

SECURITIES AND EXCHANGE COMMISSION

Investment Company Act Release No. 33843; 812-14866

Principal Funds, Inc. et al.

April 21, 2020

AGENCY: Securities and Exchange Commission (“Commission”).

ACTION: Notice.

Notice of an application for an order under sections 6(c) and 17(b) of the Investment Company Act of 1940 (“Act”) for exemptions from section 17(a) of the Act, and under section 17(d) of the Act and rule 17d-1 thereunder to permit certain joint transactions.

Summary of Application: Applicants request an order that would permit certain registered management investment companies or series thereof that are advised by Principal Global Investors, LLC (“PGI”)¹ to invest in a private investment vehicle established by PGI to invest directly in real estate.

Applicants: Principal Funds, Inc. (“PFI”), Principal Variable Contracts Funds, Inc. (“PVC”), PGI, Principal Direct Property Fund, LP (“PDPF”), Principal Direct Property Fund GP, LLC (“PDPGP”) and Principal Commercial Property Fund REIT, LLC (“PCP REIT”).

Filing Dates: The application was filed on January 16, 2018 and amended on June 27, 2018, July 11, 2019, September 6, 2019, February 5, 2020, and March 17, 2020.

Hearing or Notification of Hearing: An order granting the requested relief will be issued unless the Commission orders a hearing. Interested persons may request a hearing by e-mailing the Commission's Secretary at Secretarys-Office@sec.gov and serving applicants with a copy of the

¹ PGI includes any successor entity to PGI or an entity controlling, controlled by, or under common control with PGI. For purposes of the application, the term “successor” is limited to an entity that results from a reorganization into another jurisdiction or a change in the type of business organization.

request by e-mail. Hearing requests should be received by the Commission by 5:30 p.m. on May 18, 2020, and should be accompanied by proof of service on applicants, in the form of an affidavit or, for lawyers, a certificate of service. Pursuant to rule 0-5 under the Act, hearing requests should state the nature of the writer's interest, any facts bearing upon the desirability of a hearing on the matter, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by e-mailing the Commission's Secretary at Secretarys-Office@sec.gov.

ADDRESSES: The Commission: Secretarys-Office@sec.gov. Applicants: PGI, Attn: Adam U. Shaikh, Assistant General Counsel, shaikh.adam@principal.com.

FOR FURTHER INFORMATION: Laura J. Riegel, Senior Counsel, at (202) 551-3038, or Trace W. Rakestraw, Branch Chief, at (202) 551-6825 (Division of Investment Management, Chief Counsel's Office).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained via the Commission's website by searching for the file number, or for an applicant using the Company name box, at <http://www.sec.gov/search/search.htm> or by calling (202) 551-8090.

Applicants' Representations:

1. Each of PFI and PVC is organized as a Maryland corporation and is an open-end management investment company registered under the Act. PFI and PVC each consist of multiple Funds (as defined below).

2. PDPF is organized as a limited partnership, and applicants state that it will rely on an exception from the definition of "investment company" such as section 3(c)(1) or section 3(c)(7) of the Act (or any other applicable exclusion). PDPGP, the general partner of PDPF, is

organized as a limited liability company and will be a direct or indirect wholly owned subsidiary of Principal Financial Group, Inc. (“PFG”). As general partner of PDPF, PDPGP will be responsible for the operational and administrative maintenance of PDPF, but it will not exercise any responsibilities for the management of PDPF’s assets.

3. PCP REIT is organized as a limited liability company, and applicants anticipate that it will be excluded from the definition of “investment company” under section 3(a)(1) of the Act by reason of its real estate investments. Applicants state that PCP REIT will elect to be taxed as a real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”) and will not incur separate, entity level tax under the current provisions of the Code.

4. PGI, a Delaware limited liability company, is an investment adviser that is registered with the Commission under the Investment Advisers Act of 1940, as amended (the “Advisers Act”). PGI is an indirect, wholly owned subsidiary of PFG. PGI will be the investment adviser to each of the Funds (as defined below), PDPF and PCP REIT.²

5. PGI believes that exposure to direct real estate investments is an important element of diversified retirement investing. Applicants argue that direct exposure to real estate offers advantages over investment in conventional real estate mutual funds that invest primarily in publicly traded REITs. In addition, applicants note that, while the Act does not preclude a registered management investment company from investing directly in real estate (provided that the fund is not subject to a fundamental policy precluding such investment and, in the case of an open-end fund, has sufficient liquidity to comply with applicable Commission and staff

² Only PGI will serve as investment adviser to PDPF or PCP REIT, and any other investment adviser to PDPF or PCP REIT will serve only as investment sub-adviser.

positions), direct investment in real estate would be impractical due to the typical size of such investments and for tax reasons. Accordingly, applicants propose to allow each Fund (solely to the extent consistent with its investment policies, objectives, strategies and restrictions) to obtain exposure to real estate through PDPF, which will be dedicated to investing indirectly in real estate through PCP REIT.

