



**Form ADV, Part 2A (Firm Disclosure Brochure) for  
Principal Direct Advisory Accounts**

**Principal Securities, Inc.**

655 9th Street

Des Moines, IA 50309

888-774-6267

March 30, 2021

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 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.

**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 update on June 29, 2020, we have made the following material changes to our Brochure.

We encourage all clients to review the Firm Disclosure Brochures thoroughly to determine any impact to their situation.

All information related to the Principal Securities Direct Advisory Accounts is included within this Firm Disclosure Brochure.

**Item 14 - Client Referrals and Other Compensation**

The “Transition Assistance” section was added to communicate a new program whereby the firm provides assistance to some financial advisors to encourage transition to our firm and help cover associated costs.

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 will 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 – Advisory Business**

### **Overview**

Principal Securities (“we”, “us”, “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 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 Clients”, “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 direct advisory programs offered by Principal Securities (“Advisory Programs”). In addition to the programs described in this document, Principal Securities offers wrap fee investment advisory programs that are described in the Principal Managed Account Solutions Wrap Fee Disclosure Brochure. We also offer the Principal Financial Planning & Consulting programs, which is described in a separate Form ADV Part 2A and is available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

As of 12/31/2020, Principal Securities client discretionary assets under management are \$5,389,489,177 and non-discretionary assets under management are \$3,931,903,571.

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 either Investment Adviser Representative or Financial Advisor titles when offering Advisory Services.

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

Principal Securities offers both brokerage and investment advisory services. Principal Securities requires that 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 advisor 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>.

### **Asset Allocation & Portfolio Management Programs**

Principal Securities makes available asset allocation and portfolio management programs of unaffiliated third-party money managers ("TPMM(s)") through its TPMM Programs. An account in a TPMM Program ("Program Account") is managed by one or more TPMMs on a discretionary basis.

As part of the TPMM Programs described below, Principal Securities offers two different arrangements:

Investment Adviser - Under the investment adviser arrangement, Principal Securities acts as an investment adviser or co-advisor in a TPMM Program. Principal Securities, through its Financial Advisor, will help you determine your risk tolerance, investment strategy and financial goals to help you choose a TPMM or assist in selecting models or investments. The Financial Advisor will also help with ongoing monitoring of performance of your Program Account to ensure it continues to meet your investment needs.

Solicitor - Under the solicitor arrangement, Principal Securities' Financial Advisors refer clients to TPMMs that offer asset allocation programs, portfolio management programs, or both, in exchange for a solicitor's fee paid by the TPMM to Principal Securities. These referral arrangements are conducted in accordance with the Rule 206(4)-3 under the Investment Advisers Act of 1940. The Advisory Client will receive a written solicitor disclosure document describing the arrangement Principal Securities has with the TPMM and the fee that you will be charged for the referral to the TPMM.

Depending on the TPMM Program, Principal Securities provides some or all of the following services:

- Assists Advisory Clients in evaluating their financial circumstances and objectives and determining which program helps meet those objectives;
- Assists Advisory Clients in selecting the model portfolio available through mutual fund asset allocation programs (when applicable);
- Assists Advisory Clients in selecting an investment manager available through portfolio management programs (when applicable);
- Assists Advisory Clients in the completion and delivery of necessary paperwork to open an account; and
- Contacts the Advisory Client on an annual basis to determine whether there have been any changes to the Advisory Client's financial situation and/or investment objectives.

### Asset Allocation Programs

The asset allocation programs offered consist mainly of mutual funds but, depending on the TPMM, may include exchange traded funds ("ETF") or other securities. The asset allocation programs have several model investment portfolios from which an Advisory Client can select. Each model investment portfolio considers the Advisory Client's investment objectives and risk tolerance. As these are discretionary programs, the TPMM may be permitted to change the model investment portfolios at their own

discretion, depending on the program selected. Further information regarding all of these programs is found in each TPMM's Form ADV Part 2A or Appendix 1 of Form ADV Part 2A.

