

PRINCIPAL FINANCIAL GROUP INC
Form 10-K
February 13, 2019

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission file number 1-16725

PRINCIPAL FINANCIAL GROUP, INC.

(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

**711 High Street,
Des Moines, Iowa 50392**
(Address of principal executive offices)
(515) 247-5111

42-1520346
(I.R.S. Employer
Identification Number)

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value \$0.01	Nasdaq Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment of this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes No

As of January 30, 2019, there were outstanding 278,313,686 shares of Common Stock, \$0.01 par value per share of the Registrant.

The aggregate market value of the shares of the Registrant's common equity held by non-affiliates of the Registrant was approximately \$15.1 billion based on the closing price of \$52.95 per share of Common Stock on June 29, 2018.

Documents Incorporated by Reference

The information required to be furnished pursuant to Part III of this Form 10-K is set forth in, and is hereby incorporated by reference herein from, the Registrant's definitive proxy statement for the annual meeting of stockholders to be held on May 21, 2019, to be filed by the Registrant with the United States Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the year ended December 31, 2018.

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NOTE CONCERNING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K, including the Management's Discussion and Analysis of Financial Condition and Results of Operations, contains statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in operations and financial results and the business and the products of the Registrant and its subsidiaries, as well as other statements including words such as "anticipate," "believe," "plan," "estimate," "expect," "intend" and other similar expressions. Forward-looking statements are made based upon management's current expectations and beliefs concerning future developments and their potential effects on us. Such forward-looking statements are not guarantees of future performance.

Actual results may differ materially from those included in the forward-looking statements as a result of risks and uncertainties. Those risks and uncertainties include, but are not limited to, the risk factors listed in Item 1A. "Risk Factors."

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PART I

Item 1. Business

Principal Financial Group, Inc. ("PFG") is a leader in global investment management offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement, asset management and insurance through our diverse family of financial services companies. We had \$626.8 billion in assets under management ("AUM") and approximately 24.2 million customers worldwide as of December 31, 2018.

Our global asset management businesses serve a broad range of investors in 86 countries through offices in 25 countries, including in the major financial centers worldwide. We provide long-term investment strategies to institutional, retirement, high net worth and retail clients by offering a range of capabilities including equity, fixed income, real estate and other alternative investments, as well as fund offerings.

In the U.S., we primarily focus on small and medium-sized businesses, which we define as companies with fewer than 1,000 employees, by offering a broad array of retirement and employee benefit solutions and individual insurance solutions to meet the needs of the business owner and their employees. We are a leading provider of corporate defined contribution plans. We are also a leading employee stock ownership plan ("ESOP") consultant. In addition, we are a leading provider of nonqualified plans, defined benefit plans and plan termination annuities. We are also one of the largest providers of specialty benefits insurance product solutions. We believe small and medium-sized businesses are an underserved market, offering attractive growth opportunities in the retirement and employee benefit markets.

Additionally, we believe we have a significant opportunity to leverage our U.S. retirement expertise in select international markets that have adopted or are moving toward private sector defined contribution pension systems. Our international asset management and accumulation businesses focus on the opportunities created as aging populations around the world drive increased demand for retirement accumulation, retirement asset management and retirement income management solutions.

Our Reportable Segments

We organize our businesses into the following reportable segments:

Retirement and Income Solutions;

Principal Global Investors;

Principal International and

U.S. Insurance Solutions.

We also have a Corporate segment, which consists of the assets and activities that have not been allocated to any other segment.

See Item 8. "Financial Statements and Supplementary Data, Notes to Consolidated Financial Statements, Note 16, Segment Information" for financial results of our segments.

Retirement and Income Solutions Segment

Our asset accumulation activities in the U.S. date back to the 1940s when we first began providing pension plan products and services. We now offer a comprehensive portfolio of products and services for retirement savings and retirement income:

To businesses of all sizes with a concentration on small and medium-sized businesses, we offer products and services for defined contribution plans, including 401(k) and 403(b) plans, defined benefit plans, nonqualified executive benefit plans, ESOP services and pension risk transfer (formerly known as full service payout) services. For more basic retirement

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services, we offer SIMPLE Individual Retirement Accounts ("IRA") and payroll deduction plans;

To large institutional clients, we also offer investment only products, including investment only guaranteed investment contracts ("GICs"); and

To employees of businesses and other individuals, we offer the ability to accumulate savings for retirement and other purposes through mutual funds, individual annuities and bank products.

