

Principal Financial Group®

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Call participants

Executives

Dan Houston: Chairman, President & CEO

Deanna Strable: Executive Vice President & CFO

Kamal Bhatia: President - Principal Asset Management

Amy Friedrich: President – Benefits and Protection

Pat Halter: President - Principal Asset Management

Chris Littlefield: President - Retirement & Income Solutions

Humphrey Lee: Vice President - Investor Relations

Analysts

Joel Hurwitz - Dowling & Partners

Ryan Krueger - KBW

Suneet Kamath - Jefferies

John Barnidge - Piper Sandler

Tom Gallagher - Evercore ISI

Jimmy Bhullar - J.P. Morgan

Alex Scott - Goldman Sachs

Josh Shanker - Bank of America

Presentation

Operator: Good morning, and welcome to the Principal Financial Group Fourth Quarter 2023 Financial Results and 2024 Outlook Conference Call.

There will be a question-and-answer period, after the speakers have completed their prepared remarks. If you would like to ask a question at that time, simply press “*” and the number “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. We would ask that you be respectful of others and limit yourself to one question and a follow up, so we can get to everyone in the queue.

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

Humphrey Lee: Thank you, and good morning. Welcome to Principal Financial Group's Fourth Quarter and Full Year 2023 Earnings and 2024 Outlook Conference Call.

As always, materials related to today's call are available on our website at investors.principal.com. Following a reading of the safe harbor provision, CEO Dan Houston and CFO, Deanna Strable, will deliver some prepared remarks. We will then open up the call for questions. Other members of senior management will also be available for Q&A.

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

Additionally, some of the comments made during this conference call may refer to non-GAAP financial measures. Reconciliation 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. We are planning to host our 2024 Investor Day on Monday, November 18th, in New York, and look forward to seeing many of you over the coming months. Dan.

Dan Houston:

Thanks, Humphrey, and welcome to everyone on the call. This morning, I will discuss key milestones and highlights from the fourth quarter and full year 2023 as we continue to execute our strategy with discipline and focus and deliver strong results for our customers and shareholders.

Deanna will follow with additional details of our results, the investment portfolio, our capital position as well as our 2024 outlook.

Twenty-twenty-three was a great year for Principal. We delivered on our ambitious outlook for the enterprise despite a wide range of macro issues, including significant geopolitical events and global inflation. These factors resulted in elevated market and interest rate volatility, which impacted investor risk appetite and increased allocations to cash and cash equivalents.

Our diversified and integrated business model continued to prove resilient despite these challenges and generated robust fourth quarter and full year results.

Starting on Slide 3, we reported \$1.6 billion of full year 2023 non-GAAP operating earnings, or \$6.55 per diluted share. Excluding significant variances, earnings per share increased 6% over 2022 at the top end of our 2023 outlook. Our strong capital position and full year free capital flow enabled us to deliver on our capital deployment strategy.

We invested for growth in our businesses and returned more than \$1.3 billion of capital to shareholders through share repurchase and common stock dividends, nearly 90% of net income, excluding exited businesses.

As shown on Slide 4, we reported \$441 million of non-GAAP operating earnings, or \$1.83 per diluted share in the fourth quarter. We ended 2023

with \$695 billion of total company managed AUM, up over 9% from 2022. While markets were volatile throughout the year, they finished the year strong. Market performance and foreign currency tailwinds more than offset outflows on a full year basis.

Adjusting for the large withdrawal, as we discussed last quarter, we generated a positive \$350 million of PGI institutional net cash flow in the fourth quarter, driven by real estate and fixed income flows. Retail net cash flow for us and the asset management industry remains challenged as approximately \$6 trillion of assets remain in money market funds or cash equivalents.

We continue to benefit from diversification of distribution channels among institutional, retail, retirement, private assets and international geographies. Our organic growth rate, measured by net cash flow as a percentage of beginning-of-period assets, has proven more resilient than our active management peers over the last 12 months.

As interest rates retreat from their peak, we were well positioned with the right strategies as investors begin to reallocate back into risk-based assets. The pipeline of committed yet unfunded real estate mandates remain strong, currently over \$6 billion that we'll put to work, opportunistically.

We continue to grow our in-house capabilities, including Principal Alternative Credit, our direct lending franchise that recently surpassed \$2 billion in borrower commitments, since we launched in 2020.

We have generated an 11% IRR since inception, and the current portfolio yield is 13%, making this a compelling offering for our clients. This is yet another testament of our dedication to providing differentiated investment capabilities to clients across all asset classes.

Turning to Slide 6, investment performance improved significantly across Morningstar rated funds and composites, particularly in our retirement focused asset allocation strategies. While there have been

some quarterly fluctuations, we are focused on generating consistently strong long-term performance for our clients.

In Principal International, we ended the quarter with a record \$180 billion of total reported AUM. The increase was driven by a combination of market performance, foreign exchange tailwinds and over \$2 billion of positive cash flows through 2023, evenly split between Latin America and Asia. While the Asia economy continues to face headwinds, we are still confident about the region's long-term potential.

We welcomed a new President of Latin America in November, Pablo Sprenger. Pablo joins Principal with more than 20 years of industry experience, most recently as CEO of SURA Investments. His deep knowledge of our markets and the customer segments we serve will be valuable in driving growth, across the region.

Turning to U.S. retirement, we generated strong growth in revenue and earnings in the fourth quarter. Our focus on revenue generation, and continued expense discipline helped drive the full year margin above the top end of our guidance range, while we continue to invest for future growth.

Business fundamentals remain very healthy. We generated a strong growth in transfer deposits over the fourth quarter of 2022, including a 9% increase in fee-based and 36% increase in spread-based transfer deposits. These strong results were driven by growth in the retirement plan sales, as well as robust pension risk transfer sales, which exceeded targeted returns.