Principal Securities, through an investment adviser arrangement, offers the following discretionary asset allocation programs:

- Mutual Fund Model Program by SEI Investment Management Corporation ("SEI" or "SIMC") Mutual fund asset allocation models developed by SIMC and comprised of SEI Funds (for which SIMC serves as advisor) or unaffiliated fund company investments
- Morningstar® Managed Portfolios<sup>SM</sup> by Morningstar Investment Services, Inc. ("Morningstar")

Principal Securities, through a solicitor arrangement, offers the following discretionary asset allocation programs:

- Brinker Capital, Inc. ("Brinker") – Destinations
- Symmetry Partners, LLC ("Symmetry") - Symmetry Partners Portfolio Program
- The Standard
- CLS Investment Firm, LLC ("CLS")

#### Portfolio Management Programs

The portfolio management programs offered consist of separately managed account models made up of equities, fixed income instruments and other securities.

The Advisory Client, with the assistance of the Financial Advisor, analyzes his/her investment objectives and risk tolerance, then selects one of the available portfolios. The portfolios are managed by portfolio managers who are not affiliated with Principal Securities. The portfolios are managed on a discretionary basis (i.e., the portfolio manager determines the investments within an Advisory Client's portfolio and trades without prior consent or consultation from the Advisory Client). Further information regarding all of these programs is found in each TPMM's Form ADV Part 2A or Appendix 1 of Form ADV Part 2A.

Principal Securities, through an investment adviser arrangement, offers the following portfolio management programs:

- SEI Investment Management Corporation (SEI) – Managed Account Solutions, a discretionary managed account service. SEI acts as investment adviser and individual managed accounts are utilized in this program.
- Manning and Napier LLC ("Manning and Napier"), a discretionary managed account service.
- AssetMark - AssetMark offers a variety of asset allocation and portfolio management services, including strategist and guided portfolios as well as pre-built and standalone comprehensive investment models. The investment adviser arrangement is no longer offered to new AssetMark accounts.
- Morningstar Investment Services, LLC. - Morningstar® Managed Portfolios, ETF, Active/Passive or Select Equity Portfolios, discretionary managed account service strategies. Morningstar acts as investment adviser and individual managed accounts are utilized in this program.

Principal Securities, through a solicitor arrangement, offers the following discretionary portfolio management programs:

- Brinker Capital, Inc. (“Brinker”) – Core Asset Manager and Unified Managed Account Programs
- Mariner Wealth Advisors (formerly Vantage Investment Advisors)
- City National Rochdale – Private Client Program
- The Haverford Trust Company
- AssetMark – Offers a variety of asset allocation and portfolio management services, including strategist and guided portfolios as well as pre-built and standalone comprehensive investment models.
- Beaumont Financial Partners, LLC – Wealth Management and Model Portfolios
- Kestra Advisory Services, LLC – Investment Advisory Services

For both investment adviser and solicitor arrangements Financial Advisors are available to Advisory Clients on an ongoing basis to receive instructions and to convey to the TPMM any changes in the Advisory Clients’ financial circumstances and/or investment objectives. Upon request, Financial Advisors will conduct a review of the Advisory Clients’ accounts to determine whether the TPMM has managed the account in a manner consistent with the TPMM Program’s investment objectives and policies. Unless otherwise agreed upon, Principal Securities or its Financial Advisors will not participate in the management of any of the portfolios offered by the TPMMs.

## **Item 5 – Fees and Compensation**

### General Information

The range of fees paid by Advisory Clients to Principal Securities and/or the TPMM is variable and depends both on the specific TPMM Program selected and the amount of assets invested.

With all of the TPMM Programs sponsored by unaffiliated advisors, comparable programs or services may be available from other sources for fees lower than those specified in this Brochure. An investor can choose to purchase securities directly, rather than through an advisory program. By purchasing directly, the investor would not pay an advisory fee.

Fees paid to Principal Securities are negotiable, as are fees paid to some TPMMs. In some situations, account minimums that are lower than the stated minimum may be allowed. Each TPMM has its own procedures related to householding accounts for the purpose of receiving a lower fee. Please read each TPMM’s Form ADV Part 2A or Appendix 1 of Form ADV Part 2A for more information about their fees, including but not limited to how fees are collected, if they are negotiable, householding accounts and if any early termination fees apply.

