'Bermuda Triangle' Deal for Principal Financial?

By Kerry Pechter *Thu, Feb 25, 2021*

Principal Financial Group, Elliott Investment Management, and Prosperity Life (majority owned by Elliott) may be headed for the same type of 'capital liberating' reinsurance deal that so many other life/annuity companies have struck with big asset managers in recent years.

There was just the right combination of vagueness and specifics in the "settlement agreement" between the Principal Financial Group and one of its major shareholders, **Elliott Investment Management**, to raise eyebrows—and questions—this week.

Are Principal and Elliott headed for the type of restructuring deal that other big asset managers and annuity issuers have struck in recent years? These deals have released big chunks of capital that had been tied to blocks of in-force annuity contracts. *RIJ* has called these "Bermuda Triangle" deals, since they sometimes involve a Bermuda-based reinsurer.

The ingredients appear to be present. In 2019, Elliott (founded in 1977 by billionaire Paul Singer) got into the life/annuity business by buying **Prosperity Life**, which issues fixed and fixed index annuities. Prosperity Life's parent, Prosperity Holdings, is a Bermuda company whose executive officer, Mark Cicirelli, is also US head of insurance at Elliott and chairman of Prosperity Life. A Bermuda Triangle scenario might involve reinsurance of Principal annuity liabilities in Bermuda by Prosperity Life and management of the annuity assets by Elliott… but that's purely my speculation.

In a conference call this morning, Principal CEO, chairman and president Dan Houston confirmed to a panel of equity analysts that Principal's upcoming strategic review was taking place against a "backdrop of transactions" that had been successful in "liberating capital" and that Principal "wants to make sure that we're looking at the potential of those." He was presumably referring to last year's reinsurance deals between Jackson National and Athene and between Equitable and Venerable Holdings.

Houston fended off a question about whether Principal leaned toward divestiture or reinsurance of any of its businesses. He said it was "way too early on to provide insights on what we might do." He promised more details at Principal's Investor Day in June.

One slide in today's presentation showed that Principal plans to redeploy $1.4 to $1.6 billion in capital in 2021, including $600 million to $800 million in share repurchases. Principal ended 2020 with a reported $2.9 billion in excess and available capital; it doesn't appear to need a reinsurance deal to provide more.

Here’s what happened so far this week:

A Principal release on February 22 said:

> Principal Financial Group (Nasdaq: PFG) today announced steps to enhance shareholder value by initiating a strategic review of its business mix, capital management, and capital deployment options. Principal will be adding two new independent directors to its Board of Directors, Maliz Beams and a second director to be named at a later date. These actions, which follow a constructive dialogue with one of Principal’s largest investors, Elliott Investment Management, LP (“Elliott”), build on Principal’s ongoing efforts to drive growth and create value.

Beams was CEO of retirement solutions at Voya Financial Inc. from 2011 to 2014, and helped guide Voya’s separation from ING. In 2017, Voya sold its insurance and annuity business to Athene Holding Ltd. In 2020, Athene reinsured $26.7 billion in Jackson National annuity business.

Elliott, which manages about $40 billion and owns a reported 2% of Principal stock (total market cap: $16.65 billion, based on a share price of $61, February 25, 2021), “has been pushing the company to explore selling or spinning off its more capital-intensive life insurance business to focus on its more profitable wealth management operations,” according to Bloomberg, which cited unnamed sources.

Based on those figures, the market value of Elliott’s investment in Principal has increased by about $33 million. About three-quarters of Principal’s $10.3 billion in variable annuity (VA) account value is covered by a guaranteed minimum withdrawal benefit (GMWB) rider. Such guarantees have created risk exposure for other life/annuity companies with large books of VA business.

Last Monday, Principal filed a Form Schedule 14A with the Securities and Exchange Commission disclosing that it had reached a “customary cooperation agreement as well as an information sharing agreement” with Elliott.

For its part, Elliott agreed to “standstill.” According to Principal’s latest 10-K:

> Elliott has agreed to abide by customary standstill restrictions (subject certain exceptions relating to private communications to the Company) until thirty (30) days

> prior to the deadline for the submission of stockholder nominations for non proxy-access director candidates for the Company's 2022 annual meeting of stockholders (the "Cooperation Period"), including that Elliott will not, among other things, (A) engage in transactions resulting in Elliott's beneficial ownership exceeding 5% of the Company's common stock, or its aggregate economic exposure exceeding 9.9% of the Company's common stock, (B) seek any additional representation on the Board, (C) make any requests for stock list materials or other books and records of the Company, (D) engage in any solicitation of proxies or (E) make certain proposals relating to extraordinary transactions publicly or in a manner that would require public disclosure.

Principal posted just under $300 million in individual VA sales in the first three-quarters of 2020, according to LIMRA SRI, for 18th place, out of total VA sales of $70.3 billion. It was not among the top 20 issuers of fixed annuities or of total annuity sales. For comparison, its total individual annuity sales were $3.2 billion in 2015, for 20th place.

According to Principal's current **10-K report**, filed Monday:

"As of December 31, 2020, excluding the Acquired Business that has not migrated, we provided full service accumulation products to (a) over 39,100 defined contribution plans including $280.3 billion in assets and covering over 6.0 million eligible plan participants, and (b) to over 1,900 defined benefit plans, including $23.3 billion in assets and covering over 344,000 eligible plan participants.

"As of December 31, 2020, approximately 46% of our full service accumulation account values were managed by our Principal Global Investors segment, 43% were managed entirely by the third party asset managers that were not under contract to sub-advise a PFG product, 4% were sub-advised and 7% represented employer securities. As of December 31, 2020, 93% of our $10.7 billion in variable annuity account balances was allocated to mutual funds managed by the Principal Global Investor. As of December 31, 2020, $7.4 billion of the $10.3 billion of variable annuity separate account values had the GMWB rider."