



**Form ADV, Part 2A Appendix 1 (Firm Wrap-Fee Program Disclosure Brochure) for  
Principal Managed Account Solutions Programs  
(with account clearing/custody through Fidelity Clearing & Custody Solutions)**

**Principal Managed Portfolio  
Principal Strategy Select Portfolios  
Principal Separately Managed Accounts Portfolios  
Principal Separately Managed Accounts Select Qualified Portfolios  
Principal Advisory Select Portfolios  
Principal Unified Managed Account Select Portfolios  
Principal Multi Manager Account Select Portfolios**

**Principal Securities, Inc.**

**711 High Street  
Des Moines, IA 50309  
888-774-6267  
February 1, 2024**

This Brochure provides information about the qualifications and business practices of Principal Securities, Inc. ("Principal Securities"). If you have any questions about the contents of this Brochure, please contact us at 888-774-6267. 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.

Principal Securities is a registered investment adviser. While registration is required under the law, registration of an investment adviser or a broker-dealer does not imply any specific level of skill or training.

Additional information about Principal Securities is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on FINRA's website at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

*Securities, advisory products, and brokerage services are offered through Principal Securities, Inc., Member SIPC.*

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## **Item 2 – Material Changes**

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Our fiscal year-end is December 31st. We may provide other ongoing disclosure information about material changes as necessary throughout the year.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Our Brochure may be found on [www.PrincipalSecurities.com](http://www.PrincipalSecurities.com) or requested free of charge by contacting us at 888-774-6267.

Additional information about Principal Securities is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov) and on FINRA's website at [www.finra.org/brokercheck](http://www.finra.org/brokercheck).

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## **Item 4 – Services, Fees, and Compensation**

### **Overview**

Principal Securities (“we”, “us”, “our”, “Firm”) is federally registered with the SEC as an investment adviser and is a member broker-dealer with the Financial Industry Regulatory Authority (“FINRA”). Principal Securities is registered or licensed to conduct business in all fifty states and the District of Columbia.

Principal Securities began its operation in 1968, and is headquartered in Des Moines, Iowa. Principal Securities is a member company of the Principal Financial Group, a family of financial services companies offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement and investment services, life and health insurance, and banking through its diverse family of financial services companies.

Principal Securities’ principal business activity is acting as a securities broker-dealer. When acting as a broker-dealer, Principal Securities provides securities-related advice to its brokerage clients that is incidental to the brokerage services provided and for which Principal Securities does not receive any special compensation (i.e., compensation other than the usual and customary brokerage commissions). Brokerage services and incidental advice are provided by individuals who are registered representatives of Principal Securities (“Broker-Dealer Representatives”). Principal Securities does not consider clients who receive only brokerage services or such incidental advice from our Broker-Dealer Representatives to be investment advisory clients (“Advisory Client”, “you”, “your”).

Principal Securities is a wholly owned subsidiary of Principal Financial Services, Inc. which is a wholly owned subsidiary of Principal Financial Group, Inc. Principal Financial Group, Inc. is a publicly held company traded on the NASDAQ.

This Brochure only covers the wrap fee investment advisory programs offered by Principal Securities (“Advisory Programs”). In addition to the programs described in this document, Principal Securities offers additional investment advisory programs that are described in separate Form ADV Part 2As and are available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov). These additional programs include the Principal Direct Advisory Account, Principal Financial Planning & Consulting Services and Retirement Plan Consulting Services.

Principal Securities authorizes individuals who are registered as investment adviser representatives of Principal Securities (“Financial Advisor”) in writing to act on its behalf to offer services as described below, collectively referred to as “Advisory Services”. Principal Securities allows its Financial Advisors to use Investment Adviser Representative, Financial Advisor or other similar titles when offering Advisory Services.

The Advisory Programs described in this Brochure are subject to risks associated with investing in securities and the investments in the asset allocation models will not always be profitable. Principal Securities does not guarantee the results of any advice or recommendations given to Advisory Clients utilizing the Advisory Programs.

### **Financial Advisor vs Broker-Dealer Representative**

Principal Securities offers both brokerage and investment advisory services. All Financial Advisors are also registered representatives of the Principal Securities broker-dealer.

By being dually-registered, a Principal Securities representative can act either in the capacity of a registered representative offering brokerage services (also known as a Broker-Dealer Representative) or in the capacity of an investment adviser representative (referred to here as a Financial Advisor).

The programs described in this brochure are investment advisory services that can only be offered by a Financial Advisor that is working in the capacity of an investment adviser representative.

For more information regarding the differences between the brokerage and investment advisory services offered by Principal Securities representatives, please see Principal Securities' Form CRS Client Relationship Summary, available at <http://www.principalsecurities.com>.

### **Programs**

Principal Securities offers the following Advisory Programs:

- Principal Managed Portfolio
- Principal Strategy Select Portfolios
- Principal Separately Managed Account Program
- Principal Separately Managed Account Select Qualified Program
- Principal Advisory Select Portfolios
- Principal Unified Managed Account Select Portfolios
- Principal Multi Manager Account Select Portfolios

Ongoing Advisory Program account ("Program Account") administration services are provided by Envestnet Asset Management, Inc. ("Envestnet"), a Registered Investment Adviser ("RIA"). Additionally, Principal Securities has entered into an agreement with Envestnet to offer the following programs as co-advisors to clients: Principal Strategy Select Portfolios, Principal Separately Managed Account Program, Principal Separately Managed Account Select Qualified Program, Principal Unified Managed Account Select Portfolios, and Principal Multi Manager Account Select Portfolios. In these Programs, Envestnet provides ongoing investment management services on a discretionary basis that include the ability to adjust asset allocations, add, remove or replace securities in the account, and rebalance the account as it deems necessary.

For all Principal Advisory Programs, custody and clearing services are provided by Fidelity Clearing & Custody Solutions ("FCCS"). FCCS provides clearing, custody and other brokerage services through National Financial Services LLC ("NFS"). Principal Securities is not affiliated with FCCS, NFS, or Envestnet.

### **Program Descriptions**

Principal Securities currently offers the below investment advisory programs, some of which incorporate services provided by either a third-party RIA or proprietary RIA (collectively, "Portfolio Manager"), and some which do not.

#### **Principal Managed Portfolio ("Managed Portfolio")**

Managed Portfolio is a discretionary wrap fee asset allocation program that has been designed specifically for Principal Securities by Morningstar Investment Management LLC ("Morningstar"). Morningstar serves as the Portfolio Manager and creates portfolios comprised of exchange traded funds ("ETFs") and mutual funds that are affiliated with Principal Securities and non-affiliated with Principal Securities.

*Principal Strategy Select Portfolios (“Strategy Select”)*

Strategy Select is a discretionary wrap fee asset allocation program in which Portfolio Managers create and offer model portfolios that incorporate the use of both mutual funds and ETFs.

*Principal Separately Managed Accounts Program (“SMA”)*

SMA is a discretionary wrap fee asset allocation program in which Portfolio Managers create model portfolios that incorporate the use of stocks, bonds, ETFs and other investments.

*Principal Separately Managed Accounts Select Qualified Program (“SMA Select Qual”)*

SMA Select Qual is a discretionary wrap fee asset allocation program in which Principal Asset Management, an affiliate of Principal Securities, acts as the Portfolio Manager and creates model portfolios that incorporate the use of stocks, bonds, ETFs and other investments.

*Principal Advisory Select Portfolios (“Advisory Select”)*

The Advisory Select Program allows for the creation of custom portfolios by investing in mutual funds, ETFs, alternative investments, and other securities, as recommended by the Financial Advisor or requested by the client. The Advisory Select Program Accounts are offered on both a discretionary as well as a non-discretionary basis. Two pricing options are offered in the Advisory Select Program—a wrap fee option (“Advisory Select Wrap”) and a transaction-based pricing option (“Advisory Select TBP”).

*Principal Unified Managed Account Select Portfolios (“UMA Select”)*

UMA Select is a discretionary wrap fee investment advisory program that allows Principal Securities’ Financial Advisors to create a UMA Select portfolio made up of different investment programs, each referred to as a “sleeve.” UMA Select portfolios can include Managed Portfolio sleeves, Strategy Select sleeves, SMA sleeves and/or Advisor Managed Portfolio Select (“AMP Select”) sleeves. AMP Select allows for model customization by the Financial Advisor similar to the Advisory Select program. A Financial Advisor can create a custom UMA Select portfolio that aligns with the Advisory Client’s investment profile.

*Principal Multi Manager Account Select Portfolios (“MMA Select”)*

MMA Select is a discretionary wrap fee program that offers unified managed account portfolios that are prebuilt and managed by a Portfolio Manager.

## **Services**

### Advisory Program Selection and Investment Questionnaire

If a client wishes to participate, a Financial Advisor will assist the client in determining whether an Advisory Program is appropriate for the client. The Financial Advisor will also provide the client account opening documents, disclosures, and other documents necessary for the client to make an informed decision about participation in an Advisory Program. If the client determines an Advisory Program is appropriate, given the client’s needs, the Financial Advisor will collect information from the client about the client’s present investment objectives, risk tolerance and time horizon and input such information into a risk tolerance questionnaire, which will determine a risk profile scoring and investment objective for the client’s Program Account, and generate a Statement of Investment Selection (“SIS”). The SIS will recommend a model for the client’s Program Account based on the client’s investment objective. The Financial Advisor will review the information in the SIS with the client. The client is ultimately responsible for determining whether to participate in an Advisory Program, and whether to accept or reject the recommended model. The client must approve the SIS prior to implementation. The client must also sign the applicable Principal Managed Account Solutions Client Agreement (“PMAS Client

Agreement”), a separate agreement that governs the relationship between the client and Principal Securities and sets forth the parties’ responsibilities and obligations with respect to the client’s Program Account.

In addition to this Brochure, and depending on the Advisory Program chosen, the Financial Advisor will also provide Envestnet’s and any applicable Portfolio Manager’s Form ADV Part 2 Brochure. Clients should carefully review these Brochures as they outline important information about the Firm’s, Envestnet’s, and the Portfolio Managers’ roles and responsibilities under the Programs. Clients should also review these entities’ Form ADV Part 3 (Form CRS), which contain additional information and disclosures.

#### Investments

After choosing an Advisory Program(s), the prospective client will choose, with the assistance of a Financial Advisor, the appropriate model portfolio within the Advisory Program selected based on the client’s investment objective, risk profile and tax situation.

If the Advisory Program selected is Advisory Select or UMA Select with an AMP Select Sleeve, the Financial Advisor will assist the client with selecting the investments to purchase or transfer in kind to the Program Account. Unless requested otherwise by the prospective client, the Financial Advisor will recommend investments that correspond to the client’s risk tolerance of the model chosen. These investments can include equities, mutual funds, exchange traded products, cash and cash equivalents, and additionally, Advisory Select Program Accounts can include alternative investments, fixed-income products, covered calls, and warrants.

Managed Portfolios, Strategy Select, SMA, SMA Select Qual and sleeves within the UMA Select and MMA Select Program Accounts may contain investment option that would not otherwise be allowed in the Advisory Select Program Account or an AMP Select Sleeve.

