

PRINCIPAL REAL ESTATE:

Our Sustainable Investing Evolution



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While the term “ESG” for environmental, social, and governance topics was first coined in 2004 by authors of the UN Global Compact report “Who Cares Wins,”¹ it evolved from a long history of ethical and responsible investing. From the first century through the 19th century, religious groups established rules prohibiting their followers from certain investments. This evolved into “socially responsible” investing in the 1960’s-1980’s with protests calling for divestiture from defense contractors and South African investments.²

Sustainability efforts gained traction as recognition emerged that reduced energy consumption could decrease operating expenses and increase asset value. In the 1990’s, organizations such as ENERGY STAR, the U.S. Green Building Council, and Global Reporting Initiative (GRI) were formed to promote sustainability and transparency in real estate.³ This was followed by the launch of ENERGY STAR Portfolio Manager to assist building owners with benchmarking their energy, water, and waste consumption, and new building sustainability certifications such as LEED in 2000.⁴

Today, commitment to sustainability is mainstream. In 2020, 92% of S&P 500 companies published sustainability reports to communicate their ESG progress to investors.⁵ As of September 2023, 66% of Fortune Global 500 companies had climate commitments and 76% are reporting annual emissions performance year over year.⁶ With buildings responsible for 40% of global greenhouse gas (GHG) emissions, leading real estate managers, including Principal Real Estate, are stepping up with carbon reduction commitments and sustainability targets of their own to fight global warming and stay ahead of industry and regulatory trends.

¹ [UN Global Compact: Who Cares Wins](#)

² [Investopedia History of Impact Investing](#)

³ [ENERGY STAR, USGBC, GRI](#)

⁴ [ENERGY STAR, LEED](#)

⁵ [GA Institute: Sustainability Reporting Trends](#)

⁶ [Natural Capital Partners](#)

⁷ Principal Asset ManagementSM is a trade name of Principal Global Investors, LLC.

AT-A-GLANCE: *sustainable investing highlights*

- **2008** Established Pillars of Peak Performance for office buildings (PRPI precursor), launched first Real Estate Green Property Strategy
- **2010** Principal Asset Management⁷ became a signatory to UN-Sponsored Principles for Responsible Investment
- **2012** Principal Financial Group named a CDP S&P 500 Climate Performance Leader
- **2013** Formalized our Sustainability Platform: The Pillars of Responsible Property Investing (PRPI)
- **2016** First ENERGY STAR[®] Partner of the Year award
- **2021** First commitment by a Principal Real Estate strategy to achieve net zero by 2030

ESG EVOLUTION: *Industry advancements and our progress*

2005

The [UN Principles for Responsible Investment](#) are developed to guide investors in incorporating ESG issues into investment practice.

2006

Our first Real Estate Green Property Strategy was launched to provide sustainability-focused investors with a specialized investment vehicle.

Principal Real Estate Investors became a member of USGBC and began registering projects for LEED certification.

2007

The Pillars of Peak Performance for office properties, our first sustainability platform, is developed and our initial Green Working Group for Private Equity is established, both of which sought to provide sustainability guidance and education for Principal Real Estate properties and teams.

2008

GRESB was established in 2009. This assessment allows investors to assess and benchmark the ESG performance of a fund's real estate or infrastructure assets and provides standardized and validated data to capital markets. Principal Real Estate reports to GRESB annually.

2009

The Quaker Tower office property earned one of the Real Estate Core-Plus Strategy's first LEED® certifications.



2010

In 2010, Principal Asset Management⁷ became a signatory to the Principles for Responsible Investment (PRI), formalizing our commitment to contributing to the development of a more sustainable global financial system.

Principal Real Estate became an [ENERGY STAR](#)® partner in 2009¹ and began benchmarking energy use in a concerted manner. Following the adage, “you can’t manage what you don’t measure”, we worked to improve our data coverage in ENERGY STAR Portfolio Manager, which allowed us to identify high-impact properties for energy efficiency projects across our portfolio. The goal of these projects was to decrease operating expenses, identify opportunities for efficiency, and improve property performance.

