

Principal Real Estate Investors, LLC

ADV Part 2A

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This brochure provides information about the qualifications and business practices of Principal Real Estate 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 Real Estate Investors, LLC also is available on the SEC's website at www.adviserinfo.sec.gov.

Principal Real Estate Investors 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 has been amended to reflect a change to the fee schedule replacing the brochure dated October 13, 2014. There have been no material changes from the last annual update.

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ITEM 4 -- ADVISORY BUSINESS

Principal Real Estate Investors, LLC, established in 1998, is a leading real estate investment management firm and is a wholly owned subsidiary of Principal Global Investors, LLC. The capabilities of Principal Real Estate Investors encompass an extensive range of real estate investments including private real estate equity, private real estate debt, public real estate debt and public real estate equity securities in both domestic and select international markets. 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 Real Estate Investors provides investment advisory services concerning private real estate equity, private real estate debt, public real estate debt securities such as commercial mortgage backed securities ("CMBS") and public real estate equity securities issued by real estate investment trusts and other companies involved in the commercial real estate business to institutional investors, high net worth individuals and individuals. Please refer to Item 7 for further information on the types of clients we provide services to. Advice on these real estate asset classes are provided in both separate account arrangements and commingled funds.

Separately managed portfolios may be tailored to the specific requirements of the client through an investment advisory agreement which generally incorporates the investment guidelines. Clients may impose restrictions on investing in certain investments or certain types of investments. Principal Real Estate Investors provides both discretionary and non-discretionary investment advisory services.

Separately Managed Accounts (SMA) / Wrap Fee Programs

Principal Real Estate Investors provides investment advice on real estate equity securities through 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 Real Estate 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 Real Estate Investors. It should be expected therefore that accounts receiving recommendations that are implemented following Principal Real Estate Investors' institutional accounts may have different performance than the institutional accounts because of favorable or unfavorable market changes during the ensuing period. For trade rotation purposes, "model only" programs are accorded rotation slots on a similar basis as the slots accorded to other SMA discretionary program. The only difference is that the model portfolio is communicated to the "model only" program sponsors or designated overlay manager for execution.

Generally the services provided by Principal Real Estate 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 Real Estate Investors managed \$12,507,258,053.20 in discretionary assets and \$4,157,188,698 \$4,393,435,941.37 in non-discretionary assets as of December 31, 2014.

ITEM 5 – FEES AND COMPENSATION

Principal Real Estate Investors generally negotiates fees on an individualized basis with each client for separate accounts. Fees are stipulated in the offering documents for the commingled funds. Compensation is generally of the following varieties: (i) investment (acquisition and/or origination) and disposition fees, which are charged upon the creation and disposition of an investment; (ii) asset management or servicing fees; and (iii) other fees specifically negotiated for services provided. Principal Real Estate Investors will offer its services for compensation based primarily on a percentage of the value of assets under management, on a percentage of income generated by real estate assets under management, or on a fixed fee basis. No compensation will generally be payable prior to the provision of the service for which the compensation is due with the possible exception of commitment or acquisition fees. Contracts generally will be terminable by a client upon thirty (30) days' notice. Proportional fees may be due in the event of early termination of the contract with any client.

Principal Real Estate Investors enters into contracts with each client; such contracts detail the precise nature of the advisory services to be furnished to that client and incorporate both investment guidelines and fee schedules. Each advisory contract is specifically negotiated to meet the investment objectives of the particular client. No investment is made for a client unless it is consistent with the investment guidelines within the advisory contract or has otherwise been agreed to by the client. With respect to the investments of limited opportunity (such as most real estate related investments), Principal Real Estate Investors allocates investment opportunities pursuant to written allocation policies which Principal Real Estate Investors believes in good faith are fair and equitable to its eligible clients over time.

The following information outlines the fees and compensation for the various real estate assets on which Principal Real Estate Investors provides investment advice:

Private Real Estate Equity

Compensation for investment management services in the case of separate account arrangements is negotiated in each instance and is particular to each advisory contract and in the case of commingled funds is outlined and disclosed in the private placement

memorandum and other offering documents. Compensation arrangements may include, among other arrangements, the following:

(1) investment acquisition and disposition fees, which are charged upon the creation and disposition of an investment, are generally based upon the amount of client capital invested in the project or asset purchase/sales price (investment transaction fees may vary depending upon whether there are additional dimensions to the transaction, such as the use of leverage, fractional interest, or others.);

(2) annual portfolio management fees, which are generally based upon such factors as the net equity, the appraised value or the income of the portfolio and are generally paid in arrears monthly or quarterly;

(3) incentive management fees which are typically paid after the client receives a specified return which is negotiated as part of the advisory contract; and

(4) other fees specifically negotiated for services provided, such as development and financing services provided by Principal Real Estate Investors.

Different fee arrangements may exist for advisory services relating to securities and management services relating to real estate. In addition, advisory fees may include compensation for reasonable start-up expenses associated with a particular client's account. Disposition fees may also include a performance-based component, which provides Principal Real Estate Investors with a percentage, negotiated on a case-by-case basis with each client, of the investment return above a predetermined threshold. Annual asset management fees depend upon the nature of the interest managed, the extent of leverage within the portfolio, and other factors. Fees received in connection with property financings are usually based upon the amount of financing obtained. Generally the minimum account size to open and maintain a separately managed account is \$250 million.

Private Real Estate Debt

Compensation for investment management services in the case of separate account arrangements is negotiated in each instance and is particular to each advisory contract and in the case of commingled funds is outlined and disclosed in the private placement memorandum and other offering documents. Compensation arrangements may include, among other arrangements, the following:

1) Loan origination or secondary market loan acquisition fees, which are charged upon the funding of an investment, and are generally based upon the amount of client capital invested. Loan origination fees may alternatively be collected and retained from borrowers on a loan along with due diligence and closing fees;

2) Loan servicing, special servicing and portfolio management fees, which are generally based upon outstanding loan balances or current market values. These fees are generally

paid in arrears on a quarterly or monthly basis. Fees may also be collected from borrowers on loans and include items such as loan assumptions, loan modifications, loan extensions, collateral substitutions, late fees and fees for other servicing tasks. In addition, revenue may be received and retained from interest off of escrows and impounds held;

(3) Incentive management fees which are typically paid after the client receives a specified return which is negotiated as part of the advisory contract; and

(4) Other fees specifically negotiated for services provided. These may include fees or profit sharing for providing securitization services, fees for leveraging portfolios, loan disposition fees, and charges for other special services provided by Principal Real Estate Investors.

Advisory fees may include compensation for reasonable start-up expenses associated with a particular client's account. Generally the minimum account size to open and maintain a separately managed account is \$250 million.

Public Real Estate Equity and Debt Securities:

Below are the standard fee schedules and account minimums for the public real estate equity and debt security strategies. The fees are charged as a percentage of the assets under management and are negotiable.

