on the RIS PRT volume and maybe some headwinds to the fee business flows, is this going to be a bigger focus for flows and business growth as you look in the remainder of the year? Thank you.

Dan Houston: Yeah, and good morning, John. Look, the first thing I would say is we take a very disciplined approach as we think about the overall portfolio of our business between fee, spread and risk. And we do that very intentionally for enterprise risk management. Having said that, in the area of PRT, the opportunity set right now, it's very attractive, and the return profiles we really like and we like the liability just that we're seeing. But with that, I'll have Chris add some additional perspective on his outlook for the second half of the year on PRT?

Chris Littlefield: Yeah, thanks, Dan, and thank you, John, for the question. Yeah, I mean, again, we're seeing nice momentum in our PRT business through '23 and the first half of '24 with \$1.7 billion of PRT sales through the first half. But we previously guided that we would sort of be in that range of \$2.5 billion to \$3 billion for the full year. We now believe that we'll pretty much be close to that \$3 billion than the midpoint. We'll be at the upper end of the range, as long as we can continue to achieve our targeted returns.

And so, we do see some opportunities in the second half for us. But as we always do with this business, we really do balance growth with return and focus on the capital that we're investing to make sure we get an appropriate return on that investment.

I think as Dan pointed out as well, we're the number three provider in PRT in the industry. So we see a lot of opportunities coming our way and our existing defined benefit capabilities, and our complete pension solutions are really a differentiator for us because we are able to provide a full set of solutions for our customers that have defined benefit plans, whether it's record-keeping, actuarial consulting, custody, OCI and asset management.

And all of that allows us to really bring those capabilities to bear, and when they want to derisk their plans, we're able to take advantage of that and capture that in PRT. So feel really good about PRT and again, expect to be closer to the \$3 billion for the full year.

John Barnidge: Thank you for those comments. My follow-up question, given that opportunity with the full suite of products, if I provide those solutions, are you--as you look at your pipeline, is average transaction size getting larger? Thank you.

Chris Littlefield: On the PRT side, specifically?

John Barnidge: Yeah

Chris Littlefield: No, honestly, again--if you--John, when you look at our--one of the things that differentiates us is we do--we lead in both the number of PRT contracts entered into, as well as the amount of premium. And so, as Dan pointed out, the existing defined benefit and complete pension solutions is a nice source of opportunities for us. We got about 25% of opportunities from existing defined benefit customers.

And so, we really look at still in that small to mid-size of the market, we will go up, if the returns are there, but we actually find more opportunities, better close rates, better returns in the areas where we focus. And the other point of differentiation for us is we have better and more robust onboarding capabilities than many of our competitors where many of our competitors focused on retiring only really large, really highly competitive bid plans that don't require a lot of onboarding, but we focus in a different area of the market that allows us to get attractive economics.

Dan Houston: And John, just to pile on that, also remember that this is just part of our TRS suite. So a lot of those defined benefit clients, they know us from being a 401(k) client, they know us from being a deferred income, non-qualified deferred compensation client for even ESOP. So there really is a symbiotic relationship across this platform, and we're an obvious provider of the PRT on these defined benefit existing customers.

John Barnidge: Thank you.

Dan Houston: Thanks, John.

Operator: Thank you. The next question is coming from Elyse Greenspan of Wells Fargo. Please go ahead.

Elyse Greenspan: Hi, thanks. Good morning. My first question is just on your use of Bermuda. If you can just provide an update there and just expectations going forward and any capital relief--incremental capital relief we should be thinking about and if you guys used that entity for any pension risk transfer deals yet.

Dan Houston: Yeah, I think Deanna is in a good position to respond to this. And remember, we've got some term life and some PRT business that was there at the time and some annuity business as a result of our transactions, and she can give us an update on how we're going to use it in the future.

Deanna Strable: Yeah, thanks, Elyse, for that question. As we've discussed previously that our Bermuda entity was created for new business, both term and PRT. But to seed the entity, we seeded it with some in-force business of both of those product lines, as well. Our term life new business, all year, has continued to be reinsured to Bermuda. That just kind of happens naturally.