6. For this reason, applicants request an order under sections 6(c) and 17(b) of the Act for exemptions from section 17(a) of the Act, and under section 17(d) of the Act and rule 17d-1 thereunder, to permit: (i) one or more Funds (as defined below) to purchase, hold and redeem units of limited partnership interests of PDPF (“Units”); (ii) PDPF to sell Units to one or more Funds and redeem such Units following demand of such Funds; (iii) to the extent it could be deemed an element of a “joint transaction,” as defined below, PDPF to purchase, hold and redeem interests in PCP REIT; and (iv) the Funds and Other Accounts (as defined below) to engage in certain purchase or sale cross transactions in securities, all as described and subject to the conditions set forth in the application.³

7. Applicants request that the relief extend to each existing or future registered management investment company or series thereof that is advised by PGI or any successor entity or any entity controlling, controlled by, or under common control with PGI (each, a “Fund”).⁴ Applicants further request that the relief extend to any future limited partnership (“Future LP”), general partner thereof (“Future GP”), and underlying real estate investment vehicle (“Future

³ Applicants acknowledge that they are not seeking, and the Commission is not granting, relief from any disclosure requirements that are applicable to applicants.

⁴ Each entity that currently intends to rely on the requested relief has been named as an applicant. For purposes of the requested order, “successor” is limited to an entity that results from reorganization into another jurisdiction or a change in the type of business organization.

Real Estate Fund”) in which such Future LP invests that has elected to be taxed as a REIT pursuant to the Code that operate in a manner that is identical to PDPF, PDPGP and PCP REIT except for the types of real estate investments held by a Future Real Estate Fund.⁵

8. Applicants state that PCP REIT will invest in direct real estate holdings and, to maintain some liquidity, may invest a portion of its assets in liquid investments. To finance its investments in real estate holdings, PCP REIT plans to borrow from banks, as well as from insurance companies, pension/retirement systems, state and federal government related entities (e.g., Freddie Mac), investment banks, and other commercial lenders (e.g., GE Capital Corporation (or its successor), Ally Financial) (lenders other than banks are referred to as “Non-bank Commercial Lenders”). Applicants represent that PCP REIT plans to incur loans from Non-bank Commercial Lenders because such lenders have been longstanding capital resources to the commercial real estate market and often are able to offer more favorable lending terms to borrowers.⁶ PCP REIT will not incur any loans that are callable at the option of the lender.

9. Applicants state that PDPF will invest a substantial portion of its assets in PCP REIT and, if deemed appropriate by PGI, for short-term cash management purposes and/or for purposes of maintaining some liquidity, invest a portion of its assets in liquid securities. PDPF will incur expenses relating to the management of any liquid investments held by PDPF, as well as for the general operation and administration of the entity.⁷

⁵ Any entity that relies in the future on the requested relief will comply with the terms and conditions of the application as they apply to the corresponding current party.

⁶ Applicants submit that, in light of the presence of a bona fide business purpose for PDPF and PCP REIT and the difficulty a Fund would have in directly investing in real estate, the structure proposed by the application can be distinguished from a structure intended primarily to evade leverage restrictions applicable to open-end funds.

⁷ Applicants anticipate that PDPF will be able to efficiently deploy assets invested by the Funds in light of the ability of PDPF to invest in liquid investments in addition to interests in PCP REIT, so that any Fund assets invested in PDPF that are not currently invested in real estate will be effectively deployed pending completion of real estate investments. The performance of PDPF, the costs of investing in PDPF and the related expenses, will be considered

10. PDPF will conduct a non-public offering of its Units, and will not be publicly traded. Applicants state that PDPF is currently expected to be made available solely to the Funds, although it is possible that it will be made available in the future to: (i) unaffiliated registered investment companies, pension plans, other institutional investors or high-net-worth individuals (“Outside Investors”); as well as to (ii) pension plans, insurance separate accounts, collective investment trusts, or other institutional investors or high-net-worth individuals for which PGI or an affiliate of PGI serves as investment adviser (“Other Accounts”).⁸

11. Applicants state that the Funds (as well as any Other Accounts or Outside Investors) that invest in PDPF will be able to purchase and redeem Units on a daily basis at the next determined net asset value (“NAV”) per Unit. In the event that PDPF is unable to accommodate investment demand from the Funds, Other Accounts and/or Outside Investors, opportunities for investment will be allocated in accordance with allocation policies and procedures drafted and maintained by PGI.⁹ Applicants represent that, while such allocation policies and procedures may be subject to revision over time, the allocation policies and procedures generally will allocate opportunities on a *pro rata* basis based on orders received, with normal exceptions for rounding and *de minimis* amounts, although applicants state that other allocation methodologies may be employed as appropriate. Any such methodology will be applied in a manner that is objective and verifiable and will be consistent with PGI’s fiduciary

by the Funds’ Board during the course of its oversight of the Funds’ investments in PDPF, including its annual determinations as required by condition 1 below.