We organize our Retirement and Income Solutions operations into two business groupings:

Retirement and Income Solutions Fee: includes full service accumulation, trust services and individual variable annuities; and

Retirement and Income Solutions Spread: includes individual fixed annuities, investment only, pension risk transfer and banking services.

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Retirement and Income Solutions Fee

Full Service Accumulation

We offer a wide variety of investment and administrative products and services for defined contribution plans, including 401(k) and 403(b) plans; defined benefit plans; nonqualified executive benefit plans and ESOPs. A 403(b) plan is a plan described in Section 403(b) of the Internal Revenue Code that provides retirement benefits for employees of tax-exempt organizations and public schools.

Products

Full service accumulation products respond to the needs of plan sponsors seeking both administrative and investment services for defined contribution plans or defined benefit plans. The investment component of both the defined contribution and defined benefit plans may be in the form of a guaranteed account, separate account, a mutual fund offering or a collective investment trust. In addition, defined contribution plan sponsors may also offer their own employer securities as an investment option under the plan.

We deliver both administrative and investment services to our defined contribution plan and defined benefit plan customers through annuity contracts, collective investment trusts and mutual funds. Group annuity contracts and collective investment trusts used to fund qualified plans are not required to be registered with the United States Securities and Exchange Commission ("SEC"). Our mutual fund service platform is called Principal Advantage. It is a qualified plan service package based on our series mutual fund, Principal Funds, Inc. ("PFI"). We offer investments covering the full range of stable value, equity, fixed income, real estate and international investment options managed by our Principal Global Investors segment as well as third party asset managers. In addition, full service accumulation offers plan sponsors trust services through an affiliated trust company.

As of December 31, 2018, we provided full service accumulation products to (a) over 38,500 defined contribution plans including \$153.9 billion in assets and covering 5.2 million eligible plan participants, and (b) to over 2,000 defined benefit plans, including \$19.1 billion in assets and covering over 315,000 eligible plan participants. As of December 31, 2018, approximately 52% of our full service accumulation account values were managed by our Principal Global Investors segment. Third party asset managers provide asset management services with respect to the remaining assets. As it relates to our full service accumulation account values, 33% were managed entirely by the third party asset managers that were not under contract to sub-advise a PFG product, 8% were sub-advised and 7% represented employer securities.

Markets and Distribution

We offer our full service accumulation products and services to plans, including qualified and nonqualified defined contribution plans and defined benefit plans. Our primary target market is plans sponsored by small and medium-sized businesses, which we believe remains under-penetrated. According to Cerulli Associates, in 2016, only 9% of businesses with less than 99 employees, 57% of businesses with between 100 and 499 employees and 78% of businesses with between 500 and 999 employees offered a 401(k) plan. The same study indicates that 85% of employers with between 1000 and 4999 employees and 100% of employers with 5,000 or more employees offered a 401(k) plan in 2016. Cerulli Associates has yet to release updated statistics on the percentage of businesses offering a 401(k) plan in years subsequent to 2016.

We distribute our full service accumulation products and services nationally, primarily through a captive retirement services sales force. As of December 31, 2018, 95 retirement services sales representatives in 41 offices, operating as a wholesale distribution network, maintained relationships with over 14,100 independent advisors, consultants and agents. Retirement services sales representatives are an integral part of the sales process alongside the referring consultant or independent advisor. We compensate retirement services sales representatives through a blend of salary and production-based incentives, while we pay independent advisors, consultants and agents a commission or fee.

As of December 31, 2018, we had a separate staff of over 240 service and education specialists located in the sales offices. These specialists play a key role in the ongoing servicing of plans by providing local services to our customers, such as reviewing plan performance, investment options and plan design; communicating the customers' needs and feedback to us and helping employees understand the benefits of their plans. The following summarizes our distribution channels:

We distribute our annuity-based products through intermediaries who are primarily state licensed individuals.

Principal Advantage platform is targeted at defined contribution plans through broker-dealer distribution channels. Principal Advantage gives us access to Financial Industry Regulatory Authority ("FINRA")-registered distributors who are not traditional sellers of annuity-based products and broadens opportunities for us in the investment advisor and broker-dealer

distribution channels.

Through our Retire Secure strategy we provide financial education and other assistance to individual investors who are participants/members of employer-based accumulation solutions to help them achieve financial security.

We believe our approach to full service accumulation plan services distribution, which gives us a local sales and service presence, differentiates us from many of our competitors. We have also established a number of marketing and distribution relationships to increase the sales of our products and services.

Table of Contents**Individual Variable Annuities**

Individual variable annuities, which are savings vehicles through which the customer makes one or more deposits of varying amounts and intervals, are offered to individuals.