It is recommended that a Program Account stay within the risk tolerance of the model portfolio. Principal Securities reserves the right to terminate a Program Account if, after 90 days or more, the risk tolerance in the Program Account does not match the risk tolerance of the chosen model portfolio.

Principal Securities and its Financial Advisors can provide investment or model recommendations to one client in the Advisory Programs that differs from that given to another client. The Financial Advisor does not give investment advice as it relates to investments that are not held within the Program Account.

#### Tax Overlay in Managed Portfolio and Strategy Select

For an additional cost, Advisory Clients with a Managed Portfolio or Strategy Select Program Account have the option to implement a tax overlay option onto the program account. The tax overlay takes into consideration the tax impact when trading and rebalancing the Program Account.

#### Tax Overlay and Impact Overlay in UMA Select and MMA Select

For an additional cost, Advisory Clients with a UMA Select or MMA Select Program Account have the option to implement either a tax overlay, an impact overlay, or both, onto the Program Account. The tax overlay reviews the tax impact of the trading within the sleeves specific to that Program Account as part of the rebalancing process. The impact overlay aids an Advisory Client in implementing restrictions on a Program Account to exclude specific companies or industries.

#### Advisory Account Rebalancing

A rebalance within a Program Account may or may not generate trades. If the positions in the account are within the allocation guidelines of the model portfolio it is possible that no trades will be generated at the time

of a scheduled rebalance. For all Advisory Programs, reallocation of model portfolios and rebalancing within a non-qualified Program Accounts may cause tax consequences. Below are descriptions of the rebalancing process for each program.

#### Managed Portfolio

The model portfolios are created by Morningstar using a fundamental asset class review along with a broad screening of mutual funds and ETFs. The model portfolios will include mutual funds and could include ETFs distributed or advised by both affiliates of Principal Securities as well as non-affiliates of Principal Securities. Monthly reviews are conducted by Morningstar to determine if portfolio changes are needed. If any of the Managed Portfolios are no longer within the predetermined parameters, the Managed Portfolio will be rebalanced to the original target allocations. Principal Securities will execute the trades for the Managed Portfolio Program Accounts. Morningstar and Principal Securities work together to set drift parameters on each of the asset classes for the model portfolios. If a tax overlay is added to the program, this will affect the stated rebalancing processes.

#### Strategy Select and SMA

Each Portfolio Manager determines its own methodology for model analysis & rebalancing. The Strategy Select and SMA Program Accounts will rebalance on an annual basis but may rebalance more frequently based on the Portfolio Manager's investment philosophy. Please reference the Portfolio Manager's Form ADV Part 2A disclosure brochure for additional information on each Portfolio Manager's investment philosophy. If the tax overlay is added to Strategy Select, this will affect the stated rebalancing process.

#### SMA Select Qual

The portfolios are created and managed by affiliates of Principal Securities and will include investments distributed or advised by both affiliates of Principal Securities as well as non-affiliates of Principal Securities. The portfolios will rebalance at a minimum an annual basis but may rebalance more frequently based on the Portfolio Manager's investment philosophy. For additional information, please reference the Principal Asset Management ADV Part 2A disclosure brochure.

#### Advisory Select

Upon a review of the clients' Program Account the Financial Advisor will recommend adjustments based on changes to the client's ongoing investment objectives, risk tolerance, planned investment time horizon, financial goals, and whether the client wishes to impose any reasonable restrictions on the investments contained in the Program Account.

Principal Securities encourages clients in the Advisory Select Program to rebalance at least annually; however, Principal Securities undertakes no obligation to rebalance the Program Account, unless requested by the client.

#### UMA Select and MMA Select

If a sleeve adjustment is made within a UMA Select or MMA Select model, a rebalance of the Program Account will occur. Individual sleeves within a UMA Select or MMA Select model will rebalance the portion allocated to that sleeve according to the rebalancing methodologies outlined above. However, if a tax or impact overlay has been added to the Program Account, a different rebalancing process may occur based on the overlay rules implemented for that specific Program Account.



If no sleeve adjustments are implemented by the Financial Advisor or the Portfolio Manager, then the account will be scheduled to automatically rebalance to align with the account's original allocations on an annual schedule.

#### Principal Trust within Advisory Programs

Principal Securities has entered into an arrangement whereby Financial Advisors are permitted to refer clients in need of services by a corporate trustee to Principal Trust Company ("Principal Trust"), an affiliated trust company based in Wilmington, Delaware. If authorized under the trust agreement, Principal Trust may retain the referring Financial Advisor to make investment recommendations or to facilitate the election of discretionary portfolio management through either Portfolio Managers or the discretionary portfolio management of the Financial Advisor in the Program Accounts, for the trust. In such a situation, Principal Trust in its capacity as trustee is the Advisory Client and elects program services to be provided by Principal Securities to the trust accounts. Beneficiaries of trusts administered by Principal Trust that participate in an Advisory Program will receive quarterly statements from Principal Trust showing assets and activity. Principal Trust Company is the trade name of Delaware Charter Guarantee & Trust Company. More detailed information about Principal Trust's services and fees can be found in materials issued by Principal Trust.

#### PMAS Services for Retirement Plans – Managed Portfolios, Strategy Select, SMA and SMA Select Qual

Principal Securities authorizes Financial Advisors to act on its behalf to offer retirement plan and educational services to qualified retirement plans and certain nonqualified plans for certain Advisory Programs. Such services, as outlined within the PMAS Retirement Plan Services Supplement of the PMAS Client Agreement, are provided to the plan sponsor or other advisors and fiduciaries appointed by the plan sponsor with respect to services provided to the plan. These services are not provided to plan participants.

#### ERISA 3(21) Fiduciary

Under the ERISA 3(21) Fiduciary Program, Financial Advisors provide non-discretionary investment advice services to plan sponsor clients. Such services include one or more of the following:

- Providing non-discretionary investment advice about asset classes and investment alternatives available for the plan;
- Assisting in the selection of a broad range of investment alternatives;
- Providing investment option monitoring, reporting and analysis; and
- Conducting periodic investment reviews.

When providing these services, the Financial Advisor functions as an investment advice fiduciary as defined by 3(21)(A)(ii) under the Employee Retirement Income and Security Act of 1974 ("ERISA"). In such situations, Principal Securities is also an investment advice fiduciary as defined by 3(21)(A)(ii) of ERISA, and the Financial Advisor and Principal Securities are subject to specific legal obligations that include among other things, restrictions concerning certain forms of compensation.

Financial Advisors can also provide investment education, investment benchmarking and other services to plan sponsors that are categorized under ERISA as educational or administrative and not fiduciary in nature. Educational services for plan participants, such as enrollment meetings and other educational meetings, are also offered. Any such plan participant meetings are for educational purposes only and are not for individualized investment advice. Certain Financial Advisors can offer financial wellness services to plan sponsors for the benefit of their employees. The services can include educational seminars, use of a financial wellness assessment tool, written financial education materials and/or educational meetings. When providing these educational and administrative services, the Financial Advisor and Principal Securities do not act as a fiduciary

under ERISA section 3(21)(A)(ii).

If the Advisory Client is to receive initial and/or on-going recommendations from the Financial Advisor, it will be up to the Advisory Client to decide whether and how to execute the recommendations. The Advisory Client is never obligated to implement any of the recommendations.

Principal Securities and its Financial Advisors do not provide investment advice regarding 1) employer stock, including whether to offer employer stock as an investment option, or 2) the offering of an individual brokerage account or mutual fund window.

Principal Securities may provide other retirement plan consulting services as requested and agreed upon in writing.

#### **Non-Purpose Loans**

Upon your request and with Principal Securities' consent, your Program Account assets, for specific non-qualified registrations only, may be "pledged" or used as collateral for loans obtained through certain loan programs sponsored by non-affiliated banks ("Non-purpose Loan"). The costs associated with a Non-purpose Loan are not included in the Client Fee charged to Advisory Program clients. Principal Securities does not receive any additional compensation from your participation in Non-purpose Loans. If you elect to participate in a Non-purpose Loan, the terms and conditions applicable to it are governed by the applicable loan documents and other service agreements by the bank (collectively "Loan Documents") and are not included or described further in this Brochure. You should carefully review the terms, conditions, and any related risk disclosures for the Non-purpose Loan and understand that such risks may be heightened in the event you hold a concentrated position in your pledged Program Account or if your pledged Program Account makes up all, or substantially all, of your overall net worth or investable assets. The terms of the Loan Documents may result in the prohibition of purchasing or holding certain assets as collateral which could disrupt your selected model portfolio's investment strategy for the Program Account. The terms of the Loan Documents may also restrict or prevent withdrawals of assets from your Program Account. Under the terms of the loan program, your Program Account may be subject to a collateral call or liquidation. A collateral call or liquidation may prevent your Program Account from being invested in accordance with the Advisory Program requirements or your investment objectives and could disrupt your selected investment strategy for the Program Account. You may not be provided with prior notice of a liquidation of the securities in your pledged account and may not be entitled to choose the securities which are to be liquidated by the lender. This may result in unforeseeable and/or undesirable tax consequences for which neither Principal Securities nor your Financial Advisor have any responsibility to consider in making decisions to liquidate assets pledged as collateral. Liquidation of certain assets may also result in additional fees, penalties, and losses not included or described in this Brochure. You should consult with your own independent tax advisor in order to fully understand the tax implications associated with pledging your Program Account as loan collateral and the potential liquidation of pledged assets. You are encouraged to speak with your Financial Advisor with questions you may have about how a Non-purpose Loan may impact the investment management and performance of your Program Account.

#### **Fees and Compensation**

##### **Client Fee**

Advisory Clients are assessed a fee, calculated as a percentage of the Program Account value. This fee covers the provision of initial and ongoing investment advisory services by the Financial Advisor ("IAR Fee") and account administration costs ("Program Fee"). More information regarding what the Program Fee covers is included under the Pricing Option heading below. The IAR Fee and Program Fee are collectively referred to as the "Client

Fee,” and are documented on the Statement of Investment Selection. The Advisory Client and Financial Advisor will negotiate the Client Fee, however the Client Fee will generally not exceed the maximum annual percentage fees set forth below:

- Managed Portfolio, Strategy Select – Up to 2.00%
- Advisory Select
  - Advisory Select Wrap – Up to 2.00%
  - Advisory Select TBP – Up to 1.50%
- SMA, SMA Select Qual, UMA Select, MMA Select – Up to 3.00%

#### Fee Calculation

The Program Account value used to determine the Client Fee is generally the Average Daily Value of the assets in the account during the preceding quarter. The Average Daily Value is determined by totaling the ending account value of each day in the quarter then dividing by the number of days within the quarter.

Accounts reaching a breakpoint asset level do not qualify for a fee reduction on total account value. Client Fee reductions apply only to amounts in excess of the breakpoint asset level if the Client Fee is higher than the maximum annual percentage indicated above for that breakpoint asset level.

