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Guidance/Update Call

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Call Participants

EXECUTIVES

Daniel J. Houston
Chairman, President & CEO

Deanna D. Strable-Soethout
Executive VP & CFO

James Patrick McCaughan
President of Global Asset Management & CEO of Principal Global Investors

John Egan

Nora Mary Everett
President of Retirement & Income Solutions and Chairman of Principal Funds

ANALYSTS

Erik James Bass
Autonomous Research LLP

Humphrey Lee
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Sean Robert Dargan
Wells Fargo Securities, LLC, Research Division

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

Taylor Alexander Scott
Goldman Sachs Group Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Principal Financial Group 2018 Outlook Conference Call. [Operator Instructions]

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

John Egan

Thank you, and good morning. Welcome to Principal Financial Group's 2018 outlook conference call. Our press release and slide presentation related to today's call are available at principal.com/investor. Following the reading of the safe harbor provision, CEO, Dan Houston; and CFO, Deanna Strable, will deliver some prepared remarks. Then we will open up the call for questions. All those available for the Q&A session include: Nora Everett, Retirement Income Solutions; Jim McCaughan, Principal Global Investors; Luis Valdés, Principal International; Amy Friedrich, U.S. Insurance Solutions; and Tim Dunbar, our Chief Investment Officer.

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

Additionally, some of the comments made during this conference call may refer to non-GAAP measures. A description of these non-GAAP financial measures may be found in our 3Q 2017 financial supplement on our website. Dan?

Daniel J. Houston
Chairman, President & CEO

Thanks, John. I'd also like to thank everyone joining us on the call and everyone who participated in our recent investor workshop. Before Deanna gets into the details of our 2018 outlook, I'll share certain messages that reinforce our ability to deliver sustainable profitable growth and create long-term value for our shareholders. Plainly, we've evolved substantially since our IPO in 2001 with our most notable progress occurring over the past half-dozen years or so. We've added scale in Latin America and Asia, and expanded our investment capabilities and distribution platforms around the world. We've become more diversified and, at the same time, more integrated. We've turned our aspirational businesses into industry leaders by intensifying our focus on 3 key areas: the needs of our customers, individuals, small- to medium-sized businesses and institutions; operational efficiency; and effective capital deployment. Our results evidenced continued strong execution. From 2012 through the third quarter 2017, we've increased our assets under management, or AUM, by more than $250 billion, 63% growth in total, 11% on a compounded annual basis. Our strong AUM growth has fueled an increase in pretax operating earnings of over $800 million or 74% comparing year-end 2012 to the trailing 12 months ended September 30, 2017.

Since the end of 2012, we've deployed more than $600 million for strategic acquisitions, while continuing to invest heavily in our organic growth. We've also returned more than $3 billion to shareholders, approximately 1/3 through share repurchases and 2/3 in the form of common stock dividends. Today, Principal is a top 40 global asset manager with clients in more than 80 countries. We're now the largest pension provider in Latin America in terms of AUM and a partner in the top 5 funds company in China. In the U.S., we've ranked in the top 4 in defined contribution, defined benefit, ESOP and nonqualified deferred compensation, and top 3 in group benefits and pension risk transfer, and we're a top 15 adviser-sold fund family. Our leadership positions reflect extensive expertise, managing assets for long-term investment strategies, developing income solutions, creating best-in-class retirement and employee

benefit programs and helping business owners and individuals manage risk that can derail financial security. The operating environment undoubtedly presents challenges. Yet, more than any time in our history, we face these challenges from a position of strength, with outstanding relationships with customers and distributors, a broader and deeper set of solutions, a track record of strong investment performance and a continued commitment to exceptional customer service.

