

# Principal Real Estate SAS

## ADV Part 2A

[www.principalreeurope.com](http://www.principalreeurope.com)

November 9, 2018

This brochure provides information about the qualifications and business practices of Principal Real Estate SAS (“PRE SAS”) in respect of its role as manager of the Principal European Core Fund (comprising Principal European Core Fund SCSp, Principal European Core Feeder Fund C1 SCA-RAIF, and Principal European Core Feeder Fund P1 SCA-RAIF).

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The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority.

Additional information about PRE SAS is also available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

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 Item is not applicable since this is the first brochure submitted for PRE SAS.  
Details of any future material changes will be provided in annual, and ad hoc, updates.

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

Principal Real Estate SAS (“PRE SAS”), formed in 2011, is a wholly-owned subsidiary of Principal Real Estate Europe Limited, whose ultimate parent company is Principal Financial Group, Inc. (NASDAQ: PFG). Principal Financial Group (“Principal”) is a leading global financial institution offering a wide range of financial products and services.

Principal Real Estate Europe Limited, together with all its subsidiaries, including PRE SAS, comprise the Principal Real Estate Europe Group (the “PREEL Group”), which is part of Principal Real Estate Investors (“PrinREI”) the real estate arm of Principal Global Investors (“PGI”). The PREEL Group provides investment management and advisory services to a number of direct real estate funds and separate account mandates with real estate assets in Europe.

PRE SAS is an Alternative Investment Fund Manager (“AIFM”) regulated in France by the Financial Markets Authority and authorized to act as a management company under the European Alternative Investment Fund Managers Directive 2011/61/EU.

PRE SAS is the Management Company of Principal European Core Fund (which comprise the main vehicle, Principal European Core Fund SCSp, and its 2 feeder funds, Principal European Core Feeder Fund C1 SCA-RAIF and Principal European Core Feeder Fund P1 SCA-RAIF) (together the “Fund” or “PECF”).

Principal European Core Fund SCSp, the main vehicle, is a special limited partnership established under the laws of the Grand Duchy of Luxembourg. It is an open-ended Alternative Investment Fund that principally invests in 3 traditional real estate asset classes: office, retail and logistics, with a modest allocation to specialist sectors including student housing and healthcare.

The 2 feeder funds are both Luxembourg corporate partnerships, limited by shares (société en commandite par actions - SCA) organised as investment companies with variable capital – being reserved alternative investment funds (RAIFs). It is intended that the 2 feeder funds will invest in the main vehicle.

The Fund will initially acquire all the units in an existing German Spezialfonds, known as (“Principal European Core Spezialfonds”), which owns a portfolio of 9 real estate assets in various European locations.

The Management Company provides investment management services, including both risk and portfolio management functions, to the funds it manages, including PECF. PRE SAS only manages and advises funds and provides advice and other real estate services to separate account clients that pursue real estate investment strategies. Such advice may also be provided by other members of the PREEL Group.

PRE SAS engages with fellow subsidiaries in the PREEL Group to provide certain investment advisory and administration services, such as asset management, transaction management, asset accounting and fund controlling, in relation to the real estate investments and funds it manages and advises, including PECF.

The investment objectives applicable to PECF managed and advised by PRE SAS are applicable at the fund level and are not varied for respective investors in PECF. Investors will be provided with a private placement memorandum and/or other governing documents (collectively, the “Governing Documents”) with information regarding PECF, including, but not limited to, fee terms, fund expenses, investment risks and conflicts of interest.

#### **Assets Under Management**

As of September 30, 2018, PRE SAS managed \$220,754,057 in discretionary regulatory assets under management.

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

The fees detailed in this item and Governing Documents are only those relating to the provision by PRE SAS of its investment management and advisory services to PECF and they do not include other fees that an investor in PECF may bear, such as the fees of a depository, real estate value or auditor, or fees charged to the investor or the Fund by other service providers. PRE SAS does not receive or share in custody fees or otherwise receive any benefit due to custodial arrangements entered into by investors.