⁸ No applicant, or an affiliated person thereof, will have a proprietary interest in any Outside Investor or Other Account, except that an applicant or an affiliated person thereof may be a shareholder of an Outside Investor that is a registered investment company so long as the applicant or affiliated person of such applicant is not an affiliated person of such registered investment company.

⁹ Applicants are not seeking any comfort and acknowledge that the Commission is providing no opinion on whether these allocation policies and procedures meet the standards applicable either under the Act or the Advisers Act.

obligation to treat client accounts in a manner that is fair and provides for equality of opportunity over time. However, PDPF will reserve the right to give the Funds preferential access to opportunities to invest in PDPF as compared to Outside Investors and (to the extent permitted under the allocation policies and procedures) Other Accounts, and the Funds will always have opportunities to invest in PDPF that are at least as favorable as the opportunities to invest in PDPF made available to Other Accounts or Outside Investors. The policies and procedures will require the documentation of the basis of allocation, as well as the basis for any exception to the general principles set forth in the policies and procedures, which exception will be subject to review by legal or compliance personnel.

12. Applicants anticipate that PDPF will be managed to maintain sufficient liquidity to satisfy the daily liquidity needs of its limited partners under ordinary market conditions. However, any investment in PDPF will be subject to terms permitting PDPF, under circumstances described in the application, to (a) cease offering new Units; (b) limit or postpone redemptions in the event that PCP REIT has insufficient liquidity to satisfy redemption requests; or (c) utilize a “gate” pursuant to which the amount of redemptions from PDPF by any limited partner on any business day may be limited to a percentage of the limited partner’s entire investment in PDPF.¹⁰ Accordingly, each Fund that is an open-end investment company will treat its entire investments in PDPF and any Future LPs as investments that are not liquid for purposes of any applicable rules or guidance of the Commission or its staff regarding the management of liquidity. Similarly, each Fund, including any open-end or closed-end

¹⁰ PDPF expects that the ability to limit or postpone redemption will help to minimize transaction costs, investment losses and any dilutive effects on non-redeeming limited partners. PDPF’s ability to limit or postpone redemption and the circumstances under which PDPF may waive an established redemption gate, in whole or in part, are discussed in greater detail in the application.

investment company will, at all times, limit its holdings in PDPF (together with any Future LPs) to no more than 15% of its net assets.¹¹

13. Redemption requests will be considered on a first in basis based upon the business day of receipt, unless a limited partner (other than a registered investment company or Other Account) has agreed to a lower priority of redemption. Except as a limited partner (other than a registered investment company or Other Account) has otherwise agreed, redemption requests of all investors will be treated equally, and PDPF will allocate redemption proceeds on a *pro rata* basis in the event that there are insufficient liquid assets to satisfy fully all redemption requests. The rules on redemption and PDPF's policy regarding the allocation of redemption proceeds, and any changes to either of these, will be disclosed to all prospective investors in PDPF. PDPF will have a written policy regarding the allocation of redemption proceeds that will be applied in a manner that is objective and verifiable and will be consistent with PGI's fiduciary obligation to treat client accounts in a manner that is fair.

14. Each Fund and Other Account limited partner of PDPF will have identical rights, duties and obligations under the limited partnership agreement as each other Fund and Other Account limited partner. If Outside Investors are permitted to invest in PDPF, PDPF may distinguish between Fund and Other Account limited partners, on the one hand, and Outside Investors, on the other, by entitling the Funds and Other Accounts to purchase, hold and redeem Units with more favorable rights, duties and obligations pursuant to the terms of the limited partnership agreement with respect to the following issues: (a) utilization of redemption gates;

¹¹ Applicants submit that, although closed-end Funds do not present the same concerns with respect to liquidity as open-end Funds, it is nonetheless appropriate to limit the investments of these Funds in PDPF (and Future LPs) to address concerns that may arise regarding complex structures and the use of leverage, among other things.

(b) limitation of rights of redemption; and/or (c) the level of expenses charged in connection with an investment in PDPF.¹²

15. PDPF will be able to purchase and redeem limited liability company interests in PCP REIT on a daily basis at the next determined NAV. Applicants represent that PDPF will be the sole investor in PCP REIT, other than the ninety-nine or more additional investors necessary or appropriate to allow PCP REIT to qualify as a REIT under section 856(a)(5) of the Code (the “Tax Holders”). The Tax Holders’ interests in PCP REIT will be preferred to PDPF’s interests in PCP REIT. However, (a) the Tax Holders will have only limited voting rights, (b) the Tax Holders’ aggregate interests in PCP REIT will be *de minimis* in relation to that of PDPF,¹³ and (c) PCP REIT will not issue additional interests to the Tax Holders after the initial organization of PCP REIT (clause (a), (b), and (c), collectively, the “Tax Holder Limitations”).¹⁴

Accordingly, it is anticipated that PDPF will own substantially all of the total outstanding securities of PCP REIT at all times during the operation of PCP REIT.

