Principal Asset Management℠

INVESTMENT SOLUTIONS

Building resilient insurance portfolios: Insights from the Principal General Account

A Q&A with our General Account CIO on liability-aware investing, sourcing breadth, and portfolio construction

BINAY CHANDGOTHIA
Vice President,
Chief Investment Officer,
General Account

DAWN SILVIA
Director,
Insurance Solutions

Key takeaways

General Account investing, which was always very liability-aware, is becoming more diversified through use of best-in-class specialist external capabilities that complement our robust in-house architecture.

Private credit, infrastructure debt, real estate debt, residential mortgage loans, private asset-backed lending, and other less-traditional assets can play distinct Asset Liability Management (ALM) roles while generating attractive yields.

The goal is not to chase yield, but to earn incremental spread while preserving solvency, limiting volatility, and avoiding unintended risks.

Scale is important, but investment discipline, strong governance, manager oversight, and close partnerships matter even more.

As insurers expand their general account portfolios into private assets, structured credit, and external partnerships, the central challenge is not simply finding more yield. It is determining which opportunities truly fit the balance sheet. Managing assets for the Principal General Account gives Principal Asset Management a unique perspective on the investment challenges insurers face every day, from liability alignment and capital efficiency to sourcing and portfolio construction.

In this Q&A, Binay Chandgothia, Chief Investment Officer of the General Account, discusses how his team thinks about growth, differentiated sourcing, private assets, outsourcing, and the portfolio practices that matter most for insurers.

Big picture

Q | When you look across the General Account today, what are you most excited about, and why?

A | What is most significant to me is that the General Account has been growing strongly, and that growth gives us more ways to be intentional about sourcing, risk, and portfolio construction. Our platform is seeing traction across liability products, which is being addressed using a more open architecture mindset on the asset side. We use internal teams where we have differentiated capabilities and selectively engage external specialists where they can bring sourcing and underwriting expertise.

I am excited to have access to a robust toolkit of building blocks in our portfolio construction process. Principal has developed a broad set of strong private market capabilities, including infrastructure debt, direct lending, and other private credit strategies like commercial mortgages. These serve as important sources of multi-duration, ALM-oriented assets when paired with the right cash-flow profile, structure, underwriting discipline, and credit risk metrics.

That breadth matters because a given market may become unattractive due to technical conditions, or sourcing may not keep pace with investment needs. In those circumstances, an insurance company balance sheet requires alternative capital deployment options that preserve ratings, structure, cash flow profile, and underwriting discipline. For insurance CIOs like me, the lesson is that scale matters, but it needs to be paired with choice, selectivity, and consistent risk standards.

Q | What do you think other insurance CIOs could learn from the way your team manages its General Account?

A | Our portfolios support long-duration liabilities, and therefore, winning trust of our policyholders must be the starting point. The first objective, therefore, is to remain well capitalized across a range of scenarios including tail risk events. Towards that end, our objective is not to maximize yield. It is to optimize risk-adjusted returns while supporting liabilities, preserving capital, and maintaining financial flexibility. That involves an understanding of holistic risks facing the portfolio, not just individual asset classes, particularly ones that come with the promise of extra optical yield.

Another lesson is that open architecture does not mean losing control. We still manage the majority of the portfolio in-house, but we are willing to use external managers with differentiated capabilities. The key to success in choosing such capabilities and managers is in staying involved, understanding both the idiosyncratic nature of such exposures and their impact on overall portfolio metrics, and ensuring that the managers remain true to the characteristics that made them suitable for the portfolio in the first place. In short, while alpha is cyclical, unintended risks should remain controlled.

Illiquidity embedded within private assets is another element that needs careful attention. The lure of extra spread for illiquidity risks is tempting and justified but needs a deliberate and continuous alignment with the liability profile. The question then is not just about the extra spread, rather, how much illiquidity risk could one take in pursuit of that spread while minimizing the chances of stresses that can force painful course reversals at the worst possible times.

Differentiated investments

Q | Which less-traditional asset classes have become most important to the portfolio, and what role does each one play?

A | The answer starts with purpose. Real estate debt, residential mortgage loans, private asset-backed lending, consumer loans, infrastructure debt, and other private credit exposures each play a different role. Some support duration, some enhance cash-flow matching, some help maintain yield, and some help diversify legacy concentrations by risk source or origination channel. All along, the connection to liabilities is very important to realizing the full value of these investments.

For example, infrastructure debt can provide long-duration cash flows and structural protections that support long-tail liabilities, while direct lending can add incremental spread in shorter-duration portfolios where liquidity and reinvestment flexibility are more important.

