

# **Principal Global Investors, LLC**

**Form ADV Part 2A**

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This brochure provides information about the qualifications and business practices of Principal Global Investors, LLC. If you have any questions about the contents of this brochure, please contact us at 800-533-1390. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority. Additional information about Principal Global Investors, LLC also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Principal Global Investors, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any certain level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

## **Item 2: Material Changes Summary**

This brochure is our annual updating amendment to the prior brochure dated March 28, 2013. There have been not material changes from the last annual update.

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## **ITEM 4 -- ADVISORY BUSINESS**

Principal Global Investors is a diversified global asset management organization utilizing a multi-boutique strategy which enables Principal Global Investors to provide an expanded range of diverse investment capabilities through a network of specialized investment groups and affiliates. Principal Global Investors' capabilities encompass an extensive range of equity and fixed income investments. Principal Global Investors, established in 1998, is an indirect wholly owned affiliate of the Principal Financial Group, Inc. (NYSE: PFG). Principal Financial Group is a leading global financial institution offering a wide range of financial products and services. Principal Global Investors is directly owned by Principal Life Insurance Company, a member of the Principal Financial Group. Principal Life Insurance Company was founded in 1879 and began managing retirement assets in 1941.

Principal Global Investors provides investment advisory services to institutional investors and individuals. Principal Global Investors has divided its investment management operations into an Equities boutique, a Fixed Income boutique, a Currency boutique, and an Asset Allocation boutique. The Equities boutique renders advice primarily with regard to equity securities. The Fixed Income boutique renders advice primarily with regard to debt securities. The Currency boutique renders advice with regard to active and passive currency. The Asset Allocation boutique renders advice primarily on asset allocation strategies.

Principal Global Investors works with clients to determine their investment needs. Individual portfolios may be tailored to the specific requirements of the client through an investment advisory agreement. Clients may impose restrictions on investing in certain securities or certain types of securities.

### **Separately Managed Accounts (SMA) / Wrap Programs**

Principal Global Investors provides investment advisory services in connection with Separately Managed Account/Wrap fee programs ("SMA Programs") or similar programs, sponsored by broker-dealers, banks or other investment advisers affiliated with broker-dealers. Principal Global Investors may handle the placement of trades in some SMA program client accounts or may provide model portfolio recommendations to the program sponsor. The delivery of changes in model portfolio recommendations typically occur after similar changes have been implemented, or may be in the process of implementation, across institutional accounts managed by Principal Global Investors. It should be expected therefore that accounts receiving recommendations that are implemented following Principal Global Investors' institutional accounts may have different performance than the institutional accounts because of favorable or unfavorable market changes during the ensuing period.

In Equities, for trade rotation purposes, "model only" programs are accorded rotation slots on a similar basis as the slots accorded to other SMA discretionary programs. The only difference is that the model portfolio is communicated to the "model only" program sponsors or designated overlay manager for execution.

Fixed Income SMA Program clients currently trade at the same time as other Fixed Income clients except for time limitations set forth in client agreements.

Generally, the services provided by Principal Global Investors to SMA program ERISA plan clients ordinarily are described in the client's contract with the SMA sponsor and/or in the sponsor's program brochure.

#### Assets Under Management

Principal Global Investors managed \$111,778,461,203 in discretionary assets and \$45,021,853,050 in non-discretionary assets as of December 31, 2013.

### **ITEM 5 – FEES AND COMPENSATION**

Principal Global Investors offers its services for compensation based primarily on a percentage of assets under management or on a fixed fee basis.

#### **Equities Fee Schedules:**

Principal Global Investors' standard annual fees for investment management services provided by its Equities boutique are based on the fair market value of assets under management as outlined in the table below. Published fee schedules are shown for unaffiliated client portfolios which are individually managed (segregated and discretionary) and subject to the stated minimum accounts sizes. Fees and minimum investment amounts in all categories and ranges may be subject to the negotiation as appropriate, and may be higher or lower than those described below.

<b>International Equity</b>	<b>Fee Schedule</b>
International Core Equity International Growth Equity	0.65% on the first \$50 mm 0.60% on the next \$50 mm 0.50% on all thereafter Minimum separate account size: \$25 mm
Global Equity Global Ex Japan Equity Global Growth Equity Global Value and Income Equity	0.60% on the first \$50 mm 0.50% on the next \$50 mm 0.40% on all thereafter Minimum separate account size: \$25 mm
European Equity Japanese Equity	0.60% on the first \$50 mm 0.50% on the next \$50 mm 0.40% on all thereafter Minimum separate account size: \$25 mm
Diversified International Equity International Opportunities Equity International All Country Equity	0.75% on the first \$50 mm 0.65% on the next \$50 mm 0.55% on all thereafter Minimum separate account size: \$25 mm
International Small Cap Equity	0.85% on the first \$50 mm 0.80% on the next \$50 mm

	0.70% on all thereafter Minimum separate account size: \$25 mm
Emerging Markets Equity Emerging Markets Select Equity	0.95% on the first \$50 mm 0.90% on the next \$50 mm 0.80% on all thereafter Minimum separate account size: \$50 mm
Global Opportunities Equity Global All Country Equity	0.65% on the first \$50 mm 0.55% on the next \$50 mm 0.45% on all thereafter Minimum separate account size: \$50 mm
Global Small Cap Equity	0.85% on the first \$50 mm 0.80% on the next \$50 mm 0.70% on all thereafter Minimum separate account size: \$50 mm
Asia ex-Japan Equity Asia Pacific Equity	0.75% on the first \$50 mm 0.70% on the next \$50 mm 0.60% on all thereafter Minimum separate account size: \$50 mm
Hong Kong & China Equity	0.65% on the first \$50 mm 0.60% on the next \$50 mm 0.50% on all thereafter Minimum separate account size: \$50 mm
Emerging Asian Broad Equity	0.85% on the first \$50 mm 0.80% on the next \$50 mm 0.70% on all thereafter Minimum separate account size: \$50 mm
Long/Short Global Opportunities Equity	0.85% on the first \$50 mm 0.75% on the next \$50 mm 0.65% on all thereafter Minimum separate account size: \$50 mm

Domestic Equity	Fee Schedule
U.S. Mid-Cap Value Equity U.S. Mid-Cap Equity U.S. Blue Chip Equity	0.60% on the first \$50 mm 0.55% on the next \$50 mm 0.45% on all thereafter Minimum separate account size: \$25 mm
U.S. Value Equity U.S. Select Equity U.S. Growth Equity	0.55% on the first \$50 mm 0.50% on the next \$50 mm 0.40% on all thereafter Minimum separate account size: \$25 mm
U.S. Small Cap Equity U.S. Small Cap Select Equity	0.75% on the first \$50 mm 0.70% on the next \$50 mm 0.60% on all thereafter Minimum separate account size: \$25 mm

**Fixed Income Fee Schedules:**

Principal Global Investors' standard annual fees for investment management services provided by its Fixed Income boutique are based on the fair market value (unless book value is specified in the negotiated contract) of assets under management as outlined in the tables below. Published fee schedules are shown for unaffiliated client portfolios which are individually managed (segregated and discretionary) and subject to the stated minimum accounts sizes. Fees in all categories and ranges described below may be subject to negotiation as appropriate. Fees and minimum investment amounts in all categories and ranges may be subject to the negotiation as appropriate, and may be higher or lower than those described below.

Fixed Income	Fee Schedule
Multi-Sector Fixed Income Multi-Sector Core Multi-Sector Plus	0.35% on the first \$50 mm 0.30% on the next \$50 mm 0.25% on the next \$50 mm 0.20% on all thereafter Minimum separate account size: \$50 mm
Corporate Plus Investment Grade Corporate	0.30% on the first \$50 mm 0.25% on the next \$50 mm 0.20% on all thereafter Minimum separate account size: \$50 mm
High Quality Core Intermediate Fixed Income	0.30% on the first \$50 mm 0.25% on the next \$50 mm 0.20% on the next \$50 mm 0.15% on all thereafter Minimum separate account size: \$50 mm
Long Duration Credit Emphasis Long Duration Core Plus Long Duration Fixed Income "Broad" Long Duration Investment Grade Corporate	0.30% on the first \$50 mm 0.25% on the next \$50 mm 0.20% on all thereafter Minimum separate account size: \$50 mm
Liability Driven	0.35% on the first \$50 mm 0.30% on the next \$50 mm 0.25% on all thereafter Minimum separate account size: \$50 mm
Private Market	0.25% on the first \$100 mm 0.20% on the next \$100 mm 0.15% on all thereafter Minimum separate account size: \$50 mm
Ultra Short High Quality	0.20% on the first \$50 mm 0.15% on the next \$50 mm 0.10% on all thereafter Minimum separate account size: \$50 mm
Ultra Short Enhanced Yield	0.25% on the first \$25 mm 0.20% on the next \$75 mm

	0.15% on all thereafter Minimum separate account size: \$50 mm
Global Short Duration Fixed Income	0.35% on the first \$50 mm 0.30% on the next \$50 mm 0.25% on all thereafter Minimum separate account size: \$50 mm
Global Corporate Plus Global Investment Grade Corporate Global Bonds Mortgage-Backed Securities	0.35% on the first \$50 mm 0.30% on the next \$50 mm 0.25% on the next \$50 mm 0.20% on all thereafter Minimum separate account size: \$50 mm
Global Sovereign Bonds Multi-Sector Opportunistic	0.40% on the first \$50 mm 0.35% on the next \$50 mm 0.30% on the next \$50 mm 0.25% on all thereafter Minimum separate account size: \$50 mm
Emerging Market Broad	0.60% on the first \$50 mm 0.55% on the next \$50 mm 0.50% on the next \$100 mm 0.45% on all thereafter Minimum separate account size: \$50 mm
Global Credit Opportunities	0.45% on the first \$50 mm 0.40% on the next \$50 mm 0.35% on all thereafter Minimum separate account size: \$50 mm
Global Credit Alpha	0.65% on the first \$50 mm 0.60% on the next \$50 mm 0.55% on all thereafter Minimum separate account size: \$50 mm

High Yield	Fee Schedule
High Yield Traditional Bank Loans	0.55% on the first \$100 mm 0.45% on the next \$150 mm 0.35% on all thereafter Minimum separate account size: \$50 mm
Global High Yield High Yield Opportunistic	0.65% on the first \$100 mm 0.55% on the next \$150 mm 0.45% on all thereafter Minimum separate account size: \$50 mm
High Yield Plus	0.60% on the first \$100 mm 0.50% on the next \$150 mm 0.40% on all thereafter Minimum separate account size: \$50 mm
High Yield	0.55% on the first \$100 mm 0.45% on the next \$150 mm 0.35% on all thereafter



	Minimum separate account size: \$50 mm
Short Duration High Yield	0.50% on the first \$100 mm 0.40% on the next \$150 mm 0.30% on all thereafter Minimum separate account size: \$50 mm

### **Currency Fee Schedule:**

Principal Global Investors' standard annual fees for investment management services provided by its Currency boutique are based on the value of assets under management as outlined in the table below. Published fee schedules are shown for unaffiliated client portfolios which are individually managed (segregated and discretionary) and subject to the stated minimum accounts sizes. Fees in all categories and ranges described below may be subject to negotiation as appropriate. Fees and minimum investment amounts in all categories and ranges may be subject to the negotiation as appropriate, and may be higher or lower than those described below.

Active Currency Strategies	Fee Schedule
G10 Fundamental Discretionary CurrencyG30 Fundamental Discretionary Currency	0.25% on the first \$100 mm 0.20% on the next \$400 mm 0.15% on all thereafter Minimum separate account size: \$100 mm
G30 15% Volatility Fundamental Discretionary	1.5% flat fee and 20% performance fee Minimum separate account size: \$25 mm
G10 Global Time Diversified	2.0% flat fee and 20% performance fee Minimum separate account size: \$20 mm

### **Multi-Asset Advisor Fee Schedule:**

Principal Global Investors' standard annual fees for investment management services provided by its Multi-Asset Advisor boutique are based on the value of assets under management as outlined in the table below. Published fee schedules are shown for unaffiliated client portfolios and subject to the stated minimum accounts sizes. Fees and minimum investment amounts in all categories and ranges may be subject to the negotiation as appropriate, and may be higher or lower than those described below.