Products

Our individual variable deferred annuities provide customers with the flexibility to allocate their deposits to mutual funds managed by the Principal Global Investors segment or unaffiliated third party asset managers. As of December 31, 2018, 94% of our \$9.0 billion in variable annuity account balances was allocated to mutual funds managed by the Principal Global Investors segment and our guaranteed option. The remaining 6% was allocated to mutual funds managed by unaffiliated third party asset managers. Generally speaking, the customers bear the investment risk for the variable options and have the right to allocate their assets among various separate mutual funds. The value of the annuity fluctuates in accordance with the experience of the mutual funds chosen by the customer. Customers have the option to allocate all or a portion of their account to our guaranteed option, in which case we credit interest at rates we determine, subject to contractual minimums.

Customers may elect a living benefit guarantee (commonly known in the industry as a guaranteed minimum withdrawal benefit, or "GMWB"). We bear the GMWB investment risk. Our goal is to hedge the GMWB investment risk through the use of sophisticated risk management techniques. As of December 31, 2018, \$6.2 billion of the \$8.7 billion of variable annuity separate account values had the GMWB rider. Our major source of revenue from individual variable annuities is mortality and expense fees we charge to the customer, generally determined as a percentage of the market value of the assets held in a separate investment sub-account. Account balances of variable annuity contracts with the GMWB rider were invested in separate account investment options as follows:

	December 31, 2018	December 31, 2017
	<i>(in millions)</i>	
Balanced funds	\$ 5,902.3	\$ 6,512.2
Equity funds	186.1	243.8
Bond funds	103.2	128.6
Money market funds	4.4	2.6
Specialty funds	1.0	1.2
Total	\$ 6,197.0	\$ 6,888.4

Percent of total variable annuity separate account values	71%	71%
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Markets and Distribution

Our target markets for individual variable annuities include owners, executives and employees of small and medium-sized businesses and individuals seeking to accumulate and/or eventually receive distributions of assets for retirement. We market variable annuities to individuals for both qualified and nonqualified retirement savings.

We sell our individual variable annuity products through our affiliated financial representatives, including Principal Connection, who collectively accounted for 97%, 97% and 96% of annuity sales for the years ended December 31, 2018, 2017 and 2016, respectively. The remaining sales were made primarily through unaffiliated broker-dealer firms. Principal Connection is our direct distribution channel for retail financial services products to individuals. Principal Connection's services are available by phone, email or mail. Affiliated financial representatives continue to be the primary distribution channel of our variable deferred annuities.

Retirement and Income Solutions Spread**Individual Fixed Annuities**

Individual fixed annuities may be categorized in two ways: (1) deferred, in which case assets accumulate until the contract is surrendered, the customer dies or the customer begins receiving benefits under an annuity payout option, or (2) payout, in which case payments are made for

a fixed period of time or for life.

Products

Fixed Deferred Annuities. Our individual fixed deferred annuities consist of both single premium deferred annuity contracts and flexible premium deferred annuity contracts ("FPDAs"). The majority of FPDA contracts limit the period of time deposits are allowed to one year. For certain contracts, the principal amount is guaranteed. We credit the customer's account with a fixed interest rate for a specified number of years. Thereafter, we reset the interest rate credited to the contract based upon our discretion, subject to contractual minimums, by taking into account market and other conditions. We also offer a fixed deferred annuity where the interest credited is linked to an external equity index, subject to maximum and minimum values. One source of income from fixed deferred annuities is the difference between the investment income earned on the underlying general account assets and the interest rate credited to the contracts. We bear the investment risk because, while we credit customers' accounts with a stated interest rate, we cannot be certain the

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investment income we earn on our general account assets will exceed that rate. The Principal Global Investors segment manages the assets supporting these contracts.

Fixed Income Annuities. Our individual fixed income annuities consist of single premium immediate annuity contracts ("SPIAs") and deferred income annuity contracts ("DIAs"). SPIAs and DIAs are products where the customer pays a premium in return for periodic benefit payments. SPIA payments begin immediately and DIA payments begin after a deferral period, during which a return-of-premium death benefit is included. Payments may be contingent upon the survival of one or two individuals or payments may be fixed, meaning payments are contractually guaranteed and do not depend on the continuing survival of any individual. Our major source of income from fixed immediate annuities is the difference between the investment income earned on the underlying general account assets and the interest rate implied in the calculation of annuity benefit payments. We bear the investment risk because we cannot be certain the investment income we earn on our general account assets will exceed the rate implied in the SPIA and DIA contracts. The Principal Global Investors segment manages the assets supporting these contracts.