Instead of using the Average Daily Value as noted above, some Managed Portfolio accounts are assessed the Client Fee quarterly, in advance, based on the market value of the account assets as of the last business day of the previous quarter. This method is referred to as Period End Balance. Such Managed Portfolio accounts that have deposits or withdrawals by Client in excess of \$1000 per business day will be charged or refunded, respectively, a portion of the quarterly Client Fee pro-rated by the number of days during the preceding quarter the assets were either held in or withdrawn from the Managed Portfolio accounts.

The total Client Fee deducted from the Program Account is noted within the Quarterly Performance Report and on the client statement for the quarter in which the fee is deducted.

#### When and how is the Client Fee Paid?

The Client Fee is due and payable quarterly in advance based on the calculation details noted above. The Client Fee is deducted directly from the Program Account. In the first three-month period beginning with the date in which the Program Account is partially or fully invested (the “inception quarter”) the Client Fee is charged on a prorated basis to reflect the number of days in the inception quarter the assets are held in the Program Account. The Program Account value for such inception quarter will be the initial amount deposited.

#### How is the Client Fee handled upon Program Account termination?

In the event of termination of a Program Account, unearned fees are refunded to the client by Principal Securities on a pro-rata basis. Refunded client fees are issued to the client in accordance with the client’s initial instruction when possible; otherwise, a check is issued.

#### Household Billing

Program Accounts that share the same home mailing address are eligible to be household together, upon Advisory Client request, for billing purposes. Householding Program Accounts for billing can result in a reduced Client Fee. When Program Accounts are household together, the total average daily balance (or period ending balance, if applicable) for all household Program Accounts is used to determine the applicable fee percentage of the Client Fee schedule.

It is the Advisory Client's responsibility to elect to household accounts. If you do not household your Program Accounts, this could result in a higher Client Fee.

Principal Securities and its Financial Advisors earn higher fees if clients do not household eligible Program Accounts. Principal Securities addresses this conflict of interest by disclosing this conflict to clients so that they may discuss the householding policy or Program Fee with their Financial Advisor.

Principal Securities does not allow plan sponsors of retirement plans, who are Advisory Clients, to household Program Accounts for their individual assets with their qualified plan assets.

#### Fee Negotiation

The Client Fee is negotiable and as a result, clients with similar assets may pay different Client Fees. Principal Securities can discount the Client Fee to clients meeting certain criteria, such as having existing insurance, banking, or investment relationships with Principal Securities or its affiliates, or having an immediate family member who is a Financial Advisor. Principal Securities can also discount its Client Fees for competitive reasons or in other situations upon a prospective customer, or client's request.

No other fees disclosed in this section are negotiable.

#### Pricing Options

##### *Wrap Fee Programs*

All Advisory Programs described in this Brochure are offered as wrap fee programs. In a wrap fee program, transaction fees (sometimes referred to as ticket charges) and the annual IRA fee (for IRAs only) are included in the Program Fee component of the Client Fee. The transaction fees for alternative investment trading in a Program Account are not included within the Client Fee. The cost for alternative investment trading will be charged directly to the Program Account.

If a Program Account is subject to an annual minimum platform fee, the fee will be listed on the Statement of Investment Selection provided at account opening. Client will be responsible for covering the cost of the difference between the Program cost and the Program Fee collected from the Client Fee. The assessment will occur on a quarterly basis.

In certain situations where a Portfolio Manager participates in the management of the Program Account, the Program Fee will also include the Portfolio Manager fee. For Program Accounts implementing a tax and/or impact overlay option, an additional cost will be added to the Program Fee specifically for the overlay management.

##### *Advisory Select – Transaction Based Pricing ("TBP")*

In addition to offering the Advisory Select Program under a wrap fee pricing option, Principal Securities also offers an unbundled pricing option, referred to as Advisory Select TBP. Under the transaction based pricing option, a Client pays transaction fees generated when a trade is executed in the Program Account. As set forth in the table below, transaction fees vary depending on the type of security:

Stocks & ETFs Execution Fee	\$15.00 \$0.01 per share applied to equity trades over 300 shares
Mutual Funds	\$ 9.99
Mutual Funds Surcharge	\$19.99

Transaction Free NTF/ETF Funds	\$0.00
Fixed Income	\$15.00
Options	\$15.00
Alternative Investments	\$50.00 per position

Clients selecting the Transaction Base Pricing option will be subject to the annual IRA fee (for IRAs only) and the annual minimum platform fee. The annual minimum platform fee will be listed on the Statement of Investment Selection provided at account opening. Client will be responsible for covering the cost of the difference between the Program cost and the Program Fee collected from the Client Fee. The assessment will occur on a quarterly basis. The annual IRA fee is deducted from the client account on an annual basis and is noted in the Advisory Account Fee Schedule – Transaction Based Pricing, available at [www.principalsecurities.com](http://www.principalsecurities.com).

The primary differences and factors that should be considered when selecting between the Wrap Fee and Transaction Based Pricing options for Advisory Select Program Accounts are outlined in the table below.

	<b>Advisory Select – Wrap Fee (Bundled)</b>	<b>Advisory Select – Transaction Based Pricing (Unbundled)</b>
<b>Fees</b>	<ul style="list-style-type: none"> <li>• Transaction fees included in program fee</li> <li>• Annual IRA fees included in program fee</li> <li>• Program fee generally higher than with transaction based pricing (unbundled) option</li> </ul>	<ul style="list-style-type: none"> <li>• Transaction fees paid separately from program fee</li> <li>• Annual IRA fees paid separately from program fee</li> <li>• Program fee generally lower than with wrap fee (bundled) option</li> </ul>
<b>More Suitable for Accounts Expected To*</b>	<ul style="list-style-type: none"> <li>• Have a higher trading frequency</li> <li>• Use transaction fee funds or commission ETFs</li> </ul>	<ul style="list-style-type: none"> <li>• Have moderate trading frequency</li> <li>• Use non-transaction fee funds and/or commission free ETFs</li> </ul>

\* This list is not all-inclusive. When selecting a pricing option, Client and Financial Advisor should consider other expected characteristics of the Program Account, including but not limited to, account value and the potential impact of reoccurring fees.

#### Client Fee Distribution

Principal Securities pays a portion of the Client Fee to the following parties:

- Morningstar for investment research, model portfolio design, ongoing asset allocation modeling and asset allocation tool updates for Managed Portfolio and UMA Select (if Managed Portfolio is included in a UMA Select model);
- Portfolio Managers in the Strategy Select program, SMA program, SMA Select Qual program, MMA Select program, and UMA Select program (if Strategy Select or SMA Sleeves are included in a UMA Select model);
- Envestnet for ongoing Advisory Program Account administration and overlay management services, and, as applicable, tax and impact overlays applied to Program Accounts;
- FCCS for custody and clearing services for all wrap Advisory Programs;
- Financial Advisor for services rendered in connection with Program Accounts.

Principal Securities retains a portion of the Client Fee to cover the costs of the Advisory Programs and Program Accounts including operations costs, account administration, product due diligence and training.

#### Client and Advisor Derived Fee Billing

Generally, the fee billing method for Program Accounts is client derived, where the IAR Fee remains consistent when the Program Fee increases or decreases. However, some Program Accounts use the advisor derived billing method, where the IAR Fee changes when the Program Fee increases or decreases. Your Financial Advisor can assist you with questions about the fee billing method on your Program Account. The client derived billing method, where the IAR Fee remains consistent when the Program Fee changes, will only impact clients invested within the UMA Select or MMA Select Program when the sleeves within a UMA Select model or MMA Select portfolio are adjusted.

The Client Fee can increase or decrease when a change is made to a UMA Select or MMA Select portfolio with a differing Program Fee. In the event the Client Fee increases, the Client Fee will never exceed the maximum allowable fee of 3.00%.

When a sleeve adjustment is made to a UMA Select model by either the Financial Advisor in agreement with the Advisory Client, or an MMA Select model by a Portfolio Manager, the cost of the program could increase, decrease or stay the same. The cost change occurs automatically with no prior notification to the Advisory Client. The UMA Select or MMA Select Program Fee is determined by the sleeves within the UMA Select model portfolio, the percent that is allocated to each sleeve and if either a tax and/or impact overlay has been added to a Program Account.

- When a sleeve adjustment is completed and there is no change to the Program Fee the Client Fee will remain the same
- When a sleeve adjustment is completed and there is a decrease to the Program Fee the Client Fee will decrease by the same amount as the decrease to the Program Fee
- When a sleeve adjustment is completed & there is an increase to the Program Fee the Client Fee will increase by either:
  - The same amount as the increase to the Program Fee, as long as the increase is below the maximum Client Fee allowed within each tier or
  - Less than the amount of the increase to the Program Fee, as to not exceed the maximum Client Fee allowed within each tier

#### **Additional Information Related to Fees**

##### Mark-Ups and Additional Fees

Transaction costs for all Program Accounts typically include a mark-up in excess of the cost applied by FCCS and Principal Securities will retain that mark-up. Certain custodial services have an additional mark-up applied in addition to the cost applied by FCCS, which is retained by Principal Securities. Those custodial services where Principal Securities adds a mark-up include bounced checks, stop payments, full outgoing transfer fee, trade extension fee, annual IRA fee, equity trades, fixed income trade and no-load mutual funds.

The Client Fee does not cover certain services available upon request from Principal Securities, including, but not limited to wire transfer fees, overnight delivery fees, certificate delivery fees, account termination fees, transaction fees collected by FCCS on behalf of Self-Regulatory Organizations ("SRO") and paid to the SEC and reorganization fees, and any check reordering cost and fees, where applicable.

The Client Fee also does not cover the cash debit interest that is charged to a Program Account by FCCS when a negative balance occurs in a Program Account. Please reference the Advisory Account Fee Schedule, available at [www.principalsecurities.com](http://www.principalsecurities.com), for a list of other service fees that are not covered by the Client Fee. If trades occur in a Program Account through a broker dealer outside of FCCS ("step-out trade") additional costs can be incurred for the trade. Costs associated with step-out trades are not included within the Client Fee and would be an additional cost to the Advisory Client. Please see Item 9 – Best Execution for additional information on step-out trades.

#### Third Party Fees

The Client Fee does not cover certain fees charged by third parties, such as:

- management fees and expenses charged by those mutual funds, ETFs and alternative investments that are held in a Program Account;
- odd-lot differentials, American Depositary Receipt fees and exchange fees, transfer fees and other fees imposed by law;
- redemption fees imposed by certain mutual funds and ETFs ;
- transaction fees for alternative investment transactions in a Program Account; and
- any contingent deferred sales charge assessed on the sale or liquidation of mutual fund shares, where applicable.

#### Mutual Funds and ETF Expenses and 12b-1 Fees

The mutual funds and ETFs held in the Program Accounts also incur investment management fees and will incur 12b-1 distribution and shareholder servicing fees and other operating fees and expenses as defined in the prospectus. The Advisory Client pays the internal fees and expenses of the mutual funds and ETFs, which are in addition to the Client Fee paid to Principal Securities. These fees and expenses decrease potential investment and Program Account positive returns and increase potential negative returns. Some of the mutual funds included in model portfolios pay certain fees to Principal Securities, including, but not limited to distribution and shareholder servicing fees paid pursuant to distribution and shareholder servicing plans adopted by the Funds under Rule 12b-1 of the Investment Company Act of 1940 ("12b-1 fees"). To mitigate this conflict of interest involving 12b-1 fees, Principal Securities will credit these payments to the Program Accounts.