PRE SAS typically earns a management fee in relation to the funds it manages, based on the value of the fund’s assets under management, but in some circumstances PRE SAS may also earn transaction fees, based on transaction value, or asset management fees, based on the rental income from the fund’s assets.

In respect of PECF, PRE SAS earns an annual management fee from the Fund, based on the Fund’s net asset value, at rates which vary relative to the sizes of different limited partner investments, as further defined in the Fund term sheet. PRE SAS is not entitled to transaction fees in respect of the Fund but may receive fees in relation to its management of development projects for the Fund, should any take place, based on a percentage of development cost as set out in the term sheet.

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

PRE SAS does not earn performance or transaction-based fees for the services it provides to PECF.

When advisers, such as PRE SAS and its affiliates, manage or advise a number of funds (“side-by-side management”) with similar investment objectives or strategies but with different fee bases, then conflicts of interest may arise such that PRE SAS could favor one fund over another. For example PRE SAS and its affiliates may manage or advise certain funds from which they are entitled to receive a transaction-based fee in addition to an assets under management based fee. In the case of funds with similar investment strategies, PRE SAS and its affiliates have a financial incentive to favor funds by directing investment opportunities to those with transaction-based fees or higher assets under management based fees.

PRE SAS and the PREEL Group have adopted procedures for allocating investment opportunities between funds to ensure all funds, clients and investors are treated fairly and to mitigate this kind of potential conflict. If more than one fund or client is a potential acquirer of a real estate investment (based on investment criteria and objective), then the Allocation Officer will allocate the investment opportunity on a “rotational basis” in accordance with the Deal Allocation Policy to ensure a fair allocation of investment opportunities. If conflicts arise between various funds or when the situation is ambiguous, and a decision needs to be made on an allocation, the case is presented to the PREEL Group Investment Committee which analyses the conflict and makes the final allocation decision. All such matters are subject to the PREEL Group’s Conflict of Interest Policy and Deal Allocation Policy. Any conflicts are documented appropriately.

In addition, PRE SAS and the PREEL Group manage and advise their funds in accordance with applicable law and regulation and have adopted procedures that are designed to ensure all clients are treated fairly and to avoid any client or group of clients being systematically favored or disadvantaged.

## **ITEM 7 – TYPES OF CLIENTS**

Acting as an AIFM, PRE SAS provides portfolio management and investment management services to funds, such as PECF, that are reserved for qualified investors. Such investors are predominantly institutional clients such as public and corporate pensions, insurance companies, financial institutions and corporations.

The minimum commitment in PECF will be €10 million, although PRE SAS, as the management company, and the General Partner (PECF (GP) S.à r.l.) retain the right under the fund documentation to waive this requirement at their absolute discretion. All investors in PECF that are “U.S. Persons” as defined in the United States Internal Revenue Code of 1986, as amended must meet certain minimum qualifications, including being “qualified purchasers” as specified in the subscription material for PECF.

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

PRE SAS and the PREEL Group manage and advise funds with differing real estate strategies and which target a variety of real estate sectors. They adopt a research led approach supported by local real estate knowledge and expertise.

The objective of PECF is to acquire, manage and invest into a diversified portfolio of predominantly stabilized institutional quality commercial real estate and property assets across the major metropolitan markets of Europe and the United Kingdom. PECF will principally invest in the three traditional real estate asset classes of office, retail, and logistics with a modest allocation to specialist sectors such as student housing and healthcare.

