Principal Financial Group®
3Q 2024 Earnings Call Transcript

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Call participants

Executives

Dan Houston: Chairman, President & CEO

Deanna Strable: President & COO

Kamal Bhatia: President - Principal Asset Management

Amy Friedrich: President – Benefits & Protection

Chris Littlefield: President - Retirement & Income Solutions

Joel Pitz: Interim - Interim CFO

Humphrey Lee: Vice President - Investor Relations

Analysts

Joel Hurwitz - Dowling & Partners

Suneet Kamath - Jefferies LLC

Ryan Krueger - Keefe, Bruyette & Woods

John Barnidge - Piper Sandler

Wilma Burdis - Raymond James

Tom Gallager - Evercore ISI

Wes Carmichael - Autonomous Research

Elyse Greenspan - Wells Fargo

Josh Shanker – Bank of America

Alex Scott - Barclays

Presentation

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

There will be a question and answer period after the speakers have completed their prepared remarks. To ask a question during the session you will need to press Star One One on your telephone. To withdraw your question, please press Star One One again. We would ask that you be respectful of others and limit your questions to one and a follow-up, so we can get to everyone in the queue.

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

Humphrey Lee: Thank you, and good morning. Welcome to Principal Financial Group's Third 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 President and COO, 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. Dan.

Dan Houston: Thanks Humphrey, and welcome to everyone on the call. This morning, I will discuss key milestones and highlights from the third quarter as we execute our strategy with discipline and focus.

Deanna will follow with additional details on our results, capital position, and the outcome of our actuarial assumption review.

It continues to be a strong year for Principal as we delivered favorable results for our customers and shareholders, consistent with the commitments outlined in our 2024 outlook and reiterated last quarter.

Starting with the third quarter, we reported $412 million dollars of non-GAAP operating earnings, or 1 dollar and 76 cents per diluted share. Excluding significant variances and our actuarial assumption review, our EPS was 2 dollars and 5 cents, a 12 percent increase in EPS over third quarter of 2023.

The earnings growth on a year-over-year basis was fueled by a 5 percent increase in net revenue. This was primarily due to growth in the business and favorable market conditions compared to the previous year. Earnings also benefitted from strong expense management while reinvesting into our businesses.

We returned $416 million dollars of capital to shareholders in the third quarter, including $251 million dollars of share repurchases. We raised our common stock dividend for the sixth consecutive quarter, aligning with our targeted 40 percent dividend payout ratio.

At the end of the quarter, our total company-managed AUM reached $741 billion dollars, reflecting a 6 percent growth from the previous quarter. This increase was mainly driven by robust returns and positive market performance across equity, fixed income, and real estate.

Lastly, our net cash flow for total company AUM showed improvement both sequentially and on a year-over-year basis.

Now turning to our businesses –

In Retirement, we are generating revenue and earnings growth above the high-end of our guidance. This momentum is driven by favorable market conditions and the breadth and depth of our integrated suite of retirement solutions which span recordkeeping, asset management, and retirement income.

In addition, the underlying fundamentals across retirement remain healthy. Recurring deposits increased by 10 percent year-over-year across all segments. The number of individuals deferring and receiving employer matches, as well as the dollar amount of those deferrals and matches continue to grow.

Contract retention remains strong with lapse rates running lower than a year ago. We are on track to achieve our best full-year retention rates over the past five years.

We also are benefitting from market performance which drove account value growth in the quarter. While rising markets are a benefit to our business financially, the increased account values also result in a corresponding increase in the dollar amount of participant withdrawals.

With respect to new retirement plan sales, we see a lot of momentum in our business with our pipeline up significantly across all segments, positioning us well for continued growth in 2025.

As further evidence of our momentum, we recently received the second most mentions as a top recordkeeper from advisors in the 2024 NAPA Advisors Choice Awards. This is a testament to the high quality retirement services and solutions we offer to the market.

Pension risk transfer sales were nearly $500 million dollars in the third quarter, bringing our year-to-date sales to $2.2 billion dollars at attractive returns. We remain on track to achieve our target of $3 billion dollars in full-year sales.

Turning to Principal Asset Management, strong net cash flows in Principal International were offset by outflows within PGI. The outflows in PGI were driven in part by lower fee and yield products, as well as the rebalancing activities taken by institutional clients following strong appreciation.

Our private real estate strategies generated approximately $400 million dollars of positive net cash flow in the quarter, the 12th consecutive quarter of positive flows. Our unfunded commitments remain strong at approximately $5 billion as we continue to put money to work.

We are also generating good underlying momentum with global retail and institutional investors given the strong ongoing demand for our product offerings and specialty capabilities.

We are seeing a notable increase in institutional RFP activity across equity, fixed income and private assets. The year-to-date volume has already exceeded full-year volumes in 2023 and 2022. This increased activity is driven by broad interest in equity and fixed income strategies and very strong interest and commitments for our real estate data center fund.

Lower interest rates and improving liquidity are leading to more conversations, meetings, and searches for our broad range of public and private investment capabilities. These interactions are expected to drive continued business momentum over the next several quarters.

Principal International ended the quarter with a record $185 billion dollars of AUM, up 8 percent from the second quarter. This was driven by robust net cash flows, favorable market performance, and FX tailwinds.

Positive net cash flows of $2.3 billion dollars were driven by $2.1 billion dollars of investment management flows. These were spurred by institutional mandate wins from new clients in Chile, Mexico and Southeast Asia.

These flows and current quarter results highlight the success we are having in going to market as a global asset manager across our integrated international franchise – and the strong client interest in our local and global investment capabilities.

While not included in reported AUM and net cash flow, our combined AUM in China was $268 billion dollars. Asset management inflows in the quarter exceeded $18 billion dollars, reflecting the recovering macro environment in the region.

Turning now to Benefits and Protection – we continue to generate above market premium and fees growth of over 6 percent in Specialty Benefits. More than half of our growth is driven from net new business - highlighting our leadership position in the small to mid-sized market.

