

Principal Enterprise Capital, LLC

ADV Part 2A

801 Grand Avenue
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This brochure provides information about the qualifications and business practices of Principal Enterprise Capital, LLC. If you have any questions about the contents of this brochure please contact us at 515-248-2998. 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 Enterprise Capital, LLC is available on the Security and Exchange Commission's (SEC) website at www.adviserinfo.sec.gov.

Principal Enterprise Capital, LLC is a registered investment adviser. Registration of an Investment Adviser does not imply any 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 22, 2013. There have been no material changes from the last annual update.

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Item 4 – Advisory Business

Principal Enterprise Capital, LLC (“the Adviser”), established in 1999, is a limited liability company and is a wholly owned subsidiary of Principal Global Investors, LLC. Principal Global Investors, LLC was established in 1998 and is an indirect wholly owned affiliate of the Principal Financial Group, Inc. which is a publicly held company (NYSE: PFG). The Principal Financial Group, Inc. is a leading global financial institution offering a wide range of financial products and services. Principal Global Investors, LLC 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.

The Adviser 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. The Adviser 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.

The Adviser is the managing member of Principal Enterprise Capital Holdings, LLC (“PECH”). PECH is the Adviser’s sole investment advisory client.

Assets Under Management

The Adviser manages \$3,127,800,000 in non-discretionary assets as of December 31, 2013.

Item 5 – Fees and Compensation

The Adviser has one client for which fees, including performance-based fees, have been separately negotiated. The Adviser is not currently seeking additional clients. Fees would be negotiated for any new clients obtained in the future.

Operating expenses of the Adviser, including all salaries and all fees, costs and expenses incurred in the acquisition, management and disposition of any portfolio asset will be the responsibility of the client.

The Adviser sends an invoice to the investors of the client on a quarterly basis for review. On a specific date, funds are transferred from the client’s account to the Adviser’s account.

Item 6 – Performance-Based Fees and Side-By-Side Management

The Adviser has one client for which fees, including performance-based fees, have been separately negotiated. The Adviser is not currently seeking additional clients. Fees would be negotiated for any new clients obtained in the future.

Item 7 – Types of Clients

The Adviser is the managing member of PECH. PECH is the Adviser’s sole investment advisory client.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Methods of Analysis and Investment Strategies

The investment strategy is to identify, structure, create and manage strategic entity-level partnership investments primarily in private real estate operating companies (“REOC”). REOCs are entities that typically acquire, develop, redevelop and operate commercial real estate assets. The Adviser selects attractive sectors (geographic, property type, and market-level business strategies) that offer excellent risk-adjusted return potential for the client.

The Adviser utilizes a private equity or venture capital approach to investing. In order to effectively combine the power of value creation of both the investor capital and the entrepreneurial operating partner, the Adviser structures the investments so that its REOCs are managed consistent with an annual business plan. The REOC leads the business planning process. The Adviser has the ability to approve the business plan and retains other strategic control measures to protect the interests of the client. The REOC retains tactical and day-to-day management control of the business enterprise.

Risks Associated with Adviser’s Investment Strategy

Investing in REOCs – Investing in REOCs is inherently risky due to key person risk which includes the difficulty of identifying and partnering with partners who share a strong cultural and philosophical fit and then maintaining a clear alignment of interest over time. The Adviser mitigates this risk through its investment process of careful vetting of prospective operating partners and ongoing oversight and management of new Program REOCs. The vetting process includes several months of discussions with the prospective operating partner prior to creating a new Program REOC.

Insufficient Investment Opportunities - There can be no guarantee that the Adviser will be able to identify sufficient investment opportunities. This poses risks to the client in that the expenses of the Adviser will be passed through to the client whether or not sufficient investment opportunities are located. If the condition of insufficient investment opportunities were to persist, the client could terminate the Adviser in order to prevent the continued accrual of the Adviser’s expenses.

Inadequate Return - There can be no guarantee that the investment in REOCs will meet any return objective. Nor can there be any guarantee that the realized return on investment will be commensurate with the risks of investment. Further, since there will be a limited number of portfolio assets in the investment, the aggregate returns on the investments may be negatively impacted by unfavorable performance of a small number of portfolio assets. The possibility of partial or total loss of capital exists, and the client should not invest unless they can readily bear the consequences of such an outcome.