The PREEL Group acts as a full service real estate investment manager with what it believes to be extensive experience in the sourcing and management of equity real estate investment opportunities across Europe. PRE SAS, supported by its affiliates, will provide the following services to PECF:

- Portfolio Management
- Real Estate & Capital Markets Research
- Acquisitions & Dispositions
- Development & Construction Management
- Third-Party Financing
- Asset Management
- Financial Management

PRE SAS is focused on seeking to deliver the target returns for the Fund over the long term, and subject to the Fund's investment restrictions. It aims to achieve this through the development of clear investment objectives and strategies, state-of-the-art research, active management of each asset in the Fund portfolio through tactical property and market selection, the timely and disciplined execution of complex transactions, "hands on" asset management, highly standardized financial controls, and ongoing performance reviews by senior management.

### **Portfolio Management**

The PREEL Group believes it follows a disciplined "team approach" to the real estate investment management process that is focused on investment performance and client service. PRE SAS, as the Management Company for PECF, works closely with each of the functional disciplines of the PREEL Group, including: acquisitions, dispositions, development, financing, asset management, research and financial management. The

Management Company believes the team approach has the potential to improve the performance of the assets acquired on behalf of PECF in several important regards:

- The PREEL Group's Portfolio Management Team will manage the activities of the Fund on a day-to-day basis, overseen by the Management Company, and will be responsible for formulating and recommending investment proposals for the Fund to the Management Company.
- Each team member has a clear understanding of PECF's goals and objectives and takes an active role in implementing the Fund strategy.
- The Management Company can call upon the extensive skills and experience of the Portfolio Management Team, the PREEL Group and its global affiliates.
- The team approach provides greater oversight and a clearer focus on investment issues and performance.
- Compensation of team members is tied to investment results and client satisfaction, which promotes alignment of interest with the Fund investors.
- The Management Company will receive, review and, if appropriate, approve investment recommendations proposed by the Portfolio Management Team and approved by the PREEL Group Investment Committee and strategic guidance proposed by the PREEL Group Management Committee.

The Management Company is responsible for all material decisions for the Fund, while the Portfolio Management Team manages the day-to-day-activities of the Fund and its investments. The Portfolio Management Team will meet the Management Company each quarter to review the Fund's investment activity, performance and compliance with investment guidelines.

The Management Company and the Portfolio Management Team will also meet on a periodic basis with the Advisory Committee, representing the Fund's investors, to review the activities of the Fund.

#### Real Estate & Capital Markets Research

Principal Real Estate Europe conducts macro- and micro-level research, providing economic, political, technological, capital market and real estate supply and demand analysis to the Portfolio Management Team and the Management Company. The research team utilizes a top-down, bottom-up approach that draws upon Principal's global, multi-asset class capabilities, numerous outside research and data sources, and the "local knowledge" obtained by more than 50 investment professionals who cover 7 European countries. The primary products provided by the research team include:

- Quarterly macroeconomic, capital market and property sector forecasts;
- Microeconomic research;



- Annual economic base analysis (EBA) and market supply/demand forecast;
- Relative market attractiveness ranking (by market and property type); and
- Various research reports and position papers for internal and external use.

The output generated by the research team forms an integral part of the acquisition, asset management and disposition services that Principal Real Estate Europe provides to its clients, including PECF.

#### Acquisitions & Dispositions

The Principal Real Estate Europe Group provides acquisition services to PRE SAS as the Management Company in respect of PECF, including transaction sourcing, underwriting, due diligence, contract negotiations and closing. Principal's acquisition process utilizes a team-oriented, research-based, multi-disciplined approach. The Management Company believes the acquisition process is highly standardized and can be executed smoothly and efficiently to create a high volume of quality investments.

Transaction Sourcing – The Management Company believes that Principal Real Estate Europe's Transaction team (the "Transaction Team") is able to source a high volume of quality investments, which the Management Company believes will enable PECF to invest capital in a timely manner. Transactions are sourced from brokers or directly from vendors of the assets. There are several distinguishing features of Principal Real Estate Europe's transaction sourcing capabilities, including:

- The utilization of a wide relationship network developed by the real estate investment area of Principal Life Insurance Company and continuing through PrinREI as a firm, over the past 60 years, leading Principal to its position internationally as one of the largest real estate equity and debt managers.
- The Transaction Team supported by more than 50 investment professionals across Europe, sourcing investment opportunities.
- In-depth European coverage, with real estate teams located in 7 European countries providing local knowledge of investment opportunities.
- Excellent market reputation and credibility enhancing transaction access as a preferred buyer or, in many instances, on a directly negotiated basis.