Our focus remains on high-growth, high-persistency industries, and we continue to deepen relationships with key distribution partners and customers. The average number of coverages per customer grew 3 and a half percent to over 3 coverages per customer on a trailing 12-month basis.

I'm excited about the opportunities across Principal. We remain well-positioned to capitalize on the immense opportunities that exist in the markets we do business in today. Our diversified, yet integrated, portfolio allows us to manage through dynamic macro conditions while evolving to meet changing customer demands.

We are locked in on driving growth – which will continue to come from aligning our businesses with higher value creation opportunities and maximizing the intersections of our businesses.

Our unwavering focus is on providing individuals, businesses, communities, and markets with access to financial tools, products, and guidance.

We regularly assess global customer trends and sentiment – and we know the demand for our brand of financial security expertise and support is significant.

For example, through our proprietary Global Financial Inclusion Index, we track the state of financial inclusion worldwide.

A key finding from this year's study is while financial inclusion has improved globally for the second consecutive year, the perception of feeling financially included has fallen among global consumers.

As a financial services leader, that tells us there is more work to be done. While I'm encouraged by the increase in access to financial tools and solutions, I can't help but see the opportunity – and demand – to do more to support, advise, and enable the individual to feel more secure in their financial decision making.

Before turning it over to Deanna, I want to acknowledge her promotion in August to President and Chief Operating Officer. Deanna is a remarkable leader with an impeccable track record for the past 35 years, both in our industry and at Principal.

She has worked internationally, led our U.S. Benefits unit, directed our strategy function during pivotal moments in our company's history, and most recently she's done an exemplary job as our Chief Financial Officer.

Deanna's diverse roles have given her deep insights into what makes Principal successful and how we can continue to grow. Her passion and intense focus on the customer and creating shareholder value has been instrumental in strengthening our organization.

The Board and I have complete confidence in her ability to drive the organization forward today and well into the future.

Congratulations, Deanna

Deanna Strable: Thank you, Dan, and thank you for your support and those kind words. Good morning to everyone on the call. It's truly an honor to step into this new role.

Reflecting on my 35 years at Principal, I've seen firsthand how our ability to adapt and innovate has enabled us to consistently deliver value to our customers and shareholders.

I'm incredibly proud of this company, the importance of our mission, our strong culture and core values, and the way we do business.

I'm more confident than ever in our ability to continue growing sustainably, especially as we navigate the evolving needs of the markets we serve.

The strength of our team, our commitment to our purpose, and the innovative solutions we're building all give me great confidence in our future.

Before I turn to our results, I would like to acknowledge Joel Pitz, who has stepped in as interim chief financial officer during this transition.

Joel has been with Principal for nearly three decades, and his extensive experience across our domestic, international, and corporate functions makes him well suited to step in as interim CFO.

Turning to our third quarter results, I'll share key contributors to our financial performance for the quarter, including impacts from the actuarial assumption review, and an update on our current financial and capital position.

Third quarter reported net loss was $220 million dollars driven by non-economic impacts from exited businesses. Excluding these impacts, net income was $419 million dollars.

Non-GAAP operating ROE in the quarter was 12.9 percent, and 13.5 percent excluding actuarial assumption review impacts. We are on track to meet our guidance of 14 to 16 percent in 2025.

Our significant variances for the quarter, detailed on slide 12, include impacts from our actuarial assumption review. These had a net negative impact on non-GAAP operating earnings, but an immaterial impact to free capital flow and run-rate earnings.

This is the second time we've conducted the review under LDTI, which expanded the actuarial balances subject to assessment. It's important to note that these are primarily non-economic impacts.

The primary drivers of the assumption review impact were model refinements in Life, and experience updates in RIS and Benefits and Protection largely related to lapse assumptions.

As mentioned, the run-rate impact on pre-tax operating earnings is immaterial, with modestly favorable results in RIS and Principal International offsetting unfavorable results in Benefits and Protection.

The remaining significant variances largely offset. We had favorable encaje performance and a benefit from reversing the closed block dividend accrual from the first half of the year.

These were offset by lower than expected variable investment income primarily driven by negative private equity returns in the quarter.

Excluding significant variances, third quarter non-GAAP operating earnings were $480 million dollars, or 2 dollars and 5 cents per diluted share.

Adjusted EPS increased 12 percent compared to the third quarter of 2023. This was driven by growth in the business and strong market performance which was up over 5 percent in the third quarter and 16 percent for the trailing twelve months.

These were partially offset by foreign currency translation impacts and difficult year over year comparisons for PGI performance fees and Specialty Benefits loss ratio.

The effective tax rate in the quarter was at the lower end of our 17 to 20 percent guidance, with year to date at the mid-point of our guidance range.

During the quarter, we had one-time severance and integration costs, impacting our results by approximately 3 cents per share. These one-time expenses impacted both RIS and Principal International. Similar to previous quarters, we are not considering these as significant variances.

We are pleased with our results and remain on track to deliver full-year EPS growth, aligned with our 2024 guidance of 9 to 12 percent.

Turning to the business units, the following comments exclude significant variances.

RIS pre-tax operating earnings increased 12 percent over the third quarter of 2023, driven by growth in the business, favorable market performance, and expense discipline while investing in the business.

Compared to third quarter of 2023, net revenue increased by 9 percent and margin expanded by 120 basis points to 40 percent. We remain confident we will be above the high end of our guided range for net revenue growth and at the high end for margin for the full year.

PGI's pre-tax operating earnings decreased 2 percent over the third quarter of 2023 but increased nearly 17 percent sequentially. The year ago quarter comparison is impacted by $16 million dollars of higher performance fees in the third quarter of 2023.

Management fees increased 6 percent over the third quarter of 2023 driven by positive market performance, partially offset by lower performance fees and transaction and borrower fees in the current quarter.

PGI's margin of 38 percent in the quarter is at the high-end of our range.

Principal International had a strong quarter. Pre-tax operating earnings increased by 8 percent compared to the third quarter of 2023. This was driven by ongoing business growth in Latin America and a continued recovery in Asia despite currency headwinds of $7 million dollars.

