# Principal Financial Group®
# 1Q 2021 Earnings Call Transcript

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## Call participants

### Executives

Dan Houston: Chairman, President & CEO

Deanna Strable: Executive VP & CFO

Amy Friedrich: President - U.S. Insurance Solutions

Renee Schaaf: President - Retirement & Income Solutions

Pat Halter: President - Global Asset Management

John Egan: VP - Investor Relations

### Analysts

Jimmy Bhullar: JPMorgan

Humphrey Lee: Dowling & Partners

Andrew Kligerman: Credit Suisse

Erik Bass: Autonomous Research

Ryan Krueger: KBW

John Barnidge: Piper Sandler

Suneet Kamath: Citigroup

Tom Gallagher: Evercore ISI

Josh Shanker: Bank of America

Tracy Benguigui: Barclays

Mike Ward: UBS

## Presentation

Operator: Good morning, and welcome to the Principal Financial Group First Quarter 2021 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 "1" on your telephone keypad. We would ask that you please be respectful of others and limit your questions to one and a follow up so we can everyone in the queue.

I would now like to turn the conference over to John Egan, Vice President of Investor Relations.

John Egan: Thank you, and good morning. Welcome to Principal Financial Group's First Quarter 2021 Conference Call. As always, materials related to today's call are available on our website at principal.com/investor. Following the reading of the safe harbor provision, CEO, Dan Houston, and CFO, Deanna Strable, will deliver some prepared remarks, then we will open up the call for questions. Others available for the Q&A session include Renee Schaaf, Retirement Income Solutions; Pat Halter, Global Asset Management; and Amy Friedrich, U.S. 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 U.S. Securities and Exchange Commission.

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

measures may be found in our earnings release, financial supplement and slide presentation.

We're looking forward to connecting with many of you at our 2021 Investor Day, which will now be held on June 29th. The event will be virtual, and we'll share more details in the near future. Additionally, our 2020 corporate social responsibility report was recently released, and we launched a new sustainability subsection on principal.com. Our 2020 CSR report highlights several achievements from the year and new commitments we've made. View the report and learn more about our ESG strategy at principal.com/sustainability. Dan?

Daniel Houston: Thanks, John, and welcome to everyone on the call. This morning, I will discuss key performance highlights for the first quarter and the growing momentum we're seeing across our diversified business. Deanna will follow with additional details of our first quarter results and our current financial position.

2021 is off to a strong start. Beginning on Slide 4, we reported non-GAAP operating earnings of $424 million. Excluding significant variances, non-GAAP operating earnings increased 18 percent over the first quarter of 2020, driven by solid execution and improved macroeconomic conditions.

We're very optimistic about the opportunities that lie ahead as momentum has returned in many of our businesses, and we continue to see resiliency in small- to medium-sized businesses.

In the first quarter, we had strong in-group growth from positive employment trends in group benefits, and we had record sales in our retirement business, while participant deferrals and company matches increased and returned to pre-pandemic levels.

We continue to be in a very strong financial position with $2.8 billion of excess and available capital. We deployed over $250 million of capital in the first quarter through share repurchases and common stock dividends.

Last night, we announced a $0.61 common stock dividend payable in the second quarter, a $0.05 increase over the first quarter dividend. This increase

helps us stay on track with our targeted 40 percent dividend payout ratio. We're confident that our businesses will continue to generate strong earnings and create long-term value for shareholders.

We closed the first quarter with record total company AUM of $820 billion, an increase of nearly $190 billion or 30 percent over a pressured first quarter of 2020. This includes $19 billion of positive net cash flow. And we achieved record PGI-managed and PGI-sourced AUM of $508 billion and $250 billion, respectively. Our diversified suite of products and solutions are in demand in the current market and continue to be relevant to institutional, retail investors as well as our affiliated businesses.

Investment performance remains strong as 57 percent of Principal mutual funds, ETFs, separate accounts and collective investment trust were above median for the 1-year time period, 77 percent for the 3-year, 76 percent for 5 years and 89 percent for the 10 year. For our Morningstar rated funds, 71 percent of fund level AUM had a 4- or 5-star rating. Longer-term performance, which drives our net cash flow, remains strong and positions us well to attract and retain assets going forward.

Principal International reported $160 billion of AUM in the first quarter, a 15 percent increase on a constant currency basis compared to a year ago. China AUM, which is not included in our reported AUM, increased to $155 billion in the first quarter. Total company net cash flow was a positive $8 billion in the first quarter, $5 billion higher than the first quarter of 2020.

RIS-Fee generated $5.7 billion of net cash flow, driven by a record $8 billion of retirement sales, growth in recurring deposits as well as low contract lapses and participant withdrawals. The pipeline is robust, especially in the large-plan market, and is expected to drive strong growth in full year sales. Participant withdrawals as a percent of average account values returned to pre-pandemic levels in the first quarter, a recovery that is expected to persist throughout the year.

While PGI-sourced first quarter net cash flow was a positive $400 million driven by strong institutional flows, PGI-managed net cash flow was a negative $500 million. To better meet customers' needs, we chose to move

approximately $7.5 billion from mutual funds to collective investment trust in April. This will not impact second quarter net cash flow, nor will there be a material impact on revenues or earnings.