16. Applicants represent that PCP REIT will not participate in any joint enterprise or other joint arrangement, within the meaning of rule 17d-1 under the Act, with the Future Real Estate Funds or other PGI related accounts, and applicants are not asking for an order pursuant to rule 17d-1 with respect to any such transaction. Further, applicants state that PGI has adopted policies and procedures applicable to any purchasing conflicts between PCP REIT and any other

¹² In making a determination as to whether the rights, duties, and obligations of the Funds and Other Accounts under the terms of the limited partnership agreement are more favorable than those of Outside Investors, applicants will consider each right, duty, and obligation individually and in the aggregate.

¹³ Applicants anticipate that the Tax Holders will invest, in aggregate, approximately \$125,000 and will represent much less than 1% of the expected aggregate net assets of PCP REIT.

¹⁴ The Tax Holders’ interests in PCP REIT and the Tax Holder Limitations are discussed in greater detail in the application.

PGI related accounts, which are designed to allocate opportunities consistent with PGI's fiduciary obligations to its clients and will be applied in a manner that is objective and verifiable.

Applicants' Legal Analysis:

Section 17(a) – purchase and sale of Units

1. Section 17(a) of the Act generally prohibits an “affiliated person” as defined by section 2(a)(3) of the Act, or an affiliated person of an affiliated person, of a registered investment company, acting as principal, from purchasing securities or other property from the registered investment company or selling securities or other property to the registered investment company. Section 2(a)(3) of the Act defines an “affiliated person” of another person to include, among others, (a) any person directly or indirectly owning, controlling, or holding with power to vote, 5% or more of the outstanding voting securities of the other person; (b) any person 5% or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with the power to vote by the other person; and (c) any person directly or indirectly controlling, controlled by, or under common control with the other person. Section 2(a)(9) defines “control” to mean “the power to exercise a controlling influence over the management or policies of a company, unless such power is solely the result of an official position with such company.”

2. Section 17(b) of the Act authorizes the Commission to grant an order permitting a transaction otherwise prohibited by section 17(a) if the terms of the proposed transaction, including the consideration to be paid or received, are fair and reasonable and do not involve overreaching on the part of any person concerned, and the proposed transaction is consistent with the policies of each registered investment company involved and with the general purposes of the Act. Section 6(c) of the Act permits the Commission to exempt any person or transactions from any provisions of the Act if such exemption is necessary or appropriate in the public interest and

consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

3. Applicants state that the sale by PDPF of its Units to a Fund or the repurchase by PDPF of its Units from a Fund may be deemed to be prohibited by section 17(a) of the Act, as PDPF and each Fund may be deemed to be affiliated persons, or affiliated persons of affiliated persons, of each other under multiple theories. For example, the Fund may be deemed to be an affiliated person of PDPF in the event that it owns 5% or more of the Units in PDPF. In addition, PDPF could be deemed to be an affiliated person of an affiliated person of the Fund, if it is deemed to be under the control of or under common control with PGI.

4. Applicants believe that the proposed transactions among the Funds and PDPF satisfy the requirements for relief from section 17(a) of the Act under both sections 17(b) and 6(c) of the Act.

5. Applicants submit that the proposed transactions are reasonable and fair and would not involve overreaching on the part of any person concerned. Before investment by a Fund in PDPF, the Fund's Board, including a majority of the Independent Directors, would have made the determinations required under condition 1 below.¹⁵ The Board, including the Independent Directors, will review these determinations on at least an annual basis. Applicants represent that, currently, the Board is made up of twelve directors, nine of whom are Independent Directors. Further, applicants notes that PGI's ability to allocate a Fund's assets to investments in PDPF would be limited to address any potential for overreaching because (a) the allocation would be determined either by the Fund's glide path or would be within a range of permissible

¹⁵ The "Independent Directors" are the directors who are not interested persons of the relevant Fund within the meaning of section 2(a)(19) of the Act.

allocations approved in advance by the Board and (b) the Fund's investment would be limited under condition 3 below.