The advisory fees charged to a Program Account do not include investment management fees, 12b-1 distribution fees and other operating fees and expenses of the underlying mutual funds and ETFs. As an investor, the Advisory Client will bear a proportionate share of these fees, which decrease potential positive returns and increase potential negative returns. Additionally, portfolio management programs contain separate account management fees not included in the Principal Securities advisory fee. These separate account management fees also decrease potential positive investment returns and increase potential negative investment returns of the programs.

### Administrative Fee

In addition to compensating Principal Securities for the investment advisory services provided to Client, for Program Accounts in the SEI, AssetMark, and Morningstar programs opened on or after April 1, 2020, a portion of the fee Principal Securities receives (up to 12 basis points) may be used by the Firm to cover costs of administering the program, including but not limited to costs associated with oversight and due diligence.

### Solicitor Arrangement

Under a solicitor arrangement, an Advisory Client does not pay Principal Securities any fees directly. All fees are calculated and collected by the TPMM who in turn will pay a portion of the fees it collects to Principal Securities as a solicitor's fee. The solicitor fees can range from .07% - 1.5% of account assets under management, or up to 50% of the advisory fee, depending on the agreement between Principal Securities and the TPMM. Each TPMM determines the minimum investment for their products. The minimum investment can range from no minimum up to \$1,000,000.

Please refer to each TPMM's Form ADV Part 2A or Appendix 1 of Form ADV Part 2A disclosure brochure for more information regarding minimum investment requirements and fees.

### Investment Adviser Arrangement

Under an investment adviser arrangement, Principal Securities contracts with the Advisory Client for a fee that is separate from the fee assessed by the TPMM. Principal Securities' fee is charged and collected from the Program Account by the TPMM or custodian and remitted to Principal Securities.

The annual fee Principal Securities charges under an investment adviser arrangement for each TPMM Program is listed below.

### **SEI Investment Management Corporation**

Principal Securities, through its investment adviser arrangement with SEI, sets its advisory fee as a percent of the asset value of the client's account at the end of each quarter. The advisory fee Principal Securities collects is negotiable, but will not exceed the following fee schedule (expressed as annualized fees):

<b>SEI Investment Management Corporation Client Fee Schedule Managed Account Solutions</b>	
<b>Asset Value</b>	<b>Principal Securities Fee</b>
\$0 - \$149,999	Up to 1.75%
\$150,000 – \$249,999	Up to 1.75%
\$250,000 - \$500,000	Up to 1.75%
\$500,001 - \$999,999	Up to 1.20%
\$1 million and up	Up to 1.10%

<b>SEI Investment Management Corporation Client Fee Schedule Mutual Fund Model Program</b>	
<b>Asset Value</b>	<b>Principal Securities Fee</b>
\$0 - \$149,999	Up to 1.75%
\$150,000 – \$249,999	Up to 1.75%
\$250,000 - \$500,000	Up to 1.75%



\$500,001 - \$999,999	Up to 1.20%
\$1,000,000 - \$2,000,000	Up to 1.10%
\$2,000,001 and up	Up to .90%

The fee is collected quarterly in arrears. Fees are prorated based on the number of days for which services were provided. The Advisory Client may terminate the agreement any time upon written notice as set forth in their agreement. SEI may terminate the investment advisory service it provides to Principal Securities through the SEI programs at any time upon written notice, without penalty. Upon termination, SEI will calculate and deduct any fees due pro-rated based upon the number of days the client account was open during that quarter. The SEI Funds assess separate advisory fees that are payable to the funds' portfolio managers.

There may be minimum investment requirements in the SEI models that vary based on program. Please refer to the applicable SEI Form ADV disclosure brochure for any minimums that may apply.