Principal International reported $1.4 billion of first quarter net cash flow, the 50th consecutive positive quarter, driven by Southeast Asia and Hong Kong. Although not included in our reported net cash flow, China had $34 billion of net cash flow in the first quarter. While China clearly benefited from money market funds being in favor in the first quarter, we're making progress to diversify our offering through our joint venture with China Construction Bank, including $360 million of positive net cash flow and equity strategies in the first quarter. In addition, our digital distribution continues to grow in China. We added 3 million new digital retail mutual fund customers and doubled our digital AUM in the first quarter alone.

The pandemic continues to impact many countries we operate in, Brazil, in particular. Industry-wide net deposits were down 19 percent from a year ago. While we continue to lead the industry in pension deposits, first quarter net cash flow of $100 million declined from the fourth quarter. And in Chile, first quarter AUM was negatively impacted by $600 million from COVID hardship withdrawals, improved from $1.3 billion in the fourth quarter.

I'll now share some additional execution and business highlights, starting with the integration of the Institutional Retirement & Trust business. The integration is going very well and remains on track with a third successful migration occurring just last week. The migration of the retirement business will be completed in the second quarter and trust and custody in the third quarter. In total, we're adding more than 2.2 million retirement participants and approximately $140 billion in retirement account value through the IRT acquisition.

Expense synergies will begin to emerge in the second half of the year, and the transition services agreement will wind down by the end of the year. To offset some of the pressure on earnings, we're working on solutions to mitigate the impacts that the low IOER rate has had on the acquired trust and custody business.

We're beginning to realize some tangible benefits of the IRT acquisition. Having scale and additional distribution channels helped drive record retirement sales in the first quarter, and our pipeline has doubled compared to a year ago. As we're servicing more customers, revenue synergies are starting to build and exceeded our expectations in the first quarter, including IRA rollovers, automatic IRAs, and asset management opportunities. This business is a powerful growth driver for Principal. We are increasing our scale to better serve small, medium and large-sized clients. We're enhancing our capabilities, and we have a more robust platform that is needed to compete in the retirement business moving forward.

A few other business highlights to note. In RIS-Spread, we had approximately $900 million of opportunistic MTN and GIC issuances in the first quarter. The PRT pipeline continues to build, and we expect a robust second half of the year.

Individual Life sales rebounded with a 30 percent increase over the prior year quarter, driven by nonqualified deferred compensation, an important component of our total retirement solutions and our small- to medium-sized business strategies.

A few weeks ago, Principal unveiled new corporate responsibility commitments that bring additional accountability to our ESG strategy. Through these commitments, we're pledging enhanced support for women- and minority-owned businesses, continuing to nurture a diverse and inclusive work environment, and by 2050, we are targeting net-0 carbon emissions.

As many of you are aware, we entered into an agreement with Elliott Management earlier this year to conduct a strategic review of our business mix, capital management and capital deployment as well as add 2 independent directors to our Board. The review, which is being led by the finance committee of our Board, is well underway, and we'll share the outcome in late June. We are considering the entire spectrum of options to enhance shareholder value, meet the needs of our customers and strengthen our position as an industry leader.

We've had very insightful conversations with many of our investors and sell-side analysts since reaching our agreement with Elliott Management in mid-February. I want to thank all of you for your candor and your perspectives. Our conversations with Elliott remain constructive.

Last night, we announced Claudio Muruzabal is joining our Board of Directors, his immense global experience and leadership in the technology industry will bring valuable insights to our digital initiatives around the world. Combined with the addition of Maliz Beams in February, we've now added 2 new independent directors in 2021 per our agreement with Elliott.

With that, let me turn it over to 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, the impacts from COVID as well as our current financial position.

The first quarter was a strong start to the year with net income attributable to Principal of $517 million, including $94 million of net realized capital gains with minimal credit losses. We reported $424 million of non-GAAP operating earnings in the first quarter or $1.53 per diluted share. Excluding significant variances, non-GAAP operating earnings of $442 million or $1.60 per diluted share increased 18 percent and 19 percent, respectively, compared to the first quarter of 2020.

As shown on Slide 4, we had 3 significant variances during the first quarter. These had a net negative impact to reported non-GAAP operating earnings of $25 million pretax, $18 million after tax and $0.07 per diluted share. Pretax impacts included a net negative $21 million impact from COVID-related claims, a negative $19 million impact from IRT integration costs and a $15 million benefit from higher-than-expected variable investment income.

Specific to variable investment income, alternatives and prepayment fees benefited RIS-Spread in Individual Life by a combined $25 million. This was partially offset by a negative $10 million impact in Corporate, as the increase in interest rates negatively impacted some mark-to-market fixed income investments.

The first quarter financial impacts from COVID were limited to mortality and morbidity and RIS-Spread and U.S. Insurance Solutions. With approximately 200,000 U.S. COVID-related deaths in the first quarter, the net $21 million pretax impact was slightly better than our sensitivity would have suggested, primarily due to more favorable impacts in RIS-Spread.

For the full year, we're now estimating a total of 275,000 U.S. COVID deaths or about 75,000 in the remainder of the year. This is slightly lower than what was anticipated in our outlook due to the vaccine rollout. We continue to see further recovery across our U.S. businesses in the first quarter.