#### Preliminary Investment Review

The Portfolio Management Team works closely with the Transaction Team to review potential investments and provide feedback regarding the Fund's investment needs and criteria.

The transaction manager performs a preliminary review and analysis of any transaction that can potentially meet the investment criteria of one or several funds/clients managed

by the PREEL Group, with input from the Portfolio Management Team. Offers are made on those properties that Principal believes have positive investment characteristics and meet one or several funds/clients' investment needs. Once an investment is placed under a non-binding letter of intent, it is allocated on a rotational basis through Principal Real Estate Europe's deal allocation procedure.

#### Investment Allocation

Principal is committed to delivering fair and equitable treatment to all funds and other clients in terms of transaction access. No client or fund has any ongoing preference or priority.

PRE SAS and the PREEL Group have adopted procedures for allocating investment opportunities between funds to ensure all funds, clients and investors are treated fairly and to mitigate potential conflicts of interest. If more than one fund or client is a potential acquirer of a real estate investment (based on investment criteria and objective), then the Allocation Officer will allocate the investment opportunity on a "rotational basis" in accordance with the Deal Allocation Policy to ensure a fair allocation of investment opportunities. If conflicts arise between various funds or when the situation is ambiguous, and a decision needs to be made on an allocation, the case is presented to the PREEL Group Investment Committee, which analyses the conflict and makes the final allocation decision. All such matters are subject to the PREEL Group's Conflict of Interest Policy and Deal Allocation Policy. Any conflicts and resolutions are documented appropriately.

#### Underwriting & Due Diligence

Upon preliminary approval by the PREEL Group Investment Committee, the Transaction Team, working with members of the Portfolio Management Team, undertakes a comprehensive qualitative and quantitative review of the proposed property. The due diligence process is intended to affirm (or challenge, if necessary) the initial underwriting of the asset and the market including all valuation assumptions. It also provides for a thorough examination of the financial and operating history of the property and tenants. Third-party consultants (e.g., legal, appraisal, engineering and environmental) are retained as needed and the proposed asset management team is also involved in the review process for their local knowledge and expertise.

The results of the due diligence process are included in the final investment proposal (described below) and presented to the PREEL Group Investment Committee for review and approval.

#### Final Investment Proposal

Upon completion of due diligence and contract negotiations, a final investment proposal will be prepared that typically includes the following information:

- Property Summary
- Investment Terms

- Valuation Summary
- Pro Forma Cash Flows and Returns
- Market Summary
- Leasing Plan
- Development Plan (if applicable)
- Financing Plan
- Closing/Funding Schedule
- Supporting Documents and Exhibits

The PREEL Group Investment Committee reviews the final investment proposal and, if appropriate, approves the proposed acquisition for submission to the Management Company for final approval. If the Management Company elects to proceed with the acquisition, it shall instruct the General Partner to proceed with closing of the transaction.

#### Closing Process

Upon approval of the final investment proposal by the Management Company the Transaction Team, will proceed with final documentation and closing of the transaction, supported by Principal's in-house legal department and utilizing outside counsel to complete all closing checklist items and ensure all items due from the seller are received. The Management Company is advised of the closing process and funding requirements. After closing, a complete set of transaction documents are maintained, together with a status report on any post-closing items.

#### Property Finance

The Portfolio Management Team, with the agreement of the Management Company, may arrange third-party financing for property acquisitions, either on a single-property basis or through portfolio financing. In addition to being one of the largest real estate lenders in the United States, Principal arranges a significant amount of property finance for its equity clients and has a dedicated team for this work. Principal Real Estate Investors currently services more than \$5.9 billion of third-party debt on behalf of its clients. Principal Real Estate Europe also has a dedicated real estate finance team of experienced specialists, who will provide support to the Portfolio Management Team, the Transaction Team and the Management Company in arranging property finance for the Fund's acquisitions, if required.