Multi-Asset Advisor Strategies	Fee Schedule
Lifetime 2010 Lifetime 2020 Lifetime 2030 Lifetime 2040 Lifetime 2050 Lifetime Strategic Income	0.60% on the first \$250 mm 0.55% on the next \$250 mm 0.50% on the next \$500 mm negotiable on all thereafter Minimum account size: \$100 mm

Multi-Asset Advisor's clients are institutional clients. Each institutional client has the ability to negotiate individual fee schedules based upon a number of factors which

include, but are not limited to; specific asset classes, asset allocation models and the overall size of the relationship. The fees charged by the Multi-Asset Advisor fee schedule take into account the management fees that are charged on the underlying investment level as well as the services provided by the Adviser.

#### Other

Principal Global Investors provides investment advisory services to eligible investors in the private commingled vehicles offered through the Principal Global Investors Trust. The fees are negotiated with each investor. The minimum account size is \$5 million.

Generally, compensation is payable following provision of service. Generally fees are computed and billed to the client within the first 20 days of each quarter. The fee calculation generally is a two-step process. Step 1: Unless otherwise provided in a negotiated contract, the annual stated rate for investment advisory services is multiplied by the market value of the account on the last day of the previous quarter to calculate an annualized fee. Step 2: Unless otherwise provided, in a negotiated contract, the annualized fee is multiplied by the ratio of the number of days in the quarter over number of days in the year to determine the quarterly fee.

Fees are due upon receipt of invoice by the client. Electronic remittance of fees is encouraged.

Generally, contracts are terminable by any client upon not more than 30 day's notice unless otherwise specified in the negotiated contract. Principal Global Investors offers its services for compensation based primarily on a percentage of assets under management or on a fixed fee basis.

#### *For Separately Managed Account/Wrap fee programs ("SMA Programs")*

The annual fees paid to Principal Global Investors by SMA program sponsors generally range from 0.25% to .85% of the market value of the client's account and may vary by asset style; e.g., fees for fixed income styles typically are lower than fees for equity styles. Some SMA programs provide for the wrap fee (including the portfolio management portion payable to Principal Global Investors out of that wrap fee) to be paid by the client before the services are rendered to the client by Principal Global Investors, while some SMA programs provide for the wrap fee (and Principal Global Investors' portfolio management portion) to be paid in arrears by the client after Principal Global Investors provides services for the period covered by the fee. In the event the SMA program provides for prepayment of fees by the client, the client is directed to the program sponsor's brochure for information concerning termination and refund conditions and procedures.

For additional information regarding brokerage fees and other transaction costs, see Item 12.

## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Principal Global Investors may charge performance fees in compliance with Rule 205-3 of the Investment Advisers Act of 1940. Any such performance fees will be negotiated on an individual basis with the client. Principal Global Investors is willing to consider incentive fees in appropriate circumstances. In measuring clients' assets for the calculation of performance-based fees, Principal Global Investors may include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for the adviser to recommend investments which may be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor performance based fee paying accounts over other accounts in the allocation of investment opportunities. Principal Global Investors has procedures designed and implemented to ensure that all clients are treated fairly and equally, and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **ITEM 7 – TYPES OF CLIENTS**

Principal Global Investors provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, private investment funds, trusts, sovereign wealth funds, foreign funds, supranationals, central banks, collective investment trusts, wrap programs, insurance separate accounts, life insurance company general account, and other U.S. and international institutions. Some of Principal Global Investors' clients are affiliates including our parent company.

Generally the minimum account size for opening and maintaining a separately managed account is \$25-50 million for an equity portfolio and is based on the type of strategy used for the client's portfolio.

Generally the minimum account size for opening and maintaining a separately managed account is \$50-100 million for a fixed income portfolio and is based on the type of strategy used for the client's portfolio.

Generally the minimum account size for opening and maintaining a separately managed account is \$20-100 million for a currency portfolio and is based on the type of strategy used for the client's portfolio.

Generally the minimum account size for investing in the Principal Global Investors Business Trust is \$500,000.

Principal Global Investors reserves the right in its sole discretion to accept client accounts with fewer initial assets.

The minimum account size for the SMA programs that Principal Global Investors participates in are generally \$100,000, although the investment minimum differs from program to program and is determined by wrap program sponsor, not Principal Global Investors.

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Investing in securities involves risk of loss that clients should be prepared to bear.

### **For Equities:**

Principal Global Investors – Equities (“PGI-Equities”) offers a number of actively managed strategies, enhanced index strategies as well as passively managed strategies, all utilizing equity securities to help meet its clients’ investment objectives and goals. PGI-Equities is generally a long-only manager. The vast majority of PGI-Equities’ portfolios are discretionary. Please refer to Item 16 regarding discretion over client accounts.

PGI-Equities provides client-focused investment solutions spanning equity markets worldwide. It utilizes internally generated fundamental research that focuses on bottom-up stock selection within a sophisticated comparative framework. The entire scope of research encompasses over 10,000 companies, large and small, in emerging and developed markets. It may also use technical methods of analysis. PGI-Equities’ proprietary systems include some data sourced from outside investment research specialists. PGI-Equities has teams of investment analysts that cover regions and industry sectors globally. Their research plays an integral part in the selection of securities for the client portfolios. These teams may meet with senior management of companies whose stocks in which PGI-Equities have invested or may invest in. The analysts will also research investment publications on general economic conditions, financial publications from the investment banking industry, corporate annual reports and regulatory filings.

The types of equity securities that can be utilized for these strategies include common stock (exchange traded, over the counter and initial public offerings) issued by US and foreign (ex-US) corporations or other issuers. PGI-Equities may also invest client assets in the following securities, subject to client guidelines: open end and closed-end funds, American Depositary Receipts, Global Depositary Receipts, Exchange Traded Funds (ETFs), participation notes, private placement securities and rights and warrants on equity securities. PGI-Equities may use forward currency contracts to hedge the exposure to foreign currency fluctuations in the equity portfolios.

PGI-Equities offers a broad range of global and regional equity strategies across developed and emerging markets, specified market segments and style preferences which include, but not limited to:

## **Emerging and All Country Equity Strategies**

### *Emerging Markets Equity*

This strategy can provide diversified exposure among companies within growing segments of the economy in emerging markets countries and focused on delivering growth without excessive valuation premiums.

### *Global Opportunities Equity, Global All Country Equity, International All Country Equity*

PGI-Equities offers a Global Opportunities Equity strategy that can provide a broad-market approach managed with the aim of delivering high risk-adjusted results without reference to capitalization-weighted benchmarks or strict region or sector constraints. These strategies are designed for investors with long investment time horizons and a preference for upside participation along with greater downside risk protection. These are tailored to investor regional preferences including: International Opportunities and Emerging Markets Select Equities.

### *Asian Equity*

PGI-Equities offer a number of distinct focused strategies encompassing the broad Asia Pacific region. All utilize a disciplined active core approach and focus on individual stock selection. These are tailored to investor regional and country preferences and include: China Equities; Hong Kong & China Equities; Japanese Equities; Asia ex-Japan Equities; Asia Pacific Equities; and Emerging Asian Broad Equities

### *Global Small-Cap Equity*

PGI-Equities offers a Global Small-Cap strategy, invested in a broad-market of developed and emerging market economies. It is focused on investing in small-capitalization companies and managed to provide broadly diversified portfolios by region, country, and sector.

## **Global and International Equity Strategies**

### *Global Equity, Global Value and Income, Global Growth, Global Ex Japan*

These strategies are designed for investors seeking broad exposure to selected equity investment opportunities. The value oriented strategy has a secondary emphasis on above average dividend yields in developed markets worldwide; and the growth oriented strategy has a secondary emphasis on above average growth characteristics.

### *Diversified International*

This strategy offers a broad exposure to equity investment opportunities outside the United States. It is an active core strategy including moderate strategic allocations to emerging markets.

### *International Core, International Growth*

These strategies can provide broad exposure to selected equity investment opportunities in developed markets outside of the U.S., utilizing a disciplined active approach. The

growth oriented strategy is focused on delivering growth without excessive valuation premiums.

#### *International Small Cap*

The objective is to provide a diversified exposure among selected smaller capitalization companies in developed regions outside the U.S. utilizing a disciplined active core approach.

All of the above strategies can be tailored to include emerging market country exposure upon request.

### **Domestic Equity Strategies**

#### *U.S. Select, U.S. Growth, U.S. Value, U.S. Blue Chip*

These strategies can provide diversified exposure among selected companies within growing segments of the U.S. economy. The overall portfolios are constructed to exhibit a consistent bias towards core, growth or value oriented companies through disciplined stock selection.

#### *U.S. Mid Cap*

The U.S. Mid Cap Equity strategy is designed for investors seeking equity investment opportunities irrespective of benchmark orientation. The strategy focuses primarily on high quality businesses with sustainable competitive advantages, with an owner/operator management philosophy and trading at a discount.

#### *U.S. Small Cap, U.S. Small Cap Select*

The objectives of these strategies are to provide a diversified exposure among selected smaller capitalization U.S. companies. The portfolios have no particular style bias and invest in companies with both growth and value oriented characteristics.

### **Enhanced Index and Passive Equity Strategies**

In addition to passively managed strategies, PGI-Equities also offer benchmark-focused strategies that provide a low-cost enhancement to traditional passive management. This enhanced index strategy reflects an exclusion approach, distinct and complementary to traditional active strategies. It utilizes the systematic identification of a small subset of stocks best avoided or underweighted, while keeping the overall benchmark risk profile and style characteristics intact.

### **Philosophy and Risk Management**

PGI-Equities' philosophy is that equity markets are not perfectly efficient, and therefore provide opportunities to add value through fundamental research and active risk management. PGI-Equities' strategies are built on the belief that bottom-up stock selection is the most reliable and repeatable source of consistent competitive performance over time. To that end, the lead portfolio manager for each strategy collaborates directly with the investment analysts regarding the output of their analysis, and is ultimately

responsible for security selection and for the individual weighting of each portfolio holding.

Risk management is embedded in PGI-Equities' investment process. PGI-Equities' portfolio managers have a number of risk management systems/tools at their disposal, each serving a different purpose within the portfolio construction process. These systems monitor risk and guidelines (in terms of region, country, currency, sector, industry, market capitalization distribution, style factor distribution, beta sensitivity and individual position weights) in each client's portfolio. Generally, the portfolio management teams monitor portfolio risk exposures through a series of weighting constraints relative to each portfolio's benchmark and each portfolio's overall characteristics and individual security holdings.

Furthermore, the risk management tools allow for Senior Management of PGI-Equities to view portfolio positioning for all strategies at any time. The Chief Investment Officer is charged with supporting risk management efforts that quantify the portfolio managers' success in achieving risk and return objectives for the accounts they manage. There is a peer review meeting on a monthly basis to discuss risks across all strategies. These meetings focus on a review of all strategies and use detailed reports of absolute and relative portfolio weightings in sectors, companies, industries and market capitalization as well as a wide range of portfolio level systematic risk metrics.

Prospective clients should be aware that no risk management system is fail-safe, and no assurance can be given that risk frameworks employed by PGI-Equities will achieve their objectives and prevent or otherwise limit substantial losses. There is also the risk that the investment approach may be out of favor at times, causing strategies to underperform other strategies or funds that also seek capital appreciation but use different approaches to the stock selection and portfolio construction process.

### **Risks of Investment Strategies**

All of PGI-Equities' strategies entail market risk, liquidity risk and operational risk. Past performance does not necessarily predict future returns. Clients are subject to the risk that stock prices will fall over short or extended periods of time, and clients could lose all, or a substantial portion, of the value of their investments. Historically, the equity markets have moved in cycles, and the value of equity securities may fluctuate significantly from day to day. Individual companies may report poor results or be negatively affected by industry and/or economic trends and developments. The prices of these companies' securities may decline in response. These factors contribute to price volatility, which is a principal risk of equity investing.

The Asian Equity Strategies are more concentrated, which means that they invest in a smaller number of countries and consequently in the securities of fewer issuers than a more diversified investment strategy. As a result, these strategies may be more susceptible to a single adverse economic or regulatory occurrence affecting one or more of these issuers, and may experience increased volatility.