Strategy Name	Fee Schedule
US Real Estate Equity Securities Global Real Estate Securities Global Ex-US Real Estate Securities	0.75% on the first \$25 mm 0.65% on the next \$25 mm 0.55% on all thereafter Minimum account size: \$25 mm
Global Real Estate Securities Income Preference	0.85% on the first \$25 mm 0.75% on the next \$25 mm 0.65% on all thereafter Minimum account size: \$25 mm
High Quality Yield (CMBS) Investment Grade Yield (CMBS)	0.30% on the first \$25 mm 0.25% on the next \$25 mm 0.20% on the next \$50mm 0.15% on all thereafter Minimum account size: \$50 mm

High Quality Total Return (CMBS) ERISA Yield Oriented Total Return Real Estate Debt Return CMBS Total Return Yield Oriented Total Return (CMBS) Investment Grade Total Return (CMBS)	0.60% on the first \$25 mm 0.50% on the next \$25 mm 0.40% on all thereafter Minimum account size: \$50 mm
Global Real Estate Securities High Yield	0.75% on the first \$25 mm 0.65% on the next \$25 mm 0.55% on all thereafter Minimum account size: \$50 mm
Real Estate Core Property	1.10% for investments less than \$10mm 1.00% for investments greater than \$10mm but less than \$25mm 0.95% for investments greater than \$25mm but less than \$100mm 0.80% on all thereafter \$ Minimum account size: \$250mm
Real Estate Enhanced Property (Core Plus)	1.40% for investments up to \$5mm 1.30% for investments greater than \$5mm but less than \$10mm 1.20% for investments greater than \$10mm but less than \$50mm 1.10% for investments greater than \$50mm but less than \$100mm 1.00% for investments greater than \$100 mm but less than \$150mm 0.85% on all thereafter Minimum account size \$250mm

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

For Separately Managed Account/Wrap fee programs (“SMA Programs”) Programs:

The annual SMA fees paid for Principal Real Estate Investors strategies generally range from 0.35% to .75% of the relevant SMA account holders’ respective accounts. Some SMA programs provide for the wrap fee (including the portfolio management portion payable to Principal Real Estate Investors out of that wrap fee) to be paid by the SMA account holder before the services are rendered to the SMA account holder by Principal Real Estate Investors while some SMA programs provide for the wrap fee (and Principal Real Estate Investors’ portfolio management portion) to be paid in arrears by the SMA account holder after Principal Real Estate Investors provides services for the period

covered by the fee. In the event the SMA program provides for prepayment of fees by the SMA account holder, the SMA account holder is directed to the program sponsor's brochure.

The minimum account size for the managed account or wrap programs that Principal Real Estate 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 Real Estate Investors.

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

Other Compensation:

Certain employees in roles of Product Specialists of Principal Real Estate Investors may receive compensation as a percentage of advisory fees received by Principal Real Estate Investors for certain private funds.

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

Principal Real Estate 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 for separate accounts while commingled funds will spell these fees out in the offering documents. Principal Real Estate Investors is willing to consider incentive fees in appropriate circumstances. In measuring clients' assets for the calculation of performance-based fees, Principal Real Estate Investors may include realized and unrealized capital gains and losses. Performance based fee arrangements may create an incentive for Principal Real Estate Investors 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 Real Estate 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 Real Estate 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 funds, foreign funds, supranationals, central

banks, collective investment trusts, wrap programs, insurance separate accounts, life insurance general account and other U.S. and international institutions.

Generally the minimum account size for opening and maintaining a separately managed account is \$25-250 million for a portfolio and is based on the type of strategy used for the client's portfolio.

Principal Real Estate 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 Real Estate 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.

Principal Real Estate Investors offers a number of real estate investment strategies relating to direct and indirect investment in real estate and real estate interests. The strategies fall into four different areas: private equity real estate, real estate equity securities issued by real estate investment trusts and other companies involved in the commercial real estate business, private real estate debt, and public real estate debt securities such as commercial mortgage backed securities ("CMBS").

A. Private Equity Real Estate:

Principal Real Estate Investors manages private equity real estate across all major property types in more than 40 U.S. markets. Principal Real Estate Investors' investment capabilities include: portfolio management, asset management, real estate and capital markets research, acquisitions and dispositions, development and construction oversight, operations management, third-party financing, valuation, financial management and reporting. Principal Real Estate Investors does not provide property management or leasing services; these are outsourced to local service providers in each market.

Principal Real Estate Investors provides investment advisory services to clients who wish to purchase and hold direct investments in U.S. commercial real estate. These relationships are generally structured as individually managed or separate accounts and may be discretionary or non-discretionary. Principal Real Estate Investors also provides indirect investment opportunities to certain U.S. and non-U.S. investors via commingled real estate funds, both open end and closed end. The terms of the funds offered generally provide Principal Real Estate Investors with full discretion to make investment decisions subject to certain investment guidelines and restrictions.

Principal Real Estate Investors' investment products and strategies range across the risk-return spectrum from core to value-add to opportunistic. Core strategies are generally considered the most conservative, characterized by a lower risk and lower return potential. Principal Real Estate Investors' core products generally invest in high quality assets that are well-leased and provide the opportunity for stable income returns and modest capital appreciation. Value-add is a moderate-risk, medium-return strategy, and typically involves buying properties that include leasing risk or repositioning of the asset. Value-add investments are generally seeking higher capital appreciation. Opportunistic is the most aggressive strategy with the highest risk-return profile and may include ground-up development, vacant land or specialized property types.

In each of these strategies Principal Real Estate Investors can employ leverage if consistent with the client's investment objectives and risk tolerance. The potential benefit of leverage is that it can increase the size and diversification of a portfolio while amplifying investment returns. Leverage also increases risk, because it magnifies negative returns if investment performance and/or market conditions deteriorate. Certain strategies and investments may also utilize joint venture structures with local operating and development partners which may co-invest with the client. Joint ventures can provide good alignment of interest however; they can create certain risks if the objectives or economic interests of the client and the joint venture partner diverge.

Philosophy and Risk Management

Principal Real Estate Investors is focused on relative value with the objective of maximizing long-term, risk adjusted returns. Our investment processes generally may include:

- Development of clear investment objectives, risk tolerances and investment guidelines for each client.
- Use of Principal Real Estate Investors' macro-economic, capital and real estate space market research that is conducted in over 40 U.S. metropolitan markets in addition to numerous outside research and data sources.
- The portfolio management professionals that direct the investment strategy of the client work closely with each of the functional areas of Principal Real Estate Investors to execute the strategy (areas that may be involved are research, acquisitions, dispositions, development, asset management, operations, financing and accounting).
- The use of Principal Real Estate Investors' acquisition teams who are able to source, underwrite and close a sufficient volume of transactions to meet client needs.
- A standardized due diligence process that benefits from in-house engineering, architectural, legal and other capabilities.
- Asset management and operations personnel who can help develop and implement the business plans for each property investment, visit the properties and work closely with local service providers to identify critical issues affecting

- property performance and value such as occupancy, tenant credit, expense management and optimizing cash flow from leases and rents.
- Development of financial management and reporting policies and procedures for the client in accordance with industry standards and regulatory requirements. Principal Real Estate Investors can also offer assistance with the audit, tax and custodial reporting requirements for each client.
- Ongoing review of the investment activity, performance and return attribution, compliance with investment guidelines, risk management considerations and other matters affecting the client and the portfolio by the appropriate investment or management committee.

