



**Form ADV, Part 2A Appendix I (Firm Wrap Fee Program Disclosure Brochure)  
for Principal Advisory Select Portfolios (with account clearing/custody  
through Fidelity Clearing & Custody Solutions)**

**PRINCIPAL SECURITIES, INC.**

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Des Moines, IA 50392

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This wrap fee program brochure "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 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 also 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.*

## **Item 2 – Material Changes**

This Item 2 (Material Changes) will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes.

Since our last annual update on March 29, 2018, we have made the following material changes to our brochure.

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

#### **Advisory Select Program Fees**

Item 4, the subsection titled "Advisory Select Program Fees" was updated to reflect changes in the fee billing process and handling of Ineligible Assets of Program Accounts. This update is applicable to all Advisory Select Program Accounts.

The term "Program Fee" was changed to "Client Fee," to align with the terminology used by Envestnet Asset Management, Inc.; the firm that provides ongoing Program account administration services. Additionally, an update was made to the fee billing changes of A shares and C shares that are transferred into a Program Account.

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

#### **Account Requirements**

Item 5, the subsection titled "Account Requirements" was updated to reflect changes in the fee billing process and handling of Ineligible Assets in Program Accounts. This change applies to all Program Accounts.

#### **Investment Discretion**

Item 5 was updated to add a new subsection titled "Investment Discretion." This subsection describes the limited discretionary authority representatives have with respect to certain actions in Program Accounts which do not require client approval and describes additional discretionary authority which can be granted by Clients to their representatives for Program Accounts.

#### **Limited Discretion**

Item 5 was updated adding a new subsection titled "Limited Discretion." This subsection describes the limited discretionary authority of Principal Securities and its Representatives have to take certain actions in the best interest of the Client without prior Client approval.

#### **Additional Limited Discretionary Authority**

Item 5 was updated to add a new subsection titled "Additional Limited Discretionary Authority." This subsection describes the expanded discretionary authority a Client may give Principal Securities or its Representative by way of the Discretionary Trading Authorization Form.

### **Item 9 - Additional Information**

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

This subsection was updated with language describing the conflict of interest Principal Securities and its Representatives have when selecting mutual funds and ETFs to implement a recommended asset allocation for a Program Account.

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

Item 9 was updated adding a new subsection titled "Lowest Cost Mutual Fund Share Class- Conflict of Interest." This section was added to describe certain features of mutual fund and ETF share classes. This

section also discloses and describes Principal Securities and its Representatives' conflicts of interest in the selection of certain mutual fund and ETF share classes, and Principal Securities and its Representatives' limited discretionary authority to select the lowest cost share class available for Program Accounts including the ability to convert a higher cost mutual fund or ETF share class to a lower cost share class within a Client's Program Account when it is in a Client's best interest.

**Mutual Fund and ETF Share Class Purchases in Principal Securities Advisory Programs (Wrap Fee Accounts) – Conflict of Interest**

Item 9 was updated adding a new subsection titled, “Mutual Fund and ETF Share Class Purchases in Principal Securities Advisory Programs (Wrap Fee Accounts) – Conflict of Interest.” This section was added to describe no upfront transaction costs in Program Accounts.

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 31<sup>st</sup>. 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 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**

### Services

Principal Securities 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.

The service that is described in this Brochure is Principal Advisory Select Portfolios (referred to herein as “Advisory Select” or the “Advisory Select Program”). The Advisory Select Program is 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, nor does it guarantee that the investment objectives of advisory clients utilizing the Advisory Select Program will be met.

Advisory Select is an investment advisory program with the objective of assisting clients in developing and maintaining a strategic asset allocation strategy that is appropriate to their investment objectives, financial situation, and investment risk tolerance. The Advisory Select Program permits the client to invest in a broad array of Eligible Investments (as defined in Item 5).

A client obtains the following services in connection with the Advisory Select Program:

### Services - Investment Questionnaire and Asset Allocation Modeling

An investment adviser representative of Principal Securities (hereafter the “Financial Advisor”) will assist prospective clients in a review of their investment objectives, investing time horizon, financial situation and investment risk tolerance. The Financial Advisor will also assist the prospective client in completing an investment questionnaire. Based on the answers provided in the investment questionnaire, the Financial Advisor will recommend one of a number of asset allocation models. The asset allocation models consist of three core equity and two fixed income asset classes and suggested asset class percentage allocations for each (hereafter, the “Asset Class Mix”) that are prepared and annually updated by Morningstar Investment Management LLC. (hereafter, “Morningstar”), an independent investment research firm.