Risks of Real Estate Investment - Investments in real estate and REOCs are subject to various risks related to general economic conditions, real estate space market conditions, and real estate capital market conditions. Adverse changes in any one of these dimensions may cause a negative impact upon the performance. Furthermore, real estate investments are subject to a myriad of other risks including, but not limited to, the following: the financial condition of tenants; real estate taxes and other operating expenses; environmental laws and other governmental rules and regulations; changes in the relative attractiveness of properties; risks and operating problems arising out of the presence of certain construction materials, as well as acts of God, uninsurable losses and other factors outside the control of the Adviser.

Illiquidity of Real Estate Investments - Investments in real estate and real estate related assets are often illiquid due to an absence of established markets or legal or contractual restrictions thereon. There can be no assurance that the REOCs will be able to liquidate their real estate investments in a timely manner or on favorable terms. If the client receives a distribution from a REOC of any such illiquid investments and attempts to dispose of such investments, there may be additional costs and resulting risk.

Timing of Additional Capital Contributions – Investors in REOCs may be required to meet additional capital calls from time to time. Each investor may not have significant advance notice of the timing or amount of required capital contributions. Failure by an investor to make such an additional capital contribution could result in dilution of its interests or the enforcement of other remedies.

Tax Risks - Tax consequences to the investor from an investment in REOCs are complex. Investors are strongly urged to consult their own professional advisers.

Environmental Matters – Investors in REOCs may be exposed to substantial risk of loss from investing in REOCs which experience environmental claims arising in respect of properties owned by such REOCs that have undisclosed or unknown environmental problems.

Investment in Other Entities – Investments in REOCs are investments in separate entities. Entity-level investments may involve risk not present in direct property investments, including, for example, general operating risks, as well as the possibility that the entity or a co-venturer or partner in any such investment may become bankrupt, or may at any time have economic or business interests or goals which are inconsistent with those of the investors in REOCs, or that such co-venturers or partners may be in a position to take action contrary to their objectives. In addition, the investors in REOCs may be liable for actions of co-venturers or partners.

Leverage – REOCs may have a certain amount of indebtedness. Companies with high degrees of financial leverage are more susceptible to downturns in its business and to adverse changes in the economic system.

Development Risk - It is likely that investments in certain REOCs may be involved in real estate development. The risks of such activities include, without limitation, inability to obtain zoning and regulatory approvals, variance in the cost of construction, variance in the timing of construction, and the availability of financing. Negative events relating to the completion, timing, and cost of development may have an adverse impact on the performance of investments in REOCs.

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 the Adviser or the integrity of its management. The Adviser has no information applicable to this item.

Item 10 – Other Financial Industry Activities and Affiliations

Principal Global Investors, LLC (“PGI”), the Adviser’s sole member, owns 100% of the Adviser and is an investment adviser registered with the Securities and Exchange Commission. Principal Global Investors offers portfolio management services for fixed income, equities and commercial

real estate products. On occasion, the Adviser may utilize personnel or other resources of PGI to assist the Adviser in the performance of investment advisory services. The Adviser and PGI have other common directors and officers. Principal Global Investors furnishes certain personnel, facilities, and other resources to the Adviser. Principal Global Investors 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.

The Adviser is under common control with Principal Real Estate Investors, LLC ("PrinREI"), an investment adviser registered with the Securities and Exchange Commission. PrinREI offers portfolio management and investment advisory and subadvisory services concerning primarily equity real estate and commercial mortgage investments to affiliated and non-affiliated persons. On occasion, the Adviser may utilize personnel or other resources of PrinREI to assist the Adviser in the performance of investment advisory services. The Adviser and PrinREI have other common directors and officers.

The Adviser 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. The Adviser 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.

Potential Conflicts of Interest

The Adviser and the Principal Financial Group and their affiliates will be subject to various conflicts of interest in performing their duties to the client, including the following:

Allocation of Time and Investment Opportunities; Competition - Certain member companies of the Principal Financial Group presently manage or provide investment advice for other funds and client accounts and they, subject to any contractual limitations, may, in the future, manage or provide investment advice for other funds and client accounts, which have or may have investment objectives comparable to those of the client. As a result, the client may face competition from these other funds and clients for investment opportunities. In addition, the investors and these other funds may own properties that are in the same general area as, and are in competition for buyers, tenants or financing with portfolio assets of this investment.