Group benefits in-group growth was a strong positive at just under 1 percent during the quarter, and dental claims returned to expected levels for the quarter.

In the Retirement business, recurring deposits increased 10 percent compared to the first quarter of 2020, driven by an increase in both the number of people deferring and the number of people receiving a match as well as impact from the IRT migrations. Additionally, a record $8 million of sales and low lapses contributed to the strong first quarter net cash flow.

Looking at macroeconomic factors in the first quarter, the S&P 500 Index increased 6 percent and the daily average increased 9 percent compared to the fourth quarter and 26 percent from the year ago quarter, benefiting revenue, AUM and account value growth in RIS-Fee and PGI.

Foreign exchange rate tailwinds emerged in the first quarter, but remained a headwind compared to a year ago. Impacts to reported pretax operating earnings included a positive $3 million compared to fourth quarter 2020, a negative $4 million compared to first quarter 2020 and a negative $45 million on a trailing 12-month basis.

Excluding significant variances, first quarter results were in line with or better than our expectations for all of the business units. A few comments – PGI's trailing 12-month revenue growth of 2 percent was muted due to lower performance fees and transaction and borrower fees due to the pandemic.

We expect to be at the high end of the 9 percent to 13 percent guided range for revenue growth for the full year.

In Principal International, while encaje performance was $5 million lower-than-expected in the first quarter it was offset by favorable variable investment income in Chile. Excluding the impact of foreign currency translation, Principal International's trailing 12-month revenue was flat compared to the year ago with a 33 percent margin. Revenue growth is expected to improve throughout the year and to be within the 8 percent to 12 percent guided range for the full year.

Turning to capital and liquidity on Slide 6. We remain in a strong financial position, with $2.8 billion of excess and available capital, including $1.8 billion at the holding company, more than double our target of $800 million to cover the next 12 months of obligations, $575 million in excess of our targeted 400 percent risk-based capital ratio estimated to be 437 percent and $400 million of available cash in our subsidiaries. We expect the estimated 437 percent RBC ratio to move down toward our targeted 400 percent throughout 2021 as capital is deployed. Our non-GAAP debt-to-capital leverage ratio, excluding AOCI, is low at 23 percent. Our next debt maturity of $300 million isn't until late 2022, and we have a well-spaced, laddered, debt maturity schedule into the future.

As shown on Slide 7, we deployed $252 million of capital during the first quarter, including $100 million of share repurchases. We remain committed to $600 million to $800 million of share repurchases in 2021. So far in the second quarter, we've completed approximately $75 million of repurchases through April 26.

Last night, we announced a $0.61 common stock dividend payable in the second quarter, a $0.05 or 9 percent increase from the first quarter, and our dividend yield is approximately 4 percent.

During the first quarter, the impact from credit drift and credit losses was immaterial, and we're now estimating $100 million impact for the full year, improved from the $300 million estimate at the end of 2020.

2021 is off to a great start with record assets under management and strong earnings in the first quarter. The macroeconomic outlook has improved from year-end and will help fuel continued growth across our businesses. We're looking forward to welcoming the remainder of the IRT retirement customers to Principal in the second quarter and are excited for the opportunities that lie ahead.

As John mentioned at the beginning of the call, I look forward to connecting with many of you at our virtual Investor Day on June 29, where we'll share our strategies for long-term growth. This concludes our prepared remarks.

Operator, please open the call for questions.

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

Our first question comes from Jimmy Bhullar of JPMorgan.

Jimmy Bhullar: So, I had a question on the retirement and the asset management business. And you had very strong flows in your FSA business, and I think there were a couple of large wins. And typically, when FSA flows are strong, your asset management flows tend to be good as well. But I think in this case, the plans had more of an open architecture platform.

So just wondering if that's a trend we should see going forward as well? And also how – what are the implications of this for your overall earnings for the enterprise? Because in the past, obviously, a majority of the FSA assets have been managed by PGI.

Daniel Houston: Jimmy, this is Dan. And it's a great question. And clearly, when you make an acquisition, the size of the Wells Fargo IRT business, we knew that it was going to come with a larger plan capabilities. We also know that we had tapped into a new set of consultants, advisers that might bring us this size opportunity. So, it's worthy of spending a few minutes and digesting that to do that in a constructive way, I'll have Renee talk about our continued commitment to the SMB market, but also this larger case market. Renee?

Renee Schaaf: Yes, absolutely. And Jimmy, thank you for that question.

Let me first start by talking about the sales that we saw in the first quarter, and they're very strong, and we're very pleased with the development so far. And I think the thing that's the most pleasing is that when we look at first quarter sales, they were strong across all plan sizes – small, medium and large. And in particular, in the large plan market, we've seen very robust pipeline growth and then the corresponding sales. And of course, we did have 2 very nice large plan wins in first quarter.

I think the thing to know there is the sales cycle is a little bit longer in the large plan market, and so that will result in a little bit of volatility in terms of when that business will close and a lot of that business may not become effective until 2022 just because of the long sales cycle. But nonetheless, we're very pleased with our sales across all plan size segments.