#### Fees Related to a Dollar Cost Average ("DCA") Plan

When a DCA plan is set up on a Managed Portfolio, Strategy Select, SMA, SMA Select Qual, UMA Select or MMA Select Program Account, the cash designated to the DCA plan will be excluded from the IAR Fee and the portion of the Program Fee that is paid to Principal Securities. As the cash from the DCA plan is invested into the Program Account, the amount invested will then be included in the fee calculation. The DCA plan as outlined above is not available in Advisory Select Program Accounts.

#### Tax and/or Impact Overlay Management

For Program Accounts that have added either the tax and/or impact overlay, the Client Fee will not automatically decrease if the overlay requirements are no longer being met and the overlay management can no longer occur.

#### Funding Account – SMA and SMA Select Qual

The funding account acts as a conduit account for SMA and SMA Select Qual Program Accounts and exists for the purpose of selling incoming non-model positions. The Client will not incur transaction costs for any transactions within the funding account. In addition, no Client Fee is applied to the funding account.

#### Ineligible Assets in Advisory Select

Client Fees will exclude the value of assets not allowed within the Advisory Select Program starting on the day the assets are transferred into a Program Account. Upon the transfer of assets into an Advisory Select Program Account, Principal Securities will inform the Financial Advisor of any asset not allowed within the Program Account and the Financial Advisor will work with the client in an effort to sell the asset and use the proceeds to purchase an asset allowed within the Advisory Select Program. Although an asset can be transferred into a Program Account, any asset not allowed within the Advisory Select Program will be evaluated to determine if they will continue to be excluded from billing, liquidated, converted or transferred out of the program.

#### Mutual Funds with Loads

For mutual fund shares that carry a front-end or back-end load (A shares & C shares respectively) and are transferred to or liquidated in a Program Account, the Client will not be charged the Client Fee on:

- the value of any class C shares purchased within the previous 12 months until at least 12 months after the date such class C shares are sold, if purchased with a back-end load, or
- the value of any class A shares until at least 24 months after the date such class A shares are purchased, if purchased with a front-end load.

#### Principal ETFs in Advisory Select Qualified Accounts

For Qualified Advisory Select Program Accounts holding Principal ETFs, the investment management expenses of the Principal ETFs will be credited back to the client account for the days the Principal ETFs are held within the Qualified Program Account.

#### Insufficient Cash Balance for Client Fee

Financial Advisors and Portfolio Managers managing Program Accounts are to maintain cash in the Program Account in order to cover the Client Fee and other charges and fees. If the money market fund balance, Bank Deposit Sweep Program or other cash equivalent funds in the Program Accounts are not sufficient to pay the Client Fee, the Client authorizes Principal Securities to redeem investments in the Program Account from the holdings in the model portfolio to pay the Client Fee. See Item 9, Bank Deposit Sweep Program, for additional details related to the Bank Deposit Sweep Program.

#### Advisory Program Fee Reduction

Principal Securities offers its Financial Advisors higher payouts based on their total assets under management ("AUM") held in Advisory Programs. Advisors are offered additional compensation on a quarterly basis when they reach specified AUM levels. These higher payouts for reaching various AUM levels present a conflict of interest because they provide a financial incentive for your Financial Advisor to recommend Advisory Programs over other available non-Advisory Programs that do not offer higher payouts to the Financial Advisor. Principal Securities surveils Program Accounts to address this conflict of interest.

#### Comparable Services

A client could directly invest in the investments offered through Advisory Programs without the services of Principal Securities and would not incur a Client Fee. Advisory Programs may cost the client more or less than purchasing such services separately, assuming that similar services could be purchased directly from the various providers. Other investment firms offer to the public other investment products such as mutual funds with asset allocation models similar to those found in the Advisory Programs. Those programs have differing fees and charges that may be higher or lower than the Client Fee.



An Advisory Client may pay more fees under an Advisory Program than the Advisory Client might pay if the Advisory Client were to instead invest through a brokerage account. Advisory Programs charge a fee on the assets in the program, while brokerage accounts charge commissions on transactions.

Generally, the lower the number of transactions, the more expensive the Advisory Program is when compared to a brokerage account where the client is only charged commissions. Factors in addition to the number of transactions that bear upon the relative cost of the Advisory Program in relation to the cost of the services purchased separately include the size of the account, the number and type of investments making up the portfolio, and the frequency of rebalancing the Program Account. Principal Securities and the Financial Advisor have a conflict of interest because of the financial incentive to recommend Advisory Programs over alternative services (such as brokerage services). Principal Securities surveils Program Accounts to address this conflict of interest.

## **Item 5 – Account Requirements and Types of Clients**

### **Types of Clients**

Principal Securities offers the Advisory Programs to individuals, qualified and nonqualified retirement plans, trusts, estates, charitable organizations, and other corporations and business entities.

### **Program Account Minimums**

Principal Securities generally enforces the Program Account minimums stated below however, in its discretion, Principal Securities will waive Program Account minimum requirements. Program Accounts that fail to meet the minimum balance requirement may have different compositions than portfolios that are above the minimum, as it may not be possible to fully implement some investment strategies. If a Program Account value falls below the stated minimum, Principal Securities reserves the right to terminate the Program Account and move the assets to a brokerage account where the account will no longer be actively monitored.

#### **Managed Portfolio**

Minimum initial investment generally starts at \$5,000 per Program Account and can increase based on model selection.

#### **Strategy Select - FSP**

Minimum initial investment is determined by the Portfolio Manager and the underlying model selection.

#### **SMA**

Minimum initial investment is determined by the Portfolio Manager.

#### **SMA Select Qual**

Minimum initial investment is determined by the Portfolio Manager.

#### **Advisory Select**

- Advisory Select Wrap - Minimum initial investment generally starts at \$25,000 per Program Account.
- Advisory Select TBP – Minimum initial investment generally starts at \$10,000 per Program Account.

#### UMA Select

The UMA Select program minimum is based on the underlying sleeves selected in the model and the percentage allocated to each sleeve.

#### MMA Select

- The MMA Select program minimum generally starts at \$500,000 per Program Account.

#### **Account Requirements**

To participate in an Advisory Program, a client must establish a brokerage account with Principal Securities.

Upon a client's request for withdrawal or transfer of client funds or securities invested within the Advisory Program, Principal Securities is deemed to have custody of those funds or securities in order to authenticate the client's request and enter the instructions into FCCS's system for processing. All dividends and other distributions from Program Account assets will be managed in accordance with instructions given on the account opening forms.

Principal Securities reserves the right to terminate its services if it believes the rendering of its investment advisory services is no longer appropriate for a client.

#### **Investments in Advisory Select and AMP Select Sleeves within UMA Select**

Mutual funds available are either no-load or are eligible to be purchased at net asset value and without sales charges. Principal Securities conducts a review of mutual funds by asset class mix to assist Financial Advisors in recommending investments to populate the model chosen by a client. Results are regularly provided to the Financial Advisors. The information is designed to assist the Financial Advisor in recommending which mutual funds are purchased or sold into the Program Account. The fact that a mutual fund family is the subject of ongoing review by Principal Securities is not, in itself, a recommendation of the fund family or any particular fund. Principal Securities will permit certain holdings to be transferred in or purchased by the client into Program Accounts, but these assets are not subject to ongoing research, due diligence or review by Principal Securities. Consequently, the Financial Advisors must use third-party research, the quality of which is not known by Principal Securities. Program Accounts containing these holdings may be more volatile.

Clients should be aware that combining different securities across industry and geographical sectors (diversifying) can help reduce the overall risk of their portfolios. Clients can also diversify through the purchase of mutual funds and ETFs.

#### **Incoming Assets – Managed Portfolio, Strategy Select, SMA, SMA Select Qual, UMA Select or MMA Select**

Assets received into a Managed Portfolio or Strategy Select Program Account that meet specific parameters will automatically be liquidated and invested into the model positions unless an overlay option has been implemented, in which case, liquidations and investing into the model will be determined based on the overlay selection for the Program Account. For assets received in SMA, SMA Select Qual, UMA Select or MMA Select Program Accounts, assets will be evaluated for liquidation based on assets received and if an overlay option has been implemented on the Program Account. Investing into the model positions will occur at the sole discretion of Principal Securities. In the event a security is received into a Managed Portfolio, Strategy Select, UMA Select or MMA Select Program Account and is unable to be liquidated and invested into the model positions, the position will automatically be removed from the fee calculation and an effort will be made to remove the position from the Program Account. For SMA and SMA Select Qual Program Accounts, if a security is received and unable to be liquidated, the position will remain in the funding account.

### **Investment Discretion**

Non-Discretionary Program Accounts require client's acceptance or rejection of a recommended buy, sell, reallocation or model rebalancing.

Discretionary Program Accounts give a Financial Advisor authority to exchange, convert, buy, or sell securities, and reallocate and rebalance Program Accounts without prior notification, consultation or authorization from the Advisory Client. Discretionary trading is made in accordance with the Advisory Client's stated investment objectives and market conditions. Such discretionary authority includes, but is not limited to:

- account rebalancing;
- block or aggregate batch trading;
- selling out of a recommended security or position;
- writing covered calls on stock and closing covered call transactions; and
- buying individual stocks, bonds, mutual funds, ETFs, ETNs and CDs.

### **Managed Portfolio, Strategy Select, SMA, SMA Select Qual, UMA Select, and MMA Select Programs**

Managed Portfolio, Strategy Select, SMA, SMA Select Qual, UMA Select and MMA Select Programs are by default discretionary programs and are not offered on a non-discretionary basis. To participate in the Managed Portfolio, Strategy Select, SMA, SMA Select Qual, UMA Select, or the MMA Select Program, Principal Securities requires the Advisory Client to sign an agreement to allow discretion within those Program Accounts. Discretion within these Program Accounts is granted to Principal Securities, Financial Advisors, Morningstar, and/or Portfolio Managers, depending on the program selected.

For UMA Select Program Accounts, Financial Advisors are allowed to make sleeve adjustments to the UMA Select models created by the Financial Advisor and make positions changes within the AMP Select Sleeve on a discretionary basis, as long as the change falls within the Advisory Client's stated investment objectives and market conditions. For MMA Select models only the Portfolio Manager would have discretion to update the sleeves and allocations within the MMA Select model.

### **Advisory Select**

The Advisory Select Program is offered on both a discretionary and non-discretionary basis. An Advisory Select Program Account by default is non-discretionary but, subject to approval by Principal Securities, the Advisory Client can grant discretionary authority to Principal Securities and its Financial Advisors by signing the Principal Advisory Select Portfolios Discretionary Trading Authorization Form.