Total RIS reoccurring deposits increased 12% over the year ago quarter, including a 14% increase in the SMB segment. This growth was primarily driven by an increase in participant deferrals and employer matches and retirement plans.

While we were pleased to see planned lapses moderate in the fourth quarter, which is typically an active quarter for planned transitions and

lineup changes, participant withdrawals increased over the year ago quarter.

All in, we saw a significant improvement in account value net cash flow compared to the fourth quarter of 2022. For the full year, RIS sales increased 9% over 2022, driven by a 17% increase in fee-based transfer deposits and nearly \$3 billion of pension risk transfer sales.

We continue to leverage our favorable market position with a full suite of retirement and workplace solutions and like the good momentum we're seeing in our retirement platforms heading into 2024.

In Specialty Benefits, a record full year sales as well as strong retention, employment and wage growth contributed to a 9% growth in premium and fees over both, the fourth quarter of 2022 and full year.

Attractive segments within the SMB market remain underpenetrated, and we are confident in our ability to serve these customers with a meaningful value proposition. Sales and Specialty Benefits so far this year are tracking to our expectations and, importantly, retention is also strong. These factors give us confidence we will continue to grow faster than the market in 2024.

In Life, premium and fees for the total block increased 5% over the fourth quarter of 2022, including a 26% increase in the business market segment. Our focus on the business market is resonating with distribution partners and has more than offset the runoff in our legacy retail block.

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

At our core, we remain committed to providing individuals, businesses, communities and markets access to essential financial tools, products

and guidance, and we see strong demand for our brand of expertise and support in today's environment.

Before turning it over to Deanna, I'd like to highlight an important recognition we received this quarter, included on Slide 5, along with other 2023 awards in recognition.

For the 12th consecutive year, Principal Asset Management was once again named a Best Place to Work in Money Management by Pensions & Investments, earning this recognition every year since the inception of the award. Recognition like this helps us benchmark progress, attract and retain talent and stand out in the marketplace.

I'd be remiss if I didn't also take a moment to recognize Pat Halter, President of Principal Asset Management, who announced his retirement after 40 years with the company. I will miss Pat as a business leader and also as a very trusted adviser.

I wish he and his family much success in the next phase of their life. He has guided Principal Asset Management through significant growth, including further diversification of its active specialty investment capabilities into private markets and new geographies.

I'd also like to congratulate Kamal Bhatia, who has assumed the role as President of Principal Asset Management. Kamal joined the company in 2019 as an industry veteran with significant experience in investment solutions, business strategy, client engagement and product development.

We closed 2023 with momentum across our diverse portfolio of businesses. Our success is a testament to the focus and hard work of our nearly 20,000 dedicated global employees, their ongoing commitment to excellence and to our customers enable us to seize opportunities and set the stage for future growth. 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

and full year updates on our investment portfolio, our current capital position as well as details of our outlook for 2024.

Full year reported net income was \$623 million. Excluding exited business, net income was \$1.5 billion for the full year with credit losses of \$81 million. Fourth quarter net income, excluding exited business, was \$299 million, with \$27 million of credit losses.

As a reminder, the income from exited business is noneconomic and is driven by the change in the fair value of the funds withheld embedded derivatives. It doesn't impact our capital or free cash flow and can be extremely volatile, quarter-to-quarter.

Full year credit drift and losses were modest and better than our expectations at the beginning of the year.

Excluding significant variances, full year non-GAAP operating earnings was \$1.7 billion, or \$6.92 per diluted share. This was a 6% increase in EPS over 2022 at the top end of our 3% to 6% outlook and included \$436 million in the fourth quarter, or \$1.81 per diluted share.

As detailed on Slide 24, significant variances impacted fourth quarter non-GAAP operating earnings by a net positive \$5 million on both a pretax and after-tax basis and \$0.02 per diluted share.

The significant variances included strong Encaje performance, largely offset by lower variable investment income.

Looking at macroeconomics in the fourth quarter, the S&P 500 daily average was slightly higher than the third quarter of 2023 and 16% higher than the fourth quarter of 2022.

While the S&P 500 Index increased 24% from the end of '22, the daily average increased just 4% from the 2022 daily average. In addition, the S&P 500 performed better than mid-cap, small cap and international equities, as well as fixed income and alternatives.

Relative to our 2023 outlook, the daily average increase was lower than our typical 6% price appreciation assumption, but it was higher than expected heading into the year. Foreign exchange rates were a headwind relative to the third quarter, but a tailwind compared to the fourth quarter of 2022 and on a trailing 12-month basis.

Margins across the enterprise remain strong as we took actions to reduce expenses to align with revenue, while investing for growth and increasing scalability.

On a full year basis, compensation and other expenses increased modestly over 2022, despite elevated severance expense of \$20 million in the fourth quarter and \$30 million for the full year.

Turning to the business units, the following comments exclude significant variances and demonstrate our ability to meet or exceed most of our 2023 guidance ranges.

Starting with RIS, fourth quarter pretax operating earnings were very strong and increased 22% over the fourth quarter of 2022, driven by growth in the business and strong revenue retention, higher net investment income and favorable markets.

Full year net revenue growth of 4% and the 39% margin were at the high end of our guided ranges.

Our focus on profitable revenue growth is paying off and was aided by favorable macroeconomic impacts.

PGI's pretax margin of 35% for the full year was within our guided range, a strong result compared to many of our peers, reflecting disciplined expense management, while navigating a pressured revenue environment.

PGI's full year revenue growth was slightly below our guided range given the market volatility, as well as the industry trend of money moving to money market funds in 2023.

At \$34 million for the full year, performance fees ended the year in line with our outlook, despite a pressured real estate market. This compares to a very strong year in 2022, which had \$70 million. Performance fees are dependent on market conditions as to when we can optimize alpha generation in the portfolio.