The underlying growth and disciplined expense management resulted in margin of nearly 34 percent, an expansion of 230 basis points compared to the third quarter of 2023.

Specialty Benefits pre-tax operating earnings in the quarter reflected a more normal loss ratio relative to the year ago quarter.

The comparison is impacted by very favorable group disability underwriting results which led to a loss ratio in the third quarter of 2023 below our guided range.

The loss ratio this quarter was 61.5 percent, below the mid-point of our guidance range of 60-65 percent.

In Life, improved mortality experience drove an increase in pre-tax operating earnings of 11 percent and margin expansion of 135 basis points over the third quarter of 2023.

As we look to the fourth quarter, our enterprise compensation and other expenses are typically higher due to the seasonality of certain expenses.

Similar to the last few years, we expect the impact in the fourth quarter to be in the low-single digit range relative to the average of the first three quarters.

Turning to capital and liquidity…as a reminder, last quarter we revised our RBC target to a range of 375 to 400 percent.

We are in a strong position with approximately $1.6 billion dollars of excess and available capital, including approximately:

- $900 million dollars at the holding company
- $400 million dollars excess above 375% RBC
- And $250 million dollars in our subsidiaries.

As shown on slide 3, we returned $416 million dollars to shareholders in the second quarter, including $251 million dollars of share repurchases and $165 million dollars of common stock dividends. This brings our year-to-date capital return to nearly $1.2 billion dollars.

We expect to deliver on our targeted 75 to 85 percent free capital flow for the full year and are on track to return $1.5 to $1.8 billion dollars of capital deployments for the full year, including $800 million to $1.1 billion dollars of share repurchases.

Last night we announced a 73-cent common stock dividend payable in the fourth quarter. This is a 1-cent increase from the dividend paid in the third quarter, a 9 percent increase over a year ago quarter, and a 10 percent increase for the full-year.

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 different economic conditions.

The commercial mortgage loan portfolio remains healthy. We had four office loans pay off in the quarter, resolving all year-to-date office loans. We feel good about the remaining maturities through the end of the year.

In closing, we are pleased with the results this quarter, delivering on the growth objectives communicated in our 2024 outlook and reiterated last quarter. We remain confident in delivering on our revenue growth, margin and earnings growth guidance for the full year, anchored to our long-term financial targets.

Our strong and diversified portfolio of businesses is positioned across attractive growth markets and features competitive advantages which give us confidence in our ability to sustainably deliver results for our customers, shareholders, and employees today and into the future.

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 One One on your telephone. We'll pause for just a moment to compile the Q&A roster.

Our first question comes from Joel Hurwitz with Dowling & Partners. Your line is open.

Joel Hurwitz: Hey good morning. I wanted to start on Specialty Benefits and top line. So the 6% growth is solid, but below the pace you've been running at in your long-term target. Can you just talk about some of the drivers of the slowdown? Is it competition or along in the small- to medium-sized market or something else?

Dan Houston: Yeah, good morning Joel, I appreciate the question. I just at the top here, I would just mention this is an incredibly well-run business.

It's got a long history of disciplined underwriting and risk management, early adopter of technology to become more efficient, focuses on the customer. And again, couldn't be more pleased with Amy's leadership of this business. And again, we feel very good about the current state of affairs.

Amy?

Amy Friedrich: Yes. Thanks, Dan, and Joel, for the question

So, I guess I'm going to start with on a year-to-date basis, our growth is at 7.5%. And we do expect that premium and fee growth to stay within those, probably the bottom end of the range that we communicated.

In the quarter, as you've noted, that growth was 6.2% above third quarter '23, and it really is due in large part to no new PFML sales.

In the third quarter comparison last year, we had a bit of lumpy PFML sales. They were nearly $20 million in the prior year sales quarter. And I would note that there's no new openings, state openings planned for '25, but there are several scheduled for '26.

So, when we think about this marketplace, it is going to be a little lumpy. And when we think about the competitive environment, the comparisons quarter-over-quarter are going to be a little bit uneven. We do see a pretty competitive environment, probably particularly notable for dental, and we continue to make sure we're introducing pricing changes that align with the experience that we're seeing. I think we're going to see some impact on growth for the remainder of '24.

I think one of the hallmarks of our Group Benefits business is, Dan noted before, is that for over a decade, we've had discipline and consistency that has yielded us above market growth and above market profit. So, we know that discounting new business can and does have an impact on renewal pricing.

It has an impact on our customers. And one of the things we strive to do is make sure we serve that SMB market really well with consistent pricing, consistent renewals so that they can do things like manage cash flow, which is really important. So, our products, capabilities and experiences, I feel really good on how we're positioned on growth.

Joel Hurwitz: Got it. That makes sense. And then maybe just sticking on dental experience, can you talk about what you're seeing there? It looks like year-to-date, the loss ratio is elevated. I think Q3 was a bit above what it normally runs us. What are you seeing there? And what are you expecting from a repricing standpoint?

Amy Friedrich: Yes. So, I'd start with -- I'm really pleased that sequentially, our dental loss ratio was nearly 400 basis points better.

So, I'd start with we kind of communicated that, that is going to go down, and it did, in fact, go down. It was slightly above what I would say our expectations were for this quarter. So, it's clearly, Dental is an inflationary product.

We've been taking actually measured consistent actions to address our pricing, being conscious of both new sales and renewal pricing implications.

Over 90% of our dental block can be repriced annually. So this has been an effective tool for us, but it is always a slightly lagging tool. We have been using that tool, though, over the course of the last 18 months to align our experience.

In the last 18 to 24 months, I think it's worth noting, we've also continued to invest in AI-based dental claims technologies to assist our claims examiners and improve their claims payment accuracy.

So as those begin to come online and they move from more prototypes to kind of online integration for us, I expect that to continue to help the results.

My expectation for fourth quarter is the dental loss ratios will continue to decline.

Joel Hurwitz: Got it. Thank you.

Dan Houston: Thanks Joel.

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

Suneet Kamath: I want to start with RIS fee and the participant withdrawals. I know we spent some time last quarter talking about the market impact, so we don't need to revisit that.