6. In addition, applicants state that each Fund would purchase and sell Units on the same terms as each other Fund and any Other Account, and on terms that are at least as favorable as the terms on which Outside Investors would purchase and sell Units. PDPF also would sell its shares to or purchase its shares from a Fund at the next-calculated NAV per Unit. This value, which would be provided to the Funds on a daily basis, would be determined based on the valuations of the assets of PCP REIT, which would be determined by using valuation methodologies that are consistent with section 2(a)(41) of the Act except that the PDPF Committee will, in reliance on independent appraisals obtained at least quarterly, make determinations that would otherwise be made by a board of directors.¹⁶

7. Applicants further submit that the proposed transactions would be consistent with the policies of each Fund. Applicants represent that the investment by a Fund in PDPF would be effected in accordance with the investment policies, objective, strategies and restrictions contained in the registration statement of the Fund.

¹⁶ Applicants note that, in accordance with condition 9, PDPF will consolidate PCP REIT for reporting purposes and the consolidated financial statements of PDPF will be prepared in accordance with Regulation S-X, will be audited by an independent auditor, and, if practicable, will be prepared as of the same date and for the same periods as the investing Funds. Applicants state that the Public Company Accounting Oversight Board auditing standards applicable to the audit of PDPF would be the same standards as those applicable to a registered investment company. Further, applicants state that the U.S. Generally Accepted Accounting Principles and Regulation S-X would apply to the financial statements of both PDPF and a registered investment company. Thus, applicants assert that critical accounting policies governing security valuation, accounting for investment transactions, recognition of investment income and of expenses, and accrual of expenses, which are often the critical policies applicable to investment companies, would apply in substantially the same manner for the financial statements of PDPF. Valuation of the assets of PDPF and PCP REIT for which market quotations are not readily available will be overseen by a committee consisting of the employees and agents of PDPF, PGI and/or its subsidiaries (the "PDPF Committee").

8. Finally, applicants submit that, for these reasons, as well as the benefits shareholders in the Funds would experience by reason of the Funds' investments in PDPF, the proposed transactions are appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

Section 17(d)

9. Section 17(d) of the Act and rule 17d-1 under the Act generally prohibit joint transactions involving registered investment companies and their affiliates unless the Commission has approved the transaction. In considering whether to approve a joint transaction under rule 17d-1, the Commission considers whether the proposed transaction is consistent with the provisions, policies, and purposes of the Act, and the extent to which the participation of the investment companies is on a basis different from or less advantageous than that of the other participants.

10. Applicants state that the sale of Units to a Fund, the Fund's holding of Units, the redemption of Units held by the Fund, an Other Account's purchase, holding and redemption of Units alongside a Fund, PDPF's purchase, holding and redemptions of interest in the PCP REIT, and PGI's management of the Funds, Other Accounts, PDPF and PCP REIT at the same time that the Funds are investing in PDPF (directly) and PCP REIT (indirectly) could be deemed to constitute a joint enterprise or joint arrangement among the Funds, Other Accounts, PDPF, PDPGP, PCP REIT, and PGI because the Funds may be presumed to be affiliated persons, or affiliated persons of affiliated persons, of PGI, Other Accounts, PDPF or PCP REIT.

11. For the reasons discussed above, applicants submit that the proposed transactions are consistent with the provisions, policies and purposes of the Act. Applicants further believe that, based on the terms of the proposed transactions and the conditions set forth below, the

participation by the Funds in the proposed transactions would be on a basis no different from that of other Funds or Other Accounts or less advantageous than that of other Funds, Outside Investors or Other Accounts. A Fund will hold Units of PDPF only if it will at all times have identical rights, duties and obligations under the limited partnership agreement as each other Fund limited partner and Other Account limited partner. If Outside Investors or Other Accounts are permitted to invest in PDPF, the Funds will be entitled to purchase, hold and redeem Units on terms that are at least as favorable, including (without limitation) the expenses associated with an investment in PDPF, as the terms on which any Outside Investor purchases, holds or redeems Units and on terms that are the same as the terms on which any Other Account purchases, holds or redeems Units.¹⁷ PDPF and the Tax Holders will be the only investors in PCP REIT, and the Tax Holders' interests will be subject to the Tax Holder Limitations. All transactions in Units would be priced in the same manner and would be redeemable under the terms discussed herein and disclosed to investors. In addition, any investment by a Fund in PDPF would be subject to oversight by the Fund's Board.

Section 17(a) – Cross Transactions

12. Applicants also propose that the Funds and Other Accounts be permitted to engage in certain purchase and sale cross transactions in securities (“Cross Transactions”). Applicants expect that these transactions will be between a Fund seeking to implement a portfolio strategy and an Other Account seeking to raise or invest cash, or vice versa. Applicants represent that the Funds currently are able rely on rule 17a-7 to engage in such Cross Transactions. However, if a Fund and an Other Account were deemed to be affiliated persons of

¹⁷ In making a determination as to whether the rights, duties, and obligations of the Funds and Other Accounts under the terms of the limited partnership agreement are at least as favorable as those of Outside Investors, applicants will consider each right, duty and obligation individually and in the aggregate.

an affiliated person of each other by virtue of their ownership or control affiliations with PDPF, the Funds may not be entitled to rely on rule 17a-7 because they would no longer be affiliated solely for the reasons permitted by the rule. Applicants represent that Funds and Other Accounts will not engage in Cross Transactions involving Units, and to the extent any Future LPs are created, PDPF and the Future LPs (and their respective subsidiaries) will not engage in cross-trades with each other.