Private infrastructure debt is a particularly natural fit for insurers because many such projects require long-term capital, potentially creating cash-flow and duration profiles that align with long-dated liabilities while offering strong structural protections alongside a yield pick-up.

Commercial mortgage loans are another example. We have historically had meaningful exposure there with a great deal of success, but we’ve balanced that exposure with other asset classes that help diversify our credit and origination risks. Developments in the office market since COVID-19 reinforce the importance of diversification at both the asset-class and collateral level. The core principle is to build resilience by not letting one source be an outlier contributor to portfolio risk.

The practical takeaway is that while private assets are normally lumped as one, each exposure meets a specific liability, liquidity, or diversification purpose. The table below is a good summary of how we think these, along with some other asset classes, can fit in a General Account portfolio construct.

Opportunity	Why it matters	Role in the General Account
Infrastructure debt	Tremendous long-term global infrastructure financing needs create a great opportunity for owners of long-term capital like insurance portfolios.	• Supports ALM objectives • Provides medium to long duration income • Adds diversification with structural protections and extra spread
Direct lending and private credit	Access to privately originated credit opportunities, a significant opportunity set that has opened up for insurance portfolios after the global financial crisis of 2008.	• Adds a diversified source of risk-adjusted extra spread • Relies on underwriting and structure • Requires clear understanding of downside risk
Commercial real estate debt	A core component of insurer portfolios which provides much needed financing to the real estate economy.	• Provides extra yield over public corporate bonds • Offers collateral-backed exposure with compensation for convexity and prepayment risk • Requires diversification by property type, geography, and borrower
Residential mortgage loans	Adds collateralized and diversified consumer-related exposure.	• Supports capital efficiency • Adds diversification relative to commercial real estate • Offers attractive spreads, though convexity risks add complexity
Private asset-backed lending	Extra spread through sourcing, structure, and collateral analysis linked to a range of underlying exposures (consumers, portfolio finance etc.)	• Enhances risk-adjusted outcomes • Broadens the private asset toolkit • Requires careful evaluation of sizing, transparency, capital stack analysis, and structural protections
Structured credit	Incremental spread through structure riding a wide range of underlying collateral (residential, commercial mortgages, leases, consumer loans etc.)	• Enhances yield across public and private markets • Requires understanding of downside behavior and tranche risk • Needs careful review of capital treatment and liquidity
Preferred and capital securities	Regulated financial institutions issue preferred and capital securities to support capital requirements, creating a differentiated market that sits between traditional debt and equity.	• Enhances yield and diversification • May offer favorable capital treatment when securities cannot auto-convert into equity • Requires focus on convexity risk, subordination, and high-quality regulated issuers
Alternative & Equity type investments	Return enhancing component of insurance portfolios.	• Supports long-term return enhancement • Requires alpha potential and capital efficiency • Depends on tolerance for volatility over time
Externally managed strategies	Hard for one asset manager to be a master in all asset classes, particularly in the private world, creating space for outsourcing specialist capabilities.	• Expands sourcing breadth • Requires governance and look-through • Depends on style discipline

Q | Where do you see the most promising opportunities to earn incremental spread without simply taking more credit risk?

A | We are most focused on spread that comes from sourcing, structure, complexity, or illiquidity, not from simply moving down the credit quality curve. Structured credit, private placements, infrastructure debt, and private asset-backed lending have been very additive to portfolio outcomes when they are well analyzed, properly sized, and tied to specific portfolio objectives.

The advantage for Principal is the breadth of the investment opportunities available to my team. The General Account can source across multiple teams and evaluate whether an opportunity is best accessed internally, through a partner, or not at all. That discipline is especially important because incremental spread only matters if the portfolio is being paid for risks it understands and can hold through a cycle.

How decisions are made

Q | How does the liability profile influence which investment opportunities ultimately make it into the portfolio?

A | Understanding the liability profile is critical in our portfolio construction process. Our portfolio managers bake in credit, actuarial, capital, liquidity, and enterprise risk considerations in creating portfolios that are intended to succeed across economic cycles. Derivatives are used as a plug to fill certain gaps that are hard to fill organically (duration, liquidity, foreign currency, and cash-flow mismatches). We start with a Strategic Asset Allocation (SAA) process and overlay it with a dynamic tactical process to achieve our portfolio outcomes. My asset allocation team works closely with the underlying asset management teams in fulfilling the mandate given to us by our Investment Committee.

Q | What metrics matter most when you evaluate an investment for the General Account: book yield, spread, total return, RBC, cash-flow behavior, downside risk, or something else?