But I guess the question is, if we think about the participant withdrawals to say something like beginning of period assets, and we track that over time, which we can't do externally. But what would that sort of look like? Is it in line with history or changing in one way or the other?

Dan Houston: Thanks Suneet for the question. I'll have Chris take that one.

Chris Littlefield: Yes. Suneet, thanks for that. Yes. You noted the impact on market. And certainly as those markets rise, the average AV is up fairly significantly.

If we were to just dial in specifically on participant withdrawals, we definitely see that average AV being up impacting and that market impact driving about 75% of the overall withdrawals, and the other 25% is a slight uptick in rate. So, we're seeing a slight uptick in the rate of withdrawals from older participants.

But again, that's probably 25% of the impact. The vast majority of the impact is really coming from the very strong market performance.

So when we look at the rest of the flows, I think we feel really good about the other underlying fundamentals of the business. I mean our

transfer deposits in SMB were up 11%. We saw a strong recurring deposit growth of 10%.

On a same plan, that's also up 10%, if you just look at the plans that were in both quarters. We see very high contract retention in the business. And again, as we've said in prior quarters, we're prioritizing revenue and margin overflows. And when we look at that, our net revenue is up, significantly over the guidance we provided at 9%, and our margin is above the top end in this quarter.

So I feel really good overall about the dynamics of our business.

Suneet Kamath: Got it. That makes sense. And then I guess the second follow-up related is -- so when a benefit event occurs in [RASV], what percentage of the assets do you sort of retain in other products? And somewhat relatedly, do you have any plans for in-plan annuity offerings in your [RIC] business?

Chris Littlefield: Good question. Yes. We absolutely have been investing in capabilities to provide implant advice, both that benefit event and thereafter.

I think competitively, people generally don't share the overall amount, but we can capture a significant portion, and I think there's still opportunity and room for us to improve that.

We do have in-plan annuity options. As you know in the industry, those haven't gotten a lot of traction yet, and that the real innovation is building retirement income into sort of a QDIA solution like a target date, and you will see us with those sort of solutions as we head into 2025.

Dan Houston: Yes. So, the only thing I might add to that, again, just to finish off your question, we do have a lot of capabilities of capturing economics within those SAFO accounts within Principal Bank.

We see it in our own annuity operations, and when we do retain assets on the -- in the mutual fund platform, which again will show up in our --

not in RIS, but it's going to show up within Kamal's Principal Asset Management business unit.

So, there is significant economics that are spread across the organization. And again, the source was the retirement platform. Appreciate the questions.

Suneet Kamath: Yep, thank you.

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

Ryan Krueger: Question on PGI. So it seems like you are seeing improved momentum on gross inflows, but withdrawals have also been increasing and still leading to net outflows. Can you give some perspective on kind of the end of your play with those two things and how you think that may play out as we move forward here?

Dan Houston: Kamal, please.

Kamal Bhatia: Sure. Ryan, thank you for your question. Good morning. So let me start a little bit on your question around net cash flow, and then I'll go deeper into the PGI component of it.

First of all, I'd like to highlight this quarter, we are quite pleased. It's a testament to the global diversified operating model.

We are building an asset management, particularly how you see the results of our synergies we are putting together between PGI and PI. And you could see that with the excellent results we reported under the PI segment.

Just to highlight, we reported record $2.3 billion of positive flows under the PI segment. $2.1 billion of that is investment management flows that are coming from clients that we have typically seen on the PGI side. I would even highlight further for you. If you take that $2.1 billion,

almost $1 billion of it has come from new client relationships. These are very high-quality global multinational corporations, who are now doing business with us in LatAm and Asia.

So, it shows the power of what asset management is [putting] together in terms of how we operate and generate positive net cash flow as an asset management segment.

One of the things you highlighted is how do we feel about the cash flow within PGI. I would highlight the positive favorable NCF trajectory as the year has gone by. If I just looked at the PGI and PI sourced efforts this year, we almost have $950 million of positive NCF that has come from the sourced efforts of PGI and NPI.

For PGI this quarter, source flows were roughly breakeven in retail, which have improved as the year has gone by. They were positive in our private institutional market efforts. And yes, they were offset by higher outflows in public institutional, and so that's why you see that the results you highlighted.

And I would highlight that the investment management flows in institutional can be lumpy in nature, and there is some seasonality in international pension flows, but we are quite pleased with the progress we are seeing in our net cash flow, both the direction and how we are thinking about this as a global business.

Ryan Krueger: Thanks. Quick follow-up is, do you have any -- can you give us any insight into potential performance fees for PGI that you expect in the fourth quarter?

Kamal Bhatia: Sure, Ryan. I'll highlight for you what we did this quarter. As you know our performance fees are primarily driven by real estate transaction. And as we had noted in our outlook, we are expecting lower real estate-related performance fees this year.

During the third quarter, we recognized roughly $6 million of performance fee from our real estate transactions. This brings the year-to-date up to $7 million, as I said, the first half was almost de minimis.

So, we have seen an uptick in that. In a normal year, we would typically see $30 million to $35 million of gross performance fee, which can obviously significantly vary. And as you know this is a longer and different real estate cycle.

So that has historically been the norm. We do expect '25 to improve but not ramp up very quickly, given the nature of this cycle.

One of the things I would highlight for you on performance fee is our -- the business we started building in private credit is slowly ramping up. And over longer term, in addition to real estate, you will see the tremendous power that would create on the performance fee side.

Obviously, these things are long-term investing projects, and they will show up in time, but that would be the other piece I would highlight for you.

Ryan Krueger: Thank you

Dan Houston: Thanks Ryan

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

John Barnidge: Congrats on the new role, Deanna. Questions around your comments on a slight uptick in the rate of withdrawal among older cohorts. With the baby boomer generation more and more entering peak retirement years, do you expect that rate of withdrawal uptick to have a more meaningful impact or increase. Thank you.

Dan Houston: Thanks. …Chris.