13. Applicants represent that, when engaging in Cross Transactions, the Funds and Other Accounts will comply with the requirements set forth in rule 17a-(7)(a) through (g), as interpreted by the Commission staff. Applicants assert that the potential affiliations created by the PDPF structure do not affect the other protections provided by the rule, including the integrity of the pricing mechanism employed and oversight by each Fund's Board. Applicants also note that no brokerage commission, fee or other remuneration will be paid in connection with the transactions. Applicants, therefore, believe that Cross Transactions will be reasonable and fair, will not involve overreaching, and will be consistent with the purposes of the Act and the investment policy of each Fund.

Applicants' Conditions:

Applicants agree that any order granting the requested relief shall be subject to the following conditions:

1. PGI will not implement an initial decision to invest the assets of a Fund in PDPF unless prior to the Fund's initial investment in PDPF, the Board, including a majority of the Independent Directors, has determined that: (i) investment in PDPF (and indirectly in PCP REIT) is an appropriate means to implement an investment decision made by PGI for the Fund to seek real estate exposure; (ii) investment in PDPF (and indirectly in PCP REIT) is in the best interests

of the Fund and its shareholders, taking into account, among other things, the management and administration fees of PDPF and PCP REIT; (iii) the management and administration fees to be charged by PDPF and PCP REIT are for services in addition to, rather than duplicative of, services rendered to the Fund directly; and (iv) the management and administration fees to be charged by PDPF and PCP REIT are fair and reasonable in light of the usual and customary fees charged by others for services of the same nature and quality. The Board, including the Independent Directors, will review these determinations on at least an annual basis. The basis for each of the Board's determinations required by this condition will be recorded in its minutes. If the Board does not make the determinations in clauses (iii) and (iv) in a review subsequent to the initial investment, PGI will reimburse the Fund the amount of any management and administrative fee borne by the Fund as a direct investor in PDPF and an indirect investor in PCP REIT charged since the most recent date on which the Board did make these determinations.

2. Prior to any initial or additional investments in Units, PGI will determine that each Fund's investment in PDPF will be consistent with the Fund's investment policies, objective, strategies and restrictions, and purchases of Units will be determined either by the Fund's glide path or be limited such that total holdings remain within a range of permissible allocations approved in advance by the Board. For purposes of determining consistency with a Fund's investment policies, objective, strategies and restrictions, a Fund will look through its investment in PDPF (and indirectly in PCP REIT) and apply its investment policies, objective, strategies and restrictions (except for any restriction relevant to the direct ownership of real estate assets) in such a manner that the Fund will not do indirectly through PDPF and PCP REIT that which it cannot do directly. For purposes of applying its investment policies,

objective, strategies and restrictions, a Fund will be considered as owning its *pro rata* portion of the portfolio holdings of PDPF and PCP REIT.

3. Each Fund that is an open-end investment company will treat its entire investments in PDPF and any Future LPs as investments that are not liquid for purposes of any applicable rules or guidance of the Commission or its staff regarding the management of liquidity. In addition, each Fund, including any open- or closed-end investment company, will, at all times, limit its holdings in PDPF (together with any Future LPs) to no more than 15% of its net assets.¹⁸

4. At all times that any Fund or other registered investment company holds an interest in PDPF, each of PDPF and PCP REIT: (a) will determine its respective net asset value per Unit or membership interest, as applicable, each Business Day; and (b) will maintain and comply with policies and procedures for valuing its assets that are consistent with section 2(a)(41) of the Act except that PDPF Committee will, in reliance on independent appraisals obtained at least quarterly, make determinations that would otherwise be made by a board of directors (as if PDPF and PCP REIT were subject to section 2(a)(41)) and with applicable U.S. generally accepted accounting principles (“U.S. GAAP”) (or successor accounting standards). For these purposes, “Business Day” means each day on which the Funds or other registered investment company determine net asset value per share, as disclosed in the Funds’ or other registered investment company’s registration statement.