Principal International ended the year strong with full year revenue growth of 9%, a 32% margin and an 11% increase in pretax operating earnings, over 2022.

Results benefited from growth in the business, higher AUM, positive net cash flow and foreign currency tailwinds. Both revenue growth and margin were within our guided ranges.

Specialty Benefits continued to deliver in 2023 with a 9% growth in premium and fees, a 15% margin and a 17% increase in pretax operating earnings compared to full year 2022. This was fueled by another year of record sales, strong retention and employment and wage growth, as well as a more favorable loss ratio. All of our metrics for Specialty Benefits were within our guided ranges.

In Life, growth in premium and fees was within our guided range as our focus on business solutions is outpacing the roll-off of the legacy block. Margin was slightly below our guided range, primarily due to lower net investment income as we rightsized the assets backing the business, post-transaction.

Shifting to our investment portfolio, it remains high quality, aligned with our liability profile and well positioned for a variety of economic conditions. We revalued the office real estate portfolio again in the fourth quarter, as we have done quarterly, throughout 2023.

The commercial mortgage loan portfolio remains healthy. The average loan-to-value of 49% increased modestly throughout 2023, as we expected, while the debt service coverage ratio remains stable at 2.5x,

reflecting the quality of our portfolio and our disciplined investment approach.

Specific to our office exposure in the CML portfolio, there were 10 loans that matured in 2023, reducing our office loan exposure by 12%. All loans were paid off and resolved. We did not have any loan extensions or foreclosures in 2023.

Looking at the 2024 office maturities, the underlying metrics are generally strong, with an average loan-to-value of 66% and debt service coverage ratio of 3.8x. We only have one maturity in the first quarter and it paid off in January. We're actively managing and remain confident in the outcome of the remaining 10 maturities, eight of which are slated for the second half of the year.

Turning to capital and liquidity, we ended the year in a very strong position with \$1.7 billion of excess and available capital, including approximately \$935 million at the holding company, which is above our \$800 million targeted level, \$375 million in our subsidiaries, and \$375 million in excess of our targeted 400% risk-based capital ratio, which was 427% at the end of the year.

Our capital position and free cash flow reflect robust fourth quarter results and actions we took to increase capital efficiency, including the establishment of an affiliated Bermuda reinsurance entity and the closure of certain guaranteed retirement products in Hong Kong.

Combined, these actions freed up more than \$200 million of capital in the fourth quarter. On a full year basis, we delivered 100% free capital flow conversion, including organic generation within our 75% to 85% targeted range.

As shown on Slide 3, we returned \$1.3 billion to shareholders in 2023, including \$700 million of share repurchases and \$625 million of common stock dividends. This included more than \$400 million of capital returned to shareholders in the fourth quarter with approximately \$250 million of share repurchases and \$160 million of common stock dividends.

Last night, we announced a \$0.69 common stock dividend payable in the first quarter, a \$0.02 increase from the dividend paid in the fourth quarter and in line with our targeted 40% dividend payout ratio. This demonstrates our confidence in continued growth and overall performance.

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

Turning to our outlook for 2024, starting on Slide 13, we are well positioned to deliver on our enterprise long-term financial targets in 2024, with 9% to 12% growth in earnings per share and 75% to 85% free capital flow conversion.

In regards to EPS, benefits from growth in the business, favorable macroeconomic tailwinds and higher share repurchases are expected to more than offset continued pressure on real estate, Asia and a higher effective tax rate.

Our higher growth, higher return and more capital-efficient portfolio will continue to drive an increase in return on equity, and we expect to achieve our 14% to 16% targeted range in 2025.

We remain committed to returning excess capital to shareholders and are targeting \$1.5 billion to \$1.8 billion of capital deployments in 2024. This includes \$800 million to \$1.1 billion of share repurchases and a 40% dividend payout ratio.

Our Board of Directors approved a new share repurchase authorization for \$1.5 billion. This is in addition to nearly \$300 million remaining under the prior authorization at the end of the year.

Our guidance assumes run rate variable investment income. As usual, we'll quantify the impacts to reported results from higher or lower-than-

expected variable investment income as a significant variance on our earnings calls throughout the year.

Slide 21 provides details of our alternative investments. Our portfolio is more heavily weighted to real estate with a smaller allocation to private equity and hedge funds. Variable investment income is difficult to predict, but if the current macro environment persists throughout 2024, we expect continued pressure on prepayment fees and real estate returns.

Turning to our business units, our outlook for 2024 is grounded in our long-term guidance. We included some modeling considerations on Slide 14, noting where we expect to perform on an adjusted basis relative to our targeted long-term ranges.

In RIS, benefits from macroeconomic tailwinds and growth in the business are expected to drive revenue growth at the high end or slightly above our long-term guidance and margin at the upper end of our range.

In PGI, revenue growth is expected to be at the lower end of our long-term guidance as benefits from market tailwinds are partially offset by continued pressure on real estate revenue and impacts from recent redemptions.

In Principal International, margin is expected to be in line with 2023, and we're expecting low single-digit revenue growth, reflecting the impact of foreign currency translation and continued macro headwinds in Asia. While the closure of the guaranteed retirement products will impact revenue and earnings in Asia, Latin America is expected to continue to deliver strong earnings growth.

In Benefits and Protection, we expect favorable loss ratios and Specialty Benefits to persist in 2024 and expect to be toward the lower half of our long-term range. The margin for Life Insurance is expected to be slightly below the long-term range but improved from 2023.

Before opening for questions, I want to remind you of a few seasonality impacts. In PGI, the first quarter is typically our lowest quarter for earnings, due to the seasonality of deferred compensation and elevated payroll taxes. And in Specialty Benefits, dental claims are typically higher in the first half of the year.

These factors contribute to the pattern of free capital flow, which is typically lightest in the first quarter and increases throughout the year.