For PRT, that new business is evaluated on a case-by-case basis, as case specifics really matter to determine if Bermuda is optimal from a capital efficiency and operational perspective. None of our first half PRT sales have utilized Bermuda, but we expect to be in a position to leverage Bermuda for some of our sales in the second half of the year.

Elyse Greenspan: Thanks. And then maybe just on VII, do you guys have expectations for the back half of the year?

Dan Houston: Deanna.

Deanna Strable: Yeah, just a couple of comments on that. I do think if you look at what we have identified as pressured VII relative to prior quarters or even on a TTM basis, we are seeing some improvement in that metric, but we are still seeing pressure in an overall volume of variable investment income.

If we look at the improvement and the drivers in the current quarter, the improvement was really driven by the actual return of our alts portfolio. That performed as expected in the quarter, whereas in previous quarters, it had actually returned at a level lower than what we would have expected.

But we're continuing to see pressure in really two areas. One is prepays. Obviously, given the current interest rate environment, as well as kind of uncertainty on when interest rates are going to start to increase, we virtually had no prepays yet this year, or we've actually had prepays, but not fees from prepays relative to that. And then the other place, and it is a place where we're a little bit different than our peers is that a more sizable impact of VII is actually real estate and in particular, real estate transactions. And that component has been minimal as we look at where we were at the first two quarters of the year.

Obviously, alt performance can be pretty volatile. I do think we see a constructive potential increase in the real estate transactions as we look into the second half of the year. But I think real step-change improvement in variable investment income levels will likely necessitate a beginning of the decrease in the interest rate environment and probably more substantial improvement will occur in 2025.

Dan Houston: Thanks for the questions, Elyse.

Operator: Thank you. The next question is coming from Suneet Kamath of Jefferies. Please go ahead.

Suneet Kamath: Thanks. Good morning, everyone. Dan, I wanted to talk about participant withdrawals and 401(k). You mentioned that in your prepared remarks being at an elevated level. One of your peers recently alluded to the impact advisors are having on rollovers. So can you just maybe unpack what you're seeing in terms of participant withdrawals?

Dan Houston: Yeah, I'll take the part of that, and then throw it over to Chris. But the way I would look at it is, number one, you've got these elevated withdrawals, in large part, because the market performance has been so good over the last several years.

Secondly, as you point out, advisors are very much being opportunistic as it relates to retirees, so a benefit event, job changers and retirees. Those with really large average account balances will generally seek outside professional advice for their insights. Oftentimes, it's an existing relationship that they have, outside the qualified retirement plans.

So, I don't think any of us are surprised at that. For a lot of the individuals with lower average account balances, our capabilities within Principal Connection have served to be a really good way for us to provide guidance and advice and our ability to retain many of those dollars. But it's skewed towards the higher average account balances, which is only natural. And I'll see if I didn't take too much of the frosting off of that cupcake, Chris, before I pass it to you.

Chris Littlefield: Yeah, no. No, I think that's pretty much it. No, no, it's perfect. Yeah, and thanks, Suneet. The only thing I'd add is that's an area where we continue to invest and continue to get better in terms of driving improvements in our IRA, earning more IRA rollovers and keeping those assets either in plan or in an IRA with Principal, and we've seen success on that over the last couple of quarters. Specifically with withdrawals though, I just want to make sure I'm clear, though.

We're only seeing a very slight uptick in rate. So it's much more about market impact on what we're seeing in withdrawals than it is on rate of participant withdrawals. And so, that market inflating account values and when withdrawals are taken, it's just larger amounts being taken. And it's also, while it's anecdotal, people tend to retire in up-markets. And so, you would expect to sort of see people maybe taking advantage of high account values at that point in time and taking opportunity.

But again, this is much more, I'd call it, more than 75% of the attribution is to market and then a little bit more on the slight increase in rate.

Dan Houston: Suneet, just really two quick other additional comments. Remember, with Principal Financial Network, our PFN advisors, we benefit directly from their ability to gather these sorts of assets.

And then within PGI, I know that we have a lot of these investment products sitting on our distribution partners' platforms that are gathering rollover, IRAs equally. So, Principal is participating on a variety of different levels. Our comments coming out of the gate were primarily focused on record-keeping platform. Hopefully, that helps.