Over the past several years, in particular, we've made tremendous strides using technologies to take away pain points and remove barriers to customer action. As examples, we're using advanced decision designs and behavioral economics to make benefit enrollments easier and using predictive analytics to simplify and accelerate the process of buying insurance. As Deanna will discuss in more detail, beginning in 2018, we intend to accelerate our investment in digital business strategies in 3 key areas: customer experience, including employers, individuals and advisers; direct-to-consumer sales and advice offerings; and our global investment research platform. We expect these investments to improve our ability to help customers, enhance efficiency and scalability and, ultimately, deliver compelling revenue and expense improvements over time. I'm excited about 2018 and highly confident about what we can accomplish over the next 3, 5 and 10 years to change the complexion of financial security for people around the world.

Too many workers remain under-saved and underinsured, and we'll continue to play a significant for role in changing this, from influencing the formation of effective pension systems in emerging markets to advocating for plan designs that enable workers to fund retirements that could last 20, 30 and even 40 years, to simplify insurance and communicating its value with a holistic financial plan.

We've generated nearly $90 billion of positive net cash flows over the past 5 years, and we're on track to deliver positive total company net cash flows for an eighth consecutive year. This speaks volumes about our ability to attract and retain retirement, retail and institutional investors and volumes about the opportunity set we've positioned ourselves to capitalize on. Our position is strong, but we have no intention of standing still. We'll continue to adjust as customers' needs change, and we'll continue to evolve our strategy with the goal of achieving above-market growth for the company and superior long-term value creation for our shareholders. Deanna?

Deanna D. Strable-Soethout
Executive VP & CFO

Thanks, Dan, and thank you for joining our 2018 outlook call. It was great to see many of you at our investor workshop last week. This morning, I'll focus my comments on 3 areas: acceleration of our investment in digital business strategies and the impact on our 2018 outlook, 2018 guidance of key drivers for each business and our 2018 capital deployment strategy.

As Dan mentioned, we plan to accelerate our investment in digital business strategies starting in 2018. While we've been investing in digital for many years, this acceleration will help us further differentiate with customers and allow us to continue to grow operating earnings faster than our competitors. We expect this higher level of digital investment will occur over a multiyear period.

While we view this investment as meaningful, it pales in comparison to our current annual technology spend of over $0.5 billion. We anticipate this investment will reduce our total company operating earnings growth rate from 2017 to 2018 by approximately 2 percentage points. However, over the long term, we continue to target annual growth of 9% to 12% in total company operating earnings, and this digital investment does not change that.

Our 2018 guidance for the business unit revenue and margin ranges and corporate pretax operating losses are either the same or better than our 2017 outlook ranges. Additionally, the impact of the digital investment is reflected in our 2018 guidance for business unit margin ranges and corporate pretax operating losses.

Our key underlying assumptions are shown on Slide 4, and there's a few I'd like to highlight. U.S. tax reform remains top of mind for us. The tax rates used in our 2018 outlook are based on current tax regulations. I'll share a few comments on potential impacts from the current House and Senate tax reform proposals. We are encouraged that current proposals in both the House and the Senate continue the

tax incentives for much-needed retirement savings by American workers. From a financial perspective, there are 3 areas I'll provide a little more color on. And I'd like to emphasize that these will impact the entire industry, not just Principal. First, while the current proposals lower the corporate tax rate, they also broaden the taxable base. Deductions for items such as reserves, tax-deferred acquisition costs and dividend-received deductions are lower under the current proposals, resulting in a higher taxable base, and thus, higher cash taxes paid over the near term. Second, the proposed 20% corporate tax rate would reduce our effective tax rate. This would be a benefit to our financial statement effective tax rate once implemented. And third, our risk-based capital ratio could decrease under the current proposal, as the corporate tax rate is a factor in the risk-based capital calculation. We are closely monitoring legislation, and we'll provide an update when the final tax reform package is passed.

For equity markets, we are assuming a daily average S&P 500 Index in 2018 of 2,730 to 2,750 based on levels as of the end of November 2017. This assumes a 6% price appreciation plus 2% dividend yield to get to an 8% annual total return.

We're assuming no meaningful impact to total company or business unit pretax operating earnings from a change in the U.S. dollar against local currencies in 2018 relative to 2017.