Markets and Distribution

Our target markets for individual fixed annuities include owners, executives and employees of small and medium-sized businesses and individuals seeking to accumulate and/or eventually receive distributions of assets for retirement. We market fixed annuities to individuals for both qualified and nonqualified retirement savings.

We sell our individual fixed annuity products through our affiliated financial representatives, including Principal Connection, who collectively accounted for 7%, 7% and 7% of annuity sales for the years ended December 31, 2018, 2017 and 2016, respectively. The remaining sales were made through banks, brokerage general agencies, mutual fund companies and unaffiliated broker-dealer firms. The majority of overall annuity sales were from non-affiliated distribution channels, as a result of focused efforts to increase fixed annuity sales through these channels.

Investment Only

Products

The two primary products for which we provide investment only services are GICs and funding agreements.

GICs and funding agreements pay a specified rate of return. The rate of return can be a floating rate based on an external market index or a fixed rate. Our investment only products contain provisions disallowing or limiting early surrenders, including penalties for early surrenders and minimum notice requirements.

Deposits to investment only products are predominantly in the form of single payments. As a result, the level of new deposits can fluctuate from one fiscal quarter to another. The amounts earned by us are derived in part from the difference between the investment income earned by us and the amount credited to the customer. The Principal Global Investors segment manages the assets supporting the contractual promises.

Markets and Distribution

We issue traditional GICs and funding agreements primarily to retirement plan sponsors and other institutions. We also offer GICs as part of our full service accumulation products which are issued primarily to tax-qualified retirement plans. Funding agreements are issued directly to non-qualified institutions, the Federal Home Loan Bank of Des Moines ("FHLB Des Moines") and unconsolidated special purpose entities. As part of our funding agreement-backed note programs, U.S. and foreign institutional investors purchase debt obligations from the special purpose entity which, in turn, purchases the funding agreement from us with terms similar to those of the debt obligations. The strength of this market is dependent on debt capital market conditions. As a result, our sales through this channel can vary widely from one quarter to another.

Pension Risk Transfer

Products

Pension risk transfer products respond primarily to the needs of pension plan sponsors in the form of single premium group annuities, which are immediate or deferred annuities that provide a current or future specific income amount, fully guaranteed by us. The majority of our business originates from defined benefit plans that are being terminated. In these situations, the plan sponsor transfers all its obligations under the plan to an insurer by paying a single premium. Generally, plan sponsors restrict their purchases to insurance companies with superior or excellent financial quality ratings because the Department of Labor ("DOL") has mandated that annuities be purchased only from the "safest

available" insurers.

Since premium received from pension risk transfer products is generally in the form of single payments, the level of premiums can fluctuate depending on the number of large-scale annuity sales in a particular quarter. The Principal Global Investors segment manages the assets supporting pension risk transfer account values.

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Markets and Distribution

Our primary distribution channel for pension risk transfer products is comprised of several specialized home office sales consultants working through consultants and brokers that specialize in this type of business. Our sales consultants also make sales directly to institutions. Our nationally dispersed retirement services sales representatives act as a secondary distribution channel for these products.

Banking Services

IRAs are provided by Principal Bank, primarily funded by retirement savings rolled over from qualified retirement plans. Principal Bank is a U.S. federal savings bank that was formed in February 1998. As of December 31, 2018, Principal Bank had nearly 400,000 customers and approximately \$3.1 billion in assets. Principal Bank operates under a limited purpose charter and may only accept deposits held in a fiduciary capacity, may not hold demand deposits or own commercial loans and cannot originate loans.

Products

The IRAs offered by Principal Bank provide Federal Deposit Insurance Corporation ("FDIC")-insured retirement solutions for its customers. The IRAs are held in savings accounts, money market accounts and certificates of deposit. The deposit products provide a relatively stable source of funding and liquidity for Principal Bank and are backed by purchases of investment securities and residential mortgage loans.

Markets and Distribution

Principal Bank offers bank products and services to participants rolling out of qualified retirement plans primarily serviced by affiliates of PFG. Principal Bank services customers by telephone, mail and internet.

Principal Global Investors Segment

Our Principal Global Investors segment manages assets for sophisticated investors around the world using a multi-boutique strategy that provides diverse investment capabilities including equity, fixed income, real estate and other alternative investments. We also have experience in asset allocation, stable value management and other structured investment strategies. We focus on providing services to our other segments in addition to our retail mutual fund and third party institutional clients. We maintain offices in Australia, Belgium, Brazil, China, France, Germany, Hong Kong, Ireland, Italy, Japan, Luxembourg, the Netherlands, Portugal, Singapore, Spain, Switzerland, the United Arab Emirates, the United Kingdom and the United States.