The Global and International Equity strategies utilize foreign investments. Foreign investments are subject to special risks not typically associated with domestic U.S. stocks. Investing in issuers headquartered or otherwise located in foreign countries poses additional risks since political and economic events unique to a country or region will affect those markets and their issuers. These events will not necessarily affect the U.S. economy or similar issuers located in the United States.

### **For Fixed Income:**

Principal Global Investors-Fixed Income (“PGI-Fixed Income”) boutique manages strategies covering a full range of global fixed income securities including products that integrate multiple fixed income sectors (multi-strategy) as well as products that emphasize a single fixed income sector.

The fixed income multi-strategy services focus on U.S. dollar-denominated securities as well as fixed income securities issued outside the United States and denominated in multiple currencies benchmarked to a range of short, intermediate and long duration strategies. Within the single sector focused strategies these include global and U.S. dollar-denominated strategies focused on investment grade corporate credit, high yield securities, emerging market debt or government and government related bonds.

PGI-Fixed Income believes superior returns are best achieved through the integration of rigorous fundamental research, a global perspective and disciplined risk management.

These common threads serve as the three cornerstones of the fixed income process:

#### *Macro/Risk Perspective*

A broad approach to identifying macro trends and inconsistencies.

#### *Investment Research Framework*

A consistent comparative framework based on fundamentals, technicals, valuations and independent internal research, which is used throughout the investment process and facilitates communication as well as portfolio positioning.

#### *Risk Management*

A comprehensive, multi-dimensional approach to risk management at each stage of the investment process.



## **Fixed Income Strategies**

### *Bank Loans*

The Bank Loan strategy seeks to provide a return consisting of income and capital appreciation over the long term primarily through security selection. Investments are in U.S. dollar denominated floating rate bank loan securities.

### *Emerging Market Debt*

The Emerging Market Broad strategy focuses on independent, forward-looking fundamental analysis of both sovereign and corporate credits within the context of the global business cycle. The goal of the strategy is to add value to an actively managed emerging markets debt portfolio.

### *Global Bonds*

The Global Bonds strategy aims to exploit global bond market opportunities through assessment of the global business/growth cycle and the relative position of individual countries within the cycle. The goal of the strategy is to add value to an actively managed global bond portfolio. The strategy includes: Global Bonds, Global Corporate Plus, Global Investment Grade, Global Sovereign Bonds, Global Credit Opportunities, Global Credit Alpha and Global Short Duration Fixed Income.

### *High Yield*

The high yield strategy tactically allocates across the high yield spectrum, focusing on the individual ratings of securities. The goal of the strategy is outperformance of the benchmark over a three to five year period with a below market level of volatility. High yield strategies include: High Yield Traditional, Global High Yield, High Yield Opportunistic, High Yield Plus, High Yield, and Short Duration High Yield.

### *Investment Grade Corporate*

The Investment Grade Corporate Credit strategy is built upon a forward looking credit research process to identify quality issuers in the investment grade universe. This strategy benefits from a dedicated team of credit analysts and high yield specialists to add value to an actively managed credit portfolio. This strategy includes: High Quality Core Intermediate Fixed Income, Ultra Short High Quality, and Ultra Short Enhanced Yield.

### *Long Duration*

The Long Duration strategy seeks to provide consistent outperformance through an active management strategy capturing multiple sources of excess returns. The goal of the strategy is to add value to an actively managed long duration portfolio. This strategy includes: Long Duration Credit Emphasis, Long Duration Core Plus, Long Duration Fixed Income “Broad”, Long Duration Investment Grade Corporate, and Liability Driven.

### *Multi-Sector Fixed Income*

The Multi-Sector Fixed Income strategy seeks to provide consistent risk-adjusted returns through balancing the understanding of the quantitative risks with the associated return opportunities. The goal is to provide consistent alpha created through sector allocation,

security selection and structural positioning/asset replication. This strategy includes: Multi-Sector Core and Multi-Sector Plus.

#### *Other Strategies*

Other includes strategies such as Private Market. Private Market seeks to provide incremental yield and return over comparable public corporate bonds, while also focusing on preservation of capital. Performance will primarily come from security selection.

#### *Derivatives*

While derivatives are not a specific strategy, periodically they may be utilized in certain portfolios by agreement with the client. Common fixed income derivatives used are credit default swaps (CDS) (Risk – credit exposure or protection), interest rate swaps (Risk – fixed rate for floating rate exposure or the reverse), Treasury Futures (Risk – exposure or protection on interest rate movements), TBA (To Be Announced MBS Forward) (Risk - Risk – exposure or protection on upcoming issuance), collateralized debt obligations (CDO) (Risk – see structured instruments below), and currency swaps (Risk – exposure or protection on rate movement between two or a basket of currencies) among others. Certain of these instruments are subject to regulation by the Commodity Futures Trading Commission under the provisions of Dodd-Frank Financial Reform legislation. The purchase of derivatives occurs in either the exchange traded and over the counter markets. The exchange traded derivatives market is very transparent as are the settlement risks (i.e. Treasury Futures). This is not necessarily the case in the over the counter market (CDS, interest rate swaps, etc.). In this market, one trades a portfolio risk for a counterparty risk. Certain of the instruments have moved to centralized clearing over the past year. In addition several of the instruments are moving to electronic trading (SEFs) as the CFTC and SEC approves trading platforms. With the advent of centralized clearing, there are initial and ongoing margin requirements the client must meet. In addition, a Legal Entity Identifier (“LEI”) number must be obtained by the client and contained on each trade. This is to help identify systemic risk at an entity or consolidated enterprise level.

With the financial turmoil in the recent past, many institutions and clients have moved to the use of Credit Support Annexes to minimize the credit exposure for in the money derivatives on previously executed trades. These rules and efforts in part are intended to resolve counterparty risk and provide improved transparency in the derivatives marketplace.

Derivatives are primarily used for asset replication, hedging and structured products. In an asset replication use, credit default swaps are purchased due to attractive pricing versus the cash bond market to gain exposure to a given name, sector or index.

All derivatives used for hedging purposes involve basis risk. This occurs when the value of underlying hedging instrument moves differently (not perfectly correlated) than the corresponding item being hedged.

## Risks of the Fixed Income Strategies

Structured products are complex credit instruments involving a series of CDS or CDOs as an example. The instruments typically have several tranches and the investing party may have exposure to one or several levels of payment risk. The instrument will have provisions which spell out participation in revenue and loss or repayment of principal when certain conditions are experienced by the underlying assets.

PGI-Fixed Income does not primarily recommend a particular type of fixed income security. However within the fixed income team, PGI-Fixed Income manages strategies that are solutions to institutional investors seeking fixed income solutions to their investment objectives.

There are a number of risks which affect fixed income investments and include but are not limited to: interest rate, credit, volatility, liquidity, duration, prepayment, derivative, optionality, inflation, reinvestment, event, sector, disclosure, foreign exchange, legal, economic, geopolitical, and systemic.

All fixed income securities are subject to interest rate and credit quality risk. The market value of fixed income securities generally declines when interest rates rise and an issuer of fixed income securities may default on its payment obligations.

**Concentration Risk:** a strategy that concentrates investments in a particular industry or group has greater exposure than other strategies to market, economic and other factors affecting the industry or group.

**Derivatives Risk:** transactions in derivatives (such as options, futures, and swaps) may increase volatility, cause liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

**Duration Risk:** duration is a measure of the expected life of a fixed income security and its sensitivity to changes in interest rates. The longer a portfolio's average duration, the more sensitive the fund will be to changes in interest rates.

**Prepayment Risk:** unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time.

**U.S. Government Securities Risk:** Yields available from U.S. government securities are generally lower than yields from other fixed income securities.

**U.S. Government Sponsored Securities Risk:** securities issued by U.S. government sponsored enterprises such as FHLMC, FNMA and the Federal Home Loan Bank are not issued or guaranteed by the U.S. Treasury.

The High Yield strategy is also subject to greater credit quality risk than higher rated fixed income securities and should be considered speculative.

The Emerging Market Debt and Global Bonds strategies are also subject to Foreign Securities Risk, which includes the loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; changes in foreign exchange rates and restrictions; settlement delays and limited government regulation.

State and Political Subdivisions Risk: subject to credit, transparency/disclosure, political, and other similar risks.

### **For Currency:**

Principal Global Investors-Currency (“PGI-Currency”) offers currency management strategies tailored to client requirements. Applying a fundamental-discretionary, macroeconomic theme-based investment approach to portfolio management, the strategies include absolute return as well as base currency hedging strategies. Portfolio positions are primarily implemented via currency forward contracts although PGI-Currency does use exchange traded currency options from time to time where portfolio guidelines enable.

#### *Active, absolute return:*

Investing on a forward-looking basis, PGI-Currency looks to identify global investment themes that are large enough to drive significant cross-border capital flow and so influence exchange rate pricing. Investment themes can be economic or financial market trends expected to unfold over the next two-to-six months. Portfolio construction philosophy focuses on the identification of multiple independent themes which can provide portfolio diversification.

Working within the currencies of the G10 Fundamental Discretionary Currency strategy (developed market) and G10 Global Time Diversified strategy or the G30 Fundamental Discretionary Currency strategy (developed and emerging market) and G30 15% Volatility Fundamental Discretionary strategy universes, and to client portfolio guidelines, PGI-Currency implements a consistent view formation process with position sizes scaled to the required volatility of the various portfolios. PGI-Currency manages portfolios across a range of volatility targets, from traditional low tracking error overlays (2-4% tracking error) to leveraged pooled vehicles (15-25% volatility); there is no guarantee, however, that the target will be realized.

#### *Base currency hedging:*

This process is designed to reduce the impact that adverse exchange rate moves may have on investment portfolio where the investments are made outside of the home market of the investor, and the primary aim of a base currency hedging strategy is risk reduction. The risk exposure of adverse exchange rate moves can be hedged using currency forwards and options at different levels. PGI-Currency can provide clients and prospects with the strategic views relating to currency markets, and offer advice on the where to set hedge ratios appropriate to their investment portfolios. However, the ultimate decision as

to where to set the hedge ratio lies with the client. In the view of PGI-Currency, a 0% hedge ratio (i.e. the portfolio retains full exposure to non-domestic currency risk) is appropriate when the home currency is depreciating; a 100% hedge ratio (i.e. there is no currency diversification within the portfolio) is best when the home currency is expected to appreciate.

### Risk Management and Risks of the Currency Strategies

The primary focus of risk management is strategy dependent: for base currency hedging strategies, risk management is concentrated on minimizing deviation of a portfolio's currency exposures from targeted exposures, best execution, settlement and counterparty management, while managing investment risk is the key focus within the active managed portfolios. However, it is important to note that risk management – both investment and operational – underpins the process across all strategies.

Base currency hedging: once the preferred hedge ratio has been agreed and the hedges put in place, portfolios are rebalanced daily so as to minimize tracking error, while the size of the hedge, the underlying currency exposures, and the benchmark can be reset as preferred by the client – this is usually done on a monthly basis. PGI-Currency operates a broad counterparty panel of leading investment banks, all of whom have been reviewed by the Counterparty Team. The service PGI-Currency receives from the counterparties is evaluated on a trade-by-trade basis in an open manner; by engaging with the banks on matters of service and pricing PGI-Currency believes PGI-Currency can implement best execution for the clients.

Active, absolute return: for the active portfolios, currency positions are implemented within a conviction-driven risk unit methodology framework. Risk unit sizing is a function of the volatility, downside risk and liquidity of the featured currency pairs, ensuring that themes of the same risk unit size have the same potential ratio of upside returns to downside risk on the portfolio regardless of the currencies utilized to implement the theme. Themes are generally initiated with a single risk unit size, position size increasing (to a maximum of five risk units) based on the Portfolio Manager's level of conviction.

There are a number of risks which affect currency investments and include but are not limited to: volatility, liquidity, event, economic, geopolitical, and systemic. PGI-Currency can also employ leverage if consistent with the client's investment objectives and risk tolerance. The potential benefit of leverage is that it can amplify investment returns. Leverage also increases risk, because it magnifies negative returns when performance and/or market conditions deteriorate.

