

# Sustainable Investing Policy Statement

## Purpose

As a fiduciary for our clients, we welcome the broader investment prism that the United Nations Principles for Responsible Investment (“PRI”) represents. Furthermore, we value the voice that our status as a PRI signatory gives us in defining and shaping the ESG discussion, the development of best practices, and ultimately the potential to enhance the risk-adjusted returns we deliver to clients over time.

Principal Asset Management<sup>SM</sup> has been a PRI signatory since 2010, highlighting the firm’s dedication to Environmental, Social and Governance (ESG) issues. The PRI works to achieve a sustainable global financial system by encouraging the adoption of six principles and collaboration on their implementation; by fostering good governance, integrity, and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures, and regulation.

The purpose of the policy is to outline how the tenets of sustainable investing are applied by the investment teams of Principal Asset Management.

## Scope

Our global investment teams are covered by our PRI signature. Consistent with a specialized investment team model, each team defines the scope and pace of its own implementation path, driven by what fits best with its investment process and the needs of its clients.

Principal Asset Management has aligned with global policy initiatives and accords that support our goals. In addition to PRI and UN Global Compact, we are members of the Better Building Alliance, US Green Building Council, Energy Star Partner, Global Real Estate Sustainability Benchmark (GRESB), US Department of Energy Better Buildings Initiative, The Council of Institutional Investors (CII), The International Corporate Governance, and Investor Alliance for Human Rights among others.

## Responsibility

This policy is reviewed by the Sustainable Investing Oversight Committee and approved by the Operating Committee of Principal Asset Management.

The policy will be reviewed no less than annually.

## Approach

At Principal Asset Management, our commitment to sustainable investing revolves around a key factor — our fiduciary responsibility to our clients. Acting in their best interests comes first and foremost. Our approach to sustainable investing is at all times driven by that priority.

We believe that ESG integration offers the potential to enhance security analysis by providing a holistic view of the factors driving risk and return. ESG integration may also influence investment outcomes by adding the potential for climate, regulatory, and environmental risk mitigation to client portfolios. Principal Asset Management has the responsibility to provide fiduciary oversight and governance relating to sustainable investing and ESG integration and continue to make enhancements over time.

## Commitment

The Principles for Responsible Investing (“Principles”) are based on the premise that ESG issues can affect the performance of investment portfolios and investors should give them appropriate consideration to fulfill their fiduciary duty. In signing these Principles, Principal Asset Management<sup>1</sup> publicly commits, where consistent with our fiduciary responsibilities, to:

1. Incorporate ESG issues into our investment analysis and decision-making processes
2. Be active owners and incorporate ESG issues into our ownership policies and practices
3. Seek appropriate disclosure on ESG issues from the entities in which we invest
4. Promote acceptance and implementation of the Principles within the investment industry
5. Work together [with other signatories] to enhance our effectiveness in implementing the Principles
6. Report on our activities and progress towards implementing the Principles



An investor initiative in partnership with UNEP Finance Initiative and UN Global Compact

## Integration

The consideration of ESG factors is integrated into our sustainable investing approach across all actively managed asset classes. The integration approach is determined by the specific investment process of the investment team within the underlying asset class. Our Sustainable Investing Oversight Committee has worked with each investment team to help categorize alignment with our internal framework into traditional and ESG Integrated Strategies. Our sustainable investment offerings are further classified as ESG Integration Foundational, ESG Integration Enhanced Features, Thematic or Impact.

1- The PRI signatory database states our legal entity, Principal Global Investors, LLC

# Sustainable investing continuum

## Stewardship and engagement

Striving for shared value and employing stakeholder power to influence corporate behavior, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies), filing or co-filing shareholder proposals, and proxy voting that is guided by ESG objectives.

### Screening

The exclusion or inclusion of certain sectors, companies or practices based on specific ESG criteria

### ESG Integration: Foundational

Main objective is performance while demonstrating ESG integration and engagement.

Three major integration methods: ESG score as an added factor; ESG score as a filter; Individual E, S, and G scores as filters. We define foundational ESG integration as using an ESG score as another risk factor.

### ESG Integration: Enhanced features

Main objective is performance while demonstrating ESG integration and engagement.