Risks Associated with Investment in Private Real Estate Equity

Potential investors should be aware of the many potential risks inherent to investing in private equity real estate, including: adverse economic conditions, capital market pricing volatility, deterioration of space market fundamentals, value fluctuations, illiquidity, leverage, development and lease-up risk, tenant credit issues, physical and environmental conditions, force majeure, local, state or national regulatory requirements, declining rents and increasing expenses, loss of key personnel, and other unforeseen events. Principal Real Estate Investors' objective in risk management is to seek to identify potential risks, and to the extent possible, manage, mitigate (or avoid) and appropriately price those risks in an effort to maximize performance and investors' risk-adjusted returns. Principal Real Estate Investors generally categorizes risks into property, portfolio and fund or account-level risk. Following is a summary of types of investing and asset risks that may be considered by the portfolio management, research, investment production and accounting teams:

- Property risks generally include such factors as investment risk (including property and market selection, investment underwriting and due diligence, investment structure, hold/sell strategy); operational risks (including leasing and property management, revenue and expense management, financial management, security and life safety, and property and casualty insurance); development and leasing risks and financing risks. These risks are monitored by the portfolio teams with input from each functional area with oversight by the appropriate investment or management committee.
- Portfolio risks include such items as market, region and property sector diversification elements, risk profile (e.g., allocations to core, value-add or opportunistic investment properties), property life cycle or stage of development, tenant and industry concentrations, lease-rollover exposure and financing/debt maturity risk. Portfolio risks are generally governed by the client or fund investment guidelines and restrictions and are monitored by the portfolio teams with oversight by the appropriate investment or management committee.
- Fund or account risk considerations include compliance with the terms of the advisory agreement, partnership agreement and other governing documents. In

addition to the investment policies and guidelines, the governing documents would identify valuation reporting, audit, legal, tax and other requirements. These risks are monitored by the portfolio management teams with oversight by the appropriate investment or management committee.

All of the above risks can cause investment losses or cause an investor to not meet its investment objectives. Investors should be aware that no risk management system is fail-safe, and no assurance can be given that the risk management policies employed by Principal Real Estate Investors will achieve their objectives and prevent or otherwise limit substantial losses.

In addition to the property, portfolio and fund or account level risks, noted above, certain types of investment strategies and products are also subject to very specific risks such as: U.S. and foreign tax matters, ERISA considerations, securities laws, potential conflicts of interest and other matters. These risks are typically disclosed to investors in the offering or governing documents and are monitored by the portfolio teams, appropriate investment or management committee and/or third-party consultants.

B. Real Estate Equity Securities

Principal Real Estate Investors offers a number of actively managed strategies utilizing real estate equity securities to help meet its clients' investment objectives, needs and goals. All of Principal Real Estate Investors' equity securities accounts are discretionary. Please refer to Item 16 regarding discretion over the clients' accounts.

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 U.S. and foreign corporations, real estate investment trusts, or other issuers. Principal Real Estate Investors may also invest the client assets in the following securities, subject to client guidelines: preferred securities, American Depositary Receipts, Global Depositary Receipts, Exchange Traded Funds (ETFs), participation notes, private placement securities and rights and warrants on equity securities. Principal Real Estate Investors may use forward currency contracts to hedge the exposure to foreign currency fluctuations in the equity portfolios.

Principal Real Estate Investors offers a broad range of global and regional equity strategies across developed and emerging markets, specified market segments and style preferences which include:

Global Real Estate Securities

The Global Real Estate Securities strategy is designed to provide investors with access to global property securities by investing in securities of companies engaged in the real estate industry around the world.

U.S. Real Estate Equity Securities

The U.S. Real Estate Equity Securities strategy is designed to provide investors with access to a portfolio of primarily U.S. real estate equity securities by investing in listed securities of companies which own institutional quality real estate or are engaged in the real estate industry.

Global ex-US Real Estate Securities

The Global ex-US Real Estate Securities strategy offers investors access to a portfolio of companies that invest in, own or are engaged in the real estate industry throughout the world except in the United States.

Global Real Estate Securities Income Preference

The Global Real Estate Securities Income Preference strategy offers investors access to a portfolio of companies engaged in the real estate industry with an emphasis on securities that provide high current income.

Philosophy and Risk Management

Principal Real Estate Investors' philosophy is that equity markets are not perfectly efficient, and therefore provide opportunities to add value through fundamental research and active risk management. Principal Real Estate Investors' 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 Principal Real Estate Investors' 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 Principal Real Estate Investors' investment process. Principal Real Estate Investors' 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.

Prospective clients should be aware that no risk management system is fail-safe, and no assurance can be given that risk frameworks employed by Principal Real Estate Investors and the portfolio managers will achieve their objectives and prevent or otherwise limit substantial losses. There is the risk that Principal Real Estate Investors' 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.

General Risks associated with investing in Real Estate Securities

All of Principal Real Estate Investors' real estate equity securities 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.

These strategies utilize to a significant extent securities issued by Real Estate Investment Trusts in the U.S. by companies that have similar tax favored status in jurisdictions outside the United States. REITS and similar real estate companies may invest in equity real estate, distributing income from the properties (e.g., rents) to shareholders; debt real estate, lending money to borrowers and passing interest income to shareholders; or a combination thereof. Accordingly, securities of REITS and similar real estate companies are subject to securities market risks, risks similar to those of direct ownership of real estate, and risks that these companies could fail to qualify for tax-favored status under applicable governing law. Some of the risks associated with the direct ownership of real estate are declines in the property value, declines in rental or occupancy rates, adverse economic conditions, increases in property taxes and other operating expenses, regulatory changes and environmental problems. In the U.S., a real estate investment trust could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and investors will indirectly bear their proportionate share of the expenses of REITs in which a portfolio invests and the stock price may be adversely affected as a result. The strategies are concentrated in real estate securities and may experience price volatility and other risks associated with non-diversification.

Principal Real Estate Investors' Global Real Estate Securities and the International Real Estate Securities 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. In addition, investments in foreign countries are generally denominated in a foreign currency. As a result, changes in the value of those currencies compared to the U.S. dollar may affect (positively or negatively) the value of the investment.

Principal Real Estate Investors may also invest assets of certain clients in Rule 144A securities and private placements. These Rule 144A securities and private placement securities generally cannot be resold until registered under the Securities Act of 1933 ("1933 Act") or unless an exemption from the 1933 Act's registration requirements, such as Rule 144A, is available. As a result of these restrictions, these securities tend to be

less liquid than registered securities and tend to sell at a lower price than would be available if they were registered.