### **Limited Discretion in Advisory Select**

Principal Securities and/or its Financial Advisor have limited discretionary authority on all Advisory Select Program Accounts as described in this paragraph. Principal Securities and its Financial Advisors are authorized to take the following actions without obtaining prior approval from an Advisory Client (See Item 4): (i) if Principal Securities determines there is a different preferred share class for a mutual fund held in an Advisory Select Program Account, Principal Securities will exchange or convert a Client's Program Account assets from other share classes into the preferred program share class of the same mutual fund (even if that will have income tax consequences for the Advisory Client); and (ii) to transfer ineligible assets into a Principal Securities brokerage account as needed. Any exchange or conversion of Client's Program Account assets from one share class into the preferred share class for the program of the same mutual fund would generally occur as a result of the share class review and conversion process described in the "Best Execution" section under Item 9 of this document.

## Item 6 – Portfolio Manager Selection and Evaluation

### Managed Portfolio

Principal Securities uses asset allocation tools and investment research from Morningstar as the primary resource in delivering Managed Portfolio. Morningstar has developed the asset allocation models for Managed Portfolio. Morningstar utilizes its proprietary research and screening processes to design model portfolios consistent with the asset allocation models.

Managed Portfolio investment and research methodology uses a valuation-driven approach developed and implemented by Morningstar. This process is rooted in the following beliefs:

- Markets are inefficient over the short to medium-term;
- Mean reversion strongly influences capital markets over the long-term;
- Reward for risk varies and is closely linked to valuation;
- Investor sentiment drives markets to extremes;
- Drawdown is Morningstar's preferred measure of risk; and
- Positive skewed risk reward opportunities improve risk-adjusted returns.

A valuation-driven asset allocation approach takes advantage of underpriced assets by comparing an asset's current price with Morningstar's estimate of its intrinsic value, which is the value of its underlying cash flows. The belief is that buying underpriced assets can help improve return potential as prices eventually realign with fundamentals. The model portfolios are created by Morningstar using a fundamental asset class review along with a broad screening of mutual funds and ETFs. The model portfolios include mutual funds and could include ETFs distributed or advised by both affiliates of Principal Securities as well as non-affiliates of Principal Securities.

Principal Securities hired Morningstar as the Portfolio Manager of the Principal Managed Portfolio program. Principal Securities provides oversight of the services provided by Morningstar, which includes, but is not limited to, their investment strategies, asset allocation model portfolios and underlying performance. Principal Securities conducts ongoing due diligence of Morningstar by the completion of an annual due diligence questionnaire and ongoing contact with Morningstar representatives. Principal Securities personnel reviews Morningstar and maintains frequent contact as appropriate to ensure the models are performing as intended.

### Strategy Select, SMA, SMA Select Qual and MMA Select

Principal Securities' approval process for the Strategy Select Program, SMA Program, SMA Select Qual Program and MMA Select Program follows an objective process which aims to provide a broad list of Portfolio Manager strategies across varying types of risk tolerances, investment styles, philosophies, and investment vehicles that have met Principal Securities due diligence requirements. Portfolio Manager strategies are available in various investment styles including strategic, dynamic, tactical, and alternative and are offered in various models across the risk spectrum.

To be eligible for inclusion to the Strategy Select, SMA or MMA Select, a Portfolio Manager must have an approved status on the Envestnet platform or be reviewed and approved as part of Principal Securities' due diligence process.

Principal Securities or Envestnet reviews various criteria when determining Portfolio Managers' eligibility for inclusion on the platform, including the following:

- Risk Score Questionnaire – As part of its due diligence process, Envestnet calculates the risk score of a Portfolio Manager’s model in an effort to match an investor’s risk profile with the potential risk a Portfolio Manager model may assume.
- Portfolio Manager Due Diligence Questionnaire – As part of a risk-based approach, Principal Securities may send additional due diligence questionnaires to Portfolio Managers.
- Qualitative Assessments – As part of the due diligence process, Principal Securities or Envestnet may also collect additional quantitative due diligence including gaining a better understanding of firms’ personnel, stability, or investment philosophy.

For additional information on the Envestnet due diligence process, please see the Envestnet Form ADV Part 2A.

### **Performance-Based Fees**

Principal Securities does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

### **Methods of Analysis, Investment Strategies and Risk of Loss**

Investment and advisory products and services offered or recommended by Principal Securities and its Financial Advisors are subject to risks associated with investing in securities and will not always be profitable. Principal Securities and its Financial Advisors do not guarantee the results of any advice or recommendations, nor do they guarantee that the investment objectives of Advisory Clients will be met in any program, service or product it provides or offers. Investing in securities involves risk of loss that clients should be prepared to bear. Past performance is no guarantee of future results.

### **Alternative Investments**

Alternative investments are complex products and are considered speculative in nature and therefore may not be suitable for all investors. One risk associated with Alternative Investments is liquidity risk, which is the inability to sell a product within a specific period of time and/or at a specific price. For additional information related to trading limitations, risks, fees and expenses for a particular alternative investment, review the prospectus or offering documents prior to investing in any Alternative Investment.

### **Retirement Plan Services – Managed Portfolios, Strategy Select SMA and SMA Select Qual**

Advisory Clients are not required to implement any of the suggestions that result from the utilization of retirement plan services. Similarly, there is no obligation for the Advisory Client to utilize Principal Securities or the Financial Advisor to purchase any products or services offered by Principal Securities or from its affiliated companies. However, should the Advisory Client choose to do so, certain conflicts of interest arise between Principal Securities and the Advisory Client. These conflicts are discussed throughout this document.

If an Advisory Client engages a Financial Advisor to provide investment recommendations for the retirement plan, the Financial Advisor conducts an analysis of the investment options available through the retirement plan by reviewing the experience and track record of the investment managers, researching the underlying assets of each investment option in an attempt to determine if there is significant overlap in the underlying investment options held in other available investment options, and measuring the intrinsic value of the investment options by looking at economic and financial factors. To analyze the investment options, Financial Advisors will conduct their own research and utilize third-party tools and databases. Financial Advisors make recommendations based on the needs of the Advisory Client and consistent with the retirement plan’s stated investment objectives. The information provided by Advisory Clients about their specific situation drives the recommendations. Advisory

Clients are encouraged to speak to their Financial Advisor to discuss the approach and strategy of the services to be provided.

When providing participant education including through enrollment meetings or educational seminars, Principal Securities and its Financial Advisors provide only impersonal advice. Preparation of seminar materials is generally done by publishers and distributors of investment programs who are not affiliated with Principal Securities. Materials provide attendees with investment-related information and depending on the presentation could also include educational material regarding general financial principles that are not investment-related. In the seminars and educational meetings, the Financial Advisor does not provide advice about specific securities or other investments and the information provided is not designed to meet the investment objectives or needs of specific individuals or accounts.

### **Item 7 – Client Information Provided to Portfolio Managers**

The Advisory Client provides personal information on the account opening paperwork as well as the investment questionnaire that assists the Financial Advisor in forming a recommendation of an Advisory Program and model portfolio. Individual client data is not provided to Portfolio Managers managing a Managed Portfolio, Strategy Select, SMA Select Qual, UMA Select or MMA Select Program Account. Aggregate level and limited individual account data is provided to Portfolio Managers for business purposes to assist them with trading. Additional information related to the sharing of your personal information for business purposes can be found within the attached Privacy Notice.

For SMA Program Accounts, individual client data is provided to certain Portfolio Managers to allow for Portfolio Managers to construct and manage customized portfolios for Advisory Clients.

It is the responsibility of the Advisory Client to notify Principal Securities or their Financial Advisor when changes to the client information are needed.

### **Item 8 – Client Contact with Portfolio Managers**

Advisory Clients should contact their Financial Advisors with questions related to their Program Accounts. For Managed Portfolio, Strategy Select, SMA, SMA Select Qual, UMA Select, or MMA Select Program Accounts, Financial Advisors have the ability to contact the Portfolio Managers assigned to a Program Account.

### **Item 9 – Additional Information**

#### **Disciplinary Information**

December 2, 2015 – FINRA alleged Principal Securities' email monitoring processes were inadequate due to a coding error that resulted in a portion of incoming email communications not being timely reviewed. FINRA alleged that this violated NASD Rule 3010 and FINRA Rule 2010. Without admitting or denying the findings, Principal Securities accepted and consented to censure and a fine of \$115,000.

December 21, 2016 - Without admitting or denying the findings, Principal Securities consented to sanctions and to the entry of findings by FINRA that Principal Securities: (1) Failed to establish, maintain, and enforce a reasonable supervisory system related to the use of certain consolidated reports provided to customers by its registered representatives, and (2) failed to enforce its written supervisory procedures regarding two registered

representatives in one of its branch offices who failed to retain copies of consolidated reports in accordance with its written supervisory procedures. Principal Securities accepted and consented to censure and a fine of \$125,000.

October 26, 2017 – Without admitting or denying the findings, Principal Securities consented to the sanctions and to the entry of findings that for at least three years, its system for supervising additions to existing variable annuities was not reasonably designed to ensure that it complied with applicable securities law and rules, including those governing suitability. Principal Securities accepted and consented to a censure and fine of \$250,000.

March 11, 2019 - Principal Securities self-reported to the Securities and Exchange Commission (SEC) as part of the SEC's Share Class Selection Disclosure Initiative (SCSD) possible violations of the Investment Advisers Act of 1940 (Advisers Act) relating to the firm's failure to make necessary disclosures concerning mutual fund share class selection. Without the firm admitting or denying the findings, on March 11, 2019, the SEC entered an order against the firm alleging breaches of fiduciary duty and inadequate disclosures in connection with the firm's mutual fund share class selection practices and fees it received pursuant to Rule 12b-1 under the Investment Company Act of 1940. At times during the period January 1, 2014 to December 31, 2018, the firm purchased, recommended or held advisory clients' mutual fund share classes that charged 12b-1 fees instead of lower-cost share classes of the same funds for which the clients were eligible. The firm received 12b-1 fees in connection with these investments. The firm failed to disclose in its Form ADV or otherwise the conflicts of interest related to its receipt of 12b-1 fees and/or its selection of mutual fund share classes that pay such fees.

The firm was censured and ordered to cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 207 of the Advisers Act. The firm was also required to pay disgorgement and prejudgment interest to affected investors totaling \$1,764,624.26, as well as to take other remedial actions.

#### **Other Financial Industry Activities**

Principal Securities' primary business is that of a securities broker-dealer and Registered Investment Adviser. Principal Securities' other financial activities primarily include the sale of mutual funds, variable annuity, indexed annuities and variable life insurance contracts, but also includes the sale of unit investment trusts, direct participation programs, alternative investments and general securities (as an introducing broker to its clearing firm, FCCS, on a fully disclosed basis). Principal Securities representatives receive compensation for the sale of these investment products and receive additional compensation from the sale of other products outside of their securities activities, such as sales of fixed annuities and life insurance.