### **For Multi-Asset Advisers:**

The Multi-Asset Advisers Team ("Team") primarily provides asset allocation services, which may include recommendations relating to overall asset class selection, risk

management, asset class rebalancing and manager selection within asset classes, both within and outside of PGI. The Team can utilize asset classes in their modeling such as U.S. and foreign equity, U.S. and foreign fixed income, cash equivalents, and real estate with further differentiation based on market capitalization (as an example, large-cap vs. small-cap) and/or investment style (as an example, value vs. growth) as well as other asset subclasses. The Team also makes recommendations and allocations to underlying investment strategies as detailed below.

The Multi-Asset Advisers Team conducts detailed analyses and review of the appropriateness of the exposure and weightings of each asset class within a specific client's portfolio or mandate based upon the agreed upon parameters of each investment management agreement. The Team will assess current asset class weightings based upon any number of individual factors and may make adjustments to those allocations over time. In identifying potential areas of investment, the Team may take into consideration the ability of an asset class to provide capital appreciation, the ability to generate current income, certain diversification characteristics of the asset class, the potential need for capital preservation and/or certain risk hedging characteristics when making its allocation recommendations.

The Team also evaluates the risk premium associated with each asset class or sector in an effort to determine the appropriateness of the allocations related to the overall intended risk profile and strategy of the client. The Team employs a fund of funds approach to portfolio construction as Client assets are allocated across one or any number of predetermined commingled funds. The Team primarily utilizes mutual funds, unit investment trusts, separate accounts, and/or other commingled funds that are typically sub-advised by affiliated managers. The portfolio construction process includes a comprehensive analysis of manager style for each of the asset classes employed in the asset allocation strategy, based on their portfolio returns and holdings.

The Team conducts a rigorous investment due diligence process on each affiliated manager, and on other managers who might be specified by the client. This due diligence takes into account qualitative factors (Do we believe the manager has the people, philosophy and investment process to outperform their benchmarks?): quantitative factors (How does the manager fare against their competition in terms of return, risk and return correlation with peers?); an assessment of each manager's style against our medium-term view on markets; and finally an assessment of their ability to manage the investment risk in their holdings.

After a portfolio is initially constructed, the Team monitors the aggregate portfolio as well as the underlying managers for each asset class on an ongoing basis to determine that the asset allocation model continues to operate within each Client's stated investment guidelines. The Asset Class selection and Risk Management analyses are used to determine both the timing of portfolio rebalancing and the magnitude by which allocations are allowed to drift away from neutral target allocations. Portfolio rebalancing recommendations typically rely on a combination of fundamental and quantitative inputs

within pre-established risk parameters and rebalancing is employed generally as a risk reduction measure rather than a tactical measure.

Underlying portfolio risks include, but are not limited to, size/style drift and earnings quality for equities; credit quality and interest rate sensitivity for fixed income portfolios; specific sectors and countries for real estate portfolios. There is also a risk that one, some or all of the underlying portfolios selected for inclusion in the asset allocation models may not meet their stated investment objective or that the overall asset allocation recommendations that are made by the Team do not perform as expected. As with every investment, there is also the risk that the investment decisions made may result in the loss of principal and that the investment may be worth less money at the time of redemption than the investor contributed to the portfolio.

The Team monitors portfolio risk in a number of ways, including the processes detailed above relating to portfolio construction and the ongoing monitoring of the portfolios. The Team may also monitor portfolio risk or perceived risk in any number of ways. The Team monitors the performance of each underlying manager for in the portfolio relative to the benchmark established for each asset class as well as relative to a peer group.

The Team also continually monitors the macro-economic environment to which the asset classes are exposed. The Team then reviews the level of conviction about its asset mix decisions. The Team then seeks to make a determination as to whether to limit or enhance the size of portfolio's asset class over- or under-weightings from guidelines. A weekly proprietary monitoring of the risk behavior of investors provides an additional market view of overall economic risk.

A variety of software applications are used to monitor the current asset allocation mix in the client's portfolio and that the risk/return profile for the portfolio is in agreement with the client's stated investment objective and applicable guidelines. These analytical methods employed are used on a regular basis to decompose tracking error and identify the principal sources of portfolio risk.

## **ITEM 9 – DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of Principal Global Investors or the integrity of Principal Global Investors' management. Principal Global Investors has no information applicable to this item.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

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

Principal Global Investors is under common control with Princor Financial Services Corporation (“Princor”), a retail investment adviser and a broker-dealer registered with the Securities and Exchange Commission and a FINRA member firm that markets a variety of proprietary and non-proprietary mutual funds, unit investment trusts and limited partnerships. Principal Global Investors currently does not conduct any brokerage business with Princor.

Principal Global Investors is under common control with Principal Funds Distributor, Inc., a broker/dealer. Principal Funds Distributor, Inc. is the principal underwriter for an investment company, Principal Funds, Inc. Principal Global Investors acts as sub-adviser to certain of the Principal Funds. Principal Global Investors does not currently conduct any brokerage business with Principal Funds Distributor, Inc.

Some members of Principal Global Investors' staff act as registered representatives of the Funds' underwriter, Princor., and may from time to time in their capacity as registered representatives of Princor, solicit investment in one or more of the Principal Funds from Principal Global Investors' clients or prospective clients when circumstances indicate that an investment in the Principal Funds would be appropriate for the client or prospective client. Only members of Principal Global Investors' marketing staff are eligible to receive compensation for any sales of shares of the Principal Funds made to clients or prospective clients. In addition to the sales compensation paid to Principal Global Investors' marketing staff by Princor, these Principal Funds pay advisory fees that are received by Principal Global Investors. As such, there is a conflict of interest when Principal Funds subadvised by Principal Global Investors are recommended by the sales staff.

Principal Global Investors is the sole direct owner of Spectrum Asset Management, Inc. (“Spectrum”), a registered broker-dealer and an investment adviser registered with the Securities and Exchange Commission. Principal Global Investors may execute securities for clients through Spectrum in certain circumstances, but only after notice to the involved clients and in compliance with applicable rules. Spectrum is also a member of the National Futures Association and registered with the Commodity Futures Trading Commission.

Principal Global Investors is a sub-adviser to Principal Management Corporation (“Principal Management”) with regard to a number of the Principal Funds, a family of funds organized by Principal Life. Principal Management, an investment adviser registered with the Securities and Exchange Commission, is an indirect wholly owned



subsidiary of Principal Financial Services, Inc. ("PFSI"). Principal Management offers portfolio management, transfer agent and shareholder services to the family of mutual funds organized by Principal Life Insurance Company. Prncor, a direct wholly owned subsidiary of PFSI, is a sister company to Principal Management. Principal Global Investors is under common control with Principal Management, Principal Funds Distributor, Inc. and Prncor. Principal Global Investors is a sub-adviser to Principal Management with regard to a number of the mutual funds organized by Principal Life. Principal Management and Principal Global Investors may share personnel in the performance of investment advisory services.

Principal Global Investors is the sole member with 100% ownership and controlling interest of Principal Real Estate Investors, LLC, an investment adviser registered with the Securities and Exchange Commission. Principal Real Estate Investors offers portfolio management and investment advisory and subadvisory services concerning primarily equity real estate and commercial mortgage investments to affiliated (including Principal Global Investors) and non-affiliated persons. Principal Global Investors furnishes certain personnel, facilities, and other resources to Principal Real Estate Investors and certain of its clients. On occasion, Principal Global Investors may utilize personnel or other resources of Principal Real Estate Investors to assist Principal Global Investors in the performance of investment advisory services. Principal Global Investors and Principal Real Estate Investors have other common directors and officers.

Principal Global Investors is under common control with Principal Financial Advisers, Inc. ("PFA"), a registered investment adviser with the Securities and Exchange Commission.

Principal Global Investors has majority, direct ownership of Post Advisory Group, LLC ("Post"), an investment adviser registered with the Securities and Exchange Commission. Post in general offers services in managing client funds invested in high yield debt securities and distressed securities. On occasion, Post provides such services as a sub-adviser to Principal Global Investors. Principal Global Investors and its affiliates share investment and compliance information, as well as certain personnel and other resources, with Post as necessary for Post to fulfill its service as sub-adviser to Principal Global Investors. On occasion, Principal Global Investors may use personnel or other resources of Post to assist Principal Global Investors in the performance of investment advisory services.

Principal Global Investors has a majority, indirect ownership of Columbus Circle Investors ("Columbus Circle", an investment adviser registered with the Securities and Exchange Commission. Columbus Circle in general offers services in managing client funds invested in equity securities. On occasion, Columbus Circle provides such services as a sub-adviser for Principal Global Investors. Principal Global Investors and its affiliates share investment and compliance information, as well as certain personnel and other resources, with Columbus Circle to fulfill its service as sub-adviser to Principal Global Investors. On occasion, Principal Global Investors may utilize personnel or other

resources of Columbus Circle to assist Principal Global Investors in the performance of investment advisory services

Principal Global Investors is the sole direct owner of Spectrum Asset Management, Inc. (“Spectrum”), an investment adviser registered with the Securities and Exchange Commission. Spectrum offers portfolio management and investment advisory and subadvisory services concerning primarily preferred securities to affiliated (including Principal Global Investors) and non-affiliated persons. Principal Global Investors and its affiliates share investment and compliance information, as well as certain personnel and other resources, with Spectrum to fulfill its service as sub-adviser to Principal Global Investors. On occasion, Principal Global Investors may utilize personnel or other resources of Spectrum to assist Principal Global Investors in the performance of investment advisory services. Principal Global Investors is a party to a revenue sharing agreement dated September 28, 2001, with Spectrum, as amended, a wholly owned subsidiary of Principal Global Investors, whereby certain advisory fees generated by Spectrum and its affiliate broker-dealer are allocated between the Principal Global Investors and Spectrum.

Edge Asset Management, Inc. (“Edge”), an investment adviser registered with the Securities and Exchange Commission, is an affiliate and under common control of Principal Global Investors. Edge offers portfolio management and investment advisory and subadvisory services concerning primarily equity securities. Principal Global Investors and its affiliates share investment and compliance information, as well as certain personnel and other resources, with Edge to fulfill its service as sub-adviser to Principal Global Investors. On occasion, Principal Global Investors may utilize personnel or other resources of Edge to assist Principal Global Investors in the performance of investment advisory services.

Morley Capital Management, Inc. (“Morley”), an investment adviser registered with the Securities and Exchange Commission, is an affiliate and under common control of Principal Global Investors. Morley offers portfolio management and investment advisory and subadvisory services concerning primarily fixed income and stable value securities. Principal Global Investors and its affiliates share investment and compliance information, as well as certain personnel and other resources, with Morley to fulfill its service as sub-adviser to Principal Global Investors. On occasion, Principal Global Investors may utilize personnel or other resources of Morley to assist Principal Global Investors in the performance of investment advisory services.

Principal Global Investors has a majority, indirect ownership of Origin Asset Management LLP (“Origin”), an investment adviser registered with the Securities and Exchange Commission. Origin in general offers services in managing client funds invested in global (ex U.S.) equity securities. On occasion, Principal Global Investors may utilize personnel or other resources of Origin to assist Principal Global Investors in the performance of investment advisory services.

Principal Global Investors has a majority, indirect ownership of Finisterre Capital LLP (“Finisterre”), an investment adviser registered with the Securities and Exchange Commission. Finisterre in general offers services in managing client funds invested in emerging market fixed income securities. Finisterre is also a member of the National Futures Association and registered with the Commodity Futures Trading Commission as a commodity trading advisor and a commodity pool operator. On occasion, Principal Global Investors may utilize personnel or other resources of Finisterre to assist Principal Global Investors in the performance of investment advisory services.

Principal Global Investors has sole ownership of Principal Enterprise Capital, LLC (“PEC”), an investment adviser registered with the Securities and Exchange Commission. PEC is the manager for a single client, an entity that was created for the benefit of an unaffiliated third party and includes a trust for the benefit of affiliated employees of Principal Life Insurance Company. PEC identifies structures, creates and manages strategic investments of equity capital primarily in private real estate operating companies (“REOCs”). REOCs are entities that generally acquire, develop, redevelop and operate commercial real estate properties and are the entities in which investments are made.