The second part to your question was, what happens with asset capture? And how are we driving assets to PGI? And a couple of comments there. First off, Principal is unique from the perspective of having a very strong track record in driving proprietary asset management capabilities in our new sales. So, while the industry average is somewhere around 30 percent, we routinely beat that, particularly in the small and the midsized planned market.

Larger plans can be expected to drive assets as well to PGI. And an important source of that comes from the rollover opportunities and also the small amount but also, we are introducing our proprietary asset management capabilities on a client-by-client basis where it makes sense and where we compete very well. And so, we do anticipate seeing some nice lift there, too, as we begin to migrate the IRT business into our block and we began to work with the plan sponsors as they consider their investment lineups.

So again, very pleased with first quarter results. Strong momentum across all plan sizes. And we continue to capture a good share of proprietary asset management, particularly in the small and midsized market.

Daniel Houston: Jimmy a lot to think about there, any follow ups?

Jimmy Bhullar: Yes, just on the same topic, should we assume that your fee rate would decline as you become more competitive in the larger case market? Obviously, you can generate good margins if you've got scale. But in terms of fuel, the fee rate itself, should that be going down over the next few years as you're putting on more large case business?

Renee Schaaf: Yes. So, the average fee as a – if you look at the fees overall, you'll see that the highest fees are associated with the small plan market. And then, of course, they scale down with the larger plan market simply because of economies of scale within a particular plan.

Now in terms of overall competitiveness and what we're seeing in the marketplace, we see fee competitiveness across all segments. But I can't – it would be unfair to say that we see the fee pressures in the large plan market at a greater rate than what we see in the other plan markets – other size markets.

So again, we continue to see fee pressures as the whole industry sees fee pressures. You typically see higher amounts of fees in the small plan market compared to the large, but we're not seeing a disproportionate competitive pressure in the large plan market.

Daniel Houston: Thanks for the question, Jimmy. Appreciate it.

Operator: Our next question comes from Humphrey Lee of Dowling & Partners.

Humphrey Lee: I guess just to follow-up on the – on RIS-Fee. I think in your prepared remarks, you talked about the revenue synergies from the IRT block exceeded your expectation in the first quarter. Can you quantify that for us? And how should we think about it as you continue to migrate the business into your platform?

Daniel Houston: Yes. So, it's a good question, and one I'll have Renee speak to. But again, we made initial assumptions having underwritten this opportunity. And frankly, as I've said before on these calls, it's about a 3-quarter delay from where we wanted to be in terms of transitioning those clients over.

We've now transitioned over, very successfully, 3 of the 5 blocks of business with 2 remaining that will be completed by the end of the second quarter. And the reason that's so important is that, although it did generate higher expenses, it allow us to retain a lot of business and also to be in a position to capture more revenue and as well as more revenue opportunities, it also allowed us to capture some expense synergies.

So again, hats off to Renee and her team for really good execution here. But I'll have Renee speak specifically to your revenue questions, Humphrey.

Renee Schaaf: Yes, absolutely. And thank you for the question, Humphrey.

So first off, our ability to work directly with the plan sponsors on revenue synergies, it increases as those clients begin to roll over to our platform. But generally speaking, there are several opportunities for us to add to the revenue and to capture synergies. And the first area that I would point to is our very broad total retirement solutions offering.

So – and you've heard us talk about this before, we are strong, not only in defining contribution, but number 1 in defining benefit, number 1 in ESOP and number 1 in nonqualified in terms of number of plans.

So, one of the areas that we look at right away is what additional solutions can we bring to the table for those planned sponsors and deliver in a very integrated and coordinated way. So, we've seen some good early success in bringing particularly defined benefit capabilities to the table as well as nonqualified.

The second area that I would point to is in the IRA rollover, spectrum. And there, again, we have a very strong IRA rollover capture capability. And as those participants come on to our platform and we have the ability to work with them the benefit event, we'll begin to see the results of that. And it creates a nice lift to proprietary asset management flows.

The next area, of course, is the small amount force out which is a benefit to the bank. And then last of all, we work with the fiduciary committees at each of our plan sponsors to identify opportunities to introduce our proprietary

asset management capabilities as they make sense. And that will be something that continues to unfold as this block of business migrates over.

So, we're off to a strong start with a lot of runway left as that block of business migrates over.

Daniel Houston: Is there a follow-up, Humphrey?

Humphrey Lee: Yes, sure. So just thing on kind of RIS-Fee just in terms of the flows. So clearly, you start off first quarter very strong. I think on the outlook call, you talked about kind of the expectation for flows for 2021 will be flat for the year. Given the strong performance in the first quarter, did that change your outlook for the balance of the year? Or were those 2, kind of, case wins were kind of expected in the or it didn't change it?

Renee Schaaf: Yes. Humphrey, that's a great question. And let me tackle that by walking through each component of the net cash flow formula.

So first off, in terms of transfer deposits, we've already talked about the fact that we're seeing really good momentum in both pipeline and in sales across all plan segments and we anticipate that, that will continue throughout 2021 and that we'll see good quarter-over-quarter increases in sales. So good momentum in the transfer deposits.

The same thing is true with recurring deposits. We saw a 10 percent increase in recurring deposits in the first quarter, driven by increases in the number of people who are participating as well as a nice uptick in, actually the match and the deferral contributions themselves.