Chris Littlefield: John, thanks for the question. I think it's hard to project that. What I would say is it's a slight uptick year-over-year, but it was actually down sequentially, slightly. So, we don't expect to see sort of big changes in it.

But obviously to the extent you have very large account values, small ticks can impact those withdrawal rates pretty significantly. So, we're not seeing like this very significant increase in the participant withdrawal rate, but -- and we are seeing it bounce around a little bit quarter-to-quarter.

John Barnidge: And then the question on the severance. I think you said it was $0.03 was in RIS and PI. Another fee-based company had severance in the quarter, and it's continuing for a number of quarters. Do you have any plans for additional severance that will not be called out as a significant variance in the near future (inaudible)?

Dan Houston: Yes, I don’t see that on the horizon.

We -- again, we align our expenses with the revenues that we're able to draw down upon. And I would say each one of the businesses and the support areas are constantly looking at opportunities to be more efficient, but I don't see on the foreseeable horizon to any sort of large severance adjustments that we'd be making.

John Barnidge: Thank you.

Dan Houston: Appreciate the questions.

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

Wilma Burdis: Good morning and congrats to Deanna. Principal International performance was favorable in the quarter. Could you just discuss the drivers, and is it sustainable? And I think especially on a constant currency basis, it was up quite a bit. Thanks

Dan Houston: Yes. So -- and I'll let Joel take that. But I just want to just recognize [Tom Chung] and [Pablo Springer]. Pablo's new within the last year, the organization really dug into Latin America and making adjustments, and we're seeing traction in our Brazilian, Chilean and Mexican operations, and couldn't be more proud of what he's doing.

And then secondly, and you heard the numbers as it related to China and some of the other actions in Southeast Asia, there's some unfreezing, if you will, of a pretty challenging macro environment there. But I'll have Joel add to that.

Joel Pitz: Yes. Wilma, thanks for the question. Very strong quarter for Principal International. Record operating earnings of $121 million, record assets under management, $185 million, up 8% from just a quarter ago, and the highest net cash flows at $2.3 billion since the first quarter of 2018.

So, with those results, we're very confident in our ability to deliver on the 2024 outlook, which is a reminder for revenues with low single-digit growth.

If you look over the trailing 12-month period, our reported growth is 6% and as you mentioned, a strong constant currency result of 5% year-over-year. And the margins front, what we committed to coming into the year was a 30% to 34% guidance, and we actually delivered a 50 basis point improvement year-over-year at 32% comfortably within that margin on a trailing 12-month basis.

Again, adjusting for those items from significant variances that you saw within the slides on Page 12 and 13, we did have a good solid 8% year-over-year increase despite $7 million of FX headwinds.

So, we continue to see strong underlying fundamentals in our businesses that we expect to lead to solid earnings growth and positive, although tempered from the strong third quarter net cash flows in the fourth quarter of '24.

Wilma Burdis: Thank you. And then can you talk a little bit more about the capital generation outlook for the remainder of the year and also into 2025? Thanks.

Dan Houston: Deanna?

Deanna Strable: Yes. I'll take that, Wilma. Thank you. And thank you for the congratulations as well. I'm really looking forward to the new role.

I think as we came into the year, we committed to our 75% to 85%, and we recognize that, that tends to ramp up throughout the year.

So, I'll start with that we were very proud with our free cash flow generation in the third quarter, and we remain confident in our full year targeted free cash flow as well. And as we go into 2025, we'll give more specifics on that and outlook, but I still feel really good about remaining in that target.

If you look at it for the quarter, our excess and available capital remained relatively stable with last quarter despite a very strong capital return of $416 million. And so that generates an implied free cash flow actually above our targeted range. And we still feel confident that fourth quarter will have a strong free cash flow component as well bringing the full year to that 75% to 85% target.

Wilma Burdis: Ok. Thank you

Dan Houston: Hope that helps. Thanks Wilma.

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

Tom Gallagher: Good morning. Deanna, just first question on earnings, the $0.03 of elevated severance in RIS and PI.

Should we -- on a normalized trendable basis, should we be thinking about adding the $0.03 back to the [2 0 5] starting with [2 0 8] as kind of a baseline heading into Q4? Or would you offer any other adjustments to thinking about run rate?

Deanna Strable: Yes. What I would say is I think [2 0 5] is a good one to jump off of. Obviously in the quarter, we had some pluses and minuses. Obviously corporate had a very strong earnings quarter. Our tax rate was a little bit lower than expected.

And as you mentioned, we had severance that we did not identify. And so I think net-net, [2 0 5] is a good one to think about. As I mentioned in the prepared remarks, we do have seasonality of expenses in the fourth quarter. I expect those to be similar to what we saw the last couple of years.

So, think of that as low to low single-digit increase relative to the average of the first three quarters. But on the flip side, we also expect that the underwriting results in Specialty Benefits will improve in the fourth quarter as well.

So, I think net-net [2 0 5], I think ultimately, when you put some of the puts and takes in the quarter, I feel that's a good run rate for the quarter.

Tom Gallagher: Got you. And then listening to what some of the alternative managers are saying about the real estate market, there sounds like there's a lot more optimism that commercial real estate has bottomed and is maybe starting to improve. And I know that's pretty important for you guys, both in flows and alternative returns.

Any thoughts on if you agree with that, and if you would expect to see improvement in transaction levels because I think that will determine and drive some levers on earnings, both on alternative returns and even transactional fees in PGI.

But just curious on that general theme, what you think?

Dan Houston: Yes, Tom, really appreciate that question, and we convene our investment committee every week, and we get into the details of each of the asset classes. And as you might expect, real estate gets a lot of our attention. And ironically enough, we just had this discussion yesterday. And again, credit goes to the real estate team for having wean themselves off a big exposure to office years and years ago.

It wasn't a new phenomenon. The portfolio was incredibly diverse by property type, by geography. And again, we would agree with the sentiment that you described, which is there's a recovery going on. And it's an incredibly resilient asset class.

It's amazing to me how they repositions itself, and a lot of these properties are reconfigured to do something different, and there's still a lot of building going on.