### Services - Investments

After choosing an asset allocation model, the prospective client will choose, with the assistance of his or her Financial Advisor, the Eligible Investments the client wishes to purchase or transfer in kind to the client’s Advisory Select account (hereafter, the “Program Account”). Unless requested otherwise by the prospective client, the Financial Advisor will recommend Eligible Investments that correspond to the Asset Class Mix of the asset allocation model chosen by the client. The short-term fixed income and fixed income core asset classes may be combined to determine the Eligible Investments for those two asset classes within the Asset Class Mix. It is recommended that your Program Account stay within the Asset Class Mix of the chosen asset allocation model. Principal Securities reserves the right to terminate your Program Account if, after one year, the core asset allocation percentages in your Program Account do not match the Asset Class Mix of the chosen asset allocation model. Advisory Select is not a discretionary advice program, except in limited situations and for certain Program Accounts of clients who grant discretionary authority to the Financial Advisor who has been authorized by Principal Securities to perform discretionary authority. See Item 5 for more information.

Principal Securities and its Financial Advisors provide different investment or asset allocation modeling recommendations to one client in the Advisory Select Program from that given to another client. The Advisory Select Program does not give investment advice as to assets that the client has chosen not to hold in the Program Account.

#### Services to Trusts

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 utilize the Advisory Select Program and retain the investment advisory services of a Financial Advisor to make investment recommendations for the trust. In these discretionary trusts, Principal Trust will be the Advisory Select client in its role as trustee and will have the ultimate responsibility for determining the investment policy and investment selection. Beneficiaries of trusts administered by Principal Trust as trustee or co-trustee that use the Advisory Select Program as an investment vehicle will receive any communications on the trust and its assets from Principal Trust. 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.

#### Advisory Select Program Fees

The Advisory Select fee (hereafter the "Client Fee") is calculated as a percentage of the value of the assets in a client's Program Account. The Client Fee decreases (as shown in the table below) as the value of the assets in a client's Program Account increases. The Client Fee is due and payable quarterly in advance and is based on the value of the Program Account assets as of the close of business on the last business day of the preceding quarter according to the following schedule:

Account Value	Client Fee*
\$0 – \$250,000	1.00% – 2.00%
>\$250,000 – \$500,000	0.75% – 1.75%
>\$500,000 – \$1,000,000	0.50% – 1.50%
>\$1,000,000 – \$3,000,000	0.50% – 1.25%
>\$3,000,000 – \$6,000,000	0.50% – 1.00%
>\$6,000,000	0.40% – 1.00%

\*Minimum and maximum fee range expressed as annual percentage of account value

In the first three-month period beginning with the date in which the Program Account is partially or fully invested in securities (the "inception quarter"), the first payment will be assessed on a pro-rata basis to reflect the number of days in the inception quarter that the assets are to be in the Program Account. The amount will be based on the initial amount deposited. Each of the account value ranges ("Asset Level Tiers") on the fee schedule are subject to a corresponding fee percentage range. The client and the Financial Advisor agree on a percentage fee for each Asset Level Tier. That fee is applied to the asset valuations corresponding to that Asset Level Tier. The amount charged to the client is computed by multiplying the actual account values that fall into the corresponding Asset Level Tiers by their separate fee percentages, and if the account values fall into more than one Asset Level Tier, by then adding the corresponding fees together. Client Fees will be charged on Ineligible Assets (as defined in Item 5) for up to the first 40 days starting on the day the assets are transferred into a Program Account, with charges for Client Fees discontinuing for any Ineligible Assets remaining in the Program Account after the first 40 days. See Item 5 for more information about the temporary transfer of Ineligible Assets that cannot remain in a Program Account.

For mutual fund shares that carry a front-end or back-end load (A shares & C shares respectively) and are transferred or liquidated to fund a Program Account the Client will not be charged a Client Fee on: (i) the value of any class C shares until at least 12 months after the date such Class C shares are purchased, if purchased with a back-end load, or (ii) the value of any class A shares until at least 24 months after the date such class A shares are purchased with a front-end load.

The fees for each Asset Level Tier can, but not necessarily, be subject to reduction as the level of assets in a Program Account increase. Upon client's request with identification of existing Program Accounts, the values in Program accounts held by related persons may be aggregated for purposes of determining the Client Fee.