#### **Other Financial Industry Affiliations**

Principal Funds Distributor, Inc., is the principal underwriter for an investment company (Principal Funds, Inc.). Principal Asset Management is the manager of Principal Funds, Inc., Principal ETFs and other products created by affiliates of Principal Securities ("Proprietary Products"). Shares of Proprietary Products sold in connection with Principal Securities' advisory products pose certain conflicts of interest. See section below titled "Other Compensation" for additional information on these conflicts. Principal Securities serves as distributor for the variable life and variable annuity contracts issued by Principal Life Insurance Company and Principal National Life Insurance Company. Principal Trust Company generally serves as trustee or custodian for retirement plans utilizing Principal Life Insurance Company as the plan's recordkeeper. Banking products are offered through Principal Bank. Principal Securities is affiliated with Principal Funds Distributor, Inc., Principal Life Insurance Company, Principal Trust Company, Principal Bank, Principal Asset Management and Principal National Life Insurance Company and all are subsidiaries of Principal Financial Services, Inc. Please see Principal Securities, Inc. Form CRS, the Financial Advisor's Form ADV Part 2B and [PrincipalSecurities.com](http://PrincipalSecurities.com) for additional details regarding

Principal Securities role as a Broker-Dealer and the Principal Securities representative's role as a Broker-Dealer Representative when selling securities products of affiliates.

The inclusion of products sponsored by affiliates of Principal Securities in our PMAS Advisory Programs presents a conflict of interest for the firm. Principal Securities mitigates this conflict at the advisor level by monitoring its Financial Advisors' investment advisory activities and setting compensation policies that do not reward its Financial Advisors for selling Proprietary Products over non-proprietary products. Please see "Other Compensation" under Item 9 for more information regarding compensation conflicts.

### **Principal Securities Role**

Principal Securities is a registered broker-dealer and, through its Broker-Dealer Representatives, transacts business in a variety of securities products including mutual funds, stocks, bonds, CDs, etc. In such role, Principal Securities offers securities products, including those issued by its affiliates or distributed by Principal Securities to Advisory Clients. Principal Securities will charge commissions on the sales of these products to Advisory Clients. Principal Securities ensures that Broker-Dealer Representatives who also act as Financial Advisors clearly disclose their dual role in all communications with the public by reviewing all advertising and sales literature, including business cards and letterhead as well as require that this Brochure be delivered to the Advisory Client and Principal Securities, Inc. Form CRS upon solicitation for Advisory Services.

### **Bank Deposit Sweep Program (BDSP)**

Unless an Advisory Client elects a different core investment option, uninvested cash or credit balances in eligible Program Accounts will automatically be swept into and invested in the Bank Deposit Sweep Program ("BDSP"). Under the BDSP, available cash will be swept into interest-bearing omnibus deposit accounts at one or more FDIC-insured banks ("Bank Deposit Account").

As more fully described in the Bank Deposit Sweep Program Disclosure Document, your Program Account is generally protected, up to applicable limits, by the Securities Investor Protection Corporation (the "SIPC"). Your cash is eligible to be insured, up to applicable limits, by the Federal Deposit Insurance Corporation (the "FDIC") by participating in the BDSP. Most deposits are insured up to \$250,000 per depositor when aggregated with all other deposits held in the same insurable capacity at each BDSP Program bank. Funds deposited in Deposit Accounts are not eligible for coverage by the SIPC.

Principal Securities will deposit the available cash in your Program Account into the BDSP using one or more BDSP banks on the BDSP bank list, up to \$246,500 at each BDSP bank. In total, up to \$2,500,000.00 of your cash may be held and insured in BDSP banks at a time. Once these maximum deposit amounts have been deposited in each BDSP bank on the BDSP bank list, any additional funds will be deposited in a designated "Excess Bank" without limit and without regard to maximum available FDIC insurance coverage. Such additional funds will not be eligible for FDIC insurance or coverage by the SIPC.

It is your duty to monitor your accounts, your FDIC coverage and your FDIC insurance eligibility. Changes to the BDSP bank list will be posted at [www.principal.com/bdspdisclosures](http://www.principal.com/bdspdisclosures) and you should consult this site for the most up-to-date information about the BDSP. Other changes to the BDSP may be posted to this site as well, and you should direct any questions you may have to Principal Securities. It is your duty to inform us of any BDSP banks that you do not wish to receive your available cash.

Principal Bank, an affiliate of Principal Securities, is included on the BDSP bank list and is within the sequence of banks on the BDSP bank list. A conflict of interest exists because there is an incentive for Principal Securities to use the BDSP as the default core investment option because an affiliate will receive additional revenue from



those funds. Principal Securities is further conflicted because it receives compensation from both affiliates and non-affiliates for participation in the BDSP.

Interest rates/APY on the Deposit Accounts will fluctuate based on prevailing economic and business conditions. Over any given period, the interest rates on the BDSP deposits may be lower than the rate of return on the alternative core account investment vehicles that are not FDIC insured, or on bank account deposits that are outside the BDSP. The interest rate clients earn from the BDSP may be higher or lower than the rates available in other core investment options or at other depository institutions. Principal Bank, as well as other banks that may receive deposits through bank sweep vehicles, earn net income from the difference between the amount that the bank pays to clients and the income the bank earns on loans, investments, and other assets. Additionally, the banks set interest rates for deposits and earn more when there are higher deposit amounts and lower interest rates paid.

To determine accounts eligible or for more information regarding the BDSP, please reference the Bank Deposit Sweep Program Disclosure Document, available at [www.principalsecurities.com](http://www.principalsecurities.com).

#### **Best Execution**

Principal Securities serves as the introducing broker-dealer and clears all transactions through FCCS. Principal Securities relies on FCCS to ensure best execution. While best efforts will be made by FCCS, it is possible that another broker-dealer may execute a transaction at a better quality, speed, or price. FCCS provides Principal Securities with reports detailing statistical results and the rationale behind its best execution review. Principal Securities utilizes FCCS' reports to perform a quarterly review of trade execution to make sure it is in alignment with the industry.

Factors considered when determining best execution are the character of the market, size and type of transaction, number of markets checked, location and accessibility of primary markets, and quotation services to the broker-dealer. Any issues identified are passed on to FCCS for investigation and correction. Principal Securities performs a quarterly review of a random sample of trades, comparing the execution price received with the price reported on Bloomberg. Any issues identified are passed on to FCCS for investigation and correction.

#### **Advisory Select Wrap**

Principal Securities has established a comprehensive program to surveil for best execution in the selection of the preferred mutual fund share classes held in Advisory Select Wrap Program Accounts.

Principal Securities conducts a quarterly review of all mutual fund holdings in the Advisory Select Wrap program to determine preferred share classes for use in the program. To aide in the share class review, Principal Securities has engaged an independent third party to provide ongoing analysis of the various fund families used for Advisory Clients. If it is identified that a different preferred share class for the program is available, holdings in share classes other than those identified as preferred for the program will be exchanged or converted into the preferred share class for the program. Such share class exchanges or conversions will be reflected on the Advisory Client's account statement. Considerations in the analysis to identify the preferred share classes for Program Accounts include share classes for a fund family eligible for use by Principal Securities in Program Accounts, share class eligibility considerations of typical Advisory Clients, prospectus-disclosed fund expenses and typical clearing or other administrative charges associated with a share class which would be incurred by customer accounts in the program.

As noted under Item 4, a process is also in place to facilitate crediting any 12b-1 fees Principal Securities were to receive to Program Accounts which incur them.

### **Step-Out Trades**

Trading can be executed by Portfolio Managers through a broker dealer that is not affiliated with FCCS (“step-out trade”). If a step-out trade is executed, in certain circumstances, additional costs could be assessed to the stepped-out trade within the Program Account. Not all step-out trades have additional costs. For those step-out trades that have additional costs, those costs include commissions, mark-ups, mark-downs or transaction fees by the executing broker dealer. These additional costs are regularly passed on to the Advisory Client. The cost of step-out trades is above and beyond the agreed upon Client Fee.

The additional cost of stepped-out trades should be factored in by the Client and their Financial Advisor when selecting the Advisory Program and/or Portfolio Manager that is appropriate for the Client.

Not all Portfolio Managers participate in step-out trades. Portfolio Managers determine their own trade execution policies. For additional information on the trading policies for each Portfolio Manager, please refer to the Portfolio Manager’s Form ADV Part 2A and the Envestnet Form ADV Part 2A.

### **Mutual Fund Share Class - Conflict of Interest**

As noted in the section on Best Execution, it is our practice to place clients in share classes preferred for use within the Advisory Select Wrap program. We have established a quarterly review program to validate this practice.

Principal Securities receives 12b-1 fees from certain mutual funds. To the extent Principal Securities receives 12b-1 fees when a different share class is available for the same mutual fund which does not pay such distribution or shareholder servicing fees, Principal Securities has a conflict of interest associated with (i) making investment decisions or recommendations in light of the receipt of 12b-1 fees, and (ii) selecting or recommending the more expensive 12b-1 fee paying share class when a lower-cost share class is available for the same mutual fund. To mitigate this cost and compensation conflict, all 12b-1 fees received by Principal Securities are credited back to the applicable Program Accounts. Please see “Item 4 - Mutual Funds and ETF Expenses and 12b-1 Fees” for a description of the crediting program for all Program Accounts.

The possibility that Principal Securities in its role as an investment adviser might receive and has in the past received a portion of compensation based on transactions creates a conflict of interest due to Principal Securities and its Financial Advisor's financial incentive to recommend mutual fund share classes and ETFs that may indirectly pay the Financial Advisor a portion of the compensation received by its affiliated broker-dealer. Principal Securities has sought to remedy this conflict of interest by prohibiting the receipt of compensation by the Financial Advisor based on transactions, 12b-1 fees and other fees from its affiliated broker-dealer when executing a transaction for mutual fund or ETF shares in an advisory account.

### **Incoming Transfers – Advisory Select**

To the extent that a client transfers existing mutual funds into an Advisory Select Program Account for ongoing investment advisory services by Principal Securities, the Financial Advisor will review whether such mutual funds are appropriate and make recommendations in the best interest of such client under the facts and circumstances at the time.

### **Code of Ethics**

Principal Securities has implemented a Code of Ethics ("Code") pursuant to SEC Rule 204A-1. A complete copy of the Code is available upon request. The purpose of this Code is to prevent or mitigate conflicts of interest that exist, or appear to exist, and to prevent any violations of applicable laws, when Principal Securities' Officers, Directors, Investment Adviser Representative and certain employees who meet the SEC's definition of "Access Person" own or engage in transactions involving securities.

Central aspects of the Code include:

- the requirement that all reportable personal security transactions be conducted in such a manner as to avoid any actual or potential conflict of interest or abuse of an individual's position of trust and responsibility;
- fiduciary principles that include the requirement to place the interests of Advisory Clients first and maintain in confidence information concerning the security holdings of those customers; and
- the duty to comply with applicable federal and state securities laws, including the prohibitions against insider trading and market manipulation.

Each Access Person is provided with a copy of the Code and any amendment and must certify that they have read and will comply with the Code including any amendments.