Although frequent trading is not a strategy utilized in these real estate equity security strategies, it can occur. Frequent trading can affect investment performance through increased brokerage and other transaction costs and taxes.

C. Private Real Estate Debt

Principal Real Estate Investors offers strategies utilizing various types of corporate or partnership debt, including origination, acquisition and servicing of fixed rate and variable rate commercial real estate mortgages (including permanent loans, bridge loans, land loans and construction loans), subordinate real estate debt such as senior mezzanine, junior secured notes, participations and preferred equity. Investment strategies may involve all major property types (including hotels) plus other specialty property types such as self-storage and manufactured housing on a nation-wide basis. Strategies involving the acquisition of existing distressed debt may also be offered. Principal Real Estate Investors' management of private debt portfolios include investment sourcing, credit underwriting, investment selection, loan servicing/surveillance and active portfolio management. Each strategy is tailored to the needs of the client. Investment policies, risk and return parameters, portfolio allocation models, investment strategy and guidelines and performance measures are developed in conjunction with the client.

Principal Real Estate Investors provides investment advisory services to clients who hold or wish to hold U.S. private commercial real estate debt investments. These relationships are generally structured as individually managed or separate accounts and may be discretionary or non-discretionary. Principal Real Estate Investors also provides indirect investment opportunities to certain U.S. and non-U.S. investors via commingled real estate funds. The terms of the funds offered generally provide Principal Real Estate Investors with full discretion to make investment decisions subject to certain investment guidelines and restrictions.

In certain strategies and funds Principal Real Estate Investors can employ leverage if consistent with the client's or fund's investment objectives and risk tolerance. The potential benefit of leverage is that it can increase the size and diversification of a portfolio while amplifying investment returns. Leverage also increases risk, because it magnifies negative returns if investment performance and/or market conditions deteriorate and if lenders are granted rights such as margin calls and pay-down requirements related to market conditions or sub-performance of a portfolio's investments.

Philosophy and Risk Management

Principal Real Estate Investors' private real estate debt managers utilize much of the Macroeconomic and Capital Markets Research used by the private equity real estate management team. The mortgage underwriting teams and senior management use these

reports to determine where to focus lending activity. The underwriters communicate regularly with asset managers in the Private Real Estate Equity area to obtain recent information regarding leasing activity, sales prices, and other relevant information on the real estate equities portfolio which can be useful in evaluation of potential markets for lending opportunities.

Risk is managed through the mortgage underwriting due diligence that Principal Real Estate Investors offers. On-site property inspections, meetings with the local on-site property management and leasing teams, analysis of the current tenants, analysis of the borrower's credit quality, and property valuation analysis can be parts of the pre-lending due diligence.

Principal Real Estate Investors has developed an internal risk rating model that may be used to analyze some commercial mortgage transactions. The model is linked to a discounted cash flow valuation program and uses cash flow stressing to identify potential weaknesses in a property's ability to generate sufficient revenue to meet debt service payments in a moderately severe recession. The degree of stress applied to future revenues varies by property type and location (macro and micro markets) and is determined by the research and risk management areas. The stressed cash flow analysis generates a graph illustrating when the property is expected to experience stress, such as lease rollover, over the loan term. This illustration is a good tool to help the underwriter assess the risk of the transaction and how to structure the transaction to mitigate these risks, such as with escrows or increased amortization.

Investors should be aware no risk management system is fail-safe, and no assurance can be given that risk frameworks employed by Principal Real Estate Investors will achieve their objectives and prevent or otherwise limit substantial losses.

General Risks Associated with Investment in Private Real Estate Debt

The basic risk of lending and direct ownership of commercial real estate mortgages is borrower default on the loan and declines in the value of the real estate collateral. Defaults can be complicated by borrower bankruptcy and other litigation including the costs and expenses associated with foreclosure which can decrease an investor's return. Declines in real estate value can result from changes in rental or occupancy rates, tenant defaults, extended periods of vacancy, increases in property taxes and operational expenses, adverse general and local economic conditions, overbuilding, deterioration in the physical condition of the asset, environmental issues at the mortgaged property, casualty, condemnation, changes in zoning laws, taxation and other governmental rules. Capital markets volatility can also impact the liquidity and valuation of both mortgages and the underlying properties and may include such items as changes in interest rates, availability and pricing of mortgage capital, and the return requirements used in the valuation of real estate by prospective purchasers. Increases in interest rates can also directly reduce the market value of a fixed rate loan. Commercial mortgage investments are also very dependent on the financial health, operational expertise, and management skills of the borrower.

D. Public Real Estate Debt Securities

Principal Real Estate Investors offers a number of actively managed strategies utilizing publicly traded real estate debt securities. Principal Real Estate Investors primarily invests client assets in commercial mortgage loans and to a lesser extent into commercial mortgage-backed securities ("CMBS"). If requested by the client, Principal Real Estate Investors can offer advice on other asset-backed securities, which may include pass-through securities and securities backed by or representing interests in any financial assets the terms of which generate cash flows. Principal Real Estate Investors offers the following public traded real estate debt securities strategies:

High Quality Yield (CMBS)

This strategy targets a book yield and it invests primarily in AAA and AA rated CMBS and for comparison purposes is measured against the 75% Barclays CMBS AAA 6-8.5 yr and 25% Barclays CMBS AA 6-8.5 yr Index.

High Quality Total Return (CMBS)

The High Quality Total Return strategy invests in higher rated investment grade CMBS securities that are measured against an absolute return level.

Real Estate Debt Return

This is a total return strategy using CMBS and commercial mortgages and for comparison purposes is measured against the 3-Month US Treasury Bill.

CMBS Total Return, Yield Oriented Total Return and ERISA Yield Oriented Total Return

These strategies invest in investment grade CMBS securities focusing on an absolute return and book yields, respectively.

Philosophy and Risk Management

Our public real estate debt securities purchasing philosophy is based on the belief that superior security selection combined with disciplined surveillance and monitoring is the key to consistent out-performance. This is achieved through a consistent balance of fundamental qualitative analysis and quantitative modeling. Qualitative analysis, investment due diligence and individual security selection is critical to providing superior risk-adjusted returns. Principal Real Estate Investors performs fundamental analysis utilizing its internal investment analysts, advanced modeling techniques and a wide variety of information sources. The investment process for CMBS combines "top down" technical analysis and a "bottom up" fundamental approach to arrive at a consistent and informed investment decision. Principal Real Estate Investors utilizes an internally developed, proprietary CMBS model to aid in investment analysis. The model incorporates expertise from Principal Real Estate Investors' commercial mortgage

underwriting, private equity, and research groups with respect to their current and expected analysis of the property cash flows, commercial real estate markets, and future macroeconomic conditions.

The CMBS investment management team internally rates credit risk, assesses cash flow volatility, identifies relative value from a risk-adjusted perspective (which drives investment allocation decisions) and actively manages risk through market cycles by combining its dynamic CMBS model with the extensive commercial real estate experience of Principal Real Estate Investors. In addition, the investment management team performs ongoing surveillance of each client's CMBS portfolio under management. This surveillance process includes frequent reviews of the model assumptions and samples of underlying loans, including analysis of rent rolls and property operating statements and consultation with our other real estate debt/equity investment professionals.