The Client Fee covers all advisory services described above, as well as custody and brokerage services. The Client Fee does not cover certain fees charged by third parties, such as (i) management fees and expenses charged by mutual funds distributed or advised by affiliates of Principal Securities "Proprietary Funds", mutual funds or closed-end investment companies not distributed or advised by affiliates of Principal Securities "Non-Proprietary Funds" and Exchange-Traded Funds (ETFs) that are held in a Program Account; (ii) odd-lot differentials, American Depositary Receipt fees and exchange fees, transfer fees and other fees imposed by law; (iii) redemption fees imposed by certain Proprietary or Non-Proprietary Funds; and (iv) any contingent deferred sales charge assessed on the sale or liquidation of Proprietary or Non-Proprietary Fund shares, where applicable. In addition, it does not cover certain services available upon request from Principal Securities, including wire transfer fees, overnight delivery fees, certificate delivery fees, account termination fees, and reorganization fees; and any check reordering cost and fees, where applicable.

The Client Fee is negotiable within the minimum and maximum fee range expressed and as a result clients with similar assets may have differing fee schedules. Principal Securities discounts the Client Fee below the minimum fee ranges to customers 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 will also discount its Client Fees below the minimum fee levels for competitive reasons or in other situations upon a prospective customer, or client's request.

Program Account deposits or withdrawals by Client in excess of \$1,000 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 Program Account. In the event of termination of a Program Account, unearned fees are refunded to the client by Principal Securities on a pro-rata basis; however, due to the administrative costs of establishing Program Accounts in the Advisory Select Program, an early account closing fee of \$500.00 is applied to Program Accounts terminated within the first 12 months following the date the Program Account was opened. Refunded Client Fees are issued to the client in accordance with the client's initial instruction, when possible; otherwise, a check is issued.

The mutual funds and exchange-traded funds ("ETFs") held in the Program accounts also incur investment management fees, and may incur 12b-1 distribution fees and other operating fees and expenses as defined in the prospectus. The Program client pays the internal fees and expenses of the funds, 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 fees paid pursuant to distribution and shareholder servicing plans adopted by the Funds under Rule 12b-1 of the Investment Company Act of 1940 ("Investment

Company Act”). Fidelity Custody and Clearing credits these distribution and shareholder servicing fees as defined in the prospectus back to Program Accounts.

Fidelity Clearing and Custody Solutions receives distribution assistance payments from certain mutual fund companies for inclusion in their preferred mutual fund program. The total operating expense of each Program Account can be different because of the different mix of funds making up each Program Account. This results in the portion of the Client Fee paid by the client and compensation received by the Financial Advisor to remain the same but what is retained by Principal Securities will vary. Principal Securities has a conflict including these funds in the Advisory Select Program because we receive more of the Client Fee from certain funds within NFS NTF Managed Accounts Program.

Clients who participate in the Advisory Select Program may pay more or less than would be the case if they were to purchase separately each of the services the Advisory Select Program permits. If a client were to purchase the Eligible Investments available through the Advisory Select Program directly from the fund companies, or from other securities broker-dealers, the client would not pay a Client Fee and the purchase may be less expensive. Comparable programs or services may be available from Principal Securities or from other sources for fees lower than those in the Advisory Select Program. 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 Select Program. Those programs have differing fees and charges that may be higher or lower than the Client Fee.

The amount of the fees received by Principal Securities and the Financial Advisors may be greater if a client participates in an asset-based fee arrangement, such as the Advisory Select Program, instead of paying separately for brokerage commissions and receiving incidental investment advice from a registered representative of a broker-dealer. Generally, the lower the number of transactions in a Program Account, the more expensive the Advisory Select Program becomes when compared to accounts where only commissions are charged to the clients. Factors in addition to the number of transactions that bear upon the relative cost of the Advisory Select 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. As a result, Principal Securities and the Financial Advisor have a conflict of interest because of the financial incentive to recommend certain fee-paying alternatives such as an asset-based fee over another alternative (brokerage commissions) or vice versa or one type of account over another type of account. In an effort to mitigate this conflict, when acting as a Financial Advisor offering Advisory Services, the Financial Advisor is required to act in your best interests. Principal Securities monitors the Financial Advisor’s investment advisory activities for compliance with this obligation.

The Client Fee that is paid by the client for participation in the Advisory Select Program is in addition to the underlying management fees and expenses of the Proprietary Funds, Non-Proprietary Funds, and ETFs, which often are standard expenses that all investors purchasing these assets pay on a continuing basis. These management fees and other expenses decrease potential Program Account positive returns and increase potential negative returns.