Liongate Capital LLP. (“Liongate”), an investment adviser registered with the Securities and Exchange Commission, is owned solely by Principal Global Investors. Liongate in general offers services in managing client funds by investing a portfolio of investments in other hedge funds, specializing in small- to mid-sized managers, rather than investing directly into stocks, bonds or other securities. Principal Global Investors and its affiliates share investment and compliance information with Liongate.

Some Separately Managed Account/Wrap fee programs (“SMA Programs”) include investment styles with respect to which one or more of Principal Global Investors’ affiliated investment advisory firms has particular expertise and experience. Where that is the case, both Principal Global Investors and the affiliated advisory firm(s) will be involved in the provision of investment advisory services to program participants electing the investment style, with (i) the affiliated advisory firm responsible for providing model portfolio creation and maintenance services for the style, and (ii) Principal Global Investors responsible for placing client account trades, proxy voting (for those clients electing to authorize the investment adviser to vote proxies), implementing reasonable client-imposed investment restrictions, establishing and implementing procedures used to select securities to be liquidated when a client requests partial liquidation of the client’s account, and all other responsibilities imposed upon the investment adviser in the particular wrap fee program. In some wrap fee programs, the affiliated advisory firm may also have the authority to handle larger trades, typically those associated with changes to the model portfolio, where appropriate in order to seek best execution. In those situations in which one of Principal Global Investors’ affiliated advisory firms provides model portfolio creation and maintenance services, the affiliated advisory firm ordinarily provides those services as a sub-adviser to Principal Global Investors and the client’s direct agreement ordinarily is with Principal Global Investors as the investment adviser.

In those situations, Principal Global Investors is responsible to the client for the actions and decisions of Principal Global Investors' affiliated sub-adviser and Principal Global Investors is responsible for paying its affiliated sub-adviser out of the fees Principal Global Investors receives as the client's investment adviser. In the event that Principal Global Investors uses Spectrum as a broker on trades for accounts in wrap fee programs, no brokerage commissions will be paid to Spectrum in connection with those trades.

Union Bond & Trust Company, an Oregon banking corporation, ("Union") is an affiliate and under common control with Principal Global Investors. Union is trustee of certain collective investment trusts. Union, as trustee, retains Principal Global Investors as investment adviser for one or more bank collective investment trusts. For some of the bank collective investment trusts, Principal Global Investors may retain one or more affiliated investment advisory firms as subadvisers to Principal Global Investors.

Principal Life is the sole member (i.e., the 100% legal and beneficial owner) of Principal Global Investors. Principal Life is licensed as an insurance company in all 50 states and the District of Columbia. Principal Global Investors and Principal Life have entered into a Subsidiary Expense Reimbursement Agreement pursuant to which Principal Life will furnish certain personnel, services and facilities used by Principal Global Investors and Principal Global Investors will reimburse Principal Life for its expenses incurred in that regard. Principal Global Investors and Principal Life have certain common officers. Principal Global Investors manages certain portfolios and accounts within the general and separate accounts of Principal Life. Principal Global Investors provides advice and management services to Principal Life's spread lending operations.

Principal International, Inc. is under common control with Principal Global Investors, as both Principal International, Inc. and Principal Global Investors are direct or indirect wholly owned subsidiaries of PFSI. Principal Global Investors manages certain portfolios of Principal International, Inc. and of Principal International, Inc.'s insurance subsidiaries. Principal Insurance Company (Hong Kong) Limited ("PIC Hong Kong") is under common control with Principal Global Investors, as both PIC Hong Kong and Principal Global Investors are indirect wholly-owned subsidiaries of PFSI. Principal Global Investors acts as sub-adviser with regard to certain portfolios of PIC Hong Kong.

Principal Global Investors may utilize personnel or other resources or services of its non-US affiliates, Principal Global Investors (Europe) Ltd, Principal Global Investors (Singapore) Ltd, Principal Global Investors (Australia) Ltd, Principal Global Investors (Hong Kong) Ltd, and Principal Global Investors (Japan) Ltd to assist Principal Global Investors in the performance of investment advisory services. Those advisory affiliates may recommend to their clients, or invest on behalf of their clients in securities that are the subject of recommendations to, or discretionary trading on behalf of, Principal Global Investors' clients. Investment professionals from the advisory affiliates may render portfolio management, research or trading services to Principal Global Investors' clients, including registered investment companies, and are subject to supervision by Principal Global Investors. Biographies of these professionals will be provided as required or upon request.

Principal Global Investors is a part of a diversified, global financial services organization with many types of affiliated financial services providers, including but not limited to broker-dealers, insurance companies and other investment advisers. Principal Global Investors may enter into arrangements to provide services or otherwise enter into some form of business relationship with these foreign affiliates. Additional disclosure of these relationships will be provided upon request.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

Principal Global Investors has adopted a Code of Ethics (Code). The principal purposes of the Code are to provide policies consistent with applicable laws and regulations and to prevent conflicts of interests or the appearance of such conflicts when Principal Global Investors officers, directors, employees and certain non-employees of Principal Global Investors with access to client and trading information of Principal Global Investors (Access Persons) own or engage in their own personal transactions involving securities. All Access Persons are required to certify annually that they have read, understood and complied with the Code. This includes that they have complied with the requirements and disclosed or reported all reportable personal securities transactions as required by the Code. Access Persons are permitted to personally buy and sell securities of issuers that Principal Global Investors also trades for its clients, so long as those buy and sell transactions are conducted in accordance with Principal Global Investors' Code. As such, there are procedures in place to prevent instances where potential conflicts of interest arise between the personal securities transactions of the Access Persons and the securities transactions that Principal Global Investors does for the accounts of the clients. The compliance area monitors personal trading via the on-line pre-clearance system, SunGard PTA. The procedures provide for the maintenance of a master securities list that includes all securities traded by Principal Global Investors for purchase or sale on behalf of clients. Principal Global Investors' Access Persons are required to preclear buys and sells of reportable securities (excluding exempt securities and transactions) through the SunGard PTA system first before completing a personal securities transaction to determine whether the proposed transaction conforms to Principal Global Investors' Code. Each calendar quarter, Principal Global Investors' Access Persons review and certify to a report of their personal securities transactions in accordance with Principal Global Investors' Code.

Clients of Principal Global Investors may obtain a copy of the Code of Ethics by contacting the Chief Compliance Officer at 800-533-1390.

Principal Global Investors may advise clients to purchase securities which at the time the client purchases, one or more affiliates of Principal Global Investors may also (1) be purchasing or selling and/or (2) holding. Such situations will be subject to procedures designed to assure fair allocation of available transactions. Principal Global Investors may also advise clients to participate in investment vehicles (e.g. Principal Global

Investors Trust), other participants in which may include one or more affiliates of Principal Global Investors.

Principal Global Investors, Principal Real Estate Investors, Spectrum Asset Management, Columbus Circle Investors and Post Advisory Group are investment managers for Principal Global Investors Trust (the “Trust”). Principal Global Investors organized the Trust, a Delaware business trust and a private investment company of the series type, in June 1999. The Directed Trustee is the Bank of New York. Principal Trust Company is the resident trustee, but does not have any discretion of the Trust. The Trust offers a number of commingled investment portfolios having different investment objectives. Principal Life acts as “tax matters partner” for, and owns units of, most of the portfolios. An indirect wholly-owned subsidiary of Principal Life (Equity F.C., Ltd.), (i) acts as tax matters partner in these instances where Principal Life does not and (ii) owns units of some of those portfolios. Members of Principal Global Investors’ staff will, from time to time solicit investment in the Trust to Principal Global Investors’ clients or prospective clients, when circumstances indicate that an investment in the Trust would be appropriate for the client or prospective client. Only members of Principal Global Investors’ marketing registered representative staff are eligible to receive compensation for any sales of investments in the Trust made to clients or prospective clients.

Principal Global Investors will invest its own financial assets primarily in U.S. Treasury securities that it may also recommend to clients. It may also invest its own financial assets in a short-term investment pool of its indirect parent company, PFSI or in a checking account in the name of Principal Global Investors. In addition, Principal Life owns units in various portfolios of Principal Global Investors Trust.

Principal Global Investors furnishes investment advice with respect to various portfolios of its direct parent company, Principal Life. In fulfilling its responsibilities, Principal Global Investors may buy or sell for Principal Life securities or other investment products that it also recommends to its clients who are not related persons of Principal Global Investors.

Principal Global Investors is the investment manager of various securities portfolios of Principal Life, Principal International, Inc. and other related persons. Principal Global Investors is the sub-adviser to a number of the Principal Funds, a family of mutual funds organized by Principal Life, managed by Principal Management Corporation, and distributed by Princor Financial Services Corporation and Principal Funds Distributor, Inc. Principal Life, Principal International, Principal Management, and Princor, and Principal Funds Distributor, Inc. are related persons of Principal Global Investors. In carrying out its responsibilities in each of these arrangements, Principal Global Investors may buy or sell for related persons securities that it also recommends to its clients who are not related persons of Principal Global Investors.

## **ITEM 12 – BROKERAGE PRACTICES**

As a discretionary adviser, Principal Global Investors determines which securities or other instruments are bought or sold for an account, the amount of such securities or other instruments and the timing of the purchases and sales, the broker, dealer, underwriter (and in the case of the Currency Boutique, the foreign exchange dealer) through which transactions are effected and the commission rates or spreads paid, except as specifically directed by the client. Our discretion in those matters, however, is limited by our responsibility to act in the best interest of our clients in fulfilling their investment objectives. Principal Global Investors does not engage in principal trading with client accounts.

### **For Principal Global Investors Equities**

#### Selection of Brokers and Dealers

The Principal Global Investors Equities Boutique (“PGI-Equities”) seeks to obtain the best overall execution when selecting a broker or dealer for Client portfolio transactions. In selecting brokers and dealers, PGI-Equities considers a variety of factors including, but not limited to:

- Their financial strength and stability;
- Best price for the trade;
- Reasonableness of their commission, spreads or markups;
- Their ability to execute and clear the trade in a prompt, orderly and satisfactory manner;
- Quality of their executions in the past and existing relationship to date;
- The confidentiality they provide as to the trades placed through them by Principal Global Investors;
- Their execution capabilities and any related risks in trading a particular block of securities;
- Their broad market coverage resulting in a continuous flow of information concerning bids and offerings;
- The consistent quality of their services, including the quality of any investment-related services provided (e.g. a first call on the release of influential securities reports);
- Their record keeping practices (e.g. timely and accurate confirmations); and
- Their cooperation in resolving differences.

PGI- Equities may also use the above factors to establish generally the proportion of the overall commissions to be allocated to each broker or dealer used in effecting equity trades on behalf of its clients. There is a semi-annual broker voting process that includes research analysts, portfolio managers and traders. The broker vote is designed to rank brokers based on the quality of research and trading services provided. Recommendations are made for commission allocation based on the results of the vote. These factors and the results of the broker vote are used as general guidelines by the equity trading desk in

deciding which broker-dealer to use for specific securities transactions. Because of the variety of factors used to select brokers or dealers, the determining factor in seeking best execution is not the lowest possible commission, but whether the transaction represents the best overall execution for the client. In some instances, PGI-Equities will pay a broker commissions that are higher than the commissions another broker might have charged for the same transaction. Further, in the case where a firm bundles research services with its execution services, PGI-Equities may consider the receipt of research services provided (including soft dollar services) if it does not compromise the selection of best overall execution. Please see the section on Soft Dollar Practices below for additional information about brokerage and research services received by the PGI-Equities.

PGI-Equities maintains an approved list of brokers and dealers. New counterparty arrangements must be reviewed and approved by the Counterparty Team of PGI before trading can begin through the new counterparty. Alternative trading systems that meet the guidelines are also eligible for consideration. The traders at PGI-Equities are required to direct trades only through approved counterparties. Counterparties are regularly monitored by the Counterparty Team for signs of deterioration in business operations, creditworthiness and rating changes.

PGI-Equities does not use affiliated broker-dealers to place client trades.

#### Brokerage Commissions

Transactions on stock exchanges and other agency transactions involve the payment by the client of negotiated brokerage commissions. Such commissions vary among different brokers and dealers and a particular broker or dealer often charges different commissions according to such factors as the difficulty and size of the transaction or the means of execution (i.e. program, algorithmic or sales trader). Although commission rates are considered by PGI-Equities in our brokerage selection process and are reasonable in relation to the value of the services provided, our Clients may not realize the lowest possible commission rates as our determination process considers the additional factors outlined above.