General Risks Associated with Investment in Public Real Estate Debt Securities

Securities backed by commercial real estate assets such as CMBS are subject to securities market risks as well as risks similar to those of direct ownership of commercial real estate mortgages because those securities derive their cash flows and value from the performance of the commercial real estate underlying such investments and/or the owners of such real estate. For more discussion on risks regarding ownership of commercial real estate mortgage investing that is applicable, please see the preceding section entitled General Risks Associated with Investment in Private Real Estate Debt

In addition to the risks listed above, CMBS is a structured security. Structured securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from, or sale proceeds of, a specified pool of assets together with rights designed to assure the servicing or timely distribution of proceeds to holders of the securities. The risks typically experienced by structured securities are credit risks, liquidity risks, interest rate risks, market risks, operational risks, structural risks and legal risks. They are subject to the significant credit risks inherent in the underlying commercial mortgages and to the respective performance of the borrowers' payment obligations with respect to the mortgages and to the servicers' distribution of payments to the CMBS security holders. The performance of these types of securities is also dependent on the allocation of principal and interest payments as well as losses among the classes of such securities of any issue. In addition, concentrations of CMBS backed by underlying collateral located in a specific geographic region or concentrations of specific borrowers or property types, may subject the securities to additional risk. Certain CMBS may have structural features that divert payments of interest and/or principal to more senior classes when the delinquency or loss experience of the pool exceeds certain level, which would reduce or eliminate payments of interest on one or more classes of such CMBS for one or more payment dates.

There is also liquidity risk in the public commercial real estate debt securities market. This could make the sale of these securities more difficult depending on market

conditions and lack of liquidity adversely affects the value of the investment. CMBS and other asset backed securities are affected by the quality of the credit extended in the underlying loans. As a result, their quality is dependent upon the selection of the commercial mortgage portfolio and the cash flow generated by the commercial real estate assets. Risk factors related to the foregoing include lack of diversification in the commercial mortgage portfolio, dependence on the skills, decision-making and experience of the various issuers in selecting the commercial mortgage portfolio and borrower default.

Under certain circumstances, conflicts of interest can arise in the case of CMBS securities when one or more clients of Principal Real Estate Investors invest in different parts of an issuer's capital structure. For example, one or more clients of Principal Real Estate Investors may own a private equity obligation of an issuer and other Principal Real Estate Investors' clients may own public securities of the same issuer. As a result, if the issuer in which one or more clients of Principal Real Estate Investors hold different classes of securities, encounters financial problems, decisions over the terms of any workout can raise conflicts of interest (including, for example, the equity investment holder may have rights and remedies that conflict with the interests of the holder of public debt securities). Principal Real Estate Investors may be forced to make a decision regarding the rights, interests and remedies of one client that maybe at odds with the rights, interests and remedies of another client. In such cases, Principal Real Estate Investors will disclose to all clients any such conflicts of interest and each specific conflict of interest will be discussed and resolved on a case-by-case basis. Any such discussions will take into consideration the best interests of the relevant clients of Principal Real Estate Investors, the circumstances giving rise to the conflict and applicable laws. Principal Real Estate Investors' clients should be aware that all conflicts will not necessarily be resolved in favor of their interests. There can be no assurance that any conflict of interest can be resolved to result in the same investment terms as if such conflict did not exist.

When loans default, the result can be either a foreclosure of the property or a restructure of the loan. Such actions may impact the amount of proceeds ultimately derived from the loan and the timing of receipt of such proceeds may be shorter or longer than the original term of the loan. Losses on the loans may negatively impact the value of the CMBS and other asset backed securities. They will most directly affect the subordinate CMBS classes first. Any proceeds received from the loans will generally be applied to the most senior bonds outstanding before any payments are made to the subordinate bonds. Any losses from the loans are applied to the most junior bonds outstanding. The occurrence of defaults and losses on the loans may result in downgrades of the CMBS by the rating agencies due to higher potential for principal loss and consequently have an adverse effect on the price of the CMBS bonds.

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 Real

Estate Investors or the integrity of Principal Real Estate Investors' management. Principal Real Estate Investors has no information applicable to this item.

ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS

Principal Real Estate 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 Real Estate Investors currently does not conduct any brokerage business with Princor.

Principal Real Estate 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 Real Estate Investors acts as sub-adviser to certain of the Principal Funds. Principal Real Estate Investors currently does not conduct any broker business with Principal Funds Distributor, Inc.

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

Principal Global Investors, Principal Real Estate Investors' sole member, owns 100% of Principal Real Estate Investors 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. Principal Real Estate Investors has arrangements with Principal Global Investors which provide that Principal Global Investors will furnish certain personnel, services, and facilities used by the Principal Real Estate Investors and that the Principal Real Estate Investors will reimburse Principal Global Investors for its expenses incurred in that regard. Principal Real Estate Investors utilizes certain Principal Global Investors' personnel, resources, and services in fulfilling its contractual obligations to its clients. Principal Global Investors' employees maintain portfolio accounting records and provide support for the marketing and client services activities of Principal Real Estate Investors. Principal Real Estate Investors is a sub-adviser to Principal Global Investors on some portfolios and in some instances performs portfolio management services. Principal Real Estate Investors and Principal Global Investors have certain common officers. Principal Global Investors is a member of the National Futures Association and registered as a commodity trading advisor with the Commodity Futures Trading Commission.

Post Advisory Group, LLC, an investment adviser registered with the Securities and Exchange Commission is an affiliate of Principal Real Estate Investors. Post Advisory Group, in general, offers services in managing client funds invested in high yield debt securities and distressed securities. Principal Global Investors has majority, direct

ownership of Post Advisory Group, LLC. Principal Real Estate Investors and its affiliates share investment and compliance information with Post.

Columbus Circle Investors, ("Columbus Circle"), an investment adviser registered with the Securities and Exchange Commission is an affiliate of Principal Real Estate Investors. 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 Real Estate Investors. Principal Real Estate Investors and its affiliates share investment and compliance information, as well as certain personnel and other resources, with Columbus Circle as necessary for Columbus Circle to fulfill its service as sub-adviser to Principal Real Estate Investors

Spectrum Asset Management, Inc. ("Spectrum"), a registered broker-dealer and an investment adviser registered with the Securities and Exchange Commission, is an affiliate of Principal Real Estate Investors and is owned solely by Principal Global Investors. Spectrum in general offers services in managing client funds invested in preferred securities. Principal Real Estate Investors and its affiliates share investment and compliance information with Spectrum. Spectrum is also a member of the National Futures Association and registered with the Commodity Futures Trading Commission.

Edge Asset Management, Inc. ("Edge"), an investment adviser registered with the Securities and Exchange Commission, is an affiliate of Principal Real Estate Investors and is owned solely by Principal Management Corporation. Edge in general offers services in managing client funds invested in equity securities. Principal Real Estate Investors and its affiliates share investment and compliance information with Edge.