#### Property Dispositions

If the Management Company, supported by the Portfolio Management Team, determines that it is in the best interest of the Fund to sell a property, the Transaction Team will arrange the sale of the investment, with input from the Portfolio Management Team. The marketing of assets for sale are generally handled by qualified third party brokers; however, in some instances, an acceptable offer may be received directly from a qualified buyer. All dispositions are subject to review and approval by the PREEL Group Investment Committee. The disposition process is also highly standardized and efficient and typically includes the following steps:

- Approval of hold/sell recommendation (refer to hold/sell analysis below)
- Selection of brokerage firm and fee structure
- Preparation of property offering materials
- Coordination of due diligence materials and review process
- Identification and recommendation of qualified buyer based upon price, timing, financial capability, and credibility
- Negotiation of purchase and sale agreement and closing documents
- Coordination of closing process and distribution of proceeds

The PREEL Group Investment Committee reviews the disposition proposal and, if appropriate, approves the proposed disposition for submission to the Management Company for final approval. If the Management Company elects to proceed with the disposition, it shall instruct the General Partner to proceed with closing of the transaction.

### Asset Management

Principal Real Estate Europe provides asset management services to PECF. The Asset Management Team is actively involved in all stages of the investment life cycle. Asset managers participate in developing the investment strategy and tactical plan for each new acquisition and have primary responsibility for its execution. The asset managers frequently visit each property and work closely with the local property management team to identify the critical issues affecting property performance and value, such as increasing occupancy and cash flows and delivering a superior product to the market.

Specific goals and objectives are outlined in the annual operating budgets and business plans, with quarterly performance results provided to the Portfolio Management Team. In addition to their property expertise and local market knowledge, the asset managers provide transaction-sourcing capabilities to the Transactions Team.

### Property Management

Property management and leasing services are provided by third-party agents who are not affiliates of Principal Real Estate Europe or the Management Company; however, Principal Real Estate Europe reserves the right to provide these and other services to PECF at local market fees. Principal Real Estate Europe has long-standing relationships with firms that it considers to be leading real estate firms in each of the Fund's target European markets, and has developed extensive systems and procedures to proactively monitor the leasing and management of the Fund investments. All property managers are retained pursuant to agreements that provide for termination on short notice.

#### Annual Budget & Business Plan

Operating and capital budgets are prepared each year by the third party property managers in accordance with standard guidelines. The leasing, income, expense, capital improvement and cash flow assumptions are carefully reviewed by the asset manager and asset accountants and then submitted to the Portfolio Management Team with the annual business plan.

The annual business plan outlines the investment strategy and tactical plan for each asset and provides a useful tool with which the Portfolio Management Team can monitor and benchmark performance. The annual business plans generally include the following information:

- Property & Investment Summary
- Investment Strategy & Tactical Plan
- Historical Performance & Pro Forma Returns
- Valuation Summary
- Market Profile
- Leasing Plan & Guidelines
- Financial & Operating Highlights
- Hold/Sell Analysis
- Priority Issues & Tasks

#### Property Valuation

An independent consultant (the "Valuation Consultant") selected by the Management Company and the General Partner performs the quarterly valuations for the assets owned by the Fund. The values of the Fund's investments are established in accordance with its valuation policy. All appraisals are performed in accordance with the 'RICS Red Book' valuation standards. The appraised values are updated quarterly by the Valuation Consultant based upon financial and leasing updates provided by the Portfolio Management Team. The Fund's Net Asset Value shall be determined by the Management

Company based on the appraised values. No appraisal is required prior to the closing of each new investment. Prior to its first appraisal, an acquired property is valued at cost plus capital expenditures. The value of properties under development or redevelopment is determined by the Management Company each quarter from the time of acquisition until the earlier of (i) stabilized occupancy (80% leased or greater) and (ii) expiration of the original pro-forma lease-up period, at which time the Valuation Consultant commences the quarterly appraisal process.