Note that our future foreign exchange rate assumptions are based on local market expectations as of November 2017.

We expect corporate pretax operating losses between $190 million and $210 million in 2018. This range includes continued expense reduction efforts, partially offset by higher digital expenses.

Before we turn to the 2018 business unit revenue and margin guidance ranges, I'd like to remind you of a few things that have impacted 2017 operating earnings. Using the S&P 500 as a proxy, equity markets increased nearly 14% on a trailing 12-month basis as of third quarter 2017. This favorable market performance positively impacted revenue growth and margins in our U.S. fee-based businesses in 2017.

Given the strong macroeconomic backdrop, 2017 earnings provide for a tough comparison versus 2018 implied growth rates for the total company. The 2018 outlook ranges were built off third quarter 2017's trailing 12-month metrics, excluding the impact of the third quarter 2017 actuarial assumption review. As a reminder, the business unit income statement line item impacts of the 2017 actuarial review are provided in the appendix of the slide presentation.

Slide 5 provides our 2018 outlook ranges by business unit. These same revenue growth and margin metrics can be found on Page 3 of our financial supplement. While I won't speak to every business unit, I'll touch on a few noteworthy items. Margins and RIS-Fee continue to be resilient, and we expect margins to remain higher than our long-term guidance due to equity market tailwinds and our continued focus on expense management.

Margins in RIS-Spread are higher than our long-term guidance range due to the scalable nature of the business and business mix, as our pension risk transfer block grows to be a larger part of RIS-Spread.

In 2018, Principal International's margin is expected to be lower than our long-term outlook, as we continue to build scale as well as the impact of significantly lower interest rates in Brazil.

We expect Principal Global Investors' net revenue growth to be slightly lower than our long-term expectations due to industry headwinds.

A couple of reminders on seasonality. Our first quarter operating earnings tend to be seasonally lower, driven mainly by Specialty Benefits' claim patterns and higher Principal Global Investors' payroll taxes.

Additionally, as we mentioned on our last earnings call, in the fourth quarter of 2017, we are anticipating fewer performance fees in PGI, and for the total company, fourth quarter tends to be our highest quarter of operating expenses.

Moving to Slide 6. We expect to deploy $900 million to $1.3 billion of capital in 2018. This is an increase from our 2017 capital deployment guidance range of $800 million to $1.1 billion, driven by strong operating earnings and the additional capital generated by the large real estate transaction in third quarter

2017. To clarify, we include M&A in our capital deployment totals in the quarter it is announced, not when the transaction closes. So our recent acquisition announcements are not part of our 2018 deployments.

As we mentioned on our last earnings call, our risk-based capital ratio is expected to be temporarily elevated at year-end 2017. The RBC ratio will gradually move back to our targeted range of 415% to 425% as we deploy capital over the next several quarters. As discussed in detail at our recent investor workshop, we use a balanced and disciplined approach when deploying capital.

Since 2012, we've increased our total company operating earnings by more than 12% each year on average, and believe our business mix and fundamentals will continue to allow us to deliver above-market earnings growth over the long term.
This concludes our prepared remarks. Operator, please open the call for questions.

Question and Answer

Operator

[Operator Instructions] And your first question is from the line of Erik Bass with Autonomous Research.

Erik James Bass
Autonomous Research LLP

I just had a couple of questions on the digital initiatives. And you mentioned that it's a multi-year initiative, so do you expect 2018 to be the peak year for spending? Or should we expect this level of spend to continue into 2019? And I guess, also, is there anything meaningful we should think about in terms of the timing of these expenses on kind of a quarterly basis in 2018?