Morley Capital Management, Inc. ("Morley"), an investment adviser registered with the Securities and Exchange Commission, is an affiliate of Principal Real Estate Investors and is owned solely by Principal Financial Services, Inc. Morley in general offers services in managing client funds invested in stable value. Principal Real Estate Investors and its affiliates share investment and compliance information with Morley.

Origin Asset Management, ("Origin"), an investment adviser registered with the Securities and Exchange Commission, is an affiliate of Principal Real Estate Investors. Origin in general offers services in managing client funds invested in global (ex U.S.) equity securities. On occasion, Principal Real Estate Investors and its affiliates may share investment and compliance information, as well as certain personnel and other resources, with Origin.

Finisterre Capital LLP, ("Finisterre"), an investment adviser registered with the Securities and Exchange Commission, is an affiliate of Principal Real Estate Investors. Finisterre in general offers services in managing client funds invested in emerging market fixed income securities. On occasion, Principal Real Estate Investors and its affiliates may share investment and compliance information, as well as certain personnel and other resources, with Finisterre. Finisterre is a member of the National Futures Association and

registered as a commodity trading advisor and a commodity pool operator with the Commodity Futures Trading Commission.

Principal Enterprise Capital, LLC. (“PEC”), an investment adviser registered with the Securities and Exchange Commission, is an affiliate of Principal Real Estate Investors and is owned solely by Principal Global Investors. Principal Enterprise Capital, LLC 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. Principal Enterprise Capital, LLC 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. Principal Real Estate Investors and its affiliates share investment and compliance information with PEC.

Liongate Capital LLP. (“Liongate”), an investment adviser registered with the Securities and Exchange Commission, is an affiliate of Principal Real Estate Investors and 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 Real Estate Investors and its affiliates share investment and compliance information with Liongate.

Principal Management Corporation (“Principal Management”), an investment adviser registered with the Securities and Exchange Commission, is an indirect wholly owned subsidiary of Principal Financial Services, Inc. Principal Management offers portfolio management, transfer agent and shareholder services to the family of mutual funds organized by Principal Life Insurance Company. Princor, a direct wholly owned subsidiary of Principal Financial Services, Inc., is the parent to Principal Management. Principal Real Estate Investors is under common control with Principal Management and Princor. Principal Real Estate Investors anticipates that it may be a sub-adviser to Principal Management on one or more mutual funds for which Principal Management offers services.

Principal Life is the sole member (i.e., the 100% legal and beneficial owner) of Principal Global Investors, LLC, which is the sole member of Principal Real Estate Investors. Principal Life is licensed as an insurance company in all 50 states and the District of Columbia. Principal Real Estate 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 Real Estate Investors and Principal Real Estate Investors will reimburse Principal Life for its expenses incurred in that regard. Principal Real Estate Investors and Principal Life have certain common officers. Principal Real Estate Investors manages certain portfolios and accounts within the general and separate accounts of Principal Life. Some of Principal Real Estate Investors’ clients may own one or more group variable annuity contracts issued by Principal Life.

Principal Real Estate 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 Real Estate 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 Real Estate Investors' clients. Investment professionals from the advisory affiliates may render portfolio management, research or trading services to Principal Real Estate Investors' clients, including registered investment companies, and are subject to supervision by Principal Real Estate Investors. Biographies of these professionals will be provided as required or upon request.

Principal Real Estate 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 Real Estate 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 Real Estate 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 Real Estate Investors officers, directors, employees and certain non-employees of Principal Real Estate Investors with access to client and trading information of Principal Real Estate 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 Real Estate Investors also trades for its clients, so long as those buy and sell transactions are conducted in accordance with Principal Real Estate Investors' Code. As such, there are procedures in place to prevent instances where potential conflicts of interest arise between the personal securities transactions of Principal Real Estate Investors' Access Persons and the securities transactions that Principal Real Estate Investors does for the accounts of 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 Real Estate Investors for purchase or sale on behalf of clients. Principal Real Estate 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 Real Estate Investors' Code. Each calendar quarter, Principal Real Estate Investors Access Persons review and certify to a report of their reportable personal securities transactions in accordance with the Code. Access Persons are prohibited from purchasing or selling a U.S. real estate investment property without pre-approval.

Related Access Persons of Principal Real Estate Investors may invest in certain private funds where Principal Real Estate Investors is the manager.

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

Principal Real Estate Investors may advise clients to purchase securities which at the time the client purchases, one or more related persons of Principal Real Estate 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 Real Estate Investors may also advise clients to participate in investment vehicles (e.g. Principal Global Investors Trust (the "Trust")), other participants in which may include one or more affiliates of Principal Real Estate Investors. Principal Real Estate Investors may also advise clients to engage in commercial mortgage co-lending, where co-lenders may include affiliates of Principal Real Estate Investors.

Principal Real Estate Investors, at its option, may purchase on the secondary market CMBS with respect to which Principal Real Estate Investors or an affiliate (i) contributed loans to a CMBS pool, (ii) act as the primary servicer for one or more mortgages backing the CMBS, or (iii) were in some other manner involved with an underlying CMBS loan. In acting in any of the aforementioned capacities, Principal Real Estate Investors or an affiliate received, and may continue to receive fees. For example, Principal Real Estate Investors or an affiliate may have received fees for originating and closing a loan or for contributing a loan to a CMBS pool. In addition, Principal Real Estate Investors or an affiliate may receive ongoing fees for the continued primary servicing of loans that were contributed to a CMBS pool.

Principal Real Estate Investors, Principal Global Investors, Spectrum Asset Management, Columbus Circle Investors and Post Advisory Group are investment managers for Principal Global Investors 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 Mellon. Principal Trust Company is the resident trustee, but does not have any discretion of the Trust. The Trust offers a number of commingle 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 Real Estate Investors' staff will, from time to time solicit investment in the Trust to Principal Real Estate 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 Real Estate Investors' marketing registered representative staff are eligible to receive compensation for any sales of investments in the Trust made to clients or prospective clients.

ITEM 12 – BROKERAGE PRACTICES

Any restrictions on which securities are to be bought or sold or the amount are determined by agreement with each client.

Brokerage practices with respect to Public Real Estate Debt

Principal Real Estate Investors may furnish advice with respect to short-term investments, primarily commercial paper, of funds pending longer-term investment in commercial mortgages or other investment products. Purchases and sales of such securities are often principal transactions; portfolio securities will normally be purchased directly from an issuer possessing a commercial paper rating mandated by the contract with the particular client. Such transactions involve no brokerage commissions, but fees accruing to the benefit of the issuer may be included in the pricing. Purchases from brokers will be at a discount, part of which will reflect some fee or other consideration to the broker.