But I'll go to the expert here and have Kamal make some additional comments on real estate specifically.

Kamal Bhatia: Sure. Thank you, Dan. Good morning, Tom. So, I think you had a two-part question. One was just how do we see the sentiment in real estate, given the indicators you've heard from others. And then second piece related to transactions.

So I'll take both in order. I would agree with the improving sentiment. We do see a little bit more of the bottoming out of the valuations in real estate. Just to give you an example, this quarter, we printed the first gross positive portfolio total return in our core real estate fund, which has brought diversified exposure to all real estate, obviously including office as well. And this is the first one we have seen through this market cycle.

So, obviously these things take a while to bottom out before they go upward, but certainly that first positive print is a good sign for us. And we'll be monitoring that trend more closely. It's quite interesting to see,

when you look at the performance of office REITs, as you know we are a fairly large manager in REITs as well and we monitor that sector closely. It's almost up 66% from its bottom in October of '23. So clearly, the public markets are anticipating this turn.

On -- going back to your transaction question, I would say, first, the impact of rates on transactional activity and money flow has been slightly slower than we would have anticipated. Right now there are a lot of crosscurrents in the marketplace, some due to inconsistent economic data that we, not just us, but you see in the macroeconomic world. There's elements of elections and geopolitics. There's also demographic shifts that are happening, which makes this cycle somewhat unusual compared to prior cycles.

So, when we look particularly in real estate, core and construction deal flow remains below historical norms, while most activity right now is in more bridge-type short-term financing to extend maturing loans.

So, there is transactional activity, but it is not of the long-term nature. So, what I would say is we continue to monitor it probably a longer cycle as you try to go related to transactional fees. And then obviously there is a little bit more clearing you need to see in the multifamily commercial real estate sector as well which we are quite active in.

I hope that answers your question.

Tom Gallagher: That does. Thanks guys.

Dan Houston: Thanks Tom

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

Wes Carmichael: Hey, thanks good morning. My first question was on the Life Insurance segment. I think with the assumption review, there's a small impact to ongoing GAAP earnings. And I think for that segment in particular, I

think the operating margin has been trending a little bit below your guide of the 13% to 15%.

So just wondering if we should think about that kind of continuing to be a little bit below that range as we look forward?

Dan Houston: Yes. I'll have Amy take that. Thanks, Wes.

Amy Friedrich: Yes. So, Wes we appreciate the question. And if some of this does get into the AAR, we can pull Joel in and help with any clarification on that.

But what I would say is that, that trend, that amount that you're seeing right there at about $33 million sits in a pretty good range in terms of how I think of run rate.

Of course, we're going to have claims volatility. We think of that in the range of plus or minus $5 million. The point I would clarify on here though is the results that we're posting actually include any of those ongoing impacts.

So those are embedded within the results that we put in there for third quarter on the AAR, any impacts on run rate.

Wes Carmichael: Got it. Thanks Amy. And then just maybe my follow-up.

On [VII], I know it's a little bit early, Deanna, but is there any kind of look towards the fourth quarter? I guess it kind of follows maybe Tom's question a little bit on transactional activity, but should we expect variable investment income to be below long-term expectations going forward?

Deanna Strable: Yes, Wes, I'll give a little bit of color on the quarter and then talk about kind of expectations for the future, which obviously will refine as we go into outlook in February.

We have given you kind of an outline of the basket of assets that comprise our variable investment income, some of which we have more direct line of sight than others.

We did continue to see pressure in the third quarter with some mixed drivers than what we've seen from previous quarters.

On the plus side, we did see slight outperformance from real estate really driven by a transaction in the quarter.

We also saw very strong totally equity returns in the quarter that run through the corporate segment, but that was more than offset by negative returns from our private equity portfolio and continued minimal prepayments.

Regarding private equity, this is a smaller percent of our portfolio, but I think the returns that we saw are very similar to what our peers have signaled, and was the driver of the pressure in the quarter.

So hopefully, that makes you understand what happened this quarter.

You know if I think the fourth quarter in 2025, I think there's some moving parts that may come into that, partially driven by the trajectory of interest rates. And if we see prepayments come back to normal levels, I think as I think of the end of '24 and '25, I still think we'll see some pressure in variable investment income.

But if I think of fourth quarter, we could have some moving pieces where I don't foresee a real estate transaction, but I'm hopeful that private equity returns come to a more positive light that could offset that a little bit.

And so I think net-net, we have seen improvement in variable investment income in 2024 relative to what we saw in 2023. And we'll -- I think we'll continue to see that ramp up to run rate, but we might continue to see some pressure over the next few quarters.

Wes Carmichael: Thank you

Operator: One moment for our next question. Our next question comes from Elyse Greenspan with Wells Fargo. Your line is open.

Elyse Greenspan: Hi, thanks good morning. My first question just on the PRT side of things, it sounds like you guys expect rate to come in at the high end of your higher guide, like, $3 billion for the year. Does anything kind of new there that you're seeing activity either in the Q3 expectations for the balance of the year? And also just kind of some initial thoughts on 2025?

Dan Houston: Yes. I'll have Chris take that. We're -- again, it's been a very opportunistic business for us, and the environment has been very favorable, and Chris and his team have done a good job taking advantage of it

Chris Littlefield: Yes. Thanks for the question, Elyse. Yes. I mean we saw a nice third quarter, and we maintained our pricing discipline through the third quarter through a very competitive quarter.

We expect to see a pretty robust fourth quarter, and so we feel very confident in being able to deliver the $3 billion at attractive returns. Again, as we think about our PRT business, we're constantly balancing the growth versus returns, and making sure that we're getting an appropriate return on the capital we're investing in our PRT business. So, we're taking that view toward it.

With respect to '25, it's still too early the markets. I mean the pension funds are still through [9 30], 170% funded according to [Mercer].

So, we continue to see nice opportunities for us on a go-forward basis into 2025, and we'll look to grow that, what we do in '25 over '24, but a little bit too early to give a number at this point.

Elyse Greenspan: And then my second question, just any additional color that you can just give on the RIS decompression that you've seen so far this year, just an update on just the drivers and just the outlook there?