Daniel J. Houston
Chairman, President & CEO

Yes. Erik, this is Dan. Thanks for the question. Just a couple of thoughts, and that is we really tried to ensure that as we went after this digital investment as opposed to a spend, to recognize that it was going to be a multi-year effort, that we would have deliverables that would occur in the next 1 to 2 years, deliverables that would be kind of interim term at 3 to 5. And there're, frankly, some investments in there that won't pay off for 6 or 7 years down the road. We want those investments in the businesses as opposed to in corporate, but I would expect that we would start seeing these investments start paying off throughout 2018. And then I suspect there's just going to be a steady diet of updates to you as we talk about our solutions and our modifications to the way in which we're doing business, whether that's around customer experience, that's whether how we're delivering advice, and then, of course, ultimately, how we're integrating that into our global investment research platform. But we'll make sure to keep you updated on how these projects are coming.

Erik James Bass
Autonomous Research LLP

And I guess, you sort of answered the question, but these will be allocated through the business units and, obviously, incorporated in the margin guidance you gave, but is it -- the initiatives you're talking about, is it right to think that RIS and PGI are going to see the bulk of the investments, at least near term?

Daniel J. Houston
Chairman, President & CEO

I wouldn't think so. I'd actually suggest they're spread out over all of the businesses because, again, as we focus on the customer, it's small- to medium-sized employers, it's individuals, it's institutions, and I think that's where you can get yourself in a lot of trouble by trying to focus this on any one business unit. So I would say whether it's international, asset management, asset accumulation or the risk businesses, these are franchise investments, all of which need to improve on the customer experience and to develop better ways to support the needs of our customers. One of the most encouraging parts of it, Erik, I'd -- perhaps a little added detail here. When we look at the portfolio, about 2/3 of them actually drive revenue growth, and about 1/3 of the initiatives drive expense reductions. And I like that mix. It basically is playing more offense, and we've got a pretty good track record around being able to effectively drive out cost, but the idea of enhancing revenues is reassuring to me. With that, I'm going to throw it over to Deanna and see if she has a couple of additional comments she'd like to make.

Deanna D. Strable-Soethout
Executive VP & CFO

Yes. I think Dan really reiterated the main points there. First, it is reflected in all of the outlook we're giving you today. So it's reflected in the margins as well as the corporate expenses. And if you think about that, it is spread throughout, not concentrated in any one area. The other thing I would say is, over time,

I think the expense might be similar year-by-year. But we'll start to see the benefits of those investments offset some of that, and we'll be able to better fund that just through our normal revenue growth. And so I think most impactful when you're thinking about e-growth will be the '17 to '18 comparison, but we'll continue to update it. And you did ask about kind of quarterly, and I would say there's nothing that we sit here today and would think that it'd be abnormal quarter-by-quarter. We're factoring this into our business spend kind of on a normal basis. And so nothing that would be seasonal relative to that spend.

Daniel J. Houston
Chairman, President & CEO

Erik, thanks for the question.

Operator

Your next question is from the line of Alex Scott with Goldman Sachs.

Taylor Alexander Scott
Goldman Sachs Group Inc., Research Division

So I guess, the first one, maybe on fee, when I think about the pretax return on net revenue and how much higher the guide's been bumped up, I guess, for the last 2 years, but it's still -- it's becoming even higher than the long-term guide. And I guess, if you exclude, I guess, some of the digital initiatives that might be in there, it could be even a little higher. So can you help me think about what sort of would cause it to come back down to the long-term outlook? And I know equity market impact on DAC is part of that, but what are some of the other items that would kind of walk me down?

Daniel J. Houston
Chairman, President & CEO

Yes. I'll ask Nora to follow up on that. Again, I'd just remind you, Alex, of just the incredibly positive equity markets we've had pushing the -- a number of these businesses, and RIS-Fee would certainly be one of those. But Nora, would you like to respond?

Nora Mary Everett
President of Retirement & Income Solutions and Chairman of Principal Funds

Sure. And now, as Dan said it, it really is that equity market tailwind. I mean, if you look at the benefit that we get from that kind of growth, that is the major explainer for that overperformance based on outlook. The other thing, we have that accelerated digital spend now, and we continue to invest in the business as well. So when you look at the combination of the benefit of the equity market tailwinds, and then the accelerated investment that we're going to make around the digital experience that Dan and Deanna have detailed, that in combination is what gives us that guidance for the 2018 outlook.