We have good momentum as we start 2024 with a strong capital position, and we are well-positioned to deliver on our long-term financial targets. We are grounded in our growth drivers of retirement, asset management and benefits and protection and executing on a strategy focused on continuing to drive long-term shareholder value.

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

Operator:

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

Our first question is from Joel Hurwitz with Dowling & Partners. Please proceed with your question.

Joel Hurwitz:

Hey, good morning. I wanted to start on PGI and the outlook for the net revenue guidance. So you talked about being at the low end despite some of the market tailwinds, and you referenced some of the real estate headwinds. I guess, can you just talk about your expectations for real estate-related activities in '24 and how that compares to what you experienced in 2023?

Dan Houston:

Yeah, thanks, Joel, and thanks for joining the call. I believe this is your first time to call in. It's great to have you cover PFG. And so with that, let me have Pat and Kamal tag team this response

Patrick Halter: Yeah, Joel, this is Pat, and great to have you on board here. I'll just make a couple of comments and then let Kamal talk a bit more, maybe specifically about flows because I think that's probably the nature of your question.

As we kind of look forward relative to this year, we are starting to be more cautiously optimistic about our outlook relative to flows, Joel. We started to see more investors in the fourth quarter move into a little bit more of the risk side of the equation versus keeping money in cash and cash equivalents. I think that was predominantly driven by the fourth quarter in terms of improvements, both in the equities and the fixed income market.

And our belief that with potential Fed easing later this year, we continue to see a trend, which we are seeing in the first part of this year, of investors starting to engage again in some of our higher value investment activities. But Kamal will provide more input on and specifics on that.

Kamal Bhatia: Thank you, Pat. Thank you, Joel. Let me tee off where Pat left it on net cash flow because that's a big driver of your question. So as you heard Dan mention earlier in his comments, our organic growth rate was very resilient in 2023, particularly when you compare it to other active management peers, over the last 12 months.

As we look forward in 2024, we are encouraged by some key signals. I'll start off first with our real estate pipeline. I think we have discussed this before with you, but I'll reiterate that we have a strong \$6 billion real estate pipeline, which is ready to go to work as conditions allow us.

In particular, I would highlight for you, we see the greatest opportunity in 2024 of almost, I would say, roughly \$1 billion of capital that we could put to work in two critical areas. One is private debt. As the market stabilizes here, we continue to see more opportunity emerging there. And as you know, we've had a strong legacy of operating growth on the debt and equity side.

And then another area where we continue to see client engagement is on the growth and income side, which is really anchored on our strength in data centers. So, I would highlight those two areas for you on the real estate side, but there's more to it.

If I look at our search activity, particularly in our specialty fixed income area, it's continuing to increase. And even in our 4Q results, we did see improved net cash flow in that area, as Dan mentioned in his opening comments.

And then the last piece, which may be slow to come by, but we are seeing good progress on is clients are looking for more diversification, and our strength in small and mid-cap equities is going to be--is a conversation we are continuing to have with a lot more clients now. So I hope that helps you with the question you asked.

Joel Hurwitz: Thanks, that was very helpful. And best of luck with the retirement, Pat. I wanted to move to pension risk transfer. So you did \$2.9 billion in '23, which I think is above the \$2.3 billion or \$2.5 billion level that you guys had recently talked about a quarter or so ago. So just any color on what you saw in the market in Q4. And I guess what's the outlook for 2024? And how does the Bermuda subsidiary impact your growth targets on your more capital-intensive new business?

Dan Houston: I'll pass this to Chris, quickly, but just to be on the record, that PRT business continues to be a strong contributor for profitability and growth of the organization with really favorable return profiles. But Chris, some additional color, please?

Chris Littlefield: Yeah, thanks, Joel, good morning. Obviously, we had a very strong quarter in PRT and a very strong year, overall, in our PRT business. We did about \$1.2 billion in the fourth quarter, and that's really because we saw an opportunity. There were both capital and onboarding constraints in the industry, and we were able to take advantage of those constraints and put on some really nice PRT business at well above our targeted return levels.

So really, really a great opportunity. We continue to believe we have great advantages in the PRT market, both because of our expertise in DB, the scale that we have, our focus on the small- to medium-sized type PRT opportunities, as well as our ability to capture our DB clients when they decide to do a planned termination. So if we look at the overall sales in 2023, about 20% of the premium and about 50% of the cases actually came from existing PFG customers.

And so, that really gives us a nice opportunity to grow our PRT business, and the team is just doing an excellent job. As we look forward to 2024, the funding levels of plans remain robust at about 107% as estimated by Mercer at the end of the year. And so, we continue to expect to see strong industry sales across PRT. I think the industry is projecting something in the neighborhood of about \$40 billion.

We're targeting somewhere in the sort of \$2.5 billion to \$3 billion range for 2024, and that really is focused on as much about the returns that we're able to get. We're not trying to maximize overall PRT premiums, we're trying to get the best return on the capital that we're returning--that we're investing in that business. So I feel really, really good about where we sit on PRT.

Your last question on Bermuda, I mean, Bermuda is--Deanna can provide more details. But Bermuda is a nice opportunity for us that we opened up in the fourth quarter. It gives us an additional ability to look at capital efficiency and again, continue to think about how do we get good returns on the capital we put in that business. So hopefully, that answers your questions, Joel..

Dan Houston: Thanks, Joel, for the questions.

Joel Hurwitz: Thank you.

Operator: Our next question is from Ryan Krueger with KBW. Please proceed with your question.

Ryan Krueger: Hey, good morning. My first question was on Hong Kong. Could you provide some additional detail, some of the impact specifically to the exit of the guaranteed product, and also maybe a little bit more color on why you decided to do this?