Purchases and sales of debt securities usually are principal transactions. New issue portfolio securities (including new 144A issues) 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 Real Estate 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 Real Estate 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 Real Estate 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 Real Estate Investors' clients. In pursuing this objective, the Principal Real Estate 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. The value of any products, research, and services given to Principal Real Estate Investors or related party by the underwriter, broker or dealer also is a factor in Principal Real Estate Investors' exercise of any such authority and creates a potential conflict of interest, to the extent that Principal Real Estate Investors may select a qualified underwriter, broker or dealer who gives it or a related party such products, research and services instead of another available and qualified underwriter, broker or dealer. In Principal Real Estate Investors' opinion, its clients will not pay more for purchases in instances where the "products,

research, and services” factor tilts the balance in favor of one underwriter, broker or dealer over another. Moreover, in Principal Real Estate Investors’ opinion clients generally will benefit from Principal Real Estate Investors’ access to and use of such products, research and services, which serve to enhance Principal Real Estate Investors’ investment decision-making and the effectiveness of the overall performance delivered by Principal Real Estate Investors to its clients.

If Principal Real Estate Investors agrees, a client may instruct Principal Real Estate Investors to direct brokerage for client’s account to a particular broker. If a client directs Principal Real Estate Investors to use a particular broker or dealer, Principal Real Estate Investors may be unable to bid-ask spreads, obtain volume discounts, ensure best execution, and to block trades on client’s behalf. Consequently, clients who direct Principal Real Estate Investors to use a particular broker may pay more in commissions than those who do not. Separately Managed Account/Wrap fee programs (“SMA Programs”) or similar programs ordinarily include directed brokerage provisions by which the client directs that all purchases and sales of equity securities be executed with the wrap program sponsor (or a broker affiliate of the sponsor, if not itself a broker). In wrap fee and similar directed broker arrangements, client transactions are generally expected to be executed only with the broker-dealer providing custodial and other services. No assurance can be given that transactions executed in accordance with such arrangements result in the best execution available to the client. 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.

Principal Real Estate 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 Real Estate Investors may submit the orders to purchase or sell to a broker-dealer for execution on an aggregate or “bunched” basis (including orders for accounts in which Principal Real Estate Investors, its affiliates and/or its personnel have beneficial interests).

Principal Real Estate Investors may create several aggregate or “bunched” orders relating to a single security at different times during the same day. On such occasions, Principal Real Estate Investors shall compose, 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 be allocated among the various accounts on a pro rata basis, subject to rounding to avoid less easily traded lots. Securities purchased for client accounts participating in an aggregate or “bunched” order will be effectively at a price equal to the weighted average of the prices

achieved in each fill they participated in after giving consideration to the following: portfolio changes in available cash, odd lots and de minimis amounts, etc.

Principal Real Estate Investors expects aggregation or “bunching” of orders, on average, to reduce slightly the cost of execution. Principal Real Estate Investors 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. SMA program account orders are not generally “bunched” with institutional client account orders.

Because the Principal Real Estate Investors 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. The Principal Real Estate Investors generally will not cross securities from one client account to another unless the clients in question have adopted a policy that permits the Principal Real Estate Investors to cross securities and the regulatory authority governing the client accounts clearly permits the crossing to occur.

The Principal Real Estate Investors generally does not engage in cross trade transactions; 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 and the security is suitable for the portfolio to which the security is being added (and for mutual funds, consistent with the funds’ Rule 17a-7 procedures). In addition, the portfolio’s investment restrictions are reviewed so that the addition of the security does not violate those restrictions.

When entering into cross trade transactions, Principal Real Estate Investors takes steps to obtain a price it has determined by reference to independent market indicators, and which Principal Real Estate Investors 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.

Generally, Principal Real Estate Investors does not use affiliated broker-dealers to place client trades. However, in rare instances where client trades are placed through an affiliated broker-dealer in order to obtain best execution, it is the policy of Principal Real Estate Investors to obtain client consent.

Brokerage practices for Public Real Estate Equity Securities

Selection of Brokers and Dealers

Principal Real Estate Investors seeks to obtain the best overall execution when selecting a broker or dealer for Client portfolio transactions. In selecting brokers and dealers, Principal Real Estate Investors 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.

Principal Real Estate Investors 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, Principal Real Estate Investors 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, Principal Real Estate Investors 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 Principal Real Estate Investors.

Principal Real Estate Investors maintains an approved list of brokers and dealers. New counterparty arrangements must be reviewed and approved by the Counterparty Department 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 Principal Real Estate Investors 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.

Principal Real Estate Investors 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 Principal Real Estate Investors 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 Principal Real Estate Investors agrees, a client may instruct Principal Real Estate Investors to direct trading for their account to a particular broker. If a client directs Principal Real Estate Investors to use a particular broker or dealer, Principal Real Estate Investors 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 Principal Real Estate Investors 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 Principal Real Estate Investors 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. Principal Real Estate Investors 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 Principal Real Estate Investors' 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 Principal Real Estate Investors 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 research or in connection with brokerage and trading functions within that "safe harbor". In isolated-soft dollar arrangements, Principal Real Estate Investors 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 Real Estate Investors will make a reasonable allocation of the cost of the product or service according to Principal Real Estate Investors' use. Principal Real Estate Investors will pay for the portion of the product or service that consists of research or brokerage/trading in commission dollars. Principal Real Estate Investors will pay for the portion that provides administrative or non-research or non-brokerage/trading support directly rather than use soft dollar commissions. Principal Real Estate Investors allocation of the cost of such products and services between research and non-research functions poses a conflict of interest between Principal Real Estate Investors and its clients because, to the extent we categorize products and services as research or brokerage/trading related, Principal Real Estate Investors avoids paying for those products and services with its own money.

In allocating brokerage business, Principal Real Estate Investors 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 systemic or quantitative processes that support research). It is not Principal Real Estate Investors 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. Principal Real Estate Investors 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 Principal Real Estate Investors 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 Principal Real Estate Investors 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 Principal Real Estate Investors in managing the client account. However, in Principal Real Estate Investors 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 Principal Real Estate Investors' own research efforts. Principal Real Estate Investors does not utilize all commissions attributable by client accounts to purchase research services through soft dollar arrangements. Principal Real Estate Investors 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 Principal Real Estate Investors purchase of statistical data and research information with commission dollars, clients who afford Principal Real Estate Investors complete discretion in selecting brokers to execute transactions for their accounts may, in effect, subsidize the purchase of research Principal Real Estate Investors utilizes in managing accounts of those clients who do not afford Principal Real Estate Investors such discretion.

Trade Order Aggregation and Allocation for Equity Accounts

In carrying out the investment objectives of its clients, occasions arise in which Principal Real Estate Investors 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, Principal Real Estate Investors may submit the orders to purchase or sell to a broker or dealer for execution on an aggregate or "bunched" basis. Principal Real Estate Investors expects aggregation or "bunching" of orders, on average, to reduce the cost of execution. Principal Real Estate 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. Principal Real Estate Investors may on occasion, "bunch" trades with its affiliate, Principal Global Investors.