#### Client Directed Brokerage

If PGI-Equities agrees, a client may instruct PGI-Equities to direct trading for their account to a particular broker. If a client directs PGI-Equities to use a particular broker or dealer, PGI-Equities may be unable to negotiate commissions, obtain volume discounts, ensure best execution, and to batch trades on the client's behalf. Consequently, clients who direct PGI-Equities to use a particular broker may pay more in commissions than those who do not. No assurance can be given that transactions executed in accordance with such directed brokerage arrangements result in the best execution available to the client. Separately Managed Account/Wrap fee programs ("SMA Programs") occasionally include client directed brokerage provisions. More commonly SMA Program clients pay a fee to the sponsor that covers, among other things, brokerage commissions for trades executed with the sponsor or the sponsor-designated broker-dealer. The fee does not



cover brokerage commissions charged on trades executed with other broker-dealers. As a result, best execution decisions by PGI-Equities for SMA Program trades tend to favor use of the program sponsor or the sponsor-designated broker-dealer because of the commission expense, although other circumstances sometimes dictate that other brokers be used to achieve best execution. Depending on a variety of factors, including the amount of the wrap fee, the trading activity and the value of custodial and other services, the single fee may or may not exceed the separate costs of such services. PGI-Equities policy is to seek execution of portfolio transactions at prices which are advantageous to our clients as a whole and at commission rates that are competitive, taking into account the full range and quality of an executing broker-dealer firm's services. This process of weighing the interests of each of PGI-Equities' clients may result in the trade orders for accounts subject to client directed brokerage arrangements, (including SMA Programs) being placed after completion of non-directed orders so as to avoid conflicts in the trading marketplace. In addition, client directed brokerage on behalf of employee benefit plan clients might be subject to special requirements under the Employee Retirement Income Security Act of 1974 ("ERISA").

#### Soft Dollar Practices

It is PGI-Equities' policy to use all soft dollar credits generated by brokerage commissions attributable to client accounts in a manner consistent with the "safe harbor" established by Section 28(e) of the Securities Exchange Act. In most cases, services retained via soft dollar arrangements are exclusively used for either research or in connection with brokerage and trading functions within that "safe harbor". In isolated-soft dollar arrangements, PGI-Equities may receive products and services that may perform an administrative function as well as a research function, a brokerage/trading function, or both. In such cases, Principal Global Investors will make a reasonable allocation of the cost of the product or service according to PGI-Equities' use. PGI-Equities will pay for the portion of the product or service that consists of research or brokerage/trading in commission dollars. PGI-Equities will pay for the portion that provides administrative or non-research or non-brokerage/trading support directly rather than use soft dollar commissions. PGI-Equities allocation of the cost of such products and services between research and non-research functions poses a conflict of interest between PGI-Equities and its clients because, to the extent we categorize products and services as research or brokerage/trading related, PGI-Equities avoids paying for those products and services with its own money.

In allocating brokerage business, PGI-Equities gives consideration to products and services provided to it by introducing as well as clearing brokers (e.g., the furnishing of statistical data and research generally consisting of information of the following types: analyses and reports concerning issuers, industries, economic factors and trends, portfolio strategy and performance of client accounts as well as systematic or quantitative processes that supports research). It is not PGI-Equities practice to negotiate "execution-only" transaction costs, thus clients may be deemed to be paying for products and services provided by the broker which are included in the transactions costs. In making such allocations, the primary criterion used is obtaining the best overall terms for such transactions. PGI-Equities may pay additional commission amounts for research services

but generally does not do so. Such statistical data and research information received from brokers or dealers may be useful in varying degrees, and PGI-Equities may use it in servicing some or all of the accounts it manages. Clients may pay higher commission rates than those normally obtained from other brokers. Some of the products and services may benefit a specific segment of PGI-Equities clients. Commission credits are used in aggregate and are not attributed nor specifically benefit the client whose transaction created the credit unless otherwise directed by the client. Some products and services obtained from brokers may not necessarily be used for a client even though its commission dollars (or other transaction charges) paid for the products and services. Therefore it is possible a client may not be a direct or indirect beneficiary of the products and services provided. Some statistical data and research information paid for by a particular client account brokerage may not be useful to PGI-Equities in managing the client account. However, in PGI-Equities' opinion, the value thereof is not determinable and it is not expected that client's expenses will be significantly raised since the receipt of such statistical data and research information is only supplementary to PGI-Equities' own research efforts.

PGI-Equities does not utilize all commissions attributable by client accounts to purchase research services through soft dollar arrangements. PGI-Equities will generally limit its participation in soft dollar arrangements annually to an amount that, in its judgment, ensures best execution of client transactions.

With respect to PGI-Equities purchase of statistical data and research information with commission dollars, clients who afford PGI-Equities complete discretion in selecting brokers to execute transactions for their accounts may, in effect, subsidize the purchase of research PGI-Equities utilizes in managing accounts of those clients who do not afford PGI-Equities such discretion.

#### Trade Order Aggregation and Allocation for Equity Accounts

In carrying out the investment objectives of its clients, occasions arise in which PGI-Equities deems it advisable to purchase or sell the same equity securities for two or more client accounts at the same or approximately the same time. In those cases, PGI-Equities may submit the orders to purchase or sell to a broker or dealer for execution on an aggregate or "bunched" basis. PGI-Equities expects aggregation or "bunching" of orders, on average, to reduce the cost of execution. Principal Global Investors, generally, will not aggregate a client's order if, in a particular instance, it believes that aggregation will increase the client's cost of execution. In some cases, aggregation or "bunching" of orders may increase the price a client pays or receives for a security or reduce the amount of securities purchased or sold for a client account. Trade orders for SMA Programs are not generally "bunched" with institutional client account orders. PGI-Equities may on occasion, "bunch" trades with its affiliate, Principal Real Estate Investors.

PGI-Equities will not aggregate orders unless it believes that aggregation is consistent with (1) its duty to seek best execution and (2) the terms of its investment advisory agreements with its clients. Aggregated orders will be executed only after order tickets have been received by the trading desk specifying the participating accounts and the

number or percentage of shares to be allocated among the various accounts (“allocation statement”); each client portfolio that participates in an aggregated order will generally participate at the average share price for the securities in the same aggregate transaction on a given business day, with all transaction costs shared pro rata based on each client’s participation in the transaction; and if an aggregated order cannot be filled completely, allocation among orders will be made pro rata based on the allocation statement.

However, the order may be allocated on a basis different from that specified in the Allocation Statement if all accounts of clients whose orders are allocated receive fair and equitable treatment. PGI-Equities’ trading desk may depart from the above procedures if, in the exercise of its reasonable judgment, it determines that such a departure is in the clients’ interests taken as a whole. As a result of such allocations, there may be instances when a client’s account does not participate in a transaction that is allocated among other clients. As an example, there can be de minimis deviation from that stated in the Allocation Statement when necessary to correct a pro rata distribution that results in a participating account holding (1) too small a number of shares in relation to the size of the participating account or its investment strategy or (2) an odd-lot.

PGI-Equities may enter aggregated orders to participate in initial public equity offerings (IPOs). In determining whether to enter an order for an IPO for any client account, PGI-Equities considers the account's investment restrictions, risk profile, asset composition and cash level. Accordingly, it is unlikely that every client account will participate in every available IPO order. Partially filled aggregated IPO orders will be allocated pro rata across participating accounts in accordance with the procedures set out above. It is possible, therefore, that some accounts participating in the aggregated order will receive no shares in the allocation.

#### Cross Trades

PGI-Equities generally will not arrange for one client to purchase or sell securities to another client (a “cross trade”) unless the clients in question have adopted a policy that permits the PGI-Equities to cross securities and the regulatory authority governing the client accounts clearly permits the cross trade to occur. However, policies and procedures exist for those situations where cross trade transactions are appropriate and permitted by applicable law. Cross trades are only considered in isolated instances when it is determined that there are two parties; one of which wishes to dispose of a particular security while the other wishes to add it to its portfolio. Steps are taken to ensure that the transaction is in the best interests of both parties, the purchase and sale of the security satisfy the investment guidelines for each of the portfolios involved and the applicable regulatory requirements are satisfied,(as an example for mutual funds, consistent with the funds’ Rule 17a-7 procedures).

When entering into cross trade transactions, PGI-Equities takes steps to obtain a price it has determined by reference to independent market indicators, and which PGI-Equities believes is consistent with its duty of “best execution” for both parties and all parties are informed of all relevant details of the transaction and have consented to the transaction. For all cross trade transactions that are entered into, a form must be

completed and signed by the Portfolio Managers assigned to the portfolios and Compliance. The form requires that the Portfolio Managers provide written statements explaining why they believe the transaction is beneficial for both of the parties involved. The form also asks about any commissions or fees that may be paid and how the market price was determined.

Transactions involving the purchase and sale of a security that involves an ERISA plan have additional requirements that are outlined in the policies and procedures.

Because PGI-Equities manages different styles of accounts with different portfolio managers, it sometimes happens that two or more portfolio managers may initiate orders to buy or sell the same security at the same time. If one portfolio manager has entered a buy order for a stock while another portfolio manager has a sell order, the orders will be worked separately to ensure that one account does not buy from the other.

#### Trade Errors

PGI-Equities maintains a system of checks and balances designed to limit the errors it makes in placing trades for client accounts. Nonetheless, PGI-Equities will, from time to time, make such errors. It is Principal Global Investors' policy to absorb all losses on trades it places in error. In rectifying erroneous trades, PGI-Equities distinguishes between errors it identifies prior to the time a client's custodian settles the erroneous trade and posts it to the client's custodial statement ("Time of Settlement") and those it identifies after the Time of Settlement. PGI-Equities maintains an error account and settles into it all erroneous trades it identifies prior to the Time of Settlement. Any profits from erroneous trades identified before settlement are retained in the error account and can only be used to offset losses caused by subsequent errors. It is Principal Global Investors' policy to accord clients any profitable erroneous trades it identifies after the Time of Settlement.

In cases where errors are caused by brokers or dealers that are related to trades placed properly by PGI-Equities and a loss to a client account results in the amount of \$500.00 or less, PGI-Equities will not reimburse the client account, nor will it make a claim on the broker or dealer on behalf of the client. For losses caused by the broker or dealer in excess of \$500.00 and PGI-Equities selected the broker or dealer, PGI-Equities will make claim on the broker on the client's behalf for reimbursement. In cases where the client has selected the counterparty, it is expected that the client would absorb any losses incurred by their account as a result of the broker or dealer's error relating to trades placed properly by Principal Global Investors.

Principal Global Investor's policy covering the correction of trading errors generally applies only to the extent that PGI-Equities has control of resolving errors for client accounts. For the SMA Programs, the Sponsor Firms may have control over the resolution of errors of participating investment managers, including Principal Global Investors

### Foreign Exchange Transactions – Incidental to Management of Equity Accounts

It is the responsibility of a client's custodian to handle foreign exchange transactions ("FX Transactions") for client accounts to settle trades and to repatriate dividends, interest and other income payments received into the client account's base currency when necessary. However, PGI-Equities will, when requested by the client and PGI-Equities determines that it is cost effective or efficient, arrange for its trade desk or a third party to handle trade settlement related FX Transactions in unrestricted currencies. Under this type of arrangement, should a client so request, the trade desk is responsible for seeking best execution of FX Transactions, either with the client's custodian or with third parties. Unless otherwise agreed to, PGI-Equities will continue to issue standing instructions to each client's custodian for all other types of FX Transactions in unrestricted currencies, such as those related to dividend and interest repatriation. Because of various limitations regarding transactions in restricted currencies, (generally in jurisdictions where all FX Transactions must be done by the client's custodian) all FX Transactions in restricted currencies will continue to be effected by each client's custodian pursuant to standing instructions and PGI-Equities will not seek best execution.