5. A Fund will hold Units of PDPF only if it will at all times have identical rights, duties and obligations under the limited partnership agreement as each other Fund limited partner

¹⁸ Although closed-end Funds do not present the same concerns with respect to liquidity as open-end Funds, Applicants believe that it is nonetheless appropriate to limit the investments of these Funds in PDPF (and Future LPs) to address concerns that may arise regarding complex structures and the use of leverage, among other things.

and Other Account limited partner. If Other Accounts or Outside Investors are permitted to invest in PDPF, the Funds will be entitled to purchase, hold and redeem Units on terms that are at least as favorable, including (without limitation) the expenses associated with an investment in PDPF, as the terms on which any Outside Investor purchases, holds or redeems Units and on terms that are the same as the terms on which any Other Account purchases, holds or redeems Units.¹⁹ Other than the Tax Holders' interests, which will be subject to the Tax Holder Limitations, PDPF will own at all times 100% of the voting and economic interests in PCP REIT.

6. PCP REIT and PDPF will be managed by an investment adviser that is registered as an investment adviser with the Commission. Any investment sub-adviser to PCP REIT or PDPF will be registered as an investment adviser with the Commission or, if not registered, will consent to examination by the Commission staff with respect to the services it would provide to PCP REIT or PDPF as if it were registered as an investment adviser.

7. The Funds' proposed investments in PDPF, and PDPF's investment in PCP REIT, will not be subject to any sales load, redemption fee, distribution fee analogous to a 12b-1 fee, or service fee analogous to a FINRA Rule 2830 service fee imposed by PDPF or PCP REIT.

8. PGI shall cause PDPGP, PDPF and PCP REIT to maintain books and records as is consistent with Internal Revenue Service guidance and U.S. GAAP, shall cause the books and records of PDPGP, PDPF and PCP REIT to be made available for inspection by the Commission staff as would be required by the Act if each of PDPGP, PDPF and PCP REIT was a registered investment company, and, if requested, shall furnish copies of the books and records to the Commission staff.

¹⁹ See *supra* footnote 17.

9. PDPF will prepare consolidated annual and semi-annual financial reports and, for each quarter for which a semi-annual or annual report is not required to be prepared, a consolidated schedule of investments for PDPF. The financial statements of PDPF will be prepared in accordance with Regulation S-X and U.S. GAAP, will be audited by an independent auditor (for annual financial statements), and, if practicable, will be prepared as of the same date and for the same periods as the investing Funds. PDPF will consolidate PCP REIT for financial reporting purposes. Any consolidated schedule of investments of PDPF will disclose each position that PDPF and PCP REIT hold. PFI and PVC on behalf of each Fund that has invested 5% or more of its net assets in PDPF²⁰ as of the end of a reporting period, will attach, as an exhibit to each of PFI's and PVC's shareholder reports with respect to such a Fund filed on Form N-CSR and each of PFI's and PVC's quarterly reports with respect to such a Fund filed on Form N-PORT, PDPF's audited or unaudited financial statements (which will consist of financial statements, footnotes thereto and a schedule of investments) or schedule of investments for the period most recently ended. PDPF will deliver such annual and semi-annual financial statements and schedules of investments to PFI and PVC in time to allow PFI and PVC to make such filings. The relevant Fund's shareholder reports and quarterly reports will cross-reference the PDPF financial statements (for annual and semi-annual reports) or schedule of investments (for other quarters) filed as an exhibit to the form. If a Fund is required to attach and cross-reference the financial statements of PDPF solely for purpose of complying with this condition 9, (a) the Fund may disclaim that (i) PDPF financial statements or schedule of investments constitute part of the Fund's financial statements, shareholder report or quarterly report, and (ii) PDPF financial

²⁰ Investments in any Future LPs will be aggregated with investments in PDPF to determine whether a Fund has invested 5% or more of its net assets. If the aggregate investments are 5% or more, then the disclosure requirements under this condition will apply (for that Fund) with respect to information about PDPF and each Future LP in which that Fund is invested.

statements or schedule of investments are incorporated therein by reference, and (b) the certifications for each principal executive and principal financial officer required by rule 30a-2(a) under the Act that accompany Form N-CSR or Form N-PORT filings with respect to such a Fund may make clear that PDPF financial statements or schedule of investments that accompany the Form N-CSR or Form N-PORT filings do not constitute part of the report to which the certificate relates.²¹

10. Neither PDPF nor PCP REIT will acquire securities of any other investment company or company relying on section 3(c)(1) or 3(c)(7) of the Act in excess of the limits contained in section 12(d)(1)(A) of the Act, except to the extent that PDPF or PCP REIT: (a) receives securities of another investment company as a dividend or as a result of a plan of reorganization of a company (other than a plan devised for the purpose of evading section 12(d)(1) of the Act); or (b) acquires (or is deemed to have acquired) securities of another investment company pursuant to exemptive relief from the Commission permitting PDPF or PCP REIT to (i) acquire securities of one or more investment companies for short-term cash management purposes, or (ii) engage in interfund borrowing and lending transactions.