Strategies that integrate ESG into the investment process and commit to promoting specific ESG characteristics, which could include:

- Sector/Security exclusions
- Carbon risk management

### Thematic

Investment in themes or assets specifically related to sustainability (for example, clean energy, green technology or sustainable agriculture)

### Impact

Targeted investments aimed at solving social or environmental problems, and including community investing, that generate measurable environmental or social impact

Consistent with our overall investment philosophy, our sustainable investing approach focuses on fundamental change. Managed appropriately, we believe ESG integration may contribute to enhanced long-term returns and reduced risks. Where consistent with the specific investment team's strategies and practices, the consideration of ESG factors is embedded directly within our research process in assessing the fundamental attributes of companies. Our focus is not limited to companies that rate highly according to third-party research providers, but rather companies that are demonstrating a commitment to improvement. In short, we encourage companies to always strive to be better versions of themselves. Our focus and commitment can therefore be summarized by our guiding purpose: By encouraging corporations to be leaders on sustainability through better long-term stewardship of human, natural, and financial resources, we play an active role in the betterment of society.

For listed equities, the consideration of ESG factors currently takes place within our investment process as part of the fundamental research driving security selection. Our analysts are best placed to determine the importance of such factors in relation to a specific security or sector. The analysts provide essential insights into industry trends and company-specific considerations integrating ESG factors into their final investment thesis. We believe these insights and considerations are crucial to the evaluation of sustainable competitive advantages and risks at a company-specific and industry level.

In fixed income, ESG integration within the investment process is utilized for the purposes of risk management and alpha generation. Our research teams are organized by areas of industry sector specialization and our analysts are responsible for providing essential insights into industry trends and company-specific considerations, which may include certain ESG issues deemed material and relevant to the evaluation of sustainable earnings trends, sentiment, and valuation. Each corporate issuer in our coverage universe is assigned a specific ESG score, with assessments captured via the ESG scoring grid. That score is an essential deliverable of the investment thesis. Both industries and issuers are scored using this model.

For real estate investments, Principal Real Estate (PrinRE) maintains a proprietary sustainability and investment platform, known as the Pillars of Responsible Property Investing (PRPI). PRPI is an internally developed, overarching environmental, social, and governance framework developed to drive asset management and fiduciary governance, with an aim to deliver positive financial and environmental results. The PRPI philosophy integrates ESG within every aspect of PrinRE's investment process for these assets, including acquisitions and development, dispositions,

operations management, and lending. The Pillars of Responsible Property Investing initiative demonstrates our commitment to the PRI and is a natural progression of our sustainable investment philosophy.

As asset allocators, the building blocks that Principal Asset Allocation (PAA) selects when constructing portfolios can be influential in determining the overall ESG sensitivity of a strategy. We first determine the ESG rating for each asset class in our investment universe, using the representative indices as a baseline. This analysis helps us to understand, at a high level, the ESG implications and a desired investment outcome. Once we progress to the implementation of those selected asset classes, we rely on a multi-pronged approach to ensure that we are building portfolios that reflect our sustainable investing philosophy. PAA believes that using ESG considerations in its investment process, a qualitative and quantitative assessment of the ESG profile of a sub-advisor or a strategy, allows for attractive ESG profiles and the potential for enhanced investor returns over time, without veering from our primary investment objective. We encourage our sub-advisors to be signatories to the UNPRI. This ensures that we are engaging with investment partners that share our belief that ESG issues can affect the performance of investment portfolios. Further, we require that each sub-advisor submit an ESG policy, which details its individual philosophy and sustainable investing methodology.

For additional information regarding how ESG integration is considered within each asset class, please refer to our website at <https://www.principalam.com/about-us/esg>.

## Client-Driven Mandates

While sustainability considerations are integrated into our investment teams' processes for actively managed strategies, Principal Asset Management currently manages client mandates with specific ESG exclusions and other sustainable investing requirements. In addition to ESG integration, these mandates may require negative screening. The exclusions are noted in the clients' directed guidelines and, when possible, are applied through rules within our compliance and order management systems.

## Reporting

The sixth Principle for Responsible Investment states that we will report on our activities and progress towards implementing the Principles. To this end, Principal Asset Management has committed to fulfill the annual signatory reporting requirement. Our current assessment report and PRI report are made publicly available on our ESG Data Center page and can also be found on the PRI website. We also provide regulatory and client reporting on pertinent sustainability issues.

**Important information:**

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