### **Morningstar® Managed Portfolios<sup>SM</sup>**

An annual program fee is charged quarterly. For the Mutual Fund Strategies, fees are charged in arrears or in advance depending on the custodian chosen for the account. For ETF Strategies and Select Equity Portfolios, fees are charged in advance. Detail on how fees are administered and adjusted for these programs as well as clearing and custody detail for program accounts is available in the wrap fee program brochure (Form ADV, Part 2A Appendix I) for Morningstar Investment Services LLC.

The program fee consists of two parts:

- Morningstar Investment Services Fee – Covers its discretionary investment management services, back-office support (e.g., proposals and account-opening documents), communications to Advisory Clients and their Financial Advisor and marketing activities.
- Principal Securities Fee – Covers assisting the Advisory Client in completing a questionnaire and other applicable account opening forms, determining suitability and the appropriate portfolio within the program, contacting the client at least annually to obtain any changes in their financial situation, acting as liaison between Morningstar and the Advisory Client, and administrative costs associated with the program.

The maximum total fee payable by the Advisory Client as a percent of the account value at the end of each quarter is as follows (expressed as an annualized fee):

<b>Morningstar® Managed Portfolios<sup>SM</sup> Client Fee Schedule Mutual Fund Strategies (without Morningstar Funds)</b>			
<b>Investment Minimum – Generally \$50,000</b>			
<b>Asset Value</b>	<b>Principal Securities Fee</b>	<b>Morningstar Investment Services Advisory Fee</b>	<b>Total Fee</b>
\$0 - \$500,000	Up to 1.10%	.40%	Up to 1.50%
Next \$500,000	Up to 1.05%	.35%	Up to 1.40%
Next \$1,000,000	Up to 1.00%	.30%	Up to 1.30%
Over \$2,000,000	Up to .90%	.20%	Up to 1.10%

<b>Morningstar® Managed Portfolios<sub>SM</sub> Client Fee Schedule</b> <b>Mutual Fund Strategies (with Morningstar Funds)</b>			
<b>Investment Minimum – Generally \$5,000</b>			
<b>Asset Value</b>	<b>Principal Securities Fee</b>	<b>Morningstar Investment Services Advisory Fee</b>	<b>Total Fee</b>
\$0 - \$500,000	Up to 1.10%	.20%	Up to 1.30%
Next \$500,000	Up to 1.05%	.15%	Up to 1.20%
Next \$1,000,000	Up to 1.00%	.10%	Up to 1.10%
Over \$2,000,000	Up to .90%	.05%	Up to .95%

<b>Morningstar® Managed Portfolios<sub>SM</sub> Client Fee Schedule</b> <b>Mutual Fund Strategies (including Active/Passive Strategies)</b>			
<b>Investment Minimum – Generally \$50,000</b>			
<b>Asset Value</b>	<b>Principal Securities Fee</b>	<b>Morningstar Investment Services Advisory Fee</b>	<b>Total Fee</b>
\$0 - \$500,000	Up to 1.10%	.30%	Up to 1.40%
Next \$500,000	Up to 1.05%	.25%	Up to 1.30%
Next \$1,000,000	Up to 1.00%	.20%	Up to 1.20%
Over \$2,000,000	Up to .90%	.15%	Up to 1.05%

<b>Morningstar® ETF Strategies Client Fee Schedule</b>	
Principal Securities fee across all asset levels	Up to 1.10%*
Generally Minimum Initial Invest	\$25,000

<b>Morningstar® Select Equity Portfolio Strategies Client Fee Schedule</b>	
Principal Securities fee across all asset levels	Up to 1.10%*
General Minimum Initial Invest – Custom Series	\$250,000
General Minimum Initial Invest – Select Series	\$75,000
General Minimum Initial Invest – with Fixed Income	\$150,000

Principal Securities' fee for Morningstar programs is generally negotiable at all asset levels. Amounts reaching a breakpoint asset level do not realize the benefit on total account assets; fee reductions apply only to amounts in excess of the breakpoint asset level.