Dan Houston: Yeah, I'll hit that at a high level and then pass it to Deanna. Just know that principal remains supportive of eMPF business reform that's going on there. Our focus continues to remain on our customer experience and making sure that we're providing fee-based investment options that are most attractive in that marketplace. But this guaranteed component was one that we didn't necessarily like to return profile, and I'll have Deanna give you some more insights on the implications on the business.

Deanna Strable: Yeah, Ryan, just a little bit more color there. This was kind of a legacy product that we offered as part of our eMPF retirement plan. But as Dan mentioned, it was more capital intensive than other investment options, and it was not meeting the return thresholds that we really wanted, so we looked at an opportunity to exit that business.

And just to talk a little bit about the impact, those products had about \$1 billion in AUM. We actually retained about \$800 million to \$900 million of it in other asset classes that did not have the same capital implications to it and \$200 million actually left Principal. If you actually look at the AUM roll forward, you'll see \$200 million in that operations disposed line, which is really the impact of that.

From a financial perspective, it had the benefit of releasing some capital in the fourth quarter. Think about magnitude of \$30 million to \$40 million. We actually expect a similar amount of relief on that same block, early in 2024. Obviously, that is positive from a capital implication perspective, but it does have an impact on our revenue and operating earnings as we think of 2024 and will pressure on a pretax basis, our Hong Kong earnings at about \$10 million.

Ryan Krueger: Great, thank you. And then the other question was just on, can you give a little more information on how RIS fee flows looked in 2023 as in the SMB market and key trends you see there?

Dan Houston: Yeah, another key market for PFG, for sure. Chris, do you want to provide some additional insights there?

Chris Littlefield: Yeah, I mean, I think we would say that SMB continues to be very resilient in overall fundamentals. Our SMB transfer deposits in SMB were up 12% on a trailing 12-month basis. When we think about recurring deposits, the SMB was up 14%. So again, we just--we see very healthy fundamentals coming out of our small to medium-sized clients. So really, really healthy.

Dan Houston: Hopefully, that helps, Ryan.

Ryan Krueger: Great, thank you.

Operator: Our next question is from Suneet Kamath with Jefferies. Please proceed with your question.

Suneet Kamath: Thanks. Maybe just to start again on the Bermuda subsidiary. Are you looking at opportunities to put some of your in-force business in there to generate some capital efficiencies? And, if so, can you give us any kind of ballpark in terms of what you're looking to target for '24 in terms of capital free?

Dan Houston: Deanna, please.

Deanna Strable: Yeah, I'll just step back a little bit, Suneet, and talk about the purpose for that entity. Again, we constantly evaluate opportunities to create value for our customers and our shareholders. That led to us setting up the entity and that was--we did receive approval in the fourth quarter. The ultimate focus of that is to support our PRT and our term life insurance business with the ultimate focus on new sales.

But to kind of start the company, we did cede some in-force business to that, both on the PRT and the life side. And that did benefit us about \$200 million in our free capital flow in the fourth quarter.

For '24, we'll again be much more focused on using this, as Chris mentioned already, for a new sale, providing us capital flexibility, allowing us to take advantage of growth at more capital-efficient levels. And ultimately, we'll assess if there's other uses there, but our focus is on that new sale other than what was needed to cede the company.

Suneet Kamath

Okay. That's helpful. And then I guess shifting to RIS fee. So one of the things that we're hearing from, I guess, one of your peers is that as participants reach retirement age, they're actually starting to take money out and put it into products that have higher yields. I'm assuming it's rollover into fixed annuities or fixed indexed annuities.

So can you--I know you gave us the lapses and the withdrawals on a consolidated basis--can you just give us some color on what you're seeing at kind of the participant level? Are you seeing a pickup in withdrawals and maybe how current trends compared to recent years?

Dan Houston:

Chris, please.

Chris Littlefield:

Yeah, thanks for the question. Yeah, I would say that we saw in '23 a modest increase in participant withdrawals, primarily due to overall retirements, then due to either loans or withdrawals. And so, we are seeing a modest increase in the withdrawal rates there on the participants. But that being said, again, when you look at the participants, we're also seeing really healthy underlying fundamentals.

We're seeing deferrals are up significantly over 8%. Matches by employers are up. So we're seeing a lot of things that are feeding overall, growing the recurring and account value growth, but we definitely are seeing an increase in some retirements, a modest increase in retirements.

Dan Houston: I mean, one thing to sort of note about these deposits for those people who oftentimes keep their money inside the existing 401(k) plans, it's because--think about those as being institutionally priced. They like those investment options, so leaving money in the plan is clearly one of those options.

For those that want to distance themselves from an employer, they can still obtain a rollover IRA with Principal. And again, that's a very active part of our strategy. But we also have to remember that there's a lot of people that are literally drawing down their 401(k) account balances of retirement to live off of, and that's the business that we're in.

And we're fortunate also to be able to have a competitive annuity income options for these individuals. So we're not surprised. But at the same time, there's a lot of effort that goes into retaining these assets because, again, we believe we have great solutions for those individuals. But I appreciate the question.

Suneet Kamath: Thanks.

Operator: Our next question is from John Barnidge with Piper Sandler. Please proceed with your question.

John Barnidge: Good morning. Thank you very much for the opportunity. My question is around the severance. Was there a lens towards looking to more greatly unify operations of PI and Principal Global Investors now that we're further into the shared umbrella of Principal Asset Management?

Dan Houston: Yeah, the reality is we always align our expenses with our revenues. And this severance is really spread across the organization in its totality. There's not a lot of fanfare around that, but it's making sure that we're just aligning expenses, accordingly. So there isn't any one spot and it's Principal's ongoing efforts to manage its expenses. And again, that's no different than what we've done previously, John. So hopefully, that helps.

John Barnidge: It does, thank you very much. My follow-up question. Lots of companies have been calling out the opportunity for supplemental voluntary products as a growth vertical. Can you maybe talk about the opportunity set for your company, as well as general product development pipeline for benefits?