### Hold/Sell Analysis

Each year, in conjunction with the annual business plan, the Portfolio Management Team prepares a hold/sell analysis and recommendation for each asset, based on the following qualitative and quantitative criteria affecting asset performance and value, as well as the overall objectives of the Fund:

- Market Criteria: vacancy and absorption rates, supply/demand forecasts, economic and employment trends, trade area demographics and competitive market position;
- Property Criteria: contract vs. market rents, occupancy and lease rollover, major tenant issues, operating costs and expense recoveries, capital expenditures and value enhancement opportunities;
- Valuation Criteria: asset value (income versus cost approach), NOI and cash yields, total returns (IRR), comparable sales activity and hold/sell restrictions; and
- Portfolio Criteria: alternative investment opportunities, Portfolio diversification, risk management and Investment Guidelines.

Each hold/sell criterion is reviewed in terms of alternative holding periods (short-term versus medium term or long-term) and is rated based on the anticipated impact on financial or operating performance. In addition to the asset-level hold/sell analysis, the Portfolio Management Team continually evaluates the merits of the current disposition strategy from a portfolio and Fund perspective. Consideration of the Fund's overall goals and objectives, risk tolerances, portfolio allocation or diversification issues and reinvestment alternatives are critical components of the investment management process and must be evaluated by the Portfolio Management Team. The Management Company also takes an active role in the strategic planning and hold/sell process and must approve all sell decisions.

### Philosophy and Risk Management

The PREEL Group and the Management Company are generally focused on maximizing long-term, risk adjusted returns for its clients. Our investment processes generally include:

- Development of clear investment objectives, risk tolerances and investment guidelines for each client.
- Use of Principal's macro-economic, capital and real estate space market research in addition to 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 the PREEL Group to execute the strategy (including areas such as research, acquisitions, dispositions, development, asset management, operations, financing and accounting).
- The use of the PREEL Group's Transaction Team which is 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.
- 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 Real Estate

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. Our 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. The following is a summary of some types of investing and asset risks that are considered by the portfolio management, research 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 management team with input from each functional area and with oversight by the investment and/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 full-proof and no assurance can be given that the risk management policies employed by the PREEL Group or the Management Company for the Fund 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. 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.

Other risks:

With the increased use of technologies such as the internet to conduct business and the sensitivity of client information, investment strategy and holdings, a portfolio is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate internal or external attacks or unintentional events and can include gaining unauthorized access to digital systems, misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches either internally within Principal or externally by a third-party service provider have the ability to cause disruptions and impact business operations. Such events can potentially result in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.



The Fund is denominated in Euros and returns to investors will be distributed in Euros. Therefore, each investor's investment in the Fund will be denominated in Euro and investors' investments will be subject to any fluctuation in the rate of exchange between Euro and the currency of the investor's home jurisdiction. Such fluctuations may have an adverse effect on the value of, price of or income or gains from an investor's investment in the Fund.

It is expected that the majority of the Fund's investments will be in Euros. If the Fund makes investments which are held in currencies other than Euros, the Management Company may (but is not obliged to) hedge the Fund's exposure to currency fluctuations between that currency and Euros. However, there can be no assurance that such hedges will be available, be available at a reasonable cost or be sufficient or that any such hedge will actually eliminate the risk of fluctuation in currency exchange rates.

## **ITEM 9 – DISCIPLINARY INFORMATION**

PRE SAS is required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of PRE SAS or the integrity of its management. Neither PRE SAS, its affiliates or any employees of the PREEL Group, have been involved in legal or disciplinary actions relating to past or present clients of the PREEL Group.