\*Does not include fees/commissions associated with executing transactions nor the internal expenses of ETFs. Advisory clients investing in Morningstar Investment Services program strategies utilizing ETFs and/or common stocks will use primarily Charles Schwab Institutional ("Schwab") or Fidelity Institutional Wealth Services ("FIWS"), or another custodial platform designated by Morningstar as a custody platform. Fees for clearing/custody have been negotiated by Morningstar Investment Services and are limited to either transactional pricing or asset-based pricing within the elected custody platform as evaluated by the platform provider to be the most beneficial cost to the customer. Full detail on clearing and custody fees negotiated by Morningstar Investment Services and the Morningstar Investment Services Advisory Fee for these programs can be found in the Wrap Fee Program Brochure (Form ADV, Part 2A Appendix I) for Morningstar Investment Services. Platform selection does not impact fees received by Principal Securities, Inc. nor any of its affiliates.

**Manning and Napier Advisors, LLC.**

Principal Securities' advisory fee is set as a percentage of the asset value of the client's account at Manning and Napier. Principal Securities charges between .15% and 1.25% annually as adviser in connection with the Manning and Napier portfolios. This fee is in addition to the portfolio management and custodial fees assessed to the client by Manning and Napier. The details of these fees can be found within the Manning and Napier new account paperwork and Form ADV Part 2A disclosure document.

The fee Principal Securities charges is generally negotiable depending on the size of the Advisory Client's account and the level of services provided to the particular client. Fees are payable to Principal Securities quarterly in advance and are prorated in the first quarterly billing period following the commencement date of Manning & Napier's investment management contract with the client and thereafter billed on a quarterly basis. In the event of termination of the advisory agreement with Manning and Napier or Principal Securities or both, all unearned fees shall be refunded to the client. Principal Securities follows the minimum account size requirement set by Manning and Napier. The Advisory Client may terminate the advisory agreement with Principal Securities upon thirty days written notice to Principal Securities without a penalty.

The minimum initial investment begins at \$250,000.

**Solicitor & Investment Adviser****AssetMark**

Fees associated with the AssetMark TPMM Programs are payable quarterly, in advance, based on assets under management. AssetMark pays Principal Securities a fee of up to 1.95% of the value of the Program Account in the investment adviser arrangement. AssetMark pays a solicitor fee of up to 1.50% of the value of the Program Account in the solicitor program arrangements. Principal Securities no longer offers the investment adviser arrangement for the AssetMark TPMM Program to new accounts as of April 1, 2020.

Principal Securities' advisory fee is generally negotiable. Clients may terminate AssetMark accounts at any time and receive a full pro-rata refund of any unearned fees.

<b>AssetMark Program</b>	<b>General Program Minimum Initial Invest</b>
Guided Portfolios <ul style="list-style-type: none"> <li>GPS Fund Strategies</li> <li>GPS Select</li> <li>Custom Portfolios</li> </ul>	\$10,000 \$100,000 \$250,000-\$1,000,000
AssetMark Single Strategy Solution <ul style="list-style-type: none"> <li>Mutual Fund Accounts</li> <li>Exchange Traded Fund Accounts</li> <li>Mutual Fund/ETF Blend Accounts</li> </ul>	\$10,000-\$25,000 \$25,000-\$50,000 \$25,000
Privately Manage Accounts or Separately Managed Accounts <ul style="list-style-type: none"> <li>Individually Managed Accounts</li> <li>Savos Fixed Income Individually Managed Account</li> </ul>	\$100,000-\$1,000,000
Savos Unified Managed Accounts <ul style="list-style-type: none"> <li>Savos Preservation Strategy</li> </ul>	\$25,000

<ul style="list-style-type: none"> <li>• GMS Accounts</li> <li>• Privately Managed Portfolios Accounts</li> <li>• US Risk Controlled Strategy</li> <li>• Savos Personal Portfolios</li> </ul>	\$25,000 \$25,000 \$25,000 \$250,000
Multiple Strategy Accounts	Varies depending on sleeves selected
Guided Income Solutions	\$10,000

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

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).

## **Item 7 – Types of Clients**

Principal Securities provides investment advice to individuals, qualified and nonqualified retirement plans, trusts, estates, charitable organizations, and other corporations and business entities. The requirements for opening or maintaining accounts, such as minimum account size, are disclosed in Item 5 of this document.