2011

[SASB](#) was founded to “help businesses and investors develop a common language about the financial impacts of sustainability”.

Our Real Estate Core-Plus Strategy was among the earliest strategies reporting to GRESB, earning the number one ranking in its peer group in 2010.

2012

Principal Real Estate was recognized as one of the BOMA STARS, an initiative of the Building Owners and Managers Association (BOMA) focused on voluntary efforts to address energy efficiency.

⁷ Principal Asset ManagementSM is a trade name of Principal Global Investors, LLC.

Principal Financial Group (PFG) was named a CDP S&P 500 Climate Performance Leader (“Climate A List”) from 2013 to 2015 and earned an A- or higher score annually from 2013 through 2020.

2013

The Pillars of Peak Performance for office buildings was expanded into our proprietary sustainability platform: the [Pillars of Responsible Property Investing \(PRPI\)](#). This provided guidance for office, retail and multifamily properties. The three pillars that guided our approach to real estate investment and management were market resilience, corporate governance, and property performance. In support of this platform, we created a dashboard for our property management teams to monitor their property’s progress towards PRPI goals.

Pillars of Responsible Property Investing — 2013 edition

<p>Market resilience </p> <p>Reinforcing the social and economic vitality in markets where we do business through:</p> <ul style="list-style-type: none"> • Equitable contracting • Community investment • Healthy and productive buildings 	<p>Corporate governance </p> <p>Managing risk and meeting investor objectives through:</p> <ul style="list-style-type: none"> • Integrity • Transparency • Managerial oversight 	<p>Property performance </p> <p>Delivering enhanced financial and environmental performance through:</p> <ul style="list-style-type: none"> • Benchmarking energy, water, and waste • Operational best practices • Stakeholder engagement
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Epicenter Apartments was one of the first ENERGY STAR certified multifamily properties.

The Real Estate Core Property Strategy’s Epicenter property was awarded one of the first ENERGY STAR certifications for a multifamily property, recognizing the property’s success in reducing their energy use. This award was especially meaningful given the challenges with collecting multifamily utility data.

2014

We began quarterly performance reporting on our energy use and building certifications (this was later expanded to include carbon, water, waste, and building certification data).

Principal Real Estate became an investor member of GRESB and joined the Department of Energy’s (DOE’s) [Better Buildings Alliance](#). These partnerships showed our continued commitment to ESG and collaboration to accelerate the adoption of energy efficiency. Participation in industry groups is a key engagement activity as we seek to continuously improve our sustainability platform and share best practices with the market.


2015

The Financial Stability Board created the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#) to develop voluntary, consistent climate-related financial risk disclosures for investors. In support of TCFD, Principal Financial Group publishes a TCFD Index annually detailing how we approach and manage climate risks and opportunities, and Principal Real Estate’s ESG Report began aligning with TCFD in 2022.

December 12, 2015: The Paris Agreement was adopted at COP 21, setting goals for carbon emissions reduction to limit global warming to 2°C.

Building on the success of the first Real Estate Green Property Strategy, we launched a second Real Estate Green Property Strategy.

We introduced a centralized hub for all property manager resource documents and developed two key documents—our PRPI Stakeholder Engagement Toolkit and Property Performance Guidelines—to provide property management teams with clear expectations for property performance and practices for engaging stakeholders in activities that support our sustainability goals.



Solaris Key multifamily and Burbank Empire Center are IREM CSP certified.

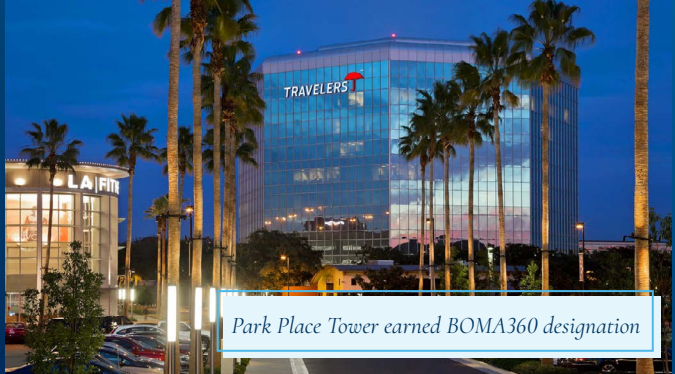


We earned our first ENERGY STAR Partner of the Year Award for our superior energy management results and launched an IREM Certified Sustainable Property (CSP) pilot as a member of the IREM Charter Group.