And as a reminder, as the IRT block migrates over to our platform, the recurring deposits will begin to increase as a result of that IRT business now being on our platform, which brings then into withdrawals, and we're seeing a really interesting phenomena this year, and it's related to the strong market appreciation.

So, let me cover that just real quickly. We expect to see account values appreciate over 30 percent in 2021, and it's driven as a result of equity

market performance. And we'll also see participant withdrawals from the IRT block of business show up in our block, and it will go through the participant withdrawals as well.

So as a result, when you look at the dollar amount of withdrawals, you'll see that increase over 2020, but if you compare those dollar amounts of withdrawals to the average account values, what you'll see is that we expect our results will be at the pre-pandemic levels, which is very favorable.

So as a result of this, this is what led us to guide towards a flat net cash flow in 2021 in our outlook call. We're certainly very pleased with what we've seen in first quarter. And so that gives us nice optimism for the rest of the year, but it largely depends, too, on the pattern of the large plan sales that we might see for the rest of the year.

That was a long explanation, but hopefully, that helps.

Daniel Houston: Hopefully that helps, Humphrey. Yes. And it is. And every time we've seen the markets go up and to the right, this aggressively, it's the same pattern that emerges. It's just the opposite when the equity markets go the other way. So thank you.

Operator: Our next question comes from Andrew Kligerman of Credit Suisse.

Andrew Kligerman: Can you hear me?

Daniel Houston: We can.

Andrew Kligerman: Great. Great. So, I'm thinking a little strategically. Dan, at the beginning of the call, you were alluding to the Individual Life business being important to your SMB businesses and I think, Income Solutions. Sales were great. But I'm wondering if you could elaborate a bit more on strategically how that business fits in with your RIS businesses, et cetera? How important is it?

Daniel Houston: Yes. So, let me give that a high level and then kick it over to Amy. But I would start with where we've always been, which is our overall arching strategy – our strategy, as you very well know, is the SMB market and larger employers. And we've bolstered that in the acquisition of the Wells Fargo IRT business.

We also know that some of those products that lie within USIS serve as really strong vehicles for the funding mechanism for, example, nonqualified deferred compensation. Those tax benefits are very, very compelling.

Also back to the core SMB strategy, Life Insurance is used, as we all know, for buy, sell and key person protection. And you don't have to look much further than the last 12 months to have an appreciation for what a single mortality life can mean to a small to medium sized business.

So that's where we have always anchored our thesis for being in those businesses, the same lies true if you were to look at Renee's Spread business when we provide guaranteed income for our customers.

And then, of course, you have to recognize that PGI manages a disproportionate percentage of those assets because they lie into the general account. So, it really is a comprehensive business model that we have built, and I'll have Amy speak to first quarter sales and her outlook and her ideas as well. Amy?

Amy Friedrich: Yes. Thanks for the question. Dan, you did a great job teeing this up, and you've hit exactly the right point, which is – we're happiest with our life sales and growth numbers when they have a tie to the business market.

So, one of the statistics we've provided over the last several years is how much of our Life sales is tied to that business market. So that's going to be tied to a solution that we use a life insurance product to solve either an executive benefit or to solve some sort of an employer benefit issue, usually with business owner and executive solutions to sort of the basis of that. So, this first quarter, what was probably most notable is that we were at nearly 60 percent business market sales. And I would tell you, above 50 percent is what we want to see.

We want to tie in to provide great solutions, and Dan talked about it, tax-efficient solutions for things that we're doing for executives and plans. We intentionally tie into our retirement business as 1 of the pillars of TRS to

provide great nonqualified solutions and to drive both volume and good quality solutions in that.

We're also looking to do even more business, and you've seen that reflected in our results in the business owner and executive solution. We know that the marketplace and some of the returns on what I consider just the pure retail plays are difficult, particularly difficult for a public insurer. But the business market focus, the tie into the other piece of the strategy has been a focus for us for years, and that's the piece that we continue to see as really critically important to the strategy.

Daniel Houston: Hopefully, that helps, Andrew.

Andrew Kligerman: Very much. Yes. So, I kind of get that sense of the integration. And then it sounds like the IRT integration is going really well. It's – you said 3 or 5 blocks. So, by the end of the year, it should be humming. Are you at the scale and position where you want to be? Or could you find other businesses in RIS that you'd like to acquire?

Daniel Houston: It's like a lot of things. It's opportunistic in some sense. But at the same time, we definitely have a to-do list, and it surrounds itself around capabilities, whether it's asset management or asset gathering around the world. And so we've thought through that. We need to digest what we've acquired in the IRT business. As I said, we feel very good about what we have acquired and onboarding it with the successful completion by the end of the second quarter of the last migration. We still have some work then for the balance of the year on the trust and custody component, but we're clearly consciously aware of the fact that this doesn't stay stagnant. There's going to be winners and losers in this space, and we're going to continue to distinguish ourselves as a net winner, and we'll be very strategic in how we go about doing that. So, I appreciate the question.

Operator: Our next question comes from the line of Erik Bass of Autonomous Research.

Erik Bass: I was hoping to get some more color on the international organic growth drivers in a couple of regions. In Southeast Asia, it looks like you had record net flows this quarter, so I was hoping you could talk about the drivers there?