Daniel J. Houston
Chairman, President & CEO

I'd also just pile on there for a second, Alex, but it's not as if we're standing still here making additional -- or making, for the first time, big investments in these businesses, as Deanna said in her prepared comments, we're spending $0.5 billion already. These are those incremental initiatives that can help propel and drive and bring forward some of the growth. And so Nora and her team as well as the other divisional presidents have embraced expense reduction and revenue enhancers throughout. And again, I still think we're seeing the benefit of that in -- certainly in RIS-Fee. Did you have a follow-up?

Taylor Alexander Scott
Goldman Sachs Group Inc., Research Division

Yes, maybe a quick similar one on spread, just thinking about the margin being higher there versus the long-term outlook. And it sounded like from the workshop that you guys held that you could achieve scale as you kind of grow that business, which I think has a pretty good growth profile. So kind of, again, like why wouldn't we sort of see margin expansion as you achieve more scale there?

Deanna D. Strable-Soethout
Executive VP & CFO

So there's a number of things there, Alex. We certainly are going to benefit from scale. And as you can see, we've lifted that 2018 outlook range around margins. We also, though, have that volatility around the variable investment income piece of it. And we would expect to see some lower VI. We're estimating some lower variable investment income year-over-year, so it's going to be a combination of things. But certainly, we're going to continue to benefit from the scalability of some of those businesses, and as you probably heard at Investor Day that pension risk transfer business. And another reminder, both the pension risk transfer business and our IO business are opportunistic businesses. We see a lot of opportunity in that pension risk transfer business over the next year or so. But again, we look at those 2 businesses on an opportunistic basis.

Daniel J. Houston
Chairman, President & CEO

Thanks for the question, Alex.

Operator

Your next question is from the line of Sean Dargan with Wells Fargo Securities.

Sean Robert Dargan
Wells Fargo Securities, LLC, Research Division

I have a question about the net revenue growth at RIS-Fee. Given the market strengths, I thought it might have been a little bit higher year-to-date than it has been. I guess, what gives you the confidence that you're going to come back to the long-term outlook of 3% to 7%?

Daniel J. Houston
Chairman, President & CEO

I'll make a couple of comments, then ask Nora to pile on, Sean. The first thing I would say is when you look at the health of that business, this is one metric, the one that you're looking at very closely. But we're growing the number of participants. We're growing the number of total plans. And again, the market is validating that our value proposition resonates with advisers as well as with our end customers. There is a lot of pressure on this business from competition. But again, I still think that in the end, there's going to be a lot of ways that we're going to differentiate. We're able to show that when we're visiting with our customers and having those discussions. But this RIS-Fee business does require significant investments in the business. And I would also remind you, before I throw it off to Nora, that remember, when it spins off from the rest of the organization whether it feeds the annuity business, the mutual fund business, the asset management business, this is a really important catalyst. It's a very foundational part of our strategy, and not all of the value is found within this particular line. And with that, I'll throw it over to Nora.

Nora Mary Everett
President of Retirement & Income Solutions and Chairman of Principal Funds

Sure. And Dan really hit on it, it's the strong fundamentals that give us that confidence. And if you look at those underlying fundamentals around plans, participants, recurring deposits, strong retention, especially in this SMB space that we play so well in the small to medium business owner. And we believe longer term, our scale, our expertise and where we play will give us the benefit that many of our other competitors may not have. And there are still subscale competitors in this space that we would -- we are assuming and expecting that we'll be a benefactor as this space continues to consolidate over the coming years. So that combination of things, both the fundamentals and the competitive environment, gives us that confidence with regard to that long-term outlook or that longer-term outlook.

Sean Robert Dargan
Wells Fargo Securities, LLC, Research Division

All right. And one follow-up. Can you share with us what the assumption on net flows as a percentage of beginning AUM and fee is or should be in 2018?