In cases where a client has not requested that PGI-Equities handle arrangements for trade settlement related FX Transactions in non-U.S. securities, and/or PGI-Equities has deemed that it is not cost effective to do so, PGI-Equities will instruct the client's custodian to execute the necessary FX Transactions. This is done either through standing instructions communicated to the custodian when the account is established, or at the time settlement instructions are sent to the custodian for a particular transaction. The custodian is responsible for executing FX Transactions, including the timing and applicable rate, of such execution pursuant to its own internal processes. As clients generally have arrangements with their custodian regarding the execution of FX Transactions, such arrangements may impact the fees and expenses charged to the client by the custodian.

### **For Principal Global Investors -Fixed Income:**

PGI-Fixed Income's principal objective in selecting broker-dealers and entering client trades is to seek best execution for clients' transactions. In general, best execution means executing trades at the best net price considering all relevant circumstances. While best execution is the objective for all transactions, it may be measured over time through several transactions rather than through a single transaction. In seeking best execution, the key factor is not necessarily the highest bid or the lowest offers, but whether the transaction represents the best qualitative execution.

PGI-Fixed Income may take into account the following considerations in determining best execution:

- Best price for the trade;

- The broker or dealer's ability to execute and clear the trade in a prompt, orderly and satisfactory manner;
- Quality of executions in the past and existing relationship to date;
- Confidentiality provided by the broker or dealer;
- The broker or dealer's execution capabilities and any related risks in trading a block of securities;
- The broker or dealer's broad market coverage resulting in a continuous flow of information concerning bids and offerings;
- The broker or dealer's consistent quality of service, including the quality of any investment-related services provided (e.g. a first call on the release of influential securities reports);
- The broker or dealer's record keeping practices (e.g. timely and accurate confirmations); and
- Cooperation in resolving differences.

PGI-Fixed Income reviews a variety of internal and external trading reports and forensic tests to evaluate best execution with its Fixed Income trades.

PGI-Fixed Income only executes trades through brokers or dealers that are approved by its Counterparty Team. Brokers and dealers are evaluated internally by the Counterparty Team credit analyst to determine the financial capability and stability of the counterparty. Once a broker or dealer is approved, it is added to the Counterparty Authorization List and communicated to Traders.

PGI-Fixed Income conducts an annual Fixed Income broker review that gathers input from key investment staff. Portfolio managers, research analysts and traders rate brokers and dealers based on the value they believe they receive from the broker or dealer through reports, meetings, conference calls, management visits and other research. Traders rate brokers and dealers based on factors that may include, but are not limited to, execution quality, information flow, volume of trading in PGI-Fixed Income's orders, willingness to take the other side of the trade in a principal transaction, bids and offers and the broker's execution cost history.

Based on their responses, an aggregate score will be calculated for each broker and dealer and a relative ranking determined. In addition to ratings, feedback is gathered on the strengths and weaknesses of each broker and dealer (e.g. research sales, strategy and trading).

Principal Global Investors will act as investment adviser for a variety of accounts and will place orders to trade portfolio securities for each of those accounts from time to time. If, in carrying out the investment objectives of the accounts, occasions arise when purchases or sales of the same securities are to be made for two or more of the accounts

at the same time, Principal Global Investors may submit the orders to purchase or sell to a broker or dealer for execution on an aggregate or “bunched” basis (including orders for accounts in which Principal Global Investors, its affiliates and/or its personnel have beneficial interests). In aggregating trade orders and allocating available securities, Principal Global Investors must provide fair and equitable treatment to all clients participating in the “bunched order”. It is important to recognize, however, that all clients cannot be treated exactly alike. The fairness of a given allocation depends on the facts and circumstances involved, including the client’s investment criteria and account size and the size of the order. PGI-Fixed Income aggregates trades to give clients the benefits of efficient and cost-effective delivery of investment management services. By aggregating trades, PGI-Fixed Income may also obtain more favorable executions. PGI-Fixed Income may create several aggregate or “bunched” orders relating to a single security at different times during the same day. On such occasions when not restricted by the client’s investment management agreement, Principal Global Investors generally prepares, before entering an aggregated order, a written allocation statement as to how the order will be allocated among the various accounts. Securities purchased or proceeds of sales received on each trading day with respect to each such aggregate or “bunched” order shall be allocated to the various accounts whose individual orders for purchase or sale make up the aggregate or “bunched” order by filling each account’s order in accordance with the allocation statement. In the event that the aggregated order cannot be completely filled, the securities purchased or sold will generally be allocated among the various accounts on a pro rata basis, subject to rounding to avoid less easily traded lots and individual issuer de minimis limits. Securities purchased for client accounts participating in an aggregate or “bunched” order will be placed into those accounts at a price equal to the average of the weighted prices achieved in the course of filling that aggregate or “bunched” order.

Although, Principal Global Investors generally follows a pro rata allocation method various judgmental and other factors may support non-pro rata allocations. Judgmental factors (e.g. changes in the availability of cash or liquidity needs subsequent to the initial order, a de minimis holding resulting from such an allocation, , a change in the client’s needs subsequent to an initial allocation or other such judgmental factors) may form the basis of a decision for a non-pro rata allocation. In these cases, a portfolio manager must use reasonable business judgment in making a non-pro rata allocation that he or she believes is in the best interest of the affected clients.

Principal Global Investors expects aggregation or “bunching” of orders, on average, to reduce the cost of execution. Principal Global Investors, generally, will not aggregate a client’s order if, in a particular instance, it believes that aggregation will increase the client’s cost of execution. In some cases, aggregation or “bunching” of orders may

increase the price a client pays or receives for a security or reduce the amount of securities purchased or sold for a client account.

Principal Global Investors Fixed Income generally does not engage in cross trades. However, PGI-Fixed Income has procedures in place to effect cross trades when permitted by the clients and if permissible under applicable regulations applicable to both accounts. In all situations that involve a cross trade, the portfolio manager will be required to provide a statement that explains why the transaction is in the best interest of both parties. Under no circumstances an ERISA account will be permitted to participate in a cross trade without prior approval of the management of PGI-Fixed Income and Compliance.

Principal Global Investors generally does not intend to place portfolio trades for any of its fund clients with an affiliated broker-dealer.

It is the Principal Global Investors' policy that the utmost care be taken in making and implementing investment decisions on behalf of our funds and our client accounts. Nonetheless, Principal Global Investors will, from time to time, make such errors. It is Principal Global Investors' policy to absorb all losses on trades it places in error. In rectifying erroneous trades, Principal Global Investors distinguishes between errors it identifies prior to the time a client's custodian settles the erroneous trade and posts it to the client's custodial statement ("Time of Settlement") and those it identifies after the Time of Settlement.

Principal Global Investors maintains an error account and settles into it all erroneous trades it identifies prior to Time of Settlement. Any profit from erroneous trades identified before settlement is retained in the error account and can only be used to offset losses caused by subsequent errors. It is Principal Global Investors' policy to accord clients any profitable erroneous trades it identifies after the Time of Settlement.

In cases where errors are caused by brokers or dealers selected by Principal Global Investors that are related to trades placed properly by PGI-Fixed Income, and a loss to a client account results in the amount of \$500.00 or less, PGI-Fixed Income will not reimburse the client account nor will it make a claim on the broker or dealer on behalf of the client. For losses caused by the broker or dealer in excess of \$500.00 and PGI-Fixed Income selected the broker or dealer, PGI-Fixed Income will make claim on the broker or dealer on the client's behalf for reimbursement. In cases where the client has selected the counterparty, it is expected that the client would absorb any loss as a result of the error.

Principal Global Investors does not generally engage in principal transactions, as defined by Section 206-3 under the Advisers Act, as part of its trading processes for Clients. In the event the Firm should endeavor to engage in a principal transaction, the Firm will take action to ensure compliance with the relevant requirements of the Advisers Act.



Section 206(3) prohibits any investment adviser from engaging in or effecting a transaction on behalf of a client while acting either as principal for its own account, or as broker for a person other than the client, without disclosing in writing to the client, before the completion of the transaction, the adviser's role in the transaction and obtaining the client's consent. An investment adviser is not "acting as broker" if the adviser receives no compensation (other than its advisory fee) for effecting a particular agency transaction between advisory clients.

New issue portfolio securities (including new securities sold in reliance on Securities and Exchange Commission Rule 144A) will normally be purchased directly from the issuer or from an underwriter for the securities. Such transactions involve no brokerage commissions. Purchases from underwriters will include a commission or concession paid by the issuer (and not by clients of Principal Global Investors) to the underwriter. In some new issue transactions, there may be only one underwriter and, accordingly, any orders for that new issue security will be placed with that underwriter. In other new issue transactions in which an underwriting group is involved, pricing should be uniform among the underwriters and Principal Global Investors will normally place its orders with the lead manager, in an effort to maximize the prospects for getting the orders filled. Secondary purchases from and sales to dealers will include the spread between the bid and asked prices. In general, Principal Global Investors' primary objective in exercising any available authority concerning the selection of an underwriter, broker, or dealer is to obtain the best overall terms for Principal Global Investors' clients. In pursuing this objective, Principal Global Investors considers all matters it deems relevant (both for the specific transaction and on a continuing basis), including the breadth of the market in the security, the price of the security, the financial condition and executing capability of the broker or dealer and the reasonableness of the compensation, if any, received by the underwriter, broker or dealer.

Principal Global Investors Fixed Income boutique does not accept the use of soft dollar credits and currently does not engage in "deal credit" arrangements in municipal bond transactions.

It is the responsibility of a client's custodian to handle foreign exchange transactions ("FX Transactions") for client accounts to settle trades and to repatriate dividends, interest and other income payments received into the client account to the account's base currency when necessary. However, PGI-Fixed Income will, when requested by the client and PGI-Fixed Income determines that it is cost effective or efficient, arrange for its trade desk to handle trade settlement related FX transactions in unrestricted currencies. Under this type of arrangement, should a client so request, the trade desk is responsible for seeking best execution of FX transactions, either with the client's custodian or with third parties. Unless otherwise agreed to, PGI-Fixed Income will continue to issue standing instructions to each client's custodian for all other types of FX transactions in

unrestricted currencies, such as those related to dividend and interest repatriation. Because of various limitations regarding transactions in restricted currencies, (generally in jurisdictions where all FX Transactions must be done by the client's custodian) all FX Transactions in restricted currencies will continue to be effected by each client's custodian pursuant to standing instructions and PGI-Fixed Income will not seek best execution.

In cases where a client has not requested that PGI-Fixed Income handle arrangements for trade settlement related FX transactions in non-U.S. securities, and/or PGI-Fixed Income has deemed that it is not cost effective to do so, PGI-Fixed Income will instruct the client's custodian to effect the necessary FX transactions. This is done either through standing instructions communicated to the custodian when the account is established, or at the time settlement instructions are sent to the custodian for a particular transaction. The custodian is responsible for executing FX transactions, including the timing and applicable rate, of such execution pursuant to its own internal processes. As clients generally have arrangements with their custodian regarding the execution of FX transactions, such arrangements may impact the fees and expenses charged to the client by the custodian.

#### **For Currency:**

The Macro Currency Boutique's (MCG's) execution process has been designed to ensure the provision of best execution whenever possible. The process is implemented by a trading teams sitting across multiple time zones and draws on support from compliance and credit research functions within Principal Global Investors.

### **ITEM 13 – REVIEW OF ACCOUNTS**

#### **Review of Accounts**

Principal Global Investors reviews each client account to monitor portfolio performance and to ensure that each portfolio conforms to guidelines established by Principal Global Investors and the client. Separately negotiated contracts with each client contain the precise nature of the advisory services to be furnished to that client. These contracts can specify the criteria and process for the account review furnished by the client. In addition, Principal Global Investors uses its own review processes and procedures during the ongoing management of the client's portfolio. Principal Global Investors generally sends reports to clients on the investment status of their portfolios quarterly, or more frequently if required under the terms of the client contract.

## Reviews

### **For Equity:**

Equity portfolios receive ongoing review during the trading process. Principal Global Investors utilizes a compliance system to assist in the automated review and monitoring of portfolios. Many client account investment guidelines can be input into this compliance system. Each equity trade order is submitted into the system and reviewed electronically for compliance with the account's investment guidelines. This is done prior to the trade order being submitted to Principal Global Investors' trade desk. The system blocks trades that would cause an explicit breach of client guidelines. Principal Global Investors generates daily reports identifying exceptions for further analysis.