Dan Houston: Yes, Chris, please.

Chris Littlefield: Yes. I think with respect to fee rate, the one thing I want to start by saying is probably to make sure that we understand that when we think about our retirement business, there's both fee and spread revenue tied to our retirement business. It's not just fully fee.

So, when we think about the GA product that we sell through our retirement plans, our co-manufactured solutions, those are driving spread revenues too, that's showing up not in fee.

And with rising markets, it's a similar story with respect to fee revenue rate as it is with AV net cash flow. The rise -- the significant rise in markets, pressures, fee revenue rate because the denominator is more sensitive to those returns than the numerator in the calculation.

So, all that being said, what I'd say about fee revenue rate is we're down about two bps versus a year ago and about two bps in the trailing 12-month compare. And we believe the trailing 12-month compare is the best way to look at fee revenue rate, given the flection that can occur from quarter-to-quarter.

And despite all that noise, when we look at sort of the market performance, when we talked historically on our guidance, we've sort of said two to three bps of compression can be expected in normal markets. These are well above normal markets, and we actually think that those stronger equity markets are pressuring fee revenue rate another 0.5 bp to one bp, just given the strong performance.

But take all that into account, we think when we get to the end of the year on a trailing 12-month basis, we'll be within our guidance of the two to three compression for the full year.

Elyse Greenspan: Thank you

Operator: One moment for our next question. Our next question comes from Josh Shanker with Bank of America. Your line is open.

Josh Shanker: Thank you. Yes. I wanted to talk a little bit about the assumption review. I guess two-thirds of the charge, particularly in the Life business was related to refinements in, I guess being better at analyzing the data. Does that mean that going forward, there should be less volatility in the assumption reviews? And can you talk about what those refinements are, so we're more comfortable with the changes?

Dan Houston: Yes. And I'll have Joel take that. And just another one of those reminders, and Joel already mentioned earlier, this post-LDTI environment is going to create a little bit more noise, a little more volatility, but I'll have Joel take this one.

Joel Pitz: Yes. Josh, thanks for the question. I promise I'll get to your specific question. But Humphrey and team have fielded several questions on our annual assumption review this quarter. So, we'd like to take a step back and provide a holistic response.

Given how long we and the industry prepared for last year's implementation of LDTI, it's actually hard to believe it's only the second annual assumption under the new guidance. But as a reminder, and as Dan said, balance is subject to assumption review are much larger under LDTI.

For PFG, the balance is subject to review are now $35 billion or 7x larger than pre-LDTI levels. As such, a slight change in assumption can result in a relevant onetime impact.

The $82 million onetime impact for all of PFG, you were referenced in the life piece, but all of PFG was $82 million. That equates to 0.2% of

our actuarial balances, and largely offsets the positive pretax impact of a year ago.

Importantly, the impact of this quarter's assumption review was GAAP-only noncash and had an immaterial impact of free capital flow. As Deanna noted in her remarks earlier, the run rate impact was immaterial, with slight positive in RIS and PI at less than $0.01 a share per quarter, a slight decrease in SBD and Life, also less than $0.01 a share per quarter. These run rate impacts are reflected in our 3Q results. So, everything else being equal, serve as a good run rate going forward.

So, double-clicking on your specific question, as you said, two-thirds does come from experience. It's relatively equal among the following three. There's lapse experience in the VA business within RIS. There's lapse experience in Life and then claim termination and incident rates in the individual disability business which largely offsets the benefit from a year ago. And then the remaining one third of that onetime impact comes from the model refinements you talked about.

So let me address that specific question. It relates to YRT modeling enhancements. We have improved the granularity is modeling and refinement as a product of our more sophisticated modeling capabilities at the treaty level.

Our expected cost of YRT has not changed, but rather, we have refined the pattern by which the cost is amortized. That is why this refinement has no economic or stat impact but our expectation of YRT cost remains intact.

So, as it relates to volatility, we can't guarantee there won't be volatility in the future when you deal with balances of that magnitude, but we feel really good about our assumption setting process and feel really good about the enhancements we've made as we prepare the organization for complying with LDTI.

I'm very proud of the work that was done in the finance community, we not only complied with LDTI, but we also modernize our systems to gain better insights that we're going to benefit from greatly going forward.

So Josh, I hope that helps.

Josh Shanker: It does -- then there was also the issue of lapsation, and Humphrey did talk to me about this, but I'm still trying to understand it. There were some term life contracts we're not lapsing as quickly as anticipated, and there was a change there.

But I think about my own term product and I don't think that -- I hope not, but I don't think the life insurer is going to have to pay out a claim on that. And I'm only 50 and probably in the next six, seven years, my term product will be no longer active, and you will have gotten payments for me for the next seven years on that. Why does that necessarily create a charge? Isn't that money good business and you would like everybody to serve out the entirety of their term policy?

Joel Pitz: Yes. That's a good point, Josh. That's why sometimes accounting is subject to interpretation, and it doesn't always state the obvious. And so what I'd say with that is that's a very small part of the life model refinement, actually, the life impacts.

It's only about 25% relates to the experience and then the change in lapses. But actually, that's a product of the client, as you said, staying around longer, which is a good thing for us, but it does actually result in the impact of increasing liability within the extra assumption review.

So again, it's not always intuitive, but it is a situation where this is a product of the customer staying with us longer. In the long run, that's good for us. It's good for our customers, but it does have a maybe an illogical accounting results in this situation.

Dan Houston: Amy, anything you'd like to add to that?

Amy Friedrich: Yes. The last thing I would add is, keep in mind, Josh, a lot of the term business we're writing today is with that business market focus.

So when we're writing something that's a key person insurance or that's part of a buy-sell agreement and we're using term to do exit planning or succession planning, leaving that in place, as Joel just mentioned, is good for us.

So when we get more constancy on that business market product for a term product, we really like the economics and how that helps with our overall strategy.

So again, accounting wise, it's a little bit -- it seems a little bit opposite in terms of how we'd have to kind of take that charge.