And then for Latin America, clearly, there have been some headwinds from COVID and pension legislation changes. But can you discuss some of the current dynamics there in the key markets?

Daniel Houston: Yes. So, I'll tag team this one with Deanna. I'll take Latin America and maybe kick off Asia to her. As you know, in all 3 of the Latin American countries, Mexico, Brazil and Chile, they are all going through some form of pension reform. You may have even seen last night, Erik, that the President, Pinera, actually allowed for the third now distribution out of the Afore system, which will – or AMP, which will reduce by another 10 percent the account values. Of course, that doesn't necessarily impact our revenues. It's calculated differently.

And there's also some pension reform that's being debated about moving the required funding contribution from 10 percent to 16 percent, and there's a debate currently going on, of which we're part of, along with the industry, on how that next 6 percent gets managed and the structures that go around that.

Mexico has already achieved their reform. We know that starting in 2023 through 2030, it will go up 1 percent per year, going from 6 percent to 15 percent. However, they've also modified in the current environment, the fee structures that we're allowed to charge. So, we've got some near-term pressure, and we're making adjustments on expenses reflecting that downward pressure on the fees that we can charge.

And then, of course, we got to be thinking about Brazil. As you know, they're in a lot of hurt right now with COVID. That's a serious issue. And in spite of that, our joint venture with Brazil, Banco do Brasil, holds up incredibly well. We still enjoy roughly a 30 percent market share, and we captured 37 percent of all of the new deposits through February 21st of this year. So in spite of being – having a tremendous amount of macro pressure in Brazil, you have to give that team a lot of credit for their ability to fight through it.

The last comment I'll make about Brazil is there has been a very conscious effort to migrate away from the significant emphasis and a focus that we have on fixed income to include other products. Multimercado is what it's

referred to, and it's a balanced fund, and we're working very closely with the bank and helping shift some of that fixed income into more of a balanced approach.

And then lastly, as you know, we have Claritas. And Claritas is an asset manager, of which we own 100 percent, is actually doing quite well in spite of some of these other challenges. So with that, let me flip it over to Deanna to talk about Southeast Asia.

Deanna Strable: Yes. Thanks. And thanks for the question, Erik. So, first of all, just to give you a little bit of backdrop, the economic outlook in Southeast Asia is very similar to what we see here in the U.S. There's a lot of liquidity in the market. Economic recovery is well underway. A better outlook regarding the pandemic given the vaccination progress, and we've continued to have very strong investment performance from our joint venture. And as you know, we increased our ownership of that joint venture a few years ago. And so that's coming into play as well.

The net cash flow for the quarter was very strong at $900 million. That was half driven by institutional, half driven by retail, very focused in our equity funds. There can be some lumpiness of that institutional money from quarter-to-quarter. But we do continue to remain optimistic about the net cash flow outlook for the remainder of the year.

Daniel Houston: Thanks, Deanna. Any follow-up there, Erik?

Erik Bass: Great. I appreciate all the color there. That's helpful. And then one, Deanna, you had mentioned, I think, the prepared remarks, exploring some ways to offset the low IOER rate and the impact on RIS-Fee, I was just hoping you could provide some more color on what options you may have there and the potential benefit?

Daniel Houston: Yes, why don't we have Renee do that. She’s certainly close to that. And again, they've done a nice job on navigating this. But Renee, please?

Renee Schaaf: Yes. Absolutely. Erik, thank you for that question. So, we've talked a lot about the IOER rates and the decline and how that – the impact that that's had on revenue. And so, we've been eager to identify opportunities to

present solutions to our customers that are attractive, and they can help create a better economic scenario for us.

And so, we've been working very closely with Wells Fargo. We've identified solutions that are leveraging the strength and the capabilities of our bank and that can deliver what we think are some very attractive alternatives to this customer base. And again, this is for the trust and custody customers. And that block of business will migrate over at the tail end of the migration, so the very last part of summer. And so as we introduce these alternatives to our customers, we would anticipate to see some revenue replacement begin to come through at the tail end of 2021 and then on into 2022.

Daniel Houston: Thanks, Renee. Appreciate the question.

Operator: Next question comes from the line of Ryan Krueger of KBW.

Ryan Krueger: My first question was, as the business starts to migrate over to the new platform in Retirement, can you just help us think a little bit more about the – how to think about the trajectory of expense saves and the TSAs rolling off as we go through the rest of 2021?

Daniel Houston: Yes, Ryan, happy to do that. And I'm going to call an audible here because I know we're probably giving a little bit longer answer. So, I'm going to maybe go to 1 question per analyst so we can get through the whole queue in the interest of time. And again, that's on us. So even despite of having short prepared comments, our answers here have been a little bit long this morning.

But with that, I'm going to have Renee speak specifically to the issue of the migration and the expense relief.

Renee Schaaf: Yes, absolutely. And as we've said, the migration is going very well, and we're very pleased with the way that customers are being migrated in a very smooth fashion, good communications with advisers and consultants.

And specific to your question, we will see the TSA expenses begin to roll off the last half of 2021, which led us to guidance at the outlook call to say that

we'll see the margins begin to increase in the 23 percent to 27 percent margin range towards the latter half of the year, reflecting the fact that those expenses are coming off.