#### Compensation

Principal Securities pays a portion of the Client Fee received from the client to Morningstar to compensate it for ongoing asset allocation modeling and updates, to Fidelity Clearing & Custody Solutions (“FCCS”) for custody and clearing services, to Envestnet Asset Management, Inc. (“Envestnet”) for ongoing Program account administration services and to the Financial Advisor for their services rendered in connection with the Program Account.

## Item 5 – Account Requirements and Types of Clients

### Account Requirements

To participate in the Advisory Select Program, a client must establish a brokerage account with Principal Securities. Principal Securities' clearing firm is FCCS. FCCS provides both custodial and clearing services for the Program Account, which includes clearing, custody, and other brokerage services through National Financial Services LLC ("NFS"). FCCS, NFS and Envestnet are not affiliated with Principal Securities. Upon a client's request for withdrawal or transfer of client funds or securities invested within the 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.

Certain restrictions apply to assets allowed in Program Accounts. "Eligible Investments" as used in this Brochure currently means (a) domestic equity securities consisting of registered common stock and convertible preferred stock traded on U.S. national exchanges or over the counter and American Depositary Receipts; (b) load waived shares (or shares not offered with a sales load) of Proprietary Funds; (c) shares of mutual funds or closed-end investment companies of Non-Proprietary Funds; (d) certain unit investment trusts, exchange-traded notes ("ETNs") and exchange-traded funds ("ETFs"); (e) covered calls; (f) fixed-income securities consisting of U.S. Treasury and federal agency securities, corporate bonds, commercial paper, municipal bonds, high yield bonds, registered preferred stock traded on U.S. national exchanges, and mortgage-backed securities; and (g) cash and certain cash equivalents, including certificates of deposit and money market fund shares; (h) warrants. Generally, no other types of assets will be permitted in a Program Account.

Upon the transfer of assets into a Program Account, Principal Securities or the Adviser Representative will inform the client of any transferred assets that are not eligible to be held in the Program Account ("Ineligible Assets") and will work with the client in an effort to sell the Ineligible Assets and use the proceeds of the sale to purchase Eligible Investments. Client Fees will be charged on Ineligible Assets for up to the first 40 days starting on the day the assets are transferred into a Program Account, with charges for Client Fees discontinuing for any Ineligible Assets remaining in the Program Account after the first 40 days. Although Ineligible Assets can be temporarily transferred into a Program Account, Ineligible Assets cannot remain in a Program Account, and are to be liquidated, converted or transferred out of a Program Account within the first 90 days after being transferred into the Program Account.

The following are examples of assets that will generally not be accepted: (a) securities with legal, contractual, or other restrictions on sales, including but not limited to, private placements or company stock owned by insiders; (b) illiquid securities (such as shares of unlisted Real Estate Investment Trusts and interests in limited partnerships or other direct participation programs); (c) common stock or individual bonds, debentures or other debt obligations issued by Principal Financial Group, Inc. or other affiliated companies of Principal Securities; (d) Proprietary and Non-Proprietary mutual funds that have a back-end sales charge; (e) equity securities valued at less than \$5.00 per share and not listed on an exchange; (f) nondollar-denominated securities, (g) options (puts and calls), except for covered calls; (h) derivatives, such as futures or forward contracts, or (i) securities held in margin accounts.

There are more than 150 mutual fund families available to a client through Advisory Select. The mutual funds available are either no-load or are eligible to be purchased through the Advisory Select Program 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 asset allocation model chosen by a client. Results are provided quarterly to the Financial Advisors. The information is designed to assist the Financial Advisor in recommending which Proprietary Funds and Non-Proprietary 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 individual stocks, convertible securities, American Depositary Receipts, and bonds 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 assets 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.

The minimum initial investment is generally \$25,000 for an Advisory Select Program Account. Additional Program Accounts opened by a client or members of the client's household must also meet the \$25,000 per account minimum. Principal Securities reserves the right to close a Program Account if its balance falls below a certain level. Principal Securities also reserves the right to terminate its services if it believes the rendering of its investment advisory services is no longer appropriate for a client.

#### Types of Clients

Principal Securities offers the Advisory Select Program to individuals, businesses, trusts and certain pension and profit sharing plans.

#### Investment Discretion

Generally, Principal Securities and its Financial Advisors act in a non-discretionary capacity with respect to Principal Advisory Securities Programs (See Item 4), meaning Principal Securities and/or its Financial Advisors are required to obtain the Advisory Client's approval prior to executing trades on that client's behalf. In addition, Principal Securities and/or its Financial Advisors, when making a recommendation to an Advisory Client, is required to contact the Advisory Client to confirm the client's acceptance or rejection of the recommendation, and to obtain client approval for, among other things: (i) the specific security recommended for purchase (ii) the number of shares or units of the recommended security to be purchased; and (iii) whether to buy or sell the recommended security.