Dan Houston: Yeah, I'll throw that over to Amy in just a second. I was actually looking back at our Principal well-being indexed that was done back in November. And again, it was ironic, the SMBs actually have a 65% favorable outlook from a financial perspective. Seventy three percent feel it's getting better from here, and they also cite, specifically, benefits as a way to attract and retain talent. So again, it's a very favorable environment for SMBs and, of course, Amy is one of our best subject matter experts on this. Amy.

Amy Friedrich: Yeah, thanks for the question. And Dan, you've got it right. There's an appetite for these products. There's a need for them. What I would say is most people see the use of these supplemental products, not as a replacement for some of the core coverages they're putting in place. So we're still seeing a high interest in getting core income replacement products done.

Small and mid-sized businesses are still taking care of their major medical needs. But we're adding on these critical illness, the accident, the hospital indemnity to help cover the things that aren't covered by some of the other pieces of insurance.

So when you look at like high deductible plan that you'd have to get up to \$7,500 before the plan would kick in to help pay, it's helping meet some of those expenses. So what I would say is these products in our portfolio make a ton of sense. And you've seen us add critical illness, you've seen us add accident, and you've seen us add most recently, hospital indemnity.

That's giving us the ability to have a worksite portfolio that helps complement the things that they're doing. We're expecting and are seeing growth in excess of 15%. Up to 20% on those product sets now are based on those sets is pretty small, but it's responsive to the marketplace.

The last point I would offer is those are also giving us the ability to put the type of financial security in place that, if people have those benefits in place, they're better able to participate in some of the other programs like saving in a 401(k). We're investing in the places that make sense for them as an investor so that if you've got these products in place, then our ability to extend to other pieces of Principal's great product set is even higher.

John Barnidge: Thank you.

Dan Houston: Thanks, John. Thanks for a good question

Operator: Our next question is from Tom Gallagher with Evercore ISI. Please proceed with your question.

Tom Gallagher: Good morning. Let's see, a couple of questions. First is just on alternative returns. I think you're assuming in line with your long-term expectation, but then there was a footnote just saying if current conditions persist in real estate, in particular, you would--I guess, potentially, you're going to come in below that. Can you just sort of clarify what you're thinking on that? Do you--would you expect alternatives to be softer in 1Q or 2Q based on what you're seeing, today?

Dan Houston: This is where you wish you had a great crystal ball of which we don't. Deanna, do you want to provide some additional color?

Deanna Strable: Yeah, Tom, thanks for the question there. The first thing I would reiterate is our ranges that we put out there for margin and revenue growth are all on an ex significant variant basis. And obviously, the last few years,

variable investment income has been one that we have called out, as it has run below our actual level.

Just to put that in a little bit of perspective, our run rate return for our alt portfolio is in that 8% to 8.5% range. And we actually came in, in '23 more in that 6% to 7% level. And we did provide on the slide deck an actual breakdown of our alternative portfolio, which is about--a little over a \$5 billion portfolio.

So given the kind of the difficulty in actually predicting that, we felt it was prudent to give you guidance on a run rate basis and also because we actually see a path to getting to that run rate basis, either late in '24 as we think about 2025. And I know you're aware, but our alt portfolio is more weighed or heavily concentrated in real estate and has less allocation to private equity and hedge funds.

If we think of '23, we actually--the places where we fell below our expectations was prepays, not surprising given the interest rate environment and the elements of our bond portfolio and also real estate which, again, more of ours comes from real estate transactions, and '23 was obviously not a time to actually take advantage of that.

Our private equity and hedge actually performed better than we expected and, again, helped to offset some of the impact that we saw there. So one of the things that, again, it's probably easier to think about the next quarter or two than it is the full year. Prepays and real estate transactions will probably run below our expectations.

But it's interesting, if we actually did have BII be at the same level that we experienced in '23, our reported EPS would actually be in that 9% to 12% growth rate, as well as our adjusted and our outlook. So hopefully, that gives you a little bit more color.

Tom Gallagher:

That does. Thanks, Deanna. And just for a follow-up, just could you provide what's embedded in your guide related to both net flows in RIS and PGI?

Deanna Strable: Yeah, I think probably Kamal and Chris would be in the best position to talk through that.

Patrick Halter: Yeah, so I think from a look forward perspective, Tom, we're seeing improvement from 2023. As Kamal highlighted, we're seeing improvement in our broad range of investment activities, starting with fixed income. And we think fixed income is going to be a benefactor and a recipient of the Fed policy actions that we believe and are assuming to occur later this year in terms of--sort of Fed, that easing.

So that's the first sort of protocol relative to, I think, flows coming in a more positive direction in 2024. Kamal highlighted our real estate. We still have a very balanced approach in terms of what we can do in real estate. Both in terms of the pipeline and the opportunities, both in debt and data centers and other specialized investment activities.

We don't talk about this enough, but Europe is actually a very active place for us right now also, in terms of real estate. And so that's the area just to highlight, and we have some emerging opportunities in Asia in future to talk about.

And then I think in terms of what Kamal highlighted, just to sort of, again, reiterate, we see some really strong interest in equity activity, particularly in the small and mid-cap. So--but to round it out, I'll let Kamal sort of finish out sort of the things that we didn't discuss.

Kamal Bhatia: Sure. So Tom, I think Pat covered it, well. The only other data point I'd add for you, you asked about NCF. From where we sit in asset management, I think we are managing the whole business for revenue and margin, as well. It's critical, as you know, we have a very large book of business across retirement, wealth and institutional.

And as you'll see in our stable fee rate, both in 4Q, we are acutely focused on retention. But as Pat mentioned and I mentioned earlier, we do see growth on our institutional segment. So I think as we have guided in Deanna's comments, I think we are looking at a stable margin guidance

at this stage, where we obviously make sure our expenses are in line with our revenue. And we've also given some revenue guidance, but those are the measures we are looking at in addition to NCF.