## **Item 8 – 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.

Principal Securities analyzes the structure, costs, investment performance history, and other features of the TPMM's asset allocation programs and portfolio management programs for the purpose of determining which TPMMs are made available to Advisory Clients.

The principal sources of information that Principal Securities uses to select portfolio management and asset allocation services, and other investment programs, to be offered to Advisory Clients are materials provided by the TPMM. Please read each TPMM's Form ADV Disclosure Brochure for more information about the methods of analysis, investment strategies and risk of loss.

The TPMMs determine the investment strategies used to implement investment advice given to Advisory Clients.

## **Item 9 – Disciplinary Information**

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.

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.

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 Section 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.

## **Item 10 – Other Financial Industry Activities and Affiliations**

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, and general securities (as an introducing broker to its clearing firm, Fidelity Clearing & Custody Solutions (“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.

Principal Funds Distributor, Inc., is the principal underwriter for an investment company (Principal Funds, Inc.). Principal Global Investors, LLC (“PGI”) is the manager of Principal Funds, Inc. and Principal Exchange-Traded Funds. Shares of Principal Funds, Inc. and Principal Exchange-Traded Funds sold in connection with Principal Securities’ advisory products pose certain conflicts of interest. 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 National Life Insurance Company, Principal Bank, Principal Trust Company and Principal Global Investors Holding Company, LLC. 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.

## **Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

### **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” 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 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 upon solicitation for Advisory Services.

### **Item 12 – Brokerage Practices**

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”).

### **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 with written notice at any time.

### **Item 13 – Review of Accounts**

Accounts in the Principal Advisory Programs are reviewed as described earlier in Item 8 (Methods of Analysis, Investment Strategies and Risk of Loss).

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 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 Client Account.

The TPMs that sponsor the portfolio management programs, asset allocation programs and other investment programs also provide reports to Advisory Clients. The TPMM determines the nature and

frequency of these reports. For all TPMM Programs, the Advisory Client receives confirmation statements whenever transactions are executed for their accounts.

## **Item 14 – Client Referrals and Other Compensation**

### **Sponsor Reimbursements**

Principal Securities receives direct or indirect reimbursements from certain 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 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 eCertificate 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.

### **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**

Your Financial Advisor may be entitled to receive a reimbursement from a TPMM for qualified marketing and/or business development expenses. Such reimbursements must be approved by Sponsor. The amount of such reimbursement may be based on the total assets invested at the end of each calendar or other factors. This creates a conflict of interest because your Financial Advisor has a financial incentive to recommend programs in which they may be able to obtain reimbursements.

### **Item 15 – Custody**

Please refer to the TPMM's Form ADV Part 2A disclosure brochure for information related to custody of Advisory Client assets in each TPMM Program.

Advisory Clients will receive at least quarterly statements from the qualified custodian that holds and maintains the client's investment assets. Please carefully review such statements and compare such official custodial records to the account statements that TPMM's provide to you. Principal Securities does not provide official statements to clients with assets managed by TPMM Programs.

### **Item 16 – Investment Discretion**

Principal Securities, through the investment adviser arrangement with the SEI and the AssetMark programs, has limited discretion as follows:

For SEI, Morningstar and AssetMark Portfolios, the respective sponsors and Principal Securities Financial Advisors offer the investment programs on a non-discretionary and discretionary basis. The model portfolios provided by SEI, Morningstar and AssetMark are traded on a discretionary basis by their portfolio managers in order to allow for the purchase and sale of certain mutual funds and/or ETFs without trading authorization from the Advisory Client. When acting with discretion your Financial Advisor can buy, sell, exchange, convert, or otherwise trade in securities and to execute securities without your consent. Discretion is granted via written client authorization. Neither Principal Securities nor your Financial Advisor is granted authority to take possession of your assets or direct the delivery of assets anywhere other than your address of record without consent.

### **Item 17 – Voting Client Securities**

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. Please reference the TPMM's Form ADV Part 2A or Advisor Brochure to determine each unaffiliated advisor's policy on proxy voting.

**Item 18 – 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.