Daniel Houston: Thank you, Renee. I appreciate the question, Ryan. I'm sorry to limit it to 1.

Operator: Our next question comes from John Barnidge of Piper Sandler.

John Barnidge: (Inaudible) industry participant on the life side, albeit targeting a lower income stratification recently noted increased experience in deaths in their mortality book and then also an increased impact from lack of medical treatment for heart and Alzheimer's disease. Can you talk about what you're experiencing with this dynamic and general mortality trends beyond COVID?

Daniel Houston: Yes, happy to do that, John. So, Amy, please?

Amy Friedrich: Yes, sure. Thanks for the question, John.

So, we saw the same reports that you've seen in terms of some of the things going on beyond direct COVID experience. And what I can tell you is we've taken a really hard look at our Individual Life block as well as our Group Life block. And keep in mind, we probably feel like we have the best point of claim data for our Individual Life blocks. So that tends to give us the deepest insight into what the causes were. And as we look through our portfolio of products and customers, what we're seeing on those claims is that we don't see anything beyond normal volatility. So, I appreciate that there's a larger discussion going on out there. Some believe there's should see fewer deaths non-COVID, there's other people coming in and saying there's more deaths non-COVID.

What I would say is for individual disability as well as group life, right now, those are both relatively unremarkable for us. So, we're not seeing claims patterns that would be on a diagnosis code basis, anything that's remarkable. So again, we like the fact that, that's not remarkable, but we understand that's a little bit different than what you might be hearing in the rest of the industry, but that has been our performance.

Daniel Houston: Thanks, John, for the call. Appreciate it. Another question.

Operator: Our next question comes from Suneet Kamath of Citi.

Suneet Kamath: Just a question on the acquired AUA. If we look kind of sequentially there was about a $31 billion drop in that balance, despite the fact that markets were pretty strong. And I didn't think that there was any transfers into RIS-Fee. So is that just increased lapsation activity? Or is there something else that's kind of driving a bigger delta than we've seen in recent quarters?

Daniel Houston: Yes. Thanks for the question, Suneet. Please, Renee.

Renee Schaaf: Yes. Thank you, Suneet. And to your point, fourth quarter AUA ended at $685 billion, and now we're at $654 billion. And there are a couple of things that led to that. First off, market appreciation would help to drive that up.

But then that market appreciation is being offset by the normal shock lapses that we had projected. And those shock lapses are predominantly in the trust and custody side of the house. But that is the impact there.

Daniel Houston: Hopefully, that helps?

Suneet Kamath: Yes.

Operator: Our next question comes from Tom Gallagher of Evercore.

Tom Gallagher: I had a few questions on RIS-Fee, so I'll just ask them all at once. Do you expect to still breakeven on flows after the very strong start to the year? I just wasn't entirely clear on that.

And is that – it sounded to me like that was partly related to the IRT assets, which I guess – I don't think the bulk of those are currently included in RIS-Fee. So, would you expect to begin to include those either next quarter or 3Q, where we would see more of a complete picture of net flows?

And then finally, are there pretty big outflows in the IRT that you're not currently including that we're then going to see included when we have a more complete picture?

Daniel Houston: Yes. Appreciate that. Please, Renee.

Renee Schaaf: OK. So, let's first look at the IRT business and how that migrates over. When the IRT business comes over, it will be recorded in acquired operations underneath the account value rollforward. So, it does not come in through the net cash flow in terms of transfer deposits.

But where it does impact net cash flow is the IRT block of business will show up in recurring deposits and it will show up in withdrawals. So back to that comment earlier about just the 30 percent-plus increase in account values that we expect to see from last year to this current year will impact the dollar amount of withdrawals.

Then to your question about, do we expect to see flat net cash flows or what are we expecting to see for the remainder of the year? Certainly, we're very pleased with the results that we see in net cash flow for the first quarter. And our remaining quarters, the net cash flow that we see there will be dependent on if we're successful in winning additional large plans, and there's some volatility to that. But we're certainly very positive about first quarter, and we believe that we'll see some lift in net cash flow as a result.

Daniel Houston: Tom, do I get it done?

Tom Gallagher: It did. And just to be clear, will the bulk of those assets be showed in the roll forward in 2Q or 3Q?

Renee Schaaf: The retirement will show up in 2Q.

Daniel Houston: The trust in custody would be in – go ahead, please.

Renee Schaaf: Yes. The retirement business shows up in 2Q and then the trust and custody migration is slated for September. So later.

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

Josh Shanker: If we go back a year ago and when people were embracing a COVID-19 mentality, were there shifts in the strategies that people were wanting PGI to use, like certain funds see inflows, other outflows. Are we seeing that again

right now in the reopening and the change in outlook? And does Principal have enough variety of strategies to embrace the needs of all of its customers? Or do they have to go elsewhere?

Daniel Houston: Sounds like a perfect question for Pat and one that we've been discussing internally with a great deal of passion. So, Pat?

Pat Halter: Yes. Josh, thanks for the question.