2016

Our first Real Estate Green Property Strategy was realized. To support our sustainability goals, we launched the PRPI Handbook and Addendum for Property Managers with step-by-step instructions for meeting our sustainable operations requirements, piloted our Energy Playbook initiative to reduce energy at specific properties through targeted analysis and improvement, and added green lease clauses to our standard leases to support initiatives for energy and water reduction, waste diversion, and improved data coverage.

2017



Park Place Tower earned BOMA360 designation

We were named a Green Lease Leader,² a national recognition for our incorporation of green lease language to drive high-performance and healthy buildings. Since our first award in 2017, we have earned another two consecutive Green Lease Leaders awards with Gold Recognition: 2020-2022 and 2023-2025. We also earned some of our first BOMA 360 designations.

ESG criteria was incorporated into our appraisal process to better evaluate assets from a sustainability and risk perspective.

Our sustainability platform grew with the acquisition of Principal Real Estate Europe and subsequent inclusion of European strategies in the PRPI platform. This included submitting our first European strategy to GRESB.

2018

A partnership with the U.S. Department of Energy (DOE) Data Lab analyzed the impact of sustainable investing based on the performance data of 131 Principal Real Estate properties. The study found that green properties measured stronger than non-green properties on six metrics:

- ↑ Higher market value/SF
- ↑ Higher NOI/SF
- ↓ Lower rental concessions
- ↑ Higher rent/SF
- ↑ Higher occupancy
- ↓ Lower operating expenses/SF

Note: while the study identified correlations between green buildings and financial performance, its analysis was not designed to distinguish causation or the underlying source of the improved performance.

We incorporated industrial buildings and private debt into our sustainability platform.

2019

The PFG Global Reporting Initiative (GRI) Index and Task Force on Climate-Related Financial Disclosures (TCFD) Index were first published in 2019 and are updated annually. Reports are available on The Principal [ESG Data Center](#).

We completed a pilot climate risk analysis on the Real Estate Core-Plus Strategy in 2019 to screen assets for exposure to physical risks such as extreme drought, flooding, wildfires, and more. For any property with an identified risk, we distributed surveys and climate risk strategies to help correctly assess and mitigate risk.

To support the incorporation of ESG considerations in private debt practices, we established the Private Debt Sustainable Investing Working Group and developed Sustainability Guidelines for Private Debt Origination to encourage ESG efforts and private debt alignment with Principal Real Estate sustainability objectives.

² IMT and the U.S. Department of Energy's Better Building Alliance awards landlords and tenants who incorporate green leasing to drive highperformance and healthy buildings.

COVID-19 created increased scrutiny on the impact of building design and operations on occupant health.

PFG reported to the Sustainability Accounting Standards Board (SASB) Standards for the first time for 2020 to bring industry-specific rigor to our sustainability disclosure.

Reports are available on The Principal [ESG Data Center](#).

2020

The Borrower Engagement Toolkit was developed to help our private debt team support borrowers with sustainability best practices.

The Fitwel-certified Llewellyn multifamily development was thoughtfully designed for improved tenant wellbeing.

Broadway Tower earned Fitwel 2-Star largely due to its strategic, walkable location, outdoor spaces, and protocol for indoor environmental quality.

We became a [Fitwel Champion](#), which means we have committed to optimizing our portfolio of buildings for health and wellness. This, along with the established health and wellness protocols in our PRPI Platform, helped our property and asset management teams formulate property-specific action plans for addressing COVID-19.

Alta Purl (above) and Alta Washington (below) earned NGBS Green certification.