The portfolio managers utilize proprietary and third party portfolio construction tools to monitor pre-trade and post-trade risks before trade orders are ever sent to the trading desk. These systems allow the team to evaluate the impact of potential trades on the overall portfolio exposures which cannot be monitored through automated compliance system, yet may be a client objective or guideline.

All members of the equity boutique can monitor portfolios on an ongoing basis and allow for senior management to view portfolio positioning for all strategies at any time. Daily performance reports on representative samples of client portfolios are compared to relative benchmarks. Principal Global Investors runs monthly risk analysis and exception reports on a representative sample of portfolios relative to benchmarks, and in addition, Portfolio Managers formally review a representative group of client portfolios each month.

### **For Fixed Income:**

Each fixed income portfolio is reviewed daily by its Portfolio Manager and team members assigned to that portfolio. Principal Global Investors runs daily reports on a sampling of accounts indicating performance of each portfolio, market value and cash for each account included in the sampling. Principal Global Investors maintains a Fixed Income Investment Committee. Principal Global Investors runs monthly performance reports on all accounts, which are provided to the members of the Fixed Income Investment Committee. Risk management reports showing tracking error and characteristics are run at least quarterly and provided to the Fixed Income Investment Committee. Each Portfolio Manager meets quarterly with the Fixed Income Investment Committee to review the activity in the portfolio(s) for which the Portfolio Manager is responsible.

### **For Currency:**

Views are implemented on a consistent basis across the relevant portfolios (working within each portfolio's specified guidelines), with position size scaled to meet the volatility requirements of each portfolio. Portfolios are monitored in real time by the portfolio, trading and risk management functions so as to ensure coherency and minimize dispersion.

Portfolio parameters are agreed in conjunction with the client so as to most effectively meet their needs. These guidelines are hard coded into ThinkFolio so as to ensure compliance on both a pre- and post-trade basis. Oversight is provided by the independent compliance function of Principal Global Investors. Guideline amendments are only executed upon the receipt of an amended client-specific investment advisory agreement.

#### Reviewers

Principal Global Investors has several Committees that review all client portfolios falling within their respective equities or fixed income area of focus. All Committee members are officers of Principal Global Investors and generally hold the title of Director, Managing Director or Executive Director. The appropriate Committee assists the Portfolio Manager in reviewing objectives and constraints of the client, investment activity, operational activity, and client relations at least quarterly. The number of accounts each Committee reviews varies by Committee.

### **ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

Principal Global Investors enters into compensation arrangements with certain related persons who act as solicitors of clients for Principal Global Investors. In addition, Principal Global Investors may enter into arrangements with other persons who act as solicitors of clients for Principal Global Investors when it appears to Principal Global Investors that a solicitor may provide Principal Global Investors with access to clients Principal Global Investors might not otherwise have. Such arrangements will at all times be maintained in compliance with Rule 206(4)-3 of the Investment Advisers Act of 1940. Principal Global Investors may pay any such solicitor (a) a salary, or (b) a percentage of the management fee Principal Global Investors earns from the account a solicitor has introduced, or (c) a one-time fee, or (d) any combination of (a), (b), or (c). In the event the Principal Global Investors utilizes unaffiliated solicitors to procure clients for investment pools they manage, the payments will not be treated as cash solicitation fees per Rule 206(4)-3. The SEC in an Interpretive Letter dated July 28, 2008 to Mayer Brown LLP indicated that Rule 206(4)-3 does not apply to an investment adviser's cash payment to a person solely to compensate that person for soliciting investments in investment pools managed by the investment adviser.

### **ITEM 15 – CUSTODY**

When required, clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. Principal Global Investors urges you to carefully review such statements and compare such official custodial records to the account statements that Principal Global Investors may provide to you. The statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

## **ITEM 16 – INVESTMENT DISCRETION**

Principal Global Investors generally receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, Principal Global Investors observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to Principal Global Investors in writing.

## **ITEM 17 – VOTING CLIENT SECURITIES**

Principal Global Investors has adopted and implemented written Proxy Voting Policies and Procedures which are designed to reasonably ensure that Principal Global Investors votes proxies in the best interests of its advisory clients who have authorized the Principal Global Investors to address these matters on their behalf. Principal Global Investors' guiding principles in performing proxy voting are to make decisions that (i) favor proposals that tend to maximize a company's shareholder value and (ii) are not influenced by conflicts of interest.

The principles and positions in the Policy are designed to guide Principal Global Investors in voting proxies, and not necessarily in making investment decisions. Portfolio Management Teams base their determinations of whether to invest in a particular company on a variety of factors

The client may authorize Principal Global Investors to vote proxies. Clients may obtain a summary report relating to their account by contacting their representative.

Principal Global Investors has established a general Proxy Voting Policy using the Institutional Shareholder Services, Inc. (ISS) Standard Proxy Voting Guidelines (the Guidelines) except where a portfolio management team may decide to diverge from the Guidelines. In this case, the policy requires certain procedures and documentation to be met.

Clients may obtain a copy of Principal Global Investors' complete proxy voting policies and procedures upon request.

In the rare event that a proxy ballot is received for a Fixed Income account, the relevant Portfolio Manager will be responsible for voting the ballot.

## **ITEM 18 – FINANCIAL INFORMATION**

Registered investment advisers are required in this Item to provide clients with certain financial information or disclosures about Principal Global Investors' financial condition. Principal Global Investors has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

This Notice is provided on behalf of the following companies of the Principal Financial Group:

Principal Life Insurance Company  
Principal National Life Insurance Company  
Princor Financial Services Corporation  
Principal Trust Company  
Principal Global Investors, LLC  
Principal Global Investors Trust  
Principal Real Estate Investors, LLC  
Principal Commercial Acceptance, LLC  
Principal Commercial Funding, LLC  
Principal Green Fund I, LP / PGF GP, LLC  
Edge Asset Management, Inc. / Spectrum Asset Management, Inc.  
Principal Variable Contracts Funds, Inc.  
Principal Life Insurance Company Variable Life Separate Account  
Principal National Life Insurance Company Variable Life Separate Account  
Principal Life Insurance Company Separate Account B  
Principal Funds, Inc. / Principal Funds Distributor, Inc.  
Employers Dental Services, Inc. / Principal Dental Services, Inc.  
First Dental Health

## PROTECTING YOUR PRIVACY

This Notice is required by law. It tells how we handle personal information.

This Notice applies to:

- people who own or apply for our products or services for personal use.
- employee benefit plan participants and beneficiaries.

Please note that in this Notice, “you” refers to only these people. The Notice does not apply to an employer plan sponsor or group policyholder.

## WE PROTECT INFORMATION WE COLLECT ABOUT YOU

We follow strict standards to safeguard personal information. These standards include limiting access to data and regularly testing our security technology.

## HOW WE COLLECT INFORMATION

We collect data about you as we do business with you. Some of the sources of this data are as follows:

- **Information we obtain when you apply or enroll for products or services.** You may provide facts such as your name; address; Social Security number; financial status; and, when applicable, health history.
- **Information we obtain from others.** This may include claim reports, medical records, when applicable, credit reports, property values and similar data.
- **Information we obtain through our transactions and experience with you.** This includes your claims history, payment and investment records, and account values and balances.
- **Information we obtain through the Internet.** This includes data from online forms you complete. It also includes data we collect when you visit our websites.

## HOW WE SHARE INFORMATION

### Within the Principal Financial Group

We may share personal information about you or about former customers, plan participants or beneficiaries within the Principal Financial Group for several reasons, including:

- to assist us in providing service;
- to help design and improve products; or
- with your consent, at your request or as allowed by law.

### With Others

In the course of doing business we may share data with others. This could include personal information about you or about former customers, plan participants or beneficiaries. Personal information may be shared with others for the following reasons:

- in response to a subpoena,
- to prevent fraud,
- to comply with inquiries from government agencies or other regulators, or
- for other legal purposes.

We also may share personal information:

- with others that service your accounts, or that perform services on our behalf;
- with others with whom we may have joint marketing agreements. These include financial services companies (such as other insurance companies, banks or mutual fund companies); and
- with other companies with your consent, at your request or as allowed by law.

## MEDICAL INFORMATION

We do not share medical information among companies of the Principal Financial Group or with others except:

- when needed to service your policies, accounts, claims or contracts;
- when laws protecting your privacy permit it; or
- when you consent.

## ACCURACY OF INFORMATION

We strive for accurate records. Please tell us if you receive any incorrect materials from us. We will make the appropriate changes.

## COMPANIES WITHIN THE PRINCIPAL FINANCIAL GROUP

Several companies within the Principal Financial Group are listed at the top of this Notice. The companies of the Principal Financial Group are leading providers of retirement savings, investment, and insurance products.

## MORE INFORMATION

You may write to us if you have questions about our Privacy Notice. Contact our Privacy Officer at P.O. Box 14582, Des Moines, Iowa 50306-3582.

*Receipt of this notice does not mean your application has been accepted.*

*We may change our privacy practices at times. We will give you a revised notice when required by law.*

*Our privacy practices comply with all applicable laws. If a state's privacy laws are more restrictive than those stated in this Notice, we comply with those laws.*

*Your agent, broker, registered representative, consultant or advisor may have a different privacy policy.*

1-800-986-3343







# CALIFORNIA PRIVACY NOTICE

This Notice is provided on behalf of the following companies of the Principal Financial Group:

Principal Life Insurance Company  
Principal National Life Insurance Company  
Princor Financial Services Corporation  
Principal Trust Company  
Principal Global Investors, LLC  
Principal Global Investors Trust  
Principal Real Estate Investors, LLC  
Principal Commercial Acceptance, LLC  
Principal Commercial Funding, LLC  
Principal Green Fund I, LP / PGF GP, LLC  
Edge Asset Management, Inc. / Spectrum Asset Management, Inc.  
Principal Variable Contracts Funds, Inc.  
Principal Life Insurance Company Variable Life Separate Account  
Principal National Life Insurance Company Variable Life Separate Account  
Principal Life Insurance Company Separate Account B  
Principal Funds, Inc. / Principal Funds Distributor, Inc.  
Employers Dental Services, Inc. / Principal Dental Services, Inc.  
First Dental Health

## PROTECTING YOUR PRIVACY

This Notice is required by law. It tells how we handle personal information.

This Notice applies to individual residents of California who:

- own or apply for our products or services for personal use.
- are employee benefit plan participants and beneficiaries.

Please note that in this Notice, "you" refers to only these people. The Notice does not apply to an employer plan sponsor or group policyholder.

## WE PROTECT INFORMATION WE COLLECT ABOUT YOU

We follow strict standards to protect personal information. These standards include limiting access to data and regularly testing our security technology.

## HOW WE COLLECT INFORMATION

We collect data about you as we do business with you. Some of the sources of this data are as follows:

- **Information we obtain when you apply or enroll for products or services.** You may provide facts such as your name; address; Social Security number; financial status; and, when applicable, health history.
- **Information we obtain from others.** This may include claim reports, medical records, credit reports and similar data.
- **Information we obtain through our transactions and experience with you.** This includes your claims history, payment and investment records, and account values.
- **Information we obtain through the Internet.** This includes data from online forms you complete. It also includes data we receive when you visit our website.

## HOW WE SHARE INFORMATION

We may share personal information about you or about former customers, plan participants or beneficiaries among companies within the Principal Financial Group or with others for several reasons, including:

- to assist us in servicing your account;
- to protect against potential identity theft or unauthorized transactions;
- to comply with inquiries from government agencies or other regulators, or for other legal purposes;
- with your consent, at your request or as allowed by law.

## MEDICAL INFORMATION

We do not share medical information among companies of the Principal Financial Group or with others except:

- when needed to service your policies, accounts, claims or contracts;
- when laws protecting your privacy permit it; or
- when you consent.

## ACCURACY OF INFORMATION

We strive for accurate records. Please tell us if you receive any incorrect materials from us. We will make the appropriate changes.

## COMPANIES WITHIN THE PRINCIPAL FINANCIAL GROUP

Several companies within the Principal Financial Group are listed at the top of this Notice. The companies of the Principal Financial Group are leading providers of retirement savings, investment, and insurance products.

## **MORE INFORMATION**

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*Your agent, broker, registered representative, consultant or advisor may have a different privacy policy.*

1-800-986-3343