A | All of them matter, and they all contribute to investment decisions. We also maintain a laser focus on modeling expected and tail risk losses, which allows us to assess expected return outcomes and capitalization levels appropriately. As AI-related investment opportunities grow, investors must remain alert for hidden concentrations across borrowers, sponsors, collateral types, sectors, geographies, vintages, and managers.

In using external managers, style discipline is essential. A manager hired for a certain role should not drift into exposures that are not intrinsic to core principles which won them the mandate in the first place. Transparency, track record, portfolio construction, and alignment with the General Account's objectives all matter.

Q | What is one portfolio-management discipline insurers can adopt even if they cannot build every capability internally?

A | One practical suggestion is to strengthen the link between asset selection and liability needs while evaluating new areas. Insurers do not necessarily need scale to ask questions pertaining to suitability of an asset for a certain portfolio of liabilities, or the risk being introduced, or asset behavior during stresses, or adequacy of compensation for the embedded risks.

While building every specialty capability internally is not feasible, successful delegation requires diligence, governance, look-through, and a clear view of how each asset or manager affects the total portfolio. That is what allows an open architecture approach to expand the opportunity set in a disciplined manner. Indeed, we outsource to expand capabilities, but do not outsource accountability.

Bottom line

Our approach to investing for the General Account is grounded in a simple idea: opportunity is valuable only when it fits the balance sheet. A more diversified, open architecture portfolio can expand the ways an insurer earns spread, but the process still starts with capital adequacy, liability fit, downside protection, manager oversight, and a clear illiquidity budget.

The lesson for other insurers is not to copy any single allocation. It is to build a repeatable framework: diversify origination, understand the risks, stay true to portfolio roles, and evaluate every opportunity in the context of the total General Account. For insurance CIOs, the real competitive advantage may not be access to every asset class. It may be the discipline to know which opportunities truly belong on the balance sheet.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. Information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

This material may contain `forward-looking' information that is not purely historical in nature and may include, among other things, projections, and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

All figures shown in this document are in U.S. dollars unless otherwise noted.

Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

Principal guaranteed investment options are backed by our general account. Investors in our guaranteed investment options earn interest on their investments but do not participate in the earnings of the general account.

Investors in private equity face various types of risk, including market risk, liquidity risk, and operational risk. Private equity strategies may make a limited number of investments, may invest in start-up ventures with little or no operating histories or in companies that may utilize significant leverage and will involve a high degree of risk, which increases the risk of investment losses. In addition, a private equity strategy may make minority equity investments where such a strategy may not be able to protect its investment or control or influence effectively the business or affairs of such entities. The performance of a private equity strategy may be substantially adversely affected by a single investment. Because certain private equity investments are less liquid, the investment manager seeks to accommodate daily participant activity using other underlying investments intended to support routine contributions, withdrawals, and rebalancing. However, in some circumstances, transaction processing may be delayed, partially completed, or temporarily unavailable due to fund-level liquidity or valuation conditions.

Investing involves risk, including possible loss of principal.

Asset allocation and diversification does not ensure a profit or protect against a loss. **Equity** investment options involve greater risk, including heightened volatility, than fixed-income investment options. **Fixed-income** investments are subject to interest rate risk; as interest rates rise their value will decline. **International and global** investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. These risks are magnified in **emerging markets**. Fixed-income and asset allocation investment options that invest in **mortgage securities** are subject to increased risk due to real estate exposure.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta).

Beta – An investment's sensitivity to market movements.

The investment manager's investment philosophy and strategy may not perform as intended and could result in a loss or gain.

This document is intended for use in:

The **United States** by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.

Europe by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorised and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).

United Kingdom by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorised and regulated by the Financial Conduct Authority ("FCA").

This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.

United Arab Emirates by Principal Investor Management (DIFC) Limited, an entity registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as an Authorised Firm, in its capacity as distributor / promoter of the products and services of Principal Asset Management. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organisation.

Singapore by Principal Global Investors (Singapore)Limited (ACRA Reg.No.199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

Australia by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS License No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.

Hong Kong SAR by Principal Asset Management Company (Asia) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission. This document may only be distributed, circulated or issued to persons who are Professional Investors under the Securities and Futures Ordinance and any rules made under that Ordinance or as otherwise permitted by that Ordinance.

Other APAC Countries/ Jurisdictions. This material is issued for Institutional Investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Asset Management℠ is a trade name of Principal Global Investors, LLC. Principal Global Investors® leads global asset management, a member of the Principal Financial Group®, Des Moines, IA 50392.

Insurance solutions are provided by Investment Solutions, an advisory team within Principal Asset Management℠.

MM15106-01 | 09/2026 | 5944290-092028