#### Limited Discretion

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 with an Advisory Select Program Account without obtaining prior approval from an Advisory Client (See Item 4): (i) if Principal Securities becomes aware of a lower cost share class that is available for a fund held in an Advisory Select Program Account, Principal Securities may exchange or convert a Client's Program Account assets from one share class into a lower cost share class of the same 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 if such ineligible assets have been in the Program Account for 90 days. Any exchange or conversion of Client's Program Account assets from one share class into a lower cost share class of the same fund would generally be done on a periodic basis along with assets in accounts of other clients.

#### **Additional Limited Discretionary Authority**

For an Advisory Select Program Account, an Advisory Client may decide to sign the Principal Advisory Select Portfolios Discretionary Trading Authorization Form, granting Principal Securities or its Financial Advisors (those who have been approved by Principal Securities) additional discretionary authority to exchange, convert and otherwise trade securities, including stocks and bonds and other securities, in an Advisory Client's Program Account, without prior consultation with the Advisory Client, in accordance with the Advisory Client's stated investment objectives and market conditions. Such additional discretionary authority will allow Principal Securities or its Financial Advisor to make decisions on the assets in the Advisory Client's Program Account taking into account market conditions and the client's investment objectives. Such discretionary authority includes, but is not limited to (i) account rebalancing; (ii) block trading; (iii) purchasing securities even if they are outside of, or inconsistent with the asset class percentages of the selected model portfolio; (iv) selling out of a recommended security or position; (v) writing covered calls on stock and closing covered call transactions; and (vi) buying individual stocks, bonds and CDs. This additional discretionary authority will also allow Principal Securities or its Financial Advisor to expand the allowable variance from the specified asset class percentages in the selected model portfolio for a limited amount of time, taking into account market conditions and the Advisory Client's investment objectives.

### **Item 6 – Portfolio Manager Selection and Evaluation**

This Item is not applicable to the Advisory Select Program.

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

This Item is not applicable to the Advisory Select Program.

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

This Item is not applicable to the Advisory Select Program.

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

#### **Disciplinary Information**

- (1) May 4, 2009 - Regulatory Action initiated by the State of Missouri Office of the Secretary of State – Missouri Securities Division:

Based on an investigation conducted by the Missouri Securities Division, the Division believed that Principal Securities failed to reasonably supervise the unauthorized outside business activity of a registered representative formerly affiliated with Principal Securities. Principal Securities entered into a consent order with the Missouri Secretary of State/Missouri Securities Division, without admitting or denying the allegations. Pursuant to the consent order, Principal Securities has paid \$146,050 to the Missouri Secretary of State's Investor Restitution Fund, \$75,000 to the Missouri Secretary of State's Investor Education and Protection Fund, and \$5,650 to the Missouri Secretary of State's Investor Education and Protection Fund as costs of the investigation.

- (2) July 25, 2012 - FINRA found Principal Securities' email monitoring processes were inadequate and FINRA found that this violated NASD Rule 3010(a) and FINRA Rule 2010. Principal Securities was censured and fined \$7,500.
- (3) 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.
- (4) 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.

#### Other Financial Industry Activities

Principal Securities' primary business is that of a securities broker-dealer. Principal Securities personnel spend on average in excess of 90% of their time on securities brokerage or mutual fund activities.

Principal Securities engages primarily in the sale of mutual funds, variable annuity, and variable life insurance contracts, but also markets unit investment trusts, direct participation programs, and general securities (as an introducing broker to its clearing firm, Fidelity Clearing and Custody Solutions, on a fully disclosed basis).

#### Best Execution

For the Advisory Select Program, 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 their 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.

In addition, 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.

#### Other Financial Industry Affiliations

Principal Funds Distributor, Inc., is the principal underwriter for an investment company (Principal Funds, Inc.). Shares of Principal Funds, Inc. sold in connection with Principal Securities' advisory products pose certain conflicts of interest. Those conflicts dealing with Proprietary Funds are disclosed below. Principal Securities is affiliated with Principal Funds Distributor, Inc., Principal Life Insurance Company, Principal Trust and all four are subsidiaries of Principal Financial Services, Inc. Principal Securities serves as distributor for the variable life and variable annuity contracts issued by Principal Life Insurance Company. In an effort to mitigate this conflict, when acting as a Financial Advisor offering Advisory Services, the

Financial Advisor is required to act in your best interests. Principal Securities monitors the Financial Advisor's investment advisory activities for compliance with this obligation. Please review Item 9 – Other Compensation for more information regarding compensation conflicts and see the Financial Advisor's Form ADV Part 2B for additional details regarding their role as Broker-Dealer Representatives when selling securities products of affiliates.

