Principal Asset Management[SM]

Principal Fixed Income

ESG Scoring Framework

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Purpose

This document sets out the proprietary environmental, social and governance ("ESG") scoring framework used by Principal Fixed Income to generate issuer-level ESG scores and describes its use within the Principal Fixed Income investment process. It has been prepared to support consistent strategy-level disclosure where the ESG score is referenced in marketing, website or sustainability-related materials, including for the purposes of the Sustainable Finance Disclosure Regulation (EU) 2019/2088 ("SFDR") and Article 13 of that Regulation, as amended by Regulation (EU) 2024/3005 on the transparency and integrity of ESG rating activities.

Overview

Principal Fixed Income integrates sustainability considerations and ESG factors into the investment process where relevant to the strategy and consistent with client objectives and fiduciary responsibilities.

The ESG score is an internal research tool used to support issuer analysis, portfolio monitoring, engagement and investment decision-making. The ESG score is one input within the broader investment process and is considered alongside financial, fundamental, technical and valuation factors.

The ESG score is not offered, sold or distributed as a standalone ESG rating product.

Proprietary ESG score

Principal Fixed Income assigns a specific ESG score to issuers in the investment grade and high yield surveillance universes.

The ESG score is a numeric assessment ranging from 1 = poor to 10 = excellent, reflecting the analyst's assessment of the issuer's ESG standing.

The proprietary ESG scoring framework is designed to support:

- frequent ESG score updates;
- identification of companies in transition;
- flexibility in data gathering;
- issuer engagement;
- forward-looking ESG assessments; and
- a consistent framework across the issuer universe.

Scoring framework and materiality

The proprietary ESG scoring framework is customised by sector and is intended to improve comparability by focusing on material ESG considerations relevant to each issuer's operations.

The framework includes 22 independent subfactors, covers more than 500 companies analysed and scored, and applies across more than 40 sectors with varying subfactor weights.

Subfactors are grouped under environmental, social and governance categories. Examples include:

- Environmental: toxic and carbon emissions, material sourcing and land use, water stress and product waste.
- Social: workforce and community management, privacy and data security, and product and chemical safety or quality.
- Governance: board evaluation, management evaluation and business ethics.

Sector subfactors and weights are determined by materiality to the issuer's business operations. As a result, the weighting of environmental, social and governance factors may vary by sector.

Use in the investment process

The ESG score is incorporated into Principal Fixed Income's fundamentals, technicals and valuations ("FTV") framework.

The ESG score forms part of the fundamentals component and accounts for a meaningful portion of the total fundamental score.

The ESG score may inform issuer research, credit analysis, security selection, engagement priorities, portfolio monitoring, exclusions or restrictions where relevant to strategy guidelines or client preferences, and assessment of whether an issuer is appropriate for inclusion in a portfolio or strategy.

Data sources and inputs

ESG analysis is led by sector-focused research analysts as part of the broader fundamental research process. Principal Fixed Income research analysts draw on internal and external information sources, including:

- public company information;
- meetings and calls with corporate management teams;
- industry contacts, conferences, publications, and media reports;
- dialogue with rating agencies;
- third-party ESG insights; and
- internal resources, including economic research, legal counsel and investment professionals from other asset classes.

Third-party ESG research is used to supplement, but not replace, proprietary analysis. Third-party inputs may include ESG ratings, controversies, business involvement screening, climate-related metrics, climate value-at-risk, EU sustainable finance data and government ratings.

Principal Fixed Income may also use norm-based research to assess companies' adherence to global principles on human rights, labour standards, environmental protection and anti-corruption, as well as controversial weapons screening to assess involvement in banned or controversial weapons.

Limitations

The ESG score is limited by the availability, quality and consistency of issuer disclosures and other public information. ESG data may not be systematically disclosed by issuers, may be estimated by data providers or may be unavailable, and where disclosed may be prepared using different methodologies.

To help address these limitations, analysts supplement available data with qualitative assessments based on company and industry research and/or alternative data sources. Analysts may also engage directly with issuers to seek additional ESG information where it is not available through existing ESG data sources.

Governance and oversight

The proprietary ESG scoring framework is owned and maintained by the Principal Fixed Income investment team. Oversight of the methodology is provided through the Principal Asset Management Sustainable Investing Oversight Committee, which reviews and approves material updates. The methodology is reviewed at least annually, or sooner where there are material changes to the scoring framework, data inputs, investment process or applicable regulatory/disclosure requirements.

Important information

This document is intended to support strategy-level materials that describe Principal Fixed Income's ESG integration process and proprietary ESG scoring framework. The ESG score is an internal research tool used by Principal Fixed Income to support investment analysis. It does not constitute investment advice, a recommendation to buy or sell any security, or a standalone ESG rating product.

Version control

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