We deliver our products and services through our network of specialized investment groups and boutiques including Principal Global Equities; Principal Global Fixed Income; Aligned Investors; Principal Real Estate Investors, LLC; Principal Real Estate Europe Limited; Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Columbus Circle Investors; Edge Asset Management; Finisterre Capital LLP; Origin Asset Management LLP; and Principal Portfolio Strategies. The Principal Global Investors investment groups and boutiques managed \$393.5 billion in assets as of December 31, 2018.

We have been providing mutual funds to customers since 1969. We offer mutual funds to individuals, businesses and institutional investors for use within variable life contracts, variable annuity contracts and employer-sponsored pension plans; as a rollover investment option and for general investment purposes. We plan to grow into a top advisor-sold mutual fund company with a sales force focused on multiple channels. As of December 31, 2018, as reported by the Strategic Insight, we are ranked 18th according to AUM (long-term funds) of the intermediary sold mutual fund companies.

We also maintain various other domestic and global fund platforms, separately managed accounts and segregated accounts for some larger institutional and retail investors.

Our products and services are provided for a fee as defined by client mandates. Our fees are generally driven by AUM.

Boutiques

Our multi-boutique strategy is diversified across the following primary asset classes and service delivery options.

Equity Investments. As of December 31, 2018, Principal Global Equities, Aligned Investors and Principal Real Estate Investors, LLC along with Columbus Circle Investors, Edge Asset Management and Origin Asset Management LLP managed \$147.7 billion in global equity

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assets. Our equity capabilities encompass large-cap stocks, mid-cap stocks, small-cap stocks and real estate investment trusts in developed and emerging markets worldwide.

Fixed Income Investments. As of December 31, 2018, Principal Global Fixed Income and Principal Real Estate Investors, LLC along with Spectrum Asset Management, Inc.; and Post Advisory Group, LLC managed \$184.8 billion in global fixed income assets. Collectively, our experience in fixed income management spans multiple economic and credit market cycles and encompasses all major fixed income security types and sectors, including commercial mortgage-backed

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securities ("CMBS"). Our research and risk management capabilities in worldwide debt markets provide a strong foundation for broadly diversified "multi-sector" portfolios, tailored to specific client objectives.

Alternative Investments. We offer products and services through other alternative asset classes including managing private real estate equity through Principal Real Estate Investors, LLC and Principal Real Estate Europe Limited; commercial mortgages and bridge/mezzanine loans through Principal Real Estate Investors, LLC and managing hedge fund mandates through our Finisterre Capital LLP boutique. As of December 31, 2018, we managed \$56.0 billion in alternative asset classes.

Principal Portfolio Strategies. Principal Portfolio Strategies is a specialized asset allocation boutique offering multi-asset and/or multi-manager portfolio construction services that aim to deliver reliable, risk-adjusted investment outcomes to individual investors, institutional investors and participants in employer-sponsored plans.

Products and Services

Products offered by the Principal Global Investors segment include individually managed accounts, separately managed accounts for high net worth individuals and several fund platforms for retail and institutional investors, as described below.

Principal Funds, Inc. PFI is a series mutual fund that offers investment options for defined contribution plans, individuals, institutional investors, adviser fee-based programs, and other retirement plan clients. We report the results for this fund in the Retirement and Income Solutions segment or Principal Global Investors segment based on the distribution channel associated with the AUM.

Principal Variable Contracts Funds, Inc. Principal Variable Contracts Funds, Inc. is a series mutual fund that provides investment options for variable annuity and variable life insurance contracts issued by the Principal Life Insurance Company ("Principal Life") and other insurance companies not affiliated with Principal Life. AUM backing our variable annuity contracts is reported in the Retirement and Income Solutions segment. AUM backing our variable life insurance contracts is reported in the U.S. Insurance Solutions segment.

Other Principal Global Investors Funds. Principal Global Investors maintains various fund platforms including Qualifying Investor Alternative Fund and Undertaking for Collective Investment in Transferable Securities funds domiciled in Dublin, Business Trusts, Exchange Traded Funds and other boutique sponsored funds. These funds are generally managed by our boutiques.

Markets and Distribution

Our products and services are distributed through various channels to reach and meet the needs of a broad investor base. We distribute our services through institutional and retail sales representatives, relationship management, and client service professionals who work with consultants and directly with investors to acquire and retain institutional clients, retail clients and other investors. We also maintain relationships with independent broker-dealers to distribute our products and services, maintaining relationships with over 64,000 independent brokers, consultants and agents. As of December 31, 2018, Principal Global Investors and its boutiques had over 750 third party institutional clients in 40 countries with \$103.5 billion of AUM.