But we like the strategy, and we liked -- I personally like seeing that emerge in our findings for the term business.

Josh Shanker: So to understand the next few years on these counters, you're going to receive the premium income and you're also going to reverse that benefit for like a double, I guess, a double income sort of situation?

Amy Friedrich: We're going to receive the benefit for sure. You hadn't -- I was with you on that. The double benefit, I'm not sure I would.

Josh Shanker: No. I'm going to pay you the premiums for the next few years right? Is that right?

Amy Friedrich: The premium is the positive in that equation. Correct.

Deanna Strable: Josh, I think we can take this off-line. Maybe I can try to help this a little bit. So, if you think of a 20-year term policy, and we have underwriting that happens before we write that policy, you're always going to have better assumed mortality early in that 20-year period than later.

And so if our historical experience had 80% of those going the whole 20 years and a portion of those lapsing sometimes in the latter half of that -- and now we have a little bit more going towards the whole 20 years, you're just going to see a little bit more claims paid out than what we would have anticipated, which causes that increase in the assumption.

Does that make some sense?

Josh Shanker: Yes. All right. Well I’m sorry I’m going too in the weeds, but I appreciate it.

Dan Houston: No Josh, you’re good. Appreciate it.

Operator: One moment for our next question. Our last question comes from Alex Scott with Barclays. Your line is open.

Alex Scott: I wanted to ask you about just sort of your strategy and any initiatives you have going on when I think about flows and just trying to push out towards positive territory. Certainly, there's industry-related things that are going on as you guys have talked about.

But what are some of the strategies, and maybe if you could talk about it for PGI and RIS separately?

Dan Houston: Yes. I can assure you it gets a lot of attention around here. And I'm glad you broke out the difference in RIS and PGI because those are actually quite different levers between the two respected businesses.

But let me have Kamal go first and then Chris, but a lot of time and attention on driving profitable growth, and we know that retaining and acquiring new assets is an important component of that.

Kamal Bhatia: Sure. Thank you, Dan. Alex, I'll be succinct here. I think you raised a very good question, which is as a management team, how are we strategically are leaning in to improve the quality and the quantity of our net cash flow. And I'll give you a couple of examples.

I think Dan in his prepared comments, mentioned how we have seen increased RFP activities. One of the things we are doing is to ensure we have a robust pipeline of these activities. Just, I think, as you heard, our RFP activities are roughly up 12%, and they've exceeded '23 and '22.

But what we're also ensuring is we are also engaging on early-stage opportunities so our pipeline remains robust. One of the things that we have observed is, as we have built out our teams, we have seen more RFPs come through our international equity capabilities. Historically, we've had a strong pipeline with real estate and specialty income, and it's our goal to expand the equity capabilities we offer to the marketplace, roughly 40% of the volume in RFPs is going there. The other capability I would highlight, which is getting a lot of attention and will yield long-term results is we are very good in global credit, both on the public and private side. And we are seeing increased interest from many clients globally.

I mentioned the synergies we are seeing between PGI and PI, and that's a core part of it. And one of the things that's gotten a lot of attention recently, we have been quietly building a very strong private credit business. We have almost deployed $2.5 billion of capital. And just this year, almost $400 million of positive net cash flow.

As you can imagine, the earnings stream on these are long term, and they are at a much higher multiple of revenue than we have seen in the past. I'll turn it over to Chris, but those would be my comments.

Chris Littlefield: Yes. Thanks, Alex. With respect to the retirement business, I mean I think as we've said in prior quarters, not all flows are created equal, and we are really focused on flows where we can drive profitable revenue growth.

And so when we think about the areas we're talking about, we look at the fundamentals of our business, SMB flows are up 11% over a year ago. Our recurring deposits are up 10%. We are looking to drive activity to drive those flows up. And what we're continuing to going to have

some pressure on is the lumpiness of large plan sales. You're going to have quarters like last year's third quarter that was very strong from a large market sales.

We didn't have that repeat this year. We've talked about the volatile of large. So you're going to see some volatility results there. And then earlier, we talked about participant withdrawals. And the participant withdrawals is going to bounce around.

It's got a slight uptick in rate. But a lot of that is really just driven by the strong equity market performance currently. And so again, our focus is prioritizing profitable revenue growth, maintaining strong margins

We're not out to solve sort of this flow problem if it's at low or 0 fee or low profitability or 0 profitability. We're really focused on really value accretion to the shareholders.

Dan Houston: Does that help Alex?

Alex Scott: Yes. It does. And just as a quick follow-up, anything we should think about in terms of exposure to Fed funds and [silver] in terms of like floating rate or any cash sweeps or things like that? Could you help us with just making sure we understand the sensitivity?

Deanna Strable: Yes. I'll just take that. I think if you go back to our sensitivities that we've talked about, there's very little impact from interest rates, and that sensitivity to interest rates went down significantly after our transaction with the fixed annuity business.

And so again, long term, we like higher rates. But short term, that actually hurts us, both from an earnings perspective because of the impact on fixed income values.

Floating rate, net exposure on floating rate is virtually none, so we don't expect any impact there. We do see some impact on the bank and

the trust business. But again, I wouldn't expect anything significant relative to drop in rates as we move forward.

Dan Houston: Thanks for the question.

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

Dan Houston: So first and foremost, thanks for joining the call today. I know there are a couple of analysts that we did not get to. I'll have Humphrey and his team reach out to make sure that we get any unanswered questions answered.

Secondly, observation that, from our perspective, whether it's capital deployment, on stock buyback, our dividend policy, our free cash flow, our earnings per share targeted 9% to 12%, we feel very good about where we're at and the progress that's been made and feel very confident in the full year.

We look forward to seeing you at our Investor Day on November 18th in New York City. We'll focus our discussion on the strategic opportunities in the retirement ecosystem, the SMB marketplace, and the global reach of our asset management business and how we can leverage that for shareholders.

So, appreciate the time today. Have a good one.

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

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[1] As of September 30, 2024
[2] Ethisphere, 2024
[3] Pensions & Investments, 2023