In general, the Code also requires Access Persons to disclose all accounts in which they will have beneficial ownership in certain reportable securities. When a person becomes an Access Person or prior to being released as an Investment Adviser Representative, those persons must furnish a copy of an initial holdings report on any such accounts and reportable securities. A copy of an account statement issued by or an electronic data transmission from the firm where the account is maintained can satisfy this requirement. Access Persons must also furnish copies of quarterly transaction reports and annual holding reports on reportable securities. Copies of quarterly and annual statements issued by or electronic data transmissions from the firm where the account is maintained can satisfy this requirement. These records are then reviewed as appropriate.

### **Principal Securities Investment in Managed Portfolio and UMA Select**

Principal Securities may temporarily invest funds into new investment models when such new models first become available. Principal Securities, for these purposes, may invest funds in amounts that are below the stated minimum. Principal Securities will not trade in a manner that disadvantages clients.

### **Participation or Interest in Client Transactions**

In its capacity as a registered investment adviser, Principal Securities will not enter into any principal transactions with Advisory Program Accounts. Bonds traded within Advisory Select Program Accounts are traded as agency transactions with Advisory Program clients.

Clients enter into principal transactions with Principal Securities in its capacity as broker-dealer. In the role of a broker-dealer, Principal Securities offers variable life, variable annuities, mutual funds, stocks, bonds, and other securities to Advisory Clients and will charge these clients commissions on the sales of these products.

Certain affiliates of Principal Securities have a financial interest in client transactions with respect to Proprietary Products if they are purchased by a client in an Advisory Select Program Account or AMP Select Sleeve in a UMA Select Program Account. Proprietary Products are managed and sub-advised by affiliates of Principal Securities and pay investment management fees to these affiliates. Although Principal Securities does not directly receive these payments, Principal Securities has a conflict of interest between its duty to act in the best interest of its

clients and any interest it has in generating investment management fees for its affiliates by including the Proprietary Products in an Advisory Select Program Account or an AMP Select Sleeve in a UMA Select Program. Certain Proprietary Products and non-proprietary products eligible to be purchased in the Advisory Select program and an AMP Select Sleeve within the UMA Select program offer additional compensation to Principal Securities or the Financial Advisor. Please see "Other Compensation" under Item 9 for more information.

### **Personal Trading**

See Item 9, the "Code of Ethics", explaining the requirements to prevent any violations of applicable laws when Access Persons own securities or engage in transactions involving securities.

### **Review of Accounts**

#### **Managed Portfolio, Strategy Select, SMA, SMA Select Qual, UMA Select, and MMA Select**

Accounts in the Principal Advisory Programs are reviewed as described earlier in Item 4 (Methods of Analysis, Investment Strategies and Risk of Loss).

#### **Advisory Select**

Financial Advisors are responsible for ongoing review of their clients' Program Accounts and are subject to branch office supervision.

### **Annual Program Account Reviews**

The Financial Advisor will make a reasonable effort to meet with clients at least annually to review the Program Account. As part of the annual review the client's Financial Advisor will review the client's Program Account(s) performance, model portfolio and eligible investments, as needed. Also, the Financial Advisor will request information regarding whether there has been any change in the client's ongoing investment objectives, risk tolerance, planned investment time horizon, financial goals, and whether the client wishes to impose any reasonable restrictions on the investments contained in the Program Account. Based on the information provided by the Advisory Client, if necessary, the Financial Advisor will suggest changes to the Program Account.

### **Regular Reports and Statements**

Advisory Clients receive a confirmation upon each Program Account trade, unless quarterly trade confirms are available and requested by Client, and an account statement no less frequently than quarterly. A monthly statement will be provided for every month in which there is brokerage activity in a Program Account. FCCS is the qualified custodian that has custody of client account assets and provides the custodial services for assets invested within Advisory Programs, which includes clearing, custody, and other brokerage services through NFS. All dividends and other distributions from Program Account assets will be managed in accordance with instructions given on the account opening forms or as otherwise instructed by the Advisory Client.

Quarterly performance reports produced by Envestnet are made available to the client. These performance reports are intended to inform clients as to how their Program Account has performed for the reporting period.

### **Other Compensation - Proprietary Funds, Proprietary ETFs and Conflicts of Interest in Managed Portfolio**

Principal Securities does not recommend, select or play any role in Morningstar's selection of the specific investments comprising the model portfolios beyond defining the program's eligible investments. Mutual funds and ETFs sponsored and sub-advised by affiliates of Principal Securities are eligible for inclusion in Morningstar's asset allocations and are offered through many of the model portfolios. These mutual funds and

ETFs pay investment management fees to these Principal Securities affiliates. Although Principal Securities does not directly receive these payments, Principal Securities has a conflict of interest because Principal Securities retains the discretion to accept, modify or reject Morningstar's asset allocation target and selection of securities recommendations and therefore, has an incentive to choose Principal Funds, Inc. mutual funds and Principal ETFs to implement Morningstar's recommended asset allocation for a Managed Portfolio Account due to the compensation that will be received by affiliates of Principal Securities, over non-proprietary mutual funds and ETFs that are not sub-advised or managed by Principal Securities' affiliates.

Principal Securities has relied on Morningstar's determination that the overall performance of Principal Funds and Principal ETFs merits their inclusion in Managed Portfolio model portfolios. In offering these funds in Managed Portfolio, Principal Securities believes that it has complied with the applicable standards of fiduciary duty that require it to act in the best interest of the client when making investment recommendations.

**Other Compensation – Proprietary Funds, Proprietary ETFs, Proprietary SMA sleeves and Conflicts of Interest in the Principal Wilshire Strategy Select and MMA Select models**

Principal Securities does not recommend, select or play any role in Wilshire's selection of the specific investments comprising the model portfolios beyond defining the program's eligible investments. Mutual funds and ETFs sponsored and sub-advised by affiliates of Principal Securities are eligible for inclusion in Wilshire's asset allocations and are offered through many of the Strategy Select model portfolios. These mutual funds and ETFs pay investment management fees to these Principal Securities affiliates. SMA sleeves sponsored and sub-advised by affiliates of Principal Securities are eligible for inclusion in Wilshire's MMA Select model portfolios. These SMA sleeves pay investment management fees to these Principal Securities affiliates.

Principal Securities has relied on Wilshire's determination that the overall performance of Principal Funds, Principal ETFs and Principal SMA sleeves merits their inclusion in Strategy Select and MMA Select model portfolios. In offering these funds in Strategy Select and these SMA sleeves in MMA Select, Principal Securities believes that it has complied with the applicable standards of fiduciary duty that require it to act in the best interest of the client when making investment recommendations.

**Other Compensation – Proprietary Products and Conflicts of Interest in UMA Select non-qualified and SMA Select Qual**

Principal Securities has a conflict of interest in connection with recommendations for investment in proprietary portfolios available to be held in non-qualified UMA Select Program Accounts and SMA Select Qual Program Accounts. Principal Securities has an incentive to choose products distributed or managed by affiliates of Principal Securities for a Program Account due to the compensation that will be received by affiliates of Principal Securities that is not received when it recommends non-proprietary products.

SMA sleeves sponsored or sub-advised by affiliates of Principal Securities are eligible for inclusion in UMA Select non-qualified model portfolios. These SMA sleeves pay investment management fees to Principal Securities affiliates.

SMA Select Qual portfolios are sponsored or sub-advised by affiliates of Principal Securities. These portfolios pay investment management fees to Principal Securities affiliates.

For the above scenarios, Principal Securities mitigates these conflicts for your Financial Advisor by setting compensation policies that do not reward its Financial Advisors for selling Proprietary Products over non-proprietary products.

#### **Other Compensation - Proprietary Products and Conflicts of Interest in Advisory Select and UMA Select with an AMP Select Sleeve**

Principal Securities has a conflict of interest in connection with recommendations for investment in Proprietary Products which are available to be held in an Advisory Select Program Account or AMP Select Sleeve within a UMA Select Program Account. Principal Securities has an incentive to choose products distributed or managed by affiliates of Principal Securities to implement its recommended asset allocation for a Program Account due to the compensation that will be received by affiliates of Principal Securities that is not received when it recommends non-proprietary products.

Proprietary Products pay certain agreed upon fees to affiliates of Principal Securities for fund transfer agent and administration services and distribution services. In addition, the Proprietary Products are managed by investment adviser affiliates of Principal Securities. Such affiliates receive management fees from the Proprietary Products for the investment management services provided.

Principal Securities has a conflict of interest because it has a financial incentive to recommend the purchase of Proprietary Products over non-proprietary products when both are available investments.

Principal Securities generally prohibits the recommendation or purchase of a Proprietary Products into a Program Account opened by or on behalf of a trust described in Internal Revenue Code of 1986, as amended ("IRC") § 401(a) which forms part of a plan, or a plan described in IRC § 403, which trust or plan is exempt from tax under IRC § 501(a); an individual retirement account described in IRC § 408(a); an individual retirement annuity described in IRC § 408(b); an Archer Medical Savings Account described in IRC § 330(d); a health savings account described in IRC § 223(d); or, a Coverdale savings account described in IRC § 530 ("Qualified Program Account"). Proprietary Products, except for Principal Exchange-Traded Funds (as mentioned in Item 4), transferred into a Qualified Advisory Select Program Account or Qualified UMA Select Program Account within an AMP Select Sleeve are not allowed to be held for an extended period of time.

As noted in the section based on Best Execution, it is our practice to place clients in preferred share classes. We have established a quarterly review program to validate this practice for Advisory Select Wrap Program Accounts. All 12b-1 fees received by Principal Securities are credited to Program Accounts which incur them, regardless of program or pricing model.

It may be determined through the analysis process that the preferred share class available for program assets is a share class which includes 12b-1 fees. Therefore, some share classes of Proprietary Funds that pay such fees will be permitted to be transferred from other accounts or purchased in the Non-Qualified Program Accounts. Unless such shares are exchanged for another share class, Principal Securities will continue to receive these fees and credit them back to the applicable Program Accounts.

#### **Other Compensation – Non-Proprietary Funds and Conflicts of Interest**

Principal Securities is not affiliated with the mutual fund companies that sponsor the non-proprietary funds. However, conflicts of interest arise in connection with certain non-proprietary funds. Some non-proprietary funds pay 12b-1 fees to Principal Securities. These 12b-1 fees are separate from and in addition to the investment management fees and other expenses. 12b-1 fees decrease potential positive returns and increase potential negative returns in Program Accounts and are in addition to the Client Fee. The receipt of 12b-1 fees presents a conflict of interest because it gives Principal Securities and its Financial Advisors an incentive to recommend mutual funds for accounts based on the compensation received rather than on a client's need. To mitigate this conflict of interest, Principal Securities performs initial and ongoing due diligence of products proposed to be included on the firm's product platform. Principal Securities has a Conflicts Committee to

identify conflicts and help with mitigation efforts related to the conflicts. Principal Securities also has a Product Committee that reviews products before they are put on the firm's platform. Principal Securities will also credit the 12b-1 fees to the Program Accounts to the extent they arise as a result of non-proprietary funds held in both Qualified and Non-Qualified Program Accounts.

As noted in the section based on Best Execution, it is our practice to place clients in preferred share classes for use in the program. We have established a quarterly review program to validate this practice for Advisory Select Wrap Program Accounts. All 12b-1 fees received by Principal Securities are credited to Program Accounts which incur them.