Dan Houston: Chris, any color?.

Chris Littlefield: Yeah. I think from an RIS perspective, Tom, it's very difficult to project net cash flows for full years. As you know, we see a lot of seasonality in the fourth quarter and a lot of activity for planned transitions and lineup changes. I think what I'd also reiterate is what we said before, which is net cash flow is just one measure to look at and not all net cash flow is not created equal. And we're really focused on increasing revenue, and the profitable growth in our book is really where we're focused.

And I think you'll see our results and the guidance for '24 are very consistent with that approach to managing the business. What I would say is we're going to continue to remain disciplined on the pricing. We're going to drive more revenue. And as we look toward '24, we see continued strong transfer deposits. We see solid recurring deposit growth.

And we see a moderation in the contract lapse rate, all of which is leading to that revenue guidance at or above our long-term range and margin at the upper end of our long-term range. So that's how I'd respond to the question, Tom.

Dan Houston: Thanks for the question, Tom.

Tom Gallagher: Okay, Thanks

Operator: Our next question is from Jimmy Bhullar with JPMorgan. Please proceed with your question.

Jimmy Bhullar: Hi, good morning. Pat, good luck, and congratulations with your retirement. I had a question first for Chris on RIS fee flows. And it's along the lines that you've discussed in response to other questions, as well.

But if you think about the environment overall for retirement plan should be pretty good with the tight labor market, strong GDP growth and yet your flows have been negative each of the last two years and each of the last three quarters.

So, I think some of it was the wealth lapses. Some of it--it seems like from your comments that you're implying that the market is competitive and you're trying to stay disciplined on price.

So what--if you could just give us some detail on what are the various factors that are driving weak flows, and to what extent is it environmental versus maybe company specific and you could talk about '23 and the fourth quarter, as well?

Chris Littlefield:

Yeah, I mean, I think what I'd say is we've previously talked on calls about the competitive environment remains competitive on flows. We've also talked about us wanting to make sure that we have the right plans that we have in our portfolio and are very focused on making sure that we have profitable plans. I think you've seen, in the past year and a half years or two years, we've had some large plans leave that have had very negligible impact on net revenue.

And so again, our focus is on revenue, not flows, and it will remain that way, as we go. Flows is an important measure for us to look at, but we're trying to remain disciplined in the business that we put on.

And again, I'd also say the fourth quarter is historically a negative quarter. As we look into '24 in the first quarter, in particular, we see positive net cash flow in the first quarter and, significantly, above last year's first quarter. So again, we're watching flows. It's an important dynamic for us, but we're really, really focused on finding all the ways that we can generate revenue across our platform, as well as focusing on those plans that are healthy and profitable for us to continue to maintain.

Jimmy Bhullar: Okay. And then just for--maybe Dan, on--there's been a lot of noise about pension reform in Chile and nothing concrete has actually happened yet. But what are your views on the most likely outcome, and how does it impact Principal's business?

Dan Houston: Yeah, I appreciate that. And just to follow on Chris' response there. No discount to the value creation of what Chris and his team have done around improving the customer experience, continuing to build out total retirement solutions, our ability to gather assets for the asset management part of the organization and feed the rest of the organization.

So from our perspective, it's a very valuable franchise, and Chris and his team have done an excellent job ensuring that the business we serve is profitable business. We don't need practice in record keeping.

So with that, as it relates to Chile, as you know, this has been an ongoing reform discussion. It's been going on for years. The constitutional reform was not successful. One of the outcomes of that was further conversations around pension reform. And we start with doing what's in the best interest of Chilean people.

And right now, what they tell us and through surveys and feedback is they want a choice in their provider, they want choice in investment options, and this has been very consistent. So effectively, Chileans have rejected the idea of a state-owned AFP providing more value than what the private sector has.

So we continue to be very vigilant working with regulators, working with the legislators and continue to work in the industry to make sure that what is available in the AFP is competitive from a fee perspective, the investment options, which it is, and to continue to serve the best interest of Chileans. But again, we feel reasonably confident on the industry's ability to demonstrate that and make our case to elected officials. Appreciate the question.

Jimmy Bhullar: Thanks

Operator: Our next question is from Alex Scott with Goldman Sachs. Please proceed with your question.

Alex Scott: Hey, good morning. First question I had was on RIS. And I just wanted to see if you could provide maybe just high-level commentary on the competitive environment. I think a little bit more of the business sort of goes through a renewal towards the end of the year, beginning of the year. I'm just interested in how that's gone, and if there's any pricing considerations that we should think through, as we're looking at the net revenue guidance and thinking through revenue in 1Q?

Dan Houston: Chris.

Chris Littlefield: Yeah, thanks for the question, Alex. Again, we feel really good about the position our business is in, and all of those competitive pressures are built into our guidance. It still shows us benefiting from both the macroeconomic environment, as well as the growth in our block and the increase in revenue generation across our block. So, we are seeing a competitive environment. I think that's going to continue.

But we've been able to really succeed, despite that competition. I mean, WSRS sales were up 14% for the year, fee-based transfer deposits were up 17% on a trailing 12-month basis. We had really, really strong revenue retention, this year. And so overall, we feel really good about the underlying business fundamentals and our ability to compete and win clients from other providers. So, feel really good about where we sit in the market.

Alex Scott: That's helpful. Thank you. Next one I have is on the commercial mortgage loan portfolio. I was just interested if you could talk about maturities you have, this year. I know you gave some numbers in the deck. I'd just be interested in color around how that's going, working through those maturities. And if there's anything we should think about as it relates to the--I guess it was around 7% of the office portfolio that's

getting closer to 100 LTV with debt service coverage under 100--sorry, under one.