Nora Mary Everett
President of Retirement & Income Solutions and Chairman of Principal Funds

Sure. And we've had this discussion many times before. There's going to be volatility in this percentage because of some of those larger cases. But certainly, within our SMB segment, we would expect -- and this is just a projection, but sitting here today, we would expect that that net cash flow would be in our typical range of 1% to 3% of beginning of year account value. The one caveat I'd add though is there always is going to be some pressure on that metric when you've got equity markets moving the way they've moved for us because the recurring deposit piece of that net cash flow number doesn't move with those equity markets. That's a payroll-based variable. So just keep that in mind as we watch some of the equity market lift from 2017 and into 2018.

Daniel J. Houston
Chairman, President & CEO

Thanks for the question, Sean.

Operator

Your next question is from the line of Suneet Kamath with Citi.

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

I just wanted to follow up on Sean's line of questioning on RIS-Fee again because the 2% to 5% revenue -- net revenue growth was a little surprising to me as well. Can you just talk a little bit about what you're seeing on fee rates in that business as you think about the competitive environment?

Daniel J. Houston
Chairman, President & CEO

Nora?

Nora Mary Everett
President of Retirement & Income Solutions and Chairman of Principal Funds

Sure. And certainly, that's an impact. We expect this competitive market pressure to continue in 2018 around pricing. That certainly is part of the equation. But again, when you look at those underlying fundamentals and the growth in this business, longer term, we expect to be the beneficiary of the market and the competitive landscape. With that said, pricing's always going to -- we don't assume that next year is only -- going to be the only competitive pricing year. We've got that built into our assumptions. But back to this idea that in this competitive environment, there are subscale players, there are folks that we don't believe will be in this business for the long term, and we certainly expect to see the benefit of that.

Daniel J. Houston
Chairman, President & CEO

You also -- Suneet, you have the mix of the business there between small and a medium and a large-size plan, that certainly contributes to revenue growth. Investment management, as you know, we get a generous portion of that, and there is a desire to move to lower-cost investment options. The good news is with our CIT platform or our registered funds, our separate accounts, we have lots of different choices. But there's a bias towards lower-cost investment options. We've got great options, I guess, the target 8 series, across that full range. So again, you're still managing the assets, but it may be in a structure that has an element of passive that may not generate the same level of revenue that perhaps we enjoyed 5 years ago. I think Nora had one more comment she wanted to make.

Nora Mary Everett
President of Retirement & Income Solutions and Chairman of Principal Funds

The one other thing I wanted to add is we do expect meaningfully lower variable investment income in 2018, again, just an estimate or projection at this point, but that is impacting that revenue growth rate as well.

Daniel J. Houston
Chairman, President & CEO

Hopefully that helps.

Suneet Laxman L. Kamath
Citigroup Inc, Research Division

Yes, it does. And then just a question for Jim in terms of the 4% to 8% outlook for PGI. Can you give us a sense of what's the flow assumption behind that? And then are you expecting any significant cases either to come in or exit as we think about modeling 2018?

Daniel J. Houston
Chairman, President & CEO

Go ahead, Jim.

James Patrick McCaughan
President of Global Asset Management & CEO of Principal Global Investors

Yes. As we think about the flows in 2018, I'd say, first of all, I'm more confident in the revenue outlook than I am in the flow outlook. The reason for that is that there do remain some low-fee, somewhat-commoditized mandates which may be vulnerable, nothing specific I want to point out now, but maybe vulnerable as things develop. Our inflows that we're seeing in the pipeline consist of things like real estate, international small cap, high yield, and those are areas where there are premium fees. That's the reason why I feel more confident about the revenue than I do about the flows. Having said that, we expect decently positive flows next year, which against the active industry, with the move to passive, maybe unusual, we think we'll be industry-leading in terms of flows. I don't really want to pin a lot on the flows. I think the outlook on revenues is a more reliable point.

Daniel J. Houston
Chairman, President & CEO

Thank you, Suneet.

Operator

Your next question is from the line of Humphrey Lee with Dowling & Partners.