Principal International Segment

Our Principal International segment has operations in Latin America and Asia. We focus on locations with growing middle classes, favorable demographics and increasing long-term savings, ideally with defined contribution retirement markets. We entered these locations through acquisitions, start-up operations and joint ventures.

The activities of our Principal International segment reflect our efforts to accelerate the growth of our AUM by capitalizing on the international trend toward private sector defined contribution pension systems and individual long-term savings. We offer pension accumulation products and services, mutual funds, asset management, income annuities and life insurance accumulation products.

Markets, Products and Distribution

Latin America

Brazil. We offer pension accumulation and income annuity products through a co-managed joint venture, Brasilprev Seguros e Previdência S.A. ("Brasilprev"). We owned 25.005% of the economic interest and 50.01% of the voting shares as of December 31, 2018. The partner is Banco do Brasil ("Banco"), which had approximately 4,800 Brazilian branches as of September 30, 2018.

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Brasilprev has the exclusive distribution rights of its pension accumulation and income annuity products through the Banco network until October 2032. Our joint venture provides products for the retirement needs of individuals and employers. Banco's employees sell these products directly to individual clients through its bank branches. In addition, our joint venture reaches corporate clients through two wholesale distribution channels: (1) a network of independent brokers who sell to the public and (2) Banco's corporate account executives who sell to existing and prospective corporate clients. As of December 31, 2018, Brasilprev had \$67.7 billion of AUM.

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We also distribute pension and other protection products through a digital insurance brokerage company, Ciclic Corretora de Seguros S.A ("Ciclic"). Our partner is BB Corretora De Seguros e Administradora De Bens S.A. (a subsidiary of Banco). We owned 25.005% of the economic and 50.01% of the voting shares of Ciclic as of December 31, 2018.

We offer mutual fund and asset management services through Claritas Administração de Recursos Ltda. ("Claritas"), our wholly owned Brazilian mutual fund and asset management company with \$1.3 billion of AUM as of December 31, 2018. The company manages equity funds, balanced funds, managed accounts and other strategies for affluent clients, mass affluent clients and institutions and sells through its multi-channel distribution network. Claritas will be realigned from the Principal International segment to the Principal Global Investors segment in 2019.

Chile. We offer a complete array of pension accumulation and income annuity products. We also offer mutual fund, asset management services and life insurance accumulation products. Our subsidiaries in Chile had \$43.9 billion of AUM as of December 31, 2018.

We offer mandatory employee-funded pension and voluntary savings plans through Administradora de Fondos de Pensiones Cuprum S.A. ("Cuprum"). We owned 97.97% of Cuprum as of December 31, 2018, and the rest is publicly floated. Cuprum's products are sold through a proprietary sales network of approximately 800 sales employees as of December 31, 2018.

We offer income annuity and life insurance accumulation products through Principal Compañía de Seguros de Vida Chile S.A., our wholly owned life insurance company. The annuity products are distributed through a network of brokers and independent agents. Life insurance accumulation products are offered to individuals through brokers and financial advisors.

We offer voluntary savings plans and mutual funds through Principal Administradora General de Fondos S.A., our wholly owned mutual fund company. Products are distributed to retail and institutional clients through our proprietary sales force, financial advisors, brokerage houses and alliances with financial institutions.

Mexico. We offer pension accumulation, mutual funds and asset management services through our wholly owned companies with \$12.9 billion of AUM as of December 31, 2018.

We offer mandatory pension plans through Principal Afore, S.A. de C.V., Principal Grupo Financiero. We manage and administer individual retirement accounts under the mandatory privatized social security system for all employees in Mexico. As of December 31, 2018, we had approximately 3.0 million individual retirement accounts. We distribute products and services through a proprietary sales force of approximately 1,330 sales representatives as of December 31, 2018, as well as independent brokers who sell directly to individuals.

On February 20, 2018, we finalized the acquisition of MetLife Afore, S.A. de C.V., which was MetLife, Inc.'s pension fund management business in Mexico. At the time of closing, the acquisition increased our AUM by \$3.8 billion, making us the fifth largest AFORE in Mexico in terms of AUM.

We offer mutual funds and asset management services through Principal Fondos de Inversión, S.A. de C.V., Operadora de Fondos de Inversión, Principal Grupo Financiero. We distribute products and services through a sales force of approximately 40 employees as of December 31, 2018, and through distribution agreements with other financial entities. We offer both domestic and international products, typically sold directly to clients.