11. A Fund will treat any leverage that PDPF or PCP REIT incurs as though such leverage were incurred by the Fund for purposes of determining compliance with applicable restrictions under the Act relevant to the Fund's use of leverage. Under no circumstances will a Fund guarantee, or otherwise be responsible for the satisfaction of, any loan or obligation incurred by PDPF or PCP REIT.

²¹ As noted above, the requested order does not include relief from any existing disclosure requirements. Accordingly, the disclaimer and clarification contemplated in clauses (a) and (b) could not be included if the Fund is required to disclose information regarding the financial statements of PDPF for any purpose other than complying with this condition 9.

12. PDPF and PCP REIT will comply with the following sections of the Act as if PDPF and PCP REIT each were an open-end management investment company registered under the Act, except as noted: section 9; section 12 (except that, to the extent necessary to implement the arrangements described herein, (i) the Funds may invest in Units issued by PDPF in accordance with condition 3, (ii) PDPF may issue Units to the investing Funds subject to the limits in condition 3, and (iii) PDPF may invest in PCP REIT beyond the limits of sections 12(d)(1)(A) and (B)); section 13 (provided that section 13(a)(4) will apply as though it read only “change the nature of its business”; the interests issued by PDPF and PCP REIT will be regarded as voting securities under section 2(a)(42) of the Act for purposes of applying this condition; and the offering memoranda utilized by PDPF and PCP REIT to offer and sell their interests will be regarded as registration statements for purposes of applying this condition); section 17(a) (except insofar as relief is provided by the order requested herein); section 17(d) (except insofar as relief is provided by the order requested herein); section 17(e); section 17(f); section 17(h); section 18 (although (a) the interests issued by PDPF and PCP REIT will be regarded as voting securities under section 2(a)(42) of the Act for purposes of applying this condition, (b) PCP REIT will be permitted to incur loans from Non-bank Commercial Lenders, subject to the asset coverage limit, (c) PCP REIT will not be required to restore 300% asset coverage within three days, as required under section 18(f), if such asset coverage falls below 300% solely as a result of a decline in the value of PCP REIT’s real estate holdings, and (d) each Fund and Other Account limited partner of PDPF will have identical rights, duties, and obligations under the limited partnership agreement as each other Fund and Other Account limited partner, and if Outside Investors are permitted to invest in PDPF, PDPF may distinguish between Fund and Other Account limited partners, on the one hand, and Outside Investors, on the other, by entitling the Funds and Other

Accounts to purchase, hold, and redeem Units with more favorable rights, duties and obligations pursuant to the terms of the limited partnership agreement with respect to the following issues: (1) utilization of redemption gates; (2) limitation of rights of redemption; and/or (3) the level of expenses charged in connection with an investment in PDPF)²²; section 21; section 36; and sections 37-53. In addition, PDPF and PCP REIT will comply with the rules under section 17(f) and section 17(g) of the Act, as well as rule 22c-1 under the Act as if each of PDPF and PCP REIT were an open-end management investment company registered under the Act.

PGI will cause PDPGP, PDPF and PCP REIT to, and PDPGP, PDPF and PCP REIT will, adopt policies and procedures designed to ensure that each of PDPF and PCP REIT complies with the aforementioned sections of the Act and rules under the Act. PGI will cause PDPGP, PDPF and PCP REIT to, and PDPGP, PDPF and PCP REIT will, periodically review and periodically update as appropriate such policies and procedures, maintain books and records describing such policies and procedures, and maintain the records required by rules 31a-1(b)(1), 31a-1(b)(2)(ii) and 31a-1(b)(9) under the Act. All books and records required to be made pursuant to this condition will be maintained and preserved for a period of not less than six years from the end of the fiscal year in which any transaction occurs, the first two years in an easily accessible place, and will be subject to examination by the Commission and its staff.

For purposes of implementing condition 12, any action that the above-referenced statutory and regulatory provisions require to be taken or made by the directors, officers and/or employees of a registered investment company will be performed by PDPGP with respect to PDPF, and by PGI, as managing member with respect to PCP REIT. As noted in this Application, the PDPF Committee will oversee the valuation of the assets of PDPF and PCP

²² See *supra*, footnote 12.

REIT for which market quotations are not readily available, which also will be relevant to the implementation of condition 12.

13. To engage in Cross Transactions, the Funds will comply with rule 17a-7 under the Act in all respects other than the requirement that the parties to the transaction be affiliated persons (or affiliated persons of affiliated persons) of each other solely by reason of having a common investment adviser or investment advisers which are affiliated persons of each other, common officers, and/or common directors, solely because a Fund and Other Account might become affiliated persons within the meaning of section 2(a)(3)(A), (B) or (C) of the Act due to their investments in PDPF.

For the Commission, by the Division of Investment Management, under delegated authority.

J. Matthew DeLesDernier
Assistant Secretary