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

PRE SAS has appointed affiliates in other jurisdictions to provide asset management, transaction management and accounting services to the funds which it manages, including PECF.

PRE SAS has been appointed by affiliates in other jurisdictions to provide asset management, transaction management and accounting services to funds they manage.

PRE SAS is an affiliate of Principal Funds Distributor, Inc. ("PFD"), a broker/dealer. PFD is the principal underwriter for an investment company, Principal Funds, Inc. It is expected that PFD will be a placement agent for the unregistered funds of PRE SAS. PRE SAS currently does not conduct any broker business with PFD. No members of PRE SAS staff act as registered representatives of PFD.

PRE SAS is an affiliate of Principal Global Investors, LLC, an investment adviser registered with the SEC. PGI offers portfolio management services for fixed income, equities and commercial real estate products. PGI is a member of the National Futures Association and registered as a commodity trading advisor and commodity pool operator with the Commodity Futures Trading Commission.

PRE SAS is an affiliate of Principal Real Estate Investors, LLC, an investment adviser registered with the SEC. Principal Real Estate Investors offers portfolio management and investment advisory and subadvisory services concerning primarily equity real estate and commercial mortgage investments to affiliated and non-affiliated persons.

PRE SAS 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. PRE SAS can enter into arrangements to provide services or otherwise enter into some form of business relationship with these 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**

PRE SAS has adopted Principal's Code of Ethics (the "Code") and all employees of PRE SAS are subject to the Code as a condition of their employment. The Code imposes certain personal account dealing restrictions and reporting obligations on all employees.

The principal purposes of the Code are to provide policies and procedures consistent with applicable laws and regulations, including Rule 204A-1 under the Investment Advisers Act of 1940, to prevent conflicts of interests or the appearance of such conflicts when PRE SAS officers, directors, employees and certain non-employees of PRE SAS with access to client and trading information of PRE SAS ("Access Persons") own or engage in their own personal transactions involving securities. The Code requires all Access Persons to adhere to high standards of honest and ethical conduct, and the interests of our advisory clients must be placed first at all times. All Access Persons of the firm are required to certify upon association/employment and annually thereafter that they have read, understood and complied with the Code. This includes that they have complied with the requirements and disclosed covered accounts, reportable securities and pre-cleared transactions as required by the Code. Access Persons are permitted to personally buy and sell securities of issuers that PRE SAS also trades for its clients, so long as those buy and sell transactions are conducted in accordance with the Code. As such, there are procedures in place to prevent instances where potential conflicts of interest arise between the personal securities transactions of the Access Persons and any transactions that PRE SAS or its affiliates undertake for the accounts of their clients. The compliance function will monitor personal trading via the on-line pre-clearance system. The procedures provide for the maintenance of a master securities list that includes all securities traded by Principal for purchase or sale on behalf of clients. All Access Persons are required to obtain pre-clearance approval to buy and sell reportable securities (excluding exempt securities and transactions) through our online monitoring system before executing a personal security transaction to make sure the proposed transaction conforms to the Code provisions. There is also quarterly review of reportable transactions,

as well as annual certification of accounts and holdings by Access Persons. Please refer to the Code policy for a detailed overview of provisions.

Related Access Persons can invest in certain private funds where PRE SAS is the manager.

PRE SAS Access Persons must request pre-approval in order to purchase or sell certain types of real estate investment property.

Clients of PRE SAS can obtain a copy of the Code of Ethics by contacting the Chief Compliance Officer at (US) 800-533-1390 or (France) 31 40 15 53 04.

### **Gifts, Benefits and Entertainment**

Gifts, benefits and entertainment (including non-monetary gifts) may not be received and/or given that may influence behavior of employees in a way that conflicts with the interest of PRE SAS's clients. All employees of PRE SAS are subject to a Gifts and Benefits Policy which sets out the rules governing, receipt and/or provision of gifts and/or benefits and the reporting and pre-approval steps to be taken by employees and staff. Appropriate records are maintained and adherence to the policy is monitored by the Compliance department. In addition, all employees must, as part of the annual Code declaration, confirm that they have complied with the Gifts and Benefits Policy.