Asia

China. We offer mutual funds and asset management services to individuals and institutions through a joint venture, CCB Principal Asset Management Co., Ltd. ("CCB PAM"). We owned 25% and China Construction Bank ("CCB") is the majority partner with 65% ownership as of December 31, 2018. CCB PAM distributes its mutual funds through CCB and third party distributors such as banks, securities brokers and e-channels. CCB provides widespread distribution support for the joint venture via its extensive network of approximately 15,000 bank branches as of June 30, 2018, and brand awareness. Although not included in our reported AUM, the joint venture had \$149.3 billion of AUM as of December 31, 2018.

Hong Kong Special Administrative Region. We offer both pension saving and mutual fund products to corporate and retail clients through wholly owned companies with \$9.5 billion in AUM as of December 31, 2018.

We offer two types of pension saving schemes, Mandatory Provident Fund and Occupational Retirement Schemes Ordinance, which we distribute through third party intermediaries such as insurance companies, independent financial advisors, brokers and employee benefit consultants. Our most significant partnership is with AXA Hong Kong with whom we have a 15-year distribution partnership through 2030. We

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serviced approximately 595,000 accounts as of December 31, 2018. To help Hong Kong customers save for retirement beyond the mandatory pension schemes, Principal also offers mutual funds to retail customers through third party intermediaries, the most significant being banks.

India. We offer mutual funds and asset management services to both retail and corporate customers through Principal Asset Management Private Limited, previously known as Principal Pnb Asset Management Company Private Limited. In August 2018, upon receiving regulatory approval, Principal and Punjab National Bank completed a shares purchase agreement, giving Principal full ownership of the asset management business. Mutual funds are sold through

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independent distributors, including banks, and directly through proprietary sales offices. Digital platforms are also being developed to enhance customer experience. As of December 31, 2018, our subsidiary in India had \$1.0 billion of AUM.

Southeast Asia. We offer mutual funds, asset management services and pension accumulation products through our joint ventures CIMB-Principal Asset Management Berhad ("CPAM") and CIMB-Principal Islamic Asset Management ("CPIAM"). The partner is CIMB Group ("CIMB"), a leading ASEAN universal bank which has a strong presence in the region. CPAM also manages a significant amount of institutional asset mandates. The joint ventures had \$19.1 billion of AUM as of December 31, 2018.

CPAM distributes conventional and Islamic mutual funds through the branches of its partner bank (around 850 bank branches throughout ASEAN and beyond) and through an agency sales force of over 7,000 agents selling to retail customers as of November 30, 2018. CPAM also distributes its mutual funds through third party institutions including other banks and security houses.

CPAM has wholly owned subsidiaries in Singapore (CIMB-Principal Asset Management (S) Pte. Ltd.), Indonesia (PT CIMB-Principal Asset Management) and Thailand (CIMB-Principal Asset Management Company Limited). CPIAM also has a Dubai International Financial Centre Representative Office, CIMB-Principal Islamic Asset Management, which commenced effective May 31, 2018.

In May 2018, Principal and CIMB completed agreements for Principal to increase ownership of CPAM and CPIAM to 60% in both companies. The joint ventures will continue to be co-managed by both companies.

U.S. Insurance Solutions Segment

Our U.S. Insurance Solutions segment activities date back to 1879 when we first began selling individual life insurance products. We expanded our offering to include group insurance products in the 1940s and have continued to expand our product portfolio over time. We help businesses and individuals by offering solutions that grow and protect their assets, and enable them to live their best lives:

To small and medium sized businesses, we offer employer paid and voluntary group benefits, multi-life individual disability insurance and solutions to protect the business and personal insurance needs of owners and executives.

To individuals, we offer individual life and individual disability insurance solutions.

We organize our operations into two divisions: Specialty Benefits insurance and Individual Life insurance. However, we share key resources in our core areas such as strategic leadership, distribution and marketing.

Specialty Benefits Insurance

Specialty Benefits insurance, which includes group dental, vision, life, critical illness, accident and disability insurance and individual disability insurance, is an important component of the employee benefit offering at small and medium-sized businesses. We offer voluntary products for group dental, vision, life, critical illness, accident and disability. We also offer group dental, vision and disability on a fee-for-service basis. Our individual disability insurance is also sold on an individual or multi-life basis.