#### 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 representatives and certain employees who meet the SEC's definition of "Access Person" as described by the Code own or engage in transactions involving securities. Central aspects of the Code include: the requirement that all 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 of Access Persons 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 Principal Securities 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 a Financial Advisor, those persons must furnish a copy of an initial holding report on any such accounts and reportable securities. A copy of an account statement issued by or 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.

#### Participation or Interest in Client Transactions

Principal Securities in its capacity as a registered investment adviser will not enter into any principal or "agency cross" transactions with Advisory Select Program clients.

Clients enter into agency transactions with Principal Securities in its capacity as securities broker-dealer and, in such role, Principal Securities offers variable life, variable annuities, mutual funds, stocks, bonds, and other securities to Advisory Select 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 the Proprietary Funds if they are purchased by a client in an Advisory Select Program Account. These proprietary funds are managed and sub-advised by affiliates of Principal Securities. The Proprietary Funds 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 advisory fees for its affiliates by including the Proprietary Funds in the Advisory Select Program. Certain Proprietary and Non-Proprietary Funds eligible to be purchased in the Advisory Select Program offer additional compensation to Principal Securities or the Financial Advisor in the form of distribution and shareholder servicing fees. Please review Item 9 – Other Compensation for more information.

#### Personal Trading

See Item 9, the "Code of Ethics", explaining the requirements to prevent any violations of applicable

laws when Covered Persons own or engage in transactions involving securities.

#### Review of Accounts

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

#### Annual Program Account Reviews

The Financial Advisor will meet with clients at least annually to review the Program Account performance, the Eligible Investments in the Program Account and if necessary will suggest changing the Asset Class Mix due to updated information from Morningstar regarding the asset allocation model chosen by the client. In addition, the client's 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.

The Advisory Select Program is a strategic asset allocation program. Clients should consider carefully whether to rebalance the Program Account portfolio at least annually to match Morningstar's Asset Class Mix that corresponds to the asset allocation model the client has chosen. Principal Securities encourages clients in the Advisory Select Program to rebalance; however, Principal Securities undertakes no obligation to rebalance the Program Account. Rebalancing may cause tax consequences in a non-qualified Program Account.

#### Regular Reports

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. FCCS will provide clients with Program Account statements no less frequently than quarterly and with prompt confirmations of securities whenever transactions are executed in the Program Account.

#### Client Referrals

Principal Securities does not compensate any affiliated or unaffiliated person for Advisory Select Program client referrals.

#### Other Compensation - Proprietary Funds and Conflicts of Interest

Principal Securities has a conflict of interest which arises in connection with recommendations for investment in proprietary funds which are Eligible Investments and can be held in a client's Program Account because Principal Securities has an incentive to choose Principal Funds, Inc. mutual funds and ETFs ("proprietary funds") to implement its recommended asset allocation for a Program Account due to the compensation that will be received by affiliates of Principal Securities, over non-proprietary funds. Proprietary funds which are Eligible Investments in the Advisory Select Program pay certain agreed upon fees [payments] to affiliates of Principal Securities for fund transfer agent and administration services. In addition, some of the proprietary funds are also managed by investment adviser affiliates of Principal Securities, with the investment adviser affiliates receiving management fees from the proprietary funds for the investment management services provided.

Although Principal Securities does not directly receive fees [payments] for transfer agent, administrative services, or management fees paid to our investment adviser affiliates for the investment management services provided to the proprietary fund, Principal Securities has a conflict of interest due to Principal Securities having a financial incentive to recommend to clients that they purchase or transfer into proprietary funds over non-proprietary funds, when both proprietary and non-proprietary funds are Eligible Investments in the Advisory Select Program.

Principal Securities through the Advisory Select Program prohibits the recommendation, purchase or transfer of a proprietary fund into a Program Account opened by or on behalf of a trust described in Internal Revenue Code of 1986, as amended (“Code”) § 401(a) which forms part of a plan, or a plan described in Code § 403, which trust or plan is exempt from tax under Code § 501(a); an individual retirement account described in Code § 408(a); an individual retirement annuity described in Code § 408(b); an Archer Medical Savings Account described in Code § 330(d); a health savings account described in Code § 223(d); or, a Coverdale savings account described in Code § 530 (“Qualified Program Account”).