Dan Houston: If there was a fitting way to end this call and have it go to the one person retiring who has probably the most knowledgeable--knowledge of any person I know around commercial real estate. It's Pat. So Pat, can you provide us some of your insights on this one?

Patrick Halter: Yeah, thanks for the question, Alex. Obviously, real estate in office, in particular, is under the radar screen. And we are absolutely laser-focused on our portfolio and ensuring it's being valued, it's being underwritten and it's being monitored and managed, appropriately.

Just to level set a little bit, Alex, we have about \$3 billion remaining in our overall commercial mortgage loan portfolio that's in office. High-quality office, Class A, predominantly 60% loan to value and then office portfolio, that's where the 30% reduction in earning valuations.

As you know, we appraised and Deanna highlighted this earlier, we appraise our office portfolio on a quarterly basis. So that's a current loan-to-value, 2.6x debt service coverage, that portfolio is 89% occupied currently.

Specifically to your question, Alex, we have 11 loans that are maturing in 2024 in the office category. And as highlighted earlier, one of those loans already have paid off. But we really are going into that portfolio with a very strong position; the remaining 10 loans, 66% loan to value. But what I really want to highlight are three things.

One is the debt service coverage ratio, which is 3.8. Secondly, it's 94% occupied in terms of that portfolio. And thirdly, the lease term is 5.6 years remaining in that office portfolio. So, that \$440 million remaining that is expected to mature for the remaining part of 2024, three of those loans are under \$6 million in loan balance. That remains seven loans which, as I think Deanna highlighted, 80% of those loans are going to be maturing in the second half of the year.

As I mentioned, we do intensive underwriting each one of those loans. Of those seven loans, we don't see any sort of issues at this point in time relative to any credit losses, and they are all current and paying.

We have a lot of institutional investors in some of those loans. Again, high-quality loan portfolio, and with the sort of going in debt service coverage ratio occupancy and the long-term leases still remaining in that overall portfolio, we continue to feel fairly good about the portfolio as we move it forward into the year. We'll continue to monitor that very closely.

The last thing you highlighted, Alex, was there are--I think we provided in the deck, there's a small portion of our overall portfolio. I think it's about 1.5% of overall portfolio, about 6.7 of the office portfolio for about \$200 million. That equates to about \$200 million. That's in four loans. We continue to monitor those very, very carefully. We see probably one stress point in one of those loans, today. So we could see a minor loss reserve around those loans, as we look forward in the next quarter.

But that's all we see at this point in time, but we'll continue to monitor those loans, also. But the portfolio is in a very good place. It's in a good shape, right now. But clearly, we have to be respectful of the challenges in the marketplace and the liquidity and the headwinds that continue to remain probably for the next couple of quarters.

Dan Houston: Thanks for the questions, Alex.

Alex Scott: Thanks.

Operator: Thank you. Our last question is from Josh Shanker with Bank of America. Please proceed with your question.

Josh Shanker: Yeah, thanks for fitting me in. I guess this one is for Amy. Looking at the long-term guidance range around the medical benefit ratio around 60% to 65%, you guys did 61%, this year. A lot of other companies in the space

are putting a much wider variance from the long-term expected average, six midpoint of the range 62.5%, you're not that far away, right now.

Is dental providing some sort of ballast that's more normal compared to other things, or should we think that there's something different in the portfolio at Principal that's basically causing to be normally good results as opposed to unusually outsized good results in the benefits?

Dan Houston: Amy, please.

Amy Friedrich: Yeah, you've hit it right in mentioning dental. A lot of the other--when I look across the industry, a lot of the other changes that I'm seeing happen are with portfolios that are either primarily or solely kind of that life and disability portfolio. And again, when I look across our results for life and disability, I feel really comfortable that we're setting ourselves up with a loss ratio range that's going to give us both the right appropriate growth prospects and profitability.

Dental does have, it's a more highly utilized product. It does tend to have a different rhythm to the business. I think the great news there is that third and fourth quarter, we continue to see a moderation of that loss ratio for us. So we're seeing sort of heading back into more normal cycles for dental. And that does fuel some of our confidence in the ranges that we're giving.

Now what I would say is I'd just reiterate that Deanna mentioned in her earlier comments, we do expect 2024 loss ratios to be in that lower end of the range. So, I feel really good about those comments, and the beginning of the year experience on those products looks strong.

Josh Shanker: And is that lower end life and disability driven or it's the whole kit and caboodle is going to be at the lower end?

Amy Friedrich: Well, to use your technical term, the whole kit and caboodle is going to be at the lower end. So that is a full portfolio comment that I'm giving you.

Dan Houston: Okay. Thank you. I appreciate that question, Josh.

Operator: Thank you. We have reached the end of our question and answer session. Mr. Houston, your closing comments, please.

Dan Houston: I appreciate that. And thank you for your time, today, on the call. As you can tell, we're very confident about our go-forward strategy and the value we're able to create for our customers and our shareholders.

Once again, Pat, thank you for your 40 years of service. You may have a significant contribution--you made a significant contribution to the company's success and for our customers. And for that, we're quite grateful.

With that, have a great day. Thank you for taking the time to be part of this call.

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

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Principal Financial Group® (Nasdaq: PFG) is a global financial company with nearly 20,000 employees¹ passionate about improving the wealth and well-being of people and businesses. In business for more than 140 years, we're helping approximately 62 million customers¹ plan, protect, invest, and retire, while working to support the communities where we do business, and build a diverse, inclusive workforce. Principal® is proud to be recognized as one of the 2023 World's Most Ethical Companies® by Ethisphere², a member of the Bloomberg Gender Equality Index, and a "Best Places to Work in Money Management³." Learn more about Principal and our commitment to building a better future at [principal.com](https://www.principal.com).

¹ As of December 31, 2023

² Ethisphere, 2023

³ Pensions & Investments, 2023