First, maybe just sort of set the stage a little bit. If you look at our mutual funds, our ETF offerings, we have 80 offerings and around 36 of those are in 4- and 5-star Morningstar rated funds. So I think when it comes to our confidence in providing a strong, diversified offering to any macro environment that a client faces, I think we're very well positioned, whether it was in March of 2020, whether it's April of 2021.

And as you know, Josh, there's been significant rotation going on in the last 2 quarters. If you think about sort of the rotation in the fourth quarter starting from high-quality growth to low-quality growth, low-quality companies coming into vogue, cyclicals. We've been able to continue to, I think, provide very strong, I think, investment capabilities to that sort of change in the equity markets.

And then in terms of fixed income suite, we continue to have very strong capabilities in terms of people wanting yield yet, but not wanting to be in treasuries and sovereign credit and take that interest rate exposure and have that hit.

So, I think we feel very good about our public listed capabilities. And more pronounced, I think, as we go forward, we feel very good about our private real estate capabilities. And we are seeing a continued sort of increasing focus today, Josh, as we come out as pandemic in terms of what investors are seeking in terms of alternatives and private asset classes. And our private debt capabilities, our real estate capabilities seem to be gaining a lot of traction. That's probably the most noteworthy thing today in terms of post COVID that we are seeing different versus maybe in the thrust of the COVID in March of 2020. I hope that helps.

Operator: Our next question comes from the line of Tracy Benguigui of Barclays.

Tracy Benguigui: I know we're going to learn more in June about strategic priorities, but I couldn't help but notice that your guidance for full year capital deployment of $1.4 billion to $1.8 billion, including $600 million to $800 million in buybacks has not changed, but you did mention that credit drift expectations are now $100 million down from $300 million.

So I'm wondering if your capital deployment targets perhaps maybe stale? Can you see the potential raise of that in light of a healthier credit trajectory?

Daniel Houston: Yes, very good. It's a good question. And one that, obviously, that we're talking about in conjunction with our strategic review. Let me ask Deanna to provide her thoughts here.

Deanna Strable: Yes, Tracy, obviously, the impact of the ongoing strategic review has some impact on whether we would increase our capital deployment outlook or change that as we go forward. And I'd say we'll continue to update that as we go forward. Obviously, we were a little bit shy of a run rate that would get us to the $1.4 billion to the $1.8 million in the first quarter.

But again, I'd say we're still on pace to be within that. And then as we go throughout the next few months, we'll continue to work with our Board and the Finance committee to determine how we think about our capital deployment plans for the remainder of the year, and as those change, we'll communicate it at that time.

Daniel Houston: Thanks for the question, Tracy.

Operator: Our final question comes from the line of Brian Meredith of UBS.

Mike Ward: This is Mike Ward. Just on the proposed tax rate changes in the U.S., I was wondering if you had maybe any estimate on what could be your operating tax rate if the rate was taken up to 28 percent? And on the same theme, do you think changes in capital gains, tax rates could impact demand for certain products across your platform?

Daniel Houston: Well, we're certainly evaluating all of the various tax proposals. And there's – as you very well know, there's no decisions been made, and we're looking at all of those as it impacts our businesses, both here in the U.S. as well as international.

And other than planning for and looking closely at what the proposals are, and of course, we have our own efforts on Capital Hill to lobby on behalf of Principal and our shareholders and our customers and as part of the trades to get responsible tax policy that does not hamper our ability to help our customers reach financial security. So, any thoughts that we have would be speculation at this point. Deanna, is there anything you want to add to that?

Deanna Strable: Yes. The only thing I would say is the devils in the details, and there's different impacts across us. And if you went back to when the effective tax rate went down, you saw obviously some underneath elements of that that didn't all translate into the effective tax rate. And so again, it's a headline rate, but if the devils in the details of how some of the other components happen.

I'd also say that, obviously, it can cause a remeasurement of our deferred tax liabilities as it did back with the last tax change and could have some potential change in required capital as the tax rate changes as well. And so again, there’s statutory and balance sheet implications as well as just the income effective tax rate that you discussed. So more to come as we find out more at this point, it's tough to know when it will happen and to what flavor it will actually look like.

Daniel Houston: Thanks for the question, Mike.

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

Daniel Houston: Yes. Just real quickly, I would just simply say we feel really good about the quarter. There was clearly some recovery in the U.S. and Southeast Asia with regards to COVID, but businesses are opening back up again.

And there is – and has historically been low unemployment, which leads to, in some cases, wage inflation. But what we see is hiring happening among small- to medium-sized employers and large employers. And so all of those macro events help drive, propel our businesses.

We feel good about the position that we're in, and frankly, feel very confident about the balance of the year. A couple of important dates – our shareholders meeting on May 18 at 9:00 in the morning Central. And then although the time has not been set, we'll have our Investor Day on June 29, where we'll talk in more details with regards to our strategic review, and we look forward to showcasing those for you.

And in the meantime, we're going to continue to execute on our strategy and deploy capital in a responsible manner. So with that, have a wonderful day, and thank you for your time.

Operator: Thank you for participating in today's conference call. This call will be available for replay beginning at approximately 1:00 p.m. Eastern Time today until end of day, May 4, 2021. 7196888 is the access code for the replay. The number to dial for the replay is 855-859-2056 for U.S. and Canadian callers or 404-537-3406 for international callers.

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