To mitigate against this conflict of interest with respect to Program Accounts that are not considered Qualified Program Accounts (“Non-Qualified Program Accounts”), Principal Securities’ investment guidelines require that any proprietary fund purchased in a Non-Qualified Program Account be the share class with the lowest expense structure available for that fund, which is available for the Program Account. Currently the proprietary fund share class with the lowest expense structure, and which is available for the Program Account, is the Institutional share class (I-shares) of Principal Funds, Inc. I shares are not available in some proprietary funds. If I-shares are not available in a certain fund, the share class with the next lowest expense available to Principal Securities is used. Similar funds available at other firms or from different fund vendors may incur lessor costs.

In addition, certain share classes of proprietary funds that are transferred to a Non-Qualified Program Account pay certain service fees (the “Service Fee(s)”) to Principal Securities, including, but not limited to, those paid pursuant to distribution and shareholder servicing plans adopted by the proprietary funds under Rule 12b-1 of the Investment Company Act. Service Fees incurred by a client are separate from and in addition to the investment management fees and other fees paid to affiliates of Principal Securities. In addition, Service Fees decrease potential positive returns and increase potential negative returns in a Program Account.

Moreover, Service Fees are in addition to the Client Fee paid by a client. To mitigate the conflict of interest involving proprietary funds in Non-Qualified Program Accounts that pay Service Fees, Principal Securities will credit these payments to the Program Account to the extent they arise as a result of proprietary funds held in a Non-Qualified Program Account and Principal Securities’ investment guidelines require that any proprietary fund purchased in a Non-Qualified Program Account be a share class that, when available for the fund, does not pay these distribution and shareholder servicing fees to Principal Securities, currently the I-share class of Principal Funds Inc. Some proprietary funds do not have an I-share class available. 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 Program Account. In an effort to mitigate conflicts of interest, when acting as a Financial Advisor offering Advisory Services, the Financial Advisor is required to act in your best interests. Principal Securities monitors the Financial Advisor’s investment advisory activities for compliance with this obligation.

#### Lowest Cost Mutual Fund Share Class - Conflict of Interest

Principal Securities and its Financial Advisor generally purchase the lowest cost mutual fund or ETF share class available for Principal Securities Advisory Clients. For mutual funds these are typically Institutional or comparable share classes (I-shares) or no-load or load-waived Class A shares that are sold at net asset value. I-shares are typically the lowest cost share class available for Program Accounts, having the lowest expense ratios available for Principal Securities Advisory Clients. The expense ratio is the annual fee that all mutual funds or ETFs charge their shareholders. It expresses the percentage of assets deducted each fiscal year for funds expenses, including 12b-1 fees, management fees, administrative fees, operating costs, and all other asset-based costs incurred by the fund. As noted, there may be instances where

Principal Securities receives a distribution fee or service fee from certain funds pursuant to Rule 12b-1 under the Investment Company Act. Rule 12b-1 allows funds to use fund assets to pay the costs of marketing and distribution of the fund's shares. To the extent Principal Securities receives 12b-1 fees when a lower cost share class is available for the same fund, Principal Securities has a conflict of interest associated with (1) making investment decisions or recommendations in light of the receipt of 12b-1 fees, and (2) selecting or recommending the more expensive 12b-1 fee paying share class when a lower-cost share class is available for the same fund.

Principal Securities Financial Advisors have the ability to utilize and offer mutual funds with multiple share classes, including but not limited to shares designated as Class A shares, I-shares and comparable share classes. Sometimes I-shares and comparable shares are for institutional and other investors and are not available for an advisory account. If I-shares or a comparable share class are available for a fund, Principal Securities or its Financial Advisor will generally invest its Advisory Clients in the share class which is the lowest cost share class available for Program Accounts for a fund. In addition, there may be other limitations on the use of I-shares or other share classes with lower expense ratios. Those share classes may have specific eligibility requirements described in the mutual fund's or ETF's prospectus or the statement of additional information. Such eligibility requirements could include, but may not be limited to, investments meeting certain minimum dollar amounts and accounts that the fund considers qualified fee-based programs.

As a result of the different eligibility requirements and the various mutual fund or ETF share class expense ratios, it will generally be more expensive for an Advisory Client to own Class A shares than Class I-shares (or comparable share classes). Transaction charges can be lowered or avoided by purchasing a Class A share mutual fund in an advisory account; however the share class can be more expensive to Advisory Clients over time because of the ongoing 12b-1 fees and other fund expenses.