Principal Real Estate Investors 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 share price for the securities in the same aggregate fill transaction on a given business day in which they participate after giving

consideration for the following: portfolio changes in available cash, odd lots and de minimis amounts, etc., with all transaction costs shared pro rata based on each client's participation in the transaction. 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. Principal Real Estate Investors' 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.

Principal Real Estate Investors 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, Principal Real Estate Investors 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

Principal Real Estate Investors 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 Principal Real Estate Investors 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, Principal Real Estate Investors takes steps to obtain a price it has determined by reference to independent market indicators, and which Principal Real Estate Investors 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 Principal Real Estate Investors 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

Principal Real Estate Investors maintains a system of checks and balances designed to limit the errors it makes in placing trades for client accounts. Nonetheless, Principal Real Estate Investors will, from time to time, make such errors. It is Principal Real Estate Investors' policy to absorb all losses on trades it places in error. In rectifying erroneous trades, Principal Real Estate 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 Real Estate Investors 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 Real Estate 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 Principal Real Estate Investors and a loss to a client account results in the amount of \$500.00 or less, Principal Real Estate Investors 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 Principal Real Estate Investors selected the broker or dealer, Principal Real Estate Investors 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 Real Estate Investors.

Principal Real Estate Investors' policy covering the correction of trading errors generally applies only to the extent that Principal Real Estate Investors 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 Real Estate Investors.

Foreign Exchange Transactions – Incidental to Management of Public Real Estate Debt and Real Estate Equity Securities

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, Principal Real Estate Investors will, when requested by the client and Principal Real Estate Investors determines that it cost is effective or efficient, arrange for its trade desk or 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, Principal Real Estate Investors 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 Principal Real Estate Investors will not seek best execution.

In cases where a client has not requested that Principal Real Estate Investors handle arrangements for trade settlement related FX Transactions in non-U.S. securities, and/or Principal Real Estate Investors has deemed that it is not cost effective to do so, Principal Real Estate Investors 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.

ITEM 13 – REVIEW OF ACCOUNTS

Principal Real Estate Investors provides advice to institutional investors concerning investments in equity real estate, commercial real estate mortgages, and securities associated generally with those areas. The majority of the advice Principal Real Estate Investors renders is with respect to investments other than "securities" as that term is defined by applicable law. Principal Real Estate Investors enters into contracts with each client, which contracts detail the precise nature of the advisory services to be furnished to that client. These contracts include criteria furnished by the client to be used by Principal Real Estate Investors in recommending investments to that client. Principal Real Estate Investors is responsible for maintaining each client's portfolio within the criteria furnished by that client, and Principal Real Estate Investors reviews each client's portfolio at the time of each investment for compliance with those criteria. Compliance review will be conducted by the member of Principal Real Estate Investors' staff who is primarily responsible for the particular client's account.

Reviewers

Principal Real Estate Investors has various investment and management committees, as applicable, that review accounts falling within their respective area of focus. All Committee members are officers of Principal Real Estate 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. Clients will generally be provided with reports no less frequently than quarterly that review the status and performance of their real estate investment portfolios. In addition, portfolio managers generally will meet with each separate account client no less than once per year to review portfolio performance and provide an outlook on potential issues and opportunities that may arise in the coming period. Clients in wrap fee programs generally receive periodic account reports via the wrap program sponsor, with the frequency and content of those reports varying from sponsor to sponsor.

Oversight and governance for each separate account and commingled fund is provided by the Real Estate Investment Committee and/or management committees, which are comprised of senior management of Principal Real Estate Investors. The management committees meet with the portfolio teams on a regular basis to review investment activity, performance and return attribution, compliance with investment guidelines, risk management considerations and other matters affecting the client and the portfolio. Investment decisions (e.g., acquisitions, dispositions, development, financing, alternative designs, etc.) are reviewed and, if appropriate, approved by the appropriate investment and/or management committee as dictated by the applicable investment management agreement. Certain commingled funds may also have an independent advisory committee that provides additional oversight of investment activities.

ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION

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

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 Real Estate Investors urges you to carefully review such statements and compare such official custodial records to the account statements that Principal Real Estate Investors may provide to you. The statements may vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

Principal Real Estate Investors has controlling interests in entities serving as general partners of the above mentioned funds (the “Funds”). As such, Principal Real Estate Investors is deemed to have custody of client assets invested in the Funds. Principal Real Estate Investors is also responsible for the management and administration of the Funds’ affairs but it does not have authority to take legal title to and possession of Fund assets. All cash flows generated by the real estate holdings of the Funds are held in deposit accounts at banking institutions as qualified custodians, not affiliated with Principal Real Estate Investors. The deposit accounts are titled in the property name with the unaffiliated property manager and Principal Real Estate Investors having authority to make disbursements for property expenses out of those property level operating accounts. All unaffiliated property management firms are bonded. In addition there are accounts opened and maintained in the name of the particular Fund at unaffiliated banking institutions. Investor redemptions/distributions and other fund level expenses are made through these accounts. Processing of these disbursements is handled through a proprietary cash management system maintained by Principal Financial Group’s corporate treasury department, which has security rules set up so that only certain employees can request such disbursements and only certain employees (different than the requesters) can approve such disbursements. And depending on the size of the disbursement, multiple approvers may be required. No disbursement will be approved without appropriate supporting documentation. This process and system is subject to numerous internal controls, including: segregation of duties, tiered invoice approvals, and tiered check authorization. All bank accounts and corresponding cash activity is balanced and reconciled on a monthly basis, with these duties segregated from other aspects of the cash management and accounting functions. Annual audits of the Funds’ financial statements are conducted by independent external auditors. The audited financial statements are prepared in accordance with generally accepted accounting principles and delivered by Principal Real Estate Investors to all clients (investors) within 120 days after the Funds’ year end. Annual custody audits are conducted on a surprise basis for any assets which we have custody of that are not covered by the audit scope exception.

ITEM 16 – INVESTMENT DISCRETION

Principal Real Estate Investors generally receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of investments 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 investments and determining amounts, Principal Real Estate Investors observes the investment policies, limitations and restrictions of the clients for which it advises.

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

ITEM 17 – VOTING CLIENT SECURITIES

Principal Real Estate Investors has adopted and implemented written Proxy Voting Policies and Procedures which are designed to reasonably ensure that Principal Real Estate Investors votes proxies in the best interests of its advisory clients who have authorized the Principal Real Estate Investors to address these matters on their behalf. Principal Real Estate 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 Real Estate 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

Principal Real Estate Investors will accept authority to vote proxies on behalf of the client. Clients may also direct the adviser to vote in certain situations. The client should contact their representative at the adviser.

Principal Real Estate 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 or if a recommendation is not provided. In this case, the policy requires certain procedures and documentation to be met in order to address conflicts of interest.

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

ITEM 18 – FINANCIAL INFORMATION

Registered investment advisers are required in this Item to provide Clients with certain financial information or disclosures about Principal Real Estate Investors' financial condition. Principal Real Estate 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.

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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.

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1-800-986-3343