Products and Services

Group Dental and Vision Insurance. Our plans provide partial reimbursement for dental and vision expenses. As of December 31, 2018, we had almost 65,000 group dental and vision insurance policies in force covering over 1.7 million employees. According to Life Insurance and Market Research Association ("LIMRA"), we were the 6th largest group dental insurer in terms of number of contracts/employer groups in force in 2017. In addition to indemnity and preferred provider organization dental offered on both an employer paid and voluntary basis, we offer a prepaid dental plan in Arizona through our Employers Dental Services, Inc. subsidiary. We also offer a discount dental product nationally. Our indemnity vision and our managed care vision products are offered on both an employer paid and voluntary basis.

Group Life Insurance. Our group life insurance provides coverage to employees and their dependents for a specified period. As of December 31, 2018, we had over 65,000 group policies providing nearly \$152 billion of group life insurance in force to approximately 2.5 million employee lives. According to LIMRA, in 2017 we were ranked 3rd in the U.S. in terms of the number of group life insurance contracts in force. We currently sell traditional group life insurance that does not provide for accumulation of cash values on both an employer paid and voluntary basis. Our group life insurance business remains focused on the traditional, annually renewable term product. Group term life

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and group universal life accounted for 99% and 1%, respectively, of our total group life insurance in force as of December 31, 2018. We no longer market group universal life insurance to new employer groups.

Group Disability Insurance. Our group disability insurance provides a benefit to insured employees who become disabled. In most instances, this benefit is in the form of a monthly income. Our group disability products include both short-term and long-term disability, offered on both an employer paid and voluntary basis. As of December 31, 2018, long-term disability represented 61% of total group disability premium, while short-term disability represented 39% of total group disability premium. We also provide disability management services, called rehabilitation services, to assist individuals in returning to work as quickly as possible following disability. We work with disability claimants to improve

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the approval rate of Social Security benefits, thereby reducing payment of benefits by the amount of Social Security payments received. As of December 31, 2018, we served approximately 1.9 million employee lives through more than 47,000 contracts. According to LIMRA, our group short-term disability business was ranked 4th and our group long-term disability business was ranked 3rd in the U.S. as of December 31, 2017, in terms of number of contracts/employer groups in force. We also offer voluntary critical illness insurance, which provides a lump-sum cash benefit to pay for additional expenses associated with the five most common critical illnesses, and voluntary accident insurance, which pays a lump sum when covered injuries occur because of an accident.

Individual Disability Insurance. Individual disability insurance has been sold since the early 1950s. Our individual disability insurance products provide income protection to the insured member and/or business in the event of disability. In most instances, this benefit is in the form of a monthly income. In addition to income replacement, we offer products to pay business-related costs such as overhead expenses for a disabled business owner, buy-out costs for business owners purchasing a disabled owner's interest in the business, expenditures for replacement of a key person and business loan payments. We also offer a product to protect retirement savings in the event of disability. As of December 31, 2018, we served approximately 196,000 individual disability policyholders. According to LIMRA, our individual disability business was ranked 5th in the U.S. in terms of premium in force in the non-cancellable segment of the market and 5th overall, as of December 31, 2017.

Fee-for-Service. We offer administration of group dental, disability and vision benefits on a fee-for-service basis.

Individual Life Insurance

We specialize in providing solutions for small to medium-sized businesses to protect against risk and loss, assist with succession planning and wealth transfer and to build and protect wealth for retirement. We also provide solutions to meet the personal needs of business owners, executives, key employees and affluent individuals. Our U.S. operations administered approximately 638,000 individual life insurance policies with over \$377 billion of individual life insurance in force as of December 31, 2018.

Products and Services

Our Business Owner and Executive Solutions platform as well as our nonqualified deferred compensation offering combines administration and consulting to service our clients' needs. We target the business and personal insurance needs of owners, executives and key employees of small and medium-sized businesses with an increasing focus on providing insurance solutions for nonqualified executive benefits. In addition, we market our products to meet traditional retail insurance needs. We offer a variety of individual life insurance products, both interest sensitive (including universal life, variable universal life and indexed universal life insurance) and traditional.

Interest Sensitive. Our interest sensitive products include universal life, variable universal life and indexed universal life insurance. These products offer the policyholder the option of adjusting both the premium and the death benefit amounts of the insurance contract. Universal life insurance typically includes a cash value account that accumulates at a credited interest rate based on the investment returns of the block of business. Variable universal life insurance is credited with the investment returns of the various investment options selected. Indexed universal life is credited with investment returns tied to an external index, subject to a contractual minimum and maximum. For the year ended December 31, 2018, interest sensitive products represented 24% of individual life insurance in force and generated 68% of individual life insurance annualized first year premium sales.

After a deduction