It is Principal Securities policy that if it receives 12b-1 fees on load-waived Class A shares purchased in an advisory account, it will credit those fees back to the client's advisory account. Due to Principal Securities being a registered investment adviser and also registered as a broker-dealer, it has a conflict of interest when making a recommendation for certain share class investments for advisory accounts. Although the registered investment adviser may not directly receive any distribution fees for recommendations to invest in a certain mutual fund share classes; when an order for an advisory client is executed by the affiliated broker-dealer, the investment adviser may, and has in the past received a portion of the transaction-based compensation (e.g., commissions, trails, revenue sharing) for executing a transaction in certain mutual fund or ETF share classes with the affiliated broker-dealer.

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

To the extent that a client transfers existing mutual funds into a Program Account for ongoing investment advisory services by Principal Securities, the Financial Advisor will review whether such mutual funds are the best share class reasonably available and make recommendations in the best interest of such client under the facts and circumstances at the time. Principal Securities may, in its discretion, determine to exchange or convert a Client's mutual fund position held in one share class to a different share class. Such share class exchanges or conversions will occur as deemed appropriate by Principal Securities or its Financial Advisor and will be reflected on the Client's account statement. Principal Securities will consider various factors when considering share class exchanges and conversions in an advisory account, including

but not limited to, whether the Client's account is subject to taxation, and the difference in the expense ratio between share classes.

#### Mutual Fund and ETF Share Class Purchases in Principal Securities Advisory Programs (Wrap Fee Accounts) – Conflict of Interest

For the Advisory Select Program Principal Securities or its Financial Advisors generally purchase institutional or comparable class mutual fund shares ("I-shares"), or no-load or load-waived Class A shares that are sold at net asset value. The Advisory Select program is a wrap fee program, in which Principal Securities pays the transaction costs associated with executing a recommendation that a Financial Advisor makes for a client's Program Account. When executing a recommended allocation, Principal Securities and its Financial Advisor will not choose a mutual fund share class that charges no upfront transaction costs (an "NTF fund share class") but causes the client to pay ongoing 12b-1 fees unless such a choice is in the client's best interest. This choice constitutes a conflict of interest because if Principal Securities assumes these costs, then it has a financial incentive to select NTF funds in its Program Accounts to avoid paying mutual fund transaction charges, thereby, incurring less expense and increasing its compensation by avoiding transaction costs it would otherwise pay on behalf of a client's Program Account, while at the same time causing the client to incur higher costs over time.

To remedy this conflict of interest, Principal Securities analyzes whether an NTF fund share class (which has a higher expense ratio) is better for a client's Program Account than an institutional or comparable share class of the same fund, which has a transaction charge but lower expense ratio. Principal Securities will act in the client's best interest regarding use of a NTF or non-NTF fund share class in a Program Account. In most cases, it will be in the client's best interest for Principal Securities to select an institutional or comparable share class with a lower expense ratio, even if that causes Principal Securities to pay the transaction costs.

#### 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, certain conflicts of interest arise in connection with certain non-proprietary funds that are permitted into Advisory Select Program Accounts. Some non-proprietary Funds that are recommended for purchase in or transfer to the Program Account pay distribution and shareholder servicing fees (Non-Proprietary Service Fees) to Principal Securities. Non-Proprietary Service Fees are separate from and in addition to the investment management fees and other expenses that all investors purchasing the securities pay. Non-Proprietary Service Fees decrease potential positive returns and increase potential negative returns in Program Accounts. Non-Proprietary Service Fees are in addition to the Client Fee paid by the client to participate in the Advisory Select Program. To mitigate this conflict of interest, Principal Securities will credit these payments to the Program Account to the extent they arise as a result of non-proprietary funds held in Non-Qualified Program Accounts. All Non-Proprietary Services Fees received from the non-proprietary funds held in Qualified Program Accounts will also be credited to the Program Account.

In an effort to mitigate conflicts of interest, when acting as a Financial Advisor offering Advisory Services, the Financial Advisor is required to act in your best interests. Principal Securities monitors the Financial Advisor's investment advisory activities for compliance with this obligation.

#### 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.

#### 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 client is at fault, Principal Securities uses its discretion to pass along any losses to the client, and Principal Securities will keep any gains resulting from the trade error.

#### Proxy Voting

As a matter of firm policy and practice, Principal Securities does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios.