

INVESTMENT SOLUTIONS

What insurance CIOs can learn from the Principal General Account

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

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.



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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 optimal 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.

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Beta - An investment's sensitivity to market movements.

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