Mortgage Lending - Subject to the limitations noted herein, real estate or entities associated with portfolio assets may be or become encumbered by liens securing loans made or serviced by the Principal Financial Group to the extent such lending is permitted by applicable law and the investor. In making such loans, the Principal Financial Group will act in accordance with its best interests or those of its investors, which in either case may or may not be consistent with the interests of the client. The Adviser will be required, however, to disclose the existence of such loan to the investor and the relevant program REOC and demonstrate to the satisfaction of the investor holding a majority of the membership interests that such loan is being made pursuant to commercially reasonable terms resulting from a competitive market process.

The Adviser shall provide the investor with written notice of any situation that the Adviser believes may present it with an actual conflict of interest, provided that no such separate notice shall be required in connection with the funding of any Principal Financial Group loan if all requirements imposed by the immediately preceding paragraph have been satisfied.

In the event that, in the opinion of a majority of membership interests in the investment communicated in a written notice to the Adviser, any such lien shall result in an actual conflict of interest on behalf of the Adviser, the Adviser shall take no further action with respect to the portfolio asset associated with such lien unless expressly authorized in writing by a majority of membership interests. In the event the Adviser shall receive any such written notice (and until such notice shall be revoked by a majority of membership interests), all decisions with respect to such portfolio asset shall be made by a majority of membership interests, or its designated agent.

Adviser's Receipt of Fees - The Adviser will earn fees from the investment without regard to the investment's profitability.

Item 11 – Code of Ethics

The Adviser 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 the Adviser officers, directors, employees and certain non-employees of the Adviser with access to client and trading information of the Adviser (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 the Adviser also trades for its clients, so long as those buy and sell transactions are conducted in accordance with the Adviser's 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 the Adviser 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 the Adviser for purchase or sale on behalf of clients. The Adviser's 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 the Adviser's Code. Each calendar quarter, the Adviser's Access Persons review and certify to a report of their personal securities transactions in accordance with the Adviser's Code.

A client of the Adviser may obtain a copy of the Code of Ethics by contacting the Chief Compliance Officer at 212-603-3659.

Item 12 – Brokerage Practices

Not Applicable.

Item 13 – Review of Accounts

Investments made on behalf of the client are in a relatively small number of REOCs. Therefore, the investment portfolio is very static and reviews of the portfolio generally relate to the

performance and activities of existing investments rather than changes in holdings. Any changes in holdings (purchases or sales of REOCs) are approved by the investor. The REOCs prepare written annual business plans, monthly performance/activity reports, and quarterly performance/activity reports, which are reviewed by the Adviser's staff, including the President, two Managing Partners, the Chief Financial Officer and the Chief Administrative Officer. The Managing Partners also participate in monthly phone calls and quarterly Managing Board meetings of the REOCs. Content reviewed in these forums relates to the performance of individual real estate assets owned by the REOCs, new assets to be acquired, debt activities, general market conditions, organizational issues and other information that relates to the performance of the entities.

The investors receive the annual business plans and monthly and quarterly reports for the REOCs referred to above. These reports describe the performance, activities and risks related to each individual asset owned by the REOCs as well as present detailed balance sheet and income statement information. The investors also receive monthly reports from the Adviser that present balance sheet and income statement information for the fund, summarize investing and debt activities of investees and monitor risk areas of the investee companies. The investors also receive quarterly and annual performance reports that present investment return information for the most recent quarter, year, three years, etc.

Item 14 – Client Referrals and Other Compensation

The Adviser is not a party to any arrangement whereby it compensates another for client referrals. In addition, the Adviser and its employees do not receive any economic benefits, including sales awards and prizes, from non-clients in connection with providing advisory services to the client.

Item 15 – Custody

The client is a pooled investment vehicle. Copies of the audited financial statements are sent to investors in the client within 120 days of the fiscal year-end. Since the audited financial statements are sent to the client's investors, there is no need to have a surprise examination completed.

Item 16 – Investment Discretion

This is a non-discretionary client.

Item 17 – Voting Client Securities

Not Applicable

Item 18 – Financial Information

Registered investment advisers are required in this item to provide you with certain financial information or disclosures about the Adviser's financial condition. The Adviser has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to the client, and has not been the subject of a bankruptcy proceeding.