Select multifamily properties began pursuing National Green Building Standard (NGBS) Green certification to certify their high performance in site design; resource, water, and energy efficiency; indoor environmental quality; and building operations and maintenance.

2021

Our [PRPI Platform](#) was enhanced to reflect current best practices, including the expansion of our guiding principles from three (market resilience, corporate governance, and property performance) to five: environmental performance, occupant experience, community impact, climate resilience, and managerial excellence.

We launched our next generation of carbon and environmental targets. By 2035, we seek to reduce our greenhouse gas emissions by 40%, energy use intensity, water use intensity, and waste by 20%, achieve 50% data coverage, 20% renewable energy, and building certifications for 50% of the portfolio. By 2050, we are targeting Net Zero carbon emissions. The targets stated above may not materialize. Targets are calculated against a 2019 baseline. Baselines are individually set for each property depending on data availability and property acquisition/development date. The first 12 months of available data on or after calendar year 2019 will be utilized as the baseline for each asset. These targets and the calculation methodology will be reviewed every 5 years and adjusted in alignment with industry standards. Targets apply to open-end discretionary private equity funds.

We digitized and expanded our standard borrower survey for improved ESG data collection and analysis within our private debt portfolio.

PFG joined the United Nations Global Compact as part of our corporate commitment to a more sustainable world.

Principal Asset Management began reporting to the UK Stewardship Code. Reports are available on The Principal [ESG Data Center](#).

2021
(cont.)

The EU’s Sustainable Finance Disclosure (SFDR) regulation came into effect, marking the start of a significant transition for the financial services sector. The EU also launched its ESG regulation (“EU Taxonomy”), establishing a list of environmentally sustainable economic activities and requiring disclosure of these activities, such as climate change mitigation (reducing greenhouse gas) and adaptation (resilience).

Our Eurozone Durable Income Strategy acquired an Irish social housing portfolio of 55 individual and family homes, supporting housing for low-income families.

The European Core Strategy launched Principal’s first net zero initiative and began developing bold carbon action plans to achieve net zero by 2030, in alignment with global efforts to create a zero-emissions world and prevent the worst effects of climate change.

The integration of climate risk analysis into our private equity acquisitions and development due diligence process improved identification and mitigation of physical and transition risk. Additionally, we completed portfolio-level climate risk analyses to review climate risk on standing assets in three U.S. private equity strategies.

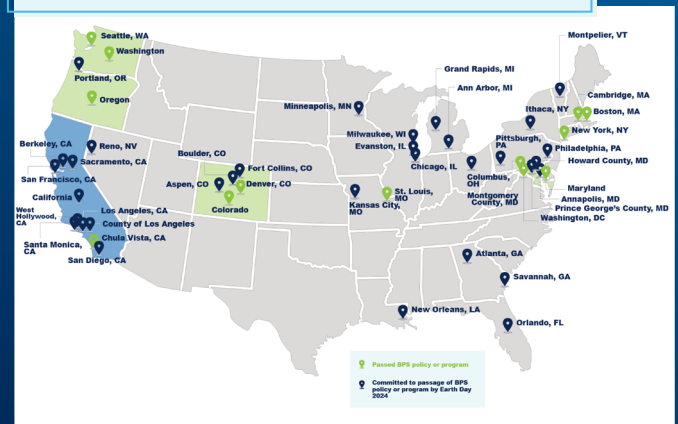
In support of SFDR and the EU Taxonomy, Principal Asset Management [published](#) our Principal Adverse Impacts, Sustainability Risk Policy and Remuneration Policy.

The last asset in our second Real Estate Green Property Strategy was sold at the end of 2021.

2022

Building on the success of the first two Real Estate Green Property Strategies, we released our third Real Estate Green Property Strategy in 2022.

The state of building performance standards (BPS) in the U.S.



Launch of Water Scarcity Working Group, comprised of private equity and debt producers who are responsible for covering markets impacted by water scarcity, engineers, research and sustainability team members. As a result of the Working Group