Suneet Kamath: It does. And I think there are some things that you guys have that maybe others don't, so that's helpful. My follow-up, and it's related, is if we think about RIS, you gave us the net revenue growth target but obviously, that combines to John Barnidge's question, PRT as well as the fee business. So if we were to just look at the defined contribution business at Principal, can you give us a sense of what revenue growth looks like there and maybe how it compares to the industry?

Dan Houston: That may be a follow-up, unless you've got that handy, Chris.

Chris Littlefield: Well, I think what we've done as we've gone through the segment reporting is we don't break down specifically the fee and the spread

revenue components. What I would say is we feel good about where we're at. We believe that we're growing at or above the industry average in terms of revenue rate. But yeah, we're sort of looking at all of our retirement business together because that's how we operate and manage and lead that business.

So again, if I were to think about sort of dynamics, we sort of pointed out the core strength of Principal in that small to mid-market continues. We're at--we're ahead of plan with respect to sales and revenue rates on our small to mid-business. Large tends to be a little bit more open arc, and so the revenue profile is a little bit different.

But in our core markets, if we think about recurring deposits on small to mid-up 10% and small to mid-versus overall at 7%, we think about new business net revenue is up, our pipeline is up. So, we actually feel really good about the overall performance of our fee business.

Dan Houston: And Suneet, you've heard this as we've been out talking to investors. Principal really has, within the last 18 months, adopted an enterprise strategy in doing that. We think about retirement, across the entire organization. We also think about SMB, across the organization. So again, we want to make sure we capture those profits and revenues for the enterprise, where we actually capture them and in which bucket is less important. So hopefully, that helps.

Suneet Kamath: It does. Thanks.

Dan Houston: Thanks.

Operator: Thank you. The next question is coming from Tom Gallagher of Evercore ISI. Please go ahead.

Thomas Gallagher: Good morning. I had a few questions related to Suneet's line of questioning. Can you talk a bit about planned level retention this quarter? I know in some prior quarters where RIS fee flows were weaker, you had talked about losing some large cases. So can you talk

about just overall level of planned retention this quarter and whether you had any of those large case losses?

Dan Houston: Yeah, let's brag on Chris and his team because they've had significant improvement with the full integration of the acquisition and the most recent acquisition on the ESOP side. And we're very excited about our retention in both small, medium and large. Chris.

Chris Littlefield: Yeah, thanks for the question, Tom. Again, we've seen very favorable contract retention at probably all-time positive levels for Principal. So, no significant large losses and very, very strong contract retention across all segments, this year, so really good. In addition, customer satisfaction advisor NPS scores are all trending positive and in a good direction. So, we feel really good about where we sit from contract retention perspective.

Thomas Gallagher: So you feel like you've gotten through the whole pig through the python from the Wells transaction, you don't see a lot of risk to those going forward. Is that fair?

Chris Littlefield: I think that's fair. I mean, you always are going to have a couple that you're working on, but in terms of overall like a broad-based comment, feel really good about retention. But--so I do think we're through a lot of that volatility from that integration, Tom.

Thomas Gallagher: Great. And then just my follow-up is, so considering that and just listening to your comments about participant-level, retention and outflows, would you say the--and granted, I think your comments are totally fair, like it's part of this just based on asset levels. When the market goes up a lot, you're--the same level of participant account value results in a larger redemption, so I totally get that.

But having said that, when I look at the \$3.5 billion of quarterly outflows this quarter, considering there's very good, planned level retention, is that a reasonable sort of glide path to think about going forward here for a while? So obviously, aside from the Q--seasonally

stronger Q1, is that like a decent run rate that we should be thinking about, just given all those dynamics?

Chris Littlefield: Yeah, I think that's a fair question. If we kind of look at the trends that impacted second quarter, whether it's the strong equity market, the volatility of large plan sales as well as slightly elevated participant withdrawals, offset by, again, I want to point out strong deposits, both recurring and transferred as well as strong contract retention. We think those trends will continue and that run rate, we expect to see some pressure in net cash flow through the balance of the year.