Humphrey Lee
Dowling & Partners Securities, LLC

Just a question related to the -- I guess, the capital spend related to the digital initiatives relative to your capital deployment for 2018. If it is a 2% headwind that is kind of looking at roughly $30 million of earnings impact, I don't know how much of that -- the digital spend would be capitalized. But just thinking the range for capital deployment of $900 million to $1.3 billion, that's kind of a $100 million to $200 million increase from 2017 level. I feel like given the real estate gains that you had in the third quarter, we could see a little bit stronger capital deployment. So I just don't know how much of the digital spend impact would affect your capital deployment plan for '18.

Daniel J. Houston
Chairman, President & CEO

Deanna?

Deanna D. Strable-Soethout
Executive VP & CFO

Yes. A couple of things out of that question. The first one I would say is we don't expect that we will be capitalizing any of that digital spend because, obviously, we've translated that into how it impacts operating earnings. As you mentioned, it's a pretty small number relative to our capital deployment. And we did increase, as you mentioned, $100 million on the low end, but $200 million on the high end, and that does really affect -- impacted by the third quarter real estate gain as well as just our normal net income growth. What I'd come back to, as we continue to have a very balanced and disciplined approach to capital deployment, as we talked about last week, we look at that across the full range of opportunities, whether that be organic growth, inorganic growth or returning on capital to shareholders. And we do feel that, ultimately, this digital spend helps us to continue to have that disciplined approach as well as outperformance over the long term. And we'll continue to have that same philosophy as we go forward.

Humphrey Lee
Dowling & Partners Securities, LLC

Okay, got it. And then maybe a question for Jim. I think when you look at PGI, you mentioned in your last year's outlook call 2017, you expect a little bit decline or natural decline in terms of those kind of transaction fees or account performance fees for 2017. Can you give us similar updates for 2018, anything that we should be aware of from a fee perspective modeling?

James Patrick McCaughan
President of Global Asset Management & CEO of Principal Global Investors

We -- thank you, Humphrey. We expect to see continued, fairly robust transaction fees. That's not where the issue is. Compared with 2014, '15, '16, 2017 has been pretty low on the incidence of multi-year incentive fees. Many of the incentive fees that we get on real estate programs particularly are on a 3- or a 5-year assessment, and 2017 has been somewhat low in that. 2018 is only a partial pickup. It seems like it will be fairly low. Unless, as is possible, some of them get pulled forward because of earlier realization, sometimes, an outflow can actually be good news because it's crystallizing a profit, and it means you've done what you intend to do for the client. And there may be a little bit of that, but 2018 still feels a little bit thin compared with 2014, '15, '16. It's 2019, 2020, we're seeing already likely incidence of incentive fees getting back to that previous level. So it's a fairly slow buildup. I do think, however, the main effort that we have, and you'll see management fees this year have more than made up for the weakness in performance fees. The real measure of the ongoing earnings part of the business is those management fees, and those should be up well over 10% for this year against last year. And I think that's the measure of the earnings power. So the performance fees, the incentive fees will pick up slowly over the next couple of years most likely, but the management fees is the real measure of our earnings power.

Daniel J. Houston
Chairman, President & CEO

Thanks for your questions, Humphrey.

Operator

We have reached the end of our Q&A. Mr. Houston, your closing comments, please.

Daniel J. Houston
Chairman, President & CEO

Well, first and foremost, thank you for joining the call today. We'll be back on the phone here on Tuesday, January 30, with our fourth quarter results. We also look forward throughout 2018 giving you updates on this technology investment. We're very enthusiastic about it. We remain convinced that the fundamentals of this business continue to remain quite strong. And with that, have a very safe and happy holidays with your families, and look forward to seeing you on the road. Thank you.

Operator
Thank you for participating in today's conference call. This call will be available for replay beginning at 12:30 p.m. Eastern time today until end of the day, December 19, 2017. 429-5809 is the access code

for the replay. The number to dial for the replay is (855) 859-2056 U.S. and Canadian callers or (404) 537-3406 international callers. You may now disconnect.