## **ITEM 12 – BROKERAGE PRACTICES**

This is not applicable to PRE SAS as it does not execute transactions on behalf of clients or funds with broker-dealers.

## **ITEM 13 – REVIEW OF ACCOUNTS**

The Principal Real Estate Europe board, which comprises senior individuals from PGI, PrinREI and the PREEL Group has mandated the PREEL Group Management Committee, which consists of senior management from the PREEL Group (the "PREEL Group Management Committee") and PRE SAS, to provide regular oversight of the Fund and the Management Company's activities.

The PREEL Group Management Committee will review the Fund on a periodic basis (and at least annually). Each such review will cover, inter alia, the Fund's activity and performance, the risks associated with the Fund, compliance with its investment criteria and its current and proposed strategy. Any proposed amendments to the Fund's investment criteria or future strategy will be recommended by the PREEL Group Management Committee to the Management Company for consideration and, if it is agreed that the proposed amendments are in the best interests of the investors and the Fund, approved.

The PREEL Group Management Committee has established the PREEL Group Investment Committee (the “PREEL Group Investment Committee”), which reviews and approves all investment proposals for the Fund and makes recommendations to the Management Company for review and approval.

In addition, the PECF Advisory Committee, comprising up to 9 investor representatives, which will meet on at least an annual basis, will provide such advice as is requested by the Management Company or the General Partner in connection with Fund’s investments, potential conflicts of interest, and other Fund matters.

### **Reporting**

Quarterly fund reports are prepared and issued to investors in respect of the Fund. The quarterly fund reports include, inter alia, an analysis of the Fund’s portfolio, details of recent transactional activity, a performance update, confirmation of the Fund’s compliance with its restrictions, details of any key issues and a summary of the Fund’s financial position.

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

The Management Company, PRE SAS, is not a party to any arrangement whereby it compensates a non-affiliated party for client referrals. In addition, neither PRE SAS nor its employees accept referral fees or any form of remuneration from other professionals when a prospect or client is referred to them and they do not receive any economic benefits, including sales awards and prizes, from non-clients in connection with providing advisory services to PRE SAS’s funds.

## **ITEM 15 – CUSTODY**

PRE SAS is deemed to have custody of PECF’s assets, requiring it to comply with the requirements of Rule 206(4)-2 under the Investment Advisers Act of 1940, as amended (“Custody Rule”), with respect of U.S. investors in PECF. PRE SAS will comply with the Custody Rule by distributing audited financial statements of PECF to all U.S. investors therein within 120 days after fiscal year end. PRE SAS does not serve in a custodian role for U.S. mutual funds or any other accounts or securities for clients.

## **ITEM 16 – INVESTMENT DISCRETION**

The Management Company, PRE SAS has discretionary authority under the Fund documents to select the specific real estate investments to be bought or sold for the Fund. Such discretion is to be exercised in a manner consistent with the stated investment objectives for the Fund and PRE SAS manages and makes its investment decisions for the Fund in line with the restrictions and limitations set out in the fund documentation, such as:

- Sectors permitted to invest in;
- Markets (countries) permitted to invest in;
- Concentration limits;
- Proportion of development activity; and
- Amount of gearing (i.e. leverage attributable to debt financing).

PRE SAS receives investment proposals from the Portfolio Management Team, which have been approved by the PREEL Group Investment Committee, which it considers before exercising its discretion.

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

This Item is not applicable.

## **ITEM 18 – FINANCIAL INFORMATION**

PRE SAS has no financial commitment that impairs its ability to meet its contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.

A balance sheet is not required to be provided because PRE SAS does not require prepayment of fees of more than \$1,200 per client, and six months or more in advance.