Thomas Gallagher: Okay, thanks.

Dan Houston: Thanks, Tom

Operator: Thank you. The next question is coming from Wilma Burdis of Raymond James. Please go ahead.

Wilma Burdis: Hey, good morning. Could you all talk a little bit about why you felt comfortable lowering the RBC target at this time? Was the full \$500 million of excess capital subs freed up by the change? And do you think that--I know these are a lot of questions on one, but do you think at some point, you could start to feel comfortable operating at a lower RBC in the near term? And how long would it take to evaluate that? Thanks.

Dan Houston: Yeah, Wilma, I really appreciate the question. I'll have Deanna respond.

Deanna Strable: Yeah, thanks, Wilma. There was quite a few different components of that. So I'll try to touch on all of it. So if you just go back to our prepared remarks, I think we talked about the reason for the change. Obviously, a few years ago, we made the strategic decision to exit and reinsure retail fixed annuities and ULSG. That changed our liability profile. It changed our risk profile. And so, as a follow-up to that, we have been evaluating what our target RBC level should be.

We considered business mix. We considered risk profile. We considered our extensive capital at risk analysis. We also looked at what our competitors' target and also had a lot of conversations with our rating agencies and regulators, as well.

And so, the outcome is what you saw is that we lowered our target RBC level from the previous 400% to a range of 375% to 400%. You mentioned the quantification of that difference. You were a little high. It was really about \$360 million is the difference between that 375% and the 400%.

We have no plans to immediately lower RBC to that level, and we're going to remain prudent in the current environment, which we expect is going to continue to be volatile and uncertain. So, you'll likely see us operate in the upper portion of that targeted range for the foreseeable future. But you will see some volatility, quarter-to-quarter, primarily driven by just that volume of attractive organic growth opportunities. But again, feel very good overall with our capital levels and also feel really good about being able to continue to return a significant amount of capital back to our shareholders?

Wilma Burdis:

Thank you. And could you help us size or quantify the potential capital benefits from using the Bermuda entity for PRT? And I know you mentioned a little bit earlier how you're thinking about using that, but maybe help us think about how you would think about it over the next 18 months or two years or so. Thanks.

Deanna Strable:

Yeah. Wilma, I probably wouldn't think about it as freeing up a lot of capital. I would think about it more as giving us the ability to go after a slightly higher volume of PRT cases for similar amounts of capital. And so that's how I would term it, up and kind of size it.

The elevated--to give you a little bit of color, the outsized PRT volume in the current quarter maybe had 50 million to 70 million of capital usage, and maybe that gives you a little bit of an idea relative to that.

But I wouldn't expect it to be massive amounts of free-up but, again, the ability to allow us to grow the company, grow our business, take advantage of attractive return opportunities that align with our target markets of retiring SMB.

Dan Houston: Thank you, Wilma.

Operator: Thank you. The next question is coming from Josh Shanker of Bank of America. Please go ahead.

Josh Shanker: Thank you. I think you answered mostly sufficiently. I want to go back to Ryan's question about the EPS trend. I have no doubt in your confidence that you're on track for the 9% to 12% growth. But when I look out to 2025, how much of the seasonality factor that you're experiencing in '24 is going to repeat and how much did the seasonality surprise you in '24 that you would not expect to recur in '25?

Dan Houston: Deanna.

Deanna Strable: Yeah, Josh, that will be something that we spend a little bit more time thinking about, prior to outlook. But one fact that I would say is, if you look at our performance for the first half of the year, we're operating pretty much exactly on top of what we would have expected. And so from that perspective, I don't see anything that would change on kind of that pattern of earnings.

But one of the commitments we have is as we go into outlook in early '25, we want to make sure we are more transparent on that level of seasonality that we expect in total, but also for a few of the key businesses like PGI and SBD. Obviously, one wildcard to that. I know we continue to talk about is the dental pattern of seasonality. It's continuing to be different than what we experienced pre-COVID. I think we thought it might materialize a little bit different.

We were fortunate in the current quarter that any of that elevated seasonality was offset by positive underwriting trends in both, life and

disability. But I'd say that's probably the one wildcard relative to that, but our commitment to you is to be a little more transparent as we come into the year of 2025.