#### **Other Compensation – Transition Assistance**

Principal Securities provides some of our Financial Advisors various forms and amounts of transition assistance to encourage the Financial Advisor to transition to our firm and to help cover associated costs. Such transition assistance can include a lump sum payment, coverage of certain fees (such as registration fees, termination fees associated with moving accounts, and technology service fees), or both. Some other Financial Advisors receive transition assistance in the form of a loan and forgivable promissory note. The promissory notes vary in amount and terms, but the loan amount is largely based on the Financial Advisor's anticipated production. Portions of the loaned amount are forgiven on an annual basis if the Financial Advisor remains affiliated with the firm and meets the minimum production requirement set forth in the note. The minimum production requirement is based on commissions and fees paid for the sale of securities products and advisory services but does not include the sale of insurance or annuity contracts. If your Financial Advisor received a forgivable loan and has an outstanding loan balance, your Financial Advisor has an incentive to recommend that you purchase products and services that count toward the minimum production requirement for forgiveness, purchase products and services that result in higher compensation, and engage in other fee-generating activities that will assist your Financial Advisor in meeting the minimum production requirements for all or a portion of the outstanding loan balance to be forgiven. This conflict is heightened as a Financial Advisor approaches the deadline for meeting the annual qualification target for loan forgiveness, particularly in the final year of the note.

#### **Other Compensation – Revenue Sharing**

Principal Securities has entered into revenue sharing arrangements with a limited number of sponsor companies. These revenue sharing payments are in addition to commissions, 12b-1 fees, and any other fees and expenses. For a list of investment companies that Principal Securities currently has revenue sharing arrangements with, please see PSI Third-Party Payments, available at [www.principalsecurities.com](http://www.principalsecurities.com). Principal Funds Distributor, Inc., an affiliate of Principal Securities and the principal underwriter for Principal Funds, Inc., has entered into a revenue sharing arrangement with Principal Securities. Revenue sharing arrangements, including that between Principal Securities and Principal Funds Distributor, Inc., create a conflict of interest whereby Principal Securities is incentivized to offer and sell these companies' products.

#### **Cash/Non-Cash Compensation and Promoters**

Principal Securities, its Financial Advisors, and affiliates of Principal Securities enter into sponsorship or other marketing and promoter arrangements with third parties which include cash or non-cash compensation being paid to the third party individuals or entities. While this compensation is typically a flat dollar amount not directly tied to any resulting referral, sale or fee revenue paid to Principal Securities, there are certain scenarios where cash compensation is paid as a percentage of the advisory fee or commission charged to customers as permitted by applicable regulation. Some entities that are generally eligible to receive a percentage of advisory fees received by Principal Securities are banks, credit unions, savings institutions, and other Registered Investment Advisors. Principal Securities has engaged in such arrangements with various banks, credit unions

and savings institutions for access to facilities and for referral of those institutions' customers to Principal Securities and its Financial Advisors. Additionally Principal Securities has entered into such an arrangement with Principal Advised Services, an affiliated Registered Investment Adviser registered with the SEC, to receive a percentage of the Principal Securities' advisory fees for the referral of certain employer-sponsored retirement plan participants whose employer-sponsored retirement plan is record kept by Principal. As part of these arrangements, the third parties could provide promotion or endorsement of Principal Securities products and services, Principal Securities' Financial Advisors, or affiliates of Principal Securities. You will not be charged an additional fee as a result of such referral arrangements. The cash or non-cash compensation received does create incentive to the third party to promote and/or endorse Principal Securities, its Financial Advisors and its affiliates. That incentive presents a conflict of interest. As a control to address this conflict, Principal Securities has implemented policies and procedures to reasonably review arrangements where a third party receives compensation and intends to distribute communications that promote or endorse Principal Securities' Registered Investment Adviser's products or services or the investment advisory services offered by its Financial Advisors. These policies are designed to comply with the books and records requirements under Rule 204-2, and the disclosure requirements under Rule 206(4)-1, under the Investment Advisers Act of 1940.

#### **Other Compensation – General**

Principal Securities does not receive research or other products or services other than execution from a broker-dealer or a third party in connection with client securities transactions ("soft dollar benefits").

#### **Rollover Recommendations**

Financial Advisors have an incentive to recommend retirement account rollovers, as a Financial Advisor would earn compensation when money is rolled into a new account or product.

When we (Principal Securities and your Financial Advisor) provide investment advice to you regarding your ERISA retirement plan account or individual retirement account, we are fiduciaries within the meaning of Title I of the Employee Retirement Income Security Act and/or the IRC, as applicable, which are laws governing retirement accounts. The way we make money creates some conflicts with your interests, so we operate under a special rule that requires us to act in your best interest and not put our interest ahead of yours. Under this special rule's provisions, we must:

- Meet a professional standard of care when making investment recommendations (give prudent advice);
- Never put our financial interests ahead of yours when making recommendations (give loyal advice);
- Avoid misleading statements about conflicts of interest, fees, and investments;
- Follow policies and procedures designed to ensure that we give advice that is in your best interest;
- Charge no more than is reasonable for our services; and
- Give you basic information about conflicts of interest.

This rule applies to recommended rollovers from:

- An employer-sponsored retirement plan defined in ERISA section 3(3) or Code section 4975(e)(1)(A) ("Plan") to an IRA as described in Code section 4975(e)(1)(B) or (C) ("IRA") or another Plan;
- An IRA to another IRA or Plan
- One type of account to another (e.g. from a commission-based account to a fee-based account).

#### **Sponsor Reimbursements**

Principal Securities may receive direct or indirect reimbursements from sponsors or platform providers including but not limited to marketing reimbursements, meals, and the cost of presentation facilities for



Financial Advisors to attend sales presentations or education events. These reimbursements may give Principal Securities incentive to recommend to a Financial Advisor the use of one sponsor or provider over another, however, reimbursements are not shared with the Financial Advisor.

Financial Advisors who meet certain sales thresholds are invited to educational recognition trips and events hosted by Principal Life Insurance Company and/or its affiliates. Qualification for these trips and events is based on the level of overall sales of products. This creates a conflict in that Financial Advisors have an incentive to sell more products in order to qualify for the trips and events. To mitigate this conflict, the qualification criteria are designed to not favor one product over any other product and non-proprietary products are treated the same as Proprietary Products.

Additionally, some Financial Advisors may be invited to attend due diligence events with outside investment firms. These events and trips create a conflict of interest as they incentivize the sale of certain companies' products. To mitigate such conflicts, all events and trips must be reviewed by Principal Securities to ensure reasonableness. Principal Securities also has a dedicated team that reviews transactions to make sure they are in clients' best interests and it has other surveillance tools to detect potential problems. We disclose these conflicts to you so that you can make fully informed decisions on what action to take.

Principal Securities also rewards Financial Advisors who meet certain production goals by application count of any new business within a calendar year through award of a gift card for \$100 to the Principal Corporate Store. As noted above, Principal Securities mitigates this conflict by reviewing transactions to make sure they are in the clients' best interests and using surveillance tools to detect potential problems.

Principal Securities offers sponsorship opportunities that allow approved product sponsor companies and technology vendors to financially support and participate in conferences, meetings, and other events held for Principal Securities' financial professionals. Participating companies have greater opportunity to market to and educate Principal Securities' financial professionals on their products and services as compared to non-participating companies. Additionally, our financial professionals sometimes receive promotional items from participating companies, such as pens, notebooks, bags, and other miscellaneous items. As a result of the financial support it receives for these events, Principal Securities has an incentive to continue to offer and utilize participating companies' products and services. For a list of product sponsor companies and technology vendors that Principal Securities has received sponsorship payments from, please see PSI Third-Party Payments, available at [www.principalsecurities.com](http://www.principalsecurities.com).

### **Other Reimbursements**

Additional items where Principal Securities either currently receives some reimbursements or can elect to receive additional reimbursements based on agreements with FCCS include Margin Debit Interest, Unsecured Debit Interest, Credit Interest or Cash Debits. Principal Securities also receives annual payments from FCCS to offset certain technology costs. In addition, Principal Securities receives separate compensation from FCCS when FCCS becomes the custodian for assets for which it did not previously serve as custodian. This compensation creates a conflict for Principal Securities in that it receives additional revenue when clients follow recommendations to move their assets, which will result in FCCS becoming the custodian of such assets.

In addition, as part of the arrangement, FCCS makes certain revenue payments to Principal Securities. The revenue payments are variable and include interest payments for cash that Principal Securities keeps with FCCS. Principal Securities receives these payments based on the condition that Principal Securities uses FCCS for a period in the future or upon receipt of a certain asset threshold. Principal Securities mitigates this conflict by having a robust conflict of interest and vendor management policy.

**Financial Information**

Principal Securities has no financial issues that would be reasonably likely to impair its ability to meet contractual commitments to clients. Principal Securities has not been the subject of a bankruptcy proceeding.

**Brokerage Requirements**

Principal Securities makes no recommendations as to broker-dealers or custodians except in connection with the Advisory Programs, where clients must utilize Principal Securities' brokerage services for their program accounts.

**Trade Error Correction Procedures**

In the event of a trade error correction, Principal Securities has specific procedures designed to correct any trade error as promptly as possible. Principal Securities' policy is to rectify the trade error caused by us or our affiliates by adjusting the client's Program Account as it would have been had no error occurred. For trades where Principal Securities is at fault or where no fault can be determined, Principal Securities will absorb any losses or gains resulting from that error. If it is determined that the Advisory Client is at fault, Principal Securities uses its discretion to pass along any losses to the Advisory Client, and Principal Securities will keep any gains resulting from the trade error. Advisory Client is responsible for reviewing Program Account statements and notifying their Financial Advisor or Principal Securities immediately if any discrepancies are found.

**Proxy Voting**

As a matter of firm policy and practice, Principal Securities and its Financial Advisors do not have any authority to and do not vote proxies on behalf of advisory clients.

**Managed Portfolio, Strategy Select and Advisory Select Programs**

Advisory Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios. All proxies will be sent to the Advisory Client.

**SMA Program**

SMA Portfolio Managers retain the responsibility for receiving and voting proxies for any and all securities maintained in SMA Program Accounts. Proxy voting will be governed by the Portfolio Manager's policy. Please reference the Portfolio Manager's Form ADV Part 2A for proxy voting information.

**UMA Select and MMA Select Programs**

Proxy voting will be governed by the Envestnet policy. Please reference the Envestnet's Form ADV Part 2A for proxy voting information.

**Trusted Contacts**

Advisory Clients can choose to add Trusted Contact(s) to their Program Account at the time the account is established or anytime thereafter. Principal Securities is authorized to contact a Trusted Contact and disclose information about the Program Account to address possible financial exploitation, to confirm the specifics of the Advisory Client's current contact information, health status, or the identity of any legal guardian, executor, trustee or holder of a power of attorney, or as otherwise permitted by law. An Advisory Client may change or remove a Trusted Contact at any time by written notice to Principal Securities.