Dan Houston: I think when we get to our November 18 Investor Day, we'll also be able to provide additional thoughts and perspective on those business trends into 2025.

Josh Shanker: So just to be clear that the seasonality wasn't well enough vocalized during the outlook, but things are actually in line with how you'd expect the patterning of earnings with the exclusion of that dental item.

Deanna Strable: Yeah. So what I would say, in total, it was not unexpected. I think we were pretty clear about PGI seasonality and SBD seasonality, but we didn't bubble it up to talk about how that impacted overall EPS from a quantification. And again, that's what we'll look to refine, as we move into 2025 outlook.

Josh Shanker: Okay. Thank you very much.

Dan Houston: Thanks, Josh.

Operator: Thank you. The next question is coming from Mike Ward of Citi. Please go ahead.

Michael Ward: Hey, guys. Thank you. I was wondering if you could discuss some of any detail around the resolutions in office maturities, so far.

Dan Houston: Yes, we can actually do that. Deanna, do you want to take it?

Deanna Strable: Yeah, we gave some color on the prepared remarks. We came into the year with about \$510 million of maturities. We paid off or resolved everything that have come to bear thus far, this year. We have about \$290 million remaining. Underlying metrics of those remain strong and we continue to work to bring those to a positive outcome. You may

have noticed that our CML losses in the second quarter did have about \$23 million of impact.

I do want to point out that that was almost entirely due to reserves increasing with about a \$15 million increase in our loan-specific reserve, which is across four properties, and about a \$10 million increase in our general reserve. So again, on a GAAP basis, we have about \$170 million of reserves relative to our CML portfolio and still feel really good about the high quality of our overall commercial mortgage loan portfolio and the office portfolio, in particular.

Dan Houston: Hopefully, that helps, Mike.

Michael Ward: Yeah, no, it does. Okay. And then maybe for Kamal just on PGI flows. I know you've gotten a couple of questions on this, but just curious what you're seeing more recently. It seems like there's a Fed cut sort of more likely at least on the horizon. Wondering if that is driving an uptick in clients wanting to put money to work, today.

Kamal Bhatia: Yeah, Mike. That's a great question. So I think, like many other economists, our own view is we are going to see a rate-cutting cycle start here. But maybe to your question, I'll answer it from two perspectives, how it impacts our current book of business, but also how we see that helping or what we are hearing from clients in terms of engagement. What I would point out to you is, I do think there is increasing conversation now we are having with clients in anticipation on that on the fixed income side. There is a view that we are fairly sanguine in terms of the economic outlook. And as rate cut cycles begin, historically, clients look to longer-duration strategy.

And one of the areas we see a lot of interest is in our high-quality, high-yield franchise which, obviously has excellent performance, but that's an area we continue to see more interest. With respect to the equity side, clearly, our REIT franchise, which is a big portion of our business, would benefit from that cycle starting. And traditionally, equities move

faster in anticipation of rate cuts than private equity real estate, so I wouldn't expect it to be any different this time.

When you look at the macro trends in real estate, there is new sources of refinance capital emerging. When you look at the marketplace, you do see increase in CMBS, new issuance, both SASB and conduit deals are improving. And you do see new entrants coming in to do refinancing. So, I generally do think the anticipation of the rate cuts is creating more volume in the marketplace, but also more engagement. Hopefully, that helped you, Mike.

Michael Ward: It does. Thank you, guys.

Operator: Thank you. We have reached the end of our Q&A. Mr. Houston, your closing comments, please.

Dan Houston: Thanks, Donna. We'll continue to leverage our integrated product portfolio with our distribution partners around the globe. Additionally, we'll focus on our high-growth market and deploy our capital very judiciously, as we've discussed today.

Lastly, we know the importance of aligning our expenses with our revenues and investing for the future. That is top of mind for us, as you would expect.

Thanks for your time today. I hope to see you on the road in the next few months and certainly at Investor Day on November the 18th. Thank you.

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

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¹ As of March 31, 2024

² Ethisphere, 2024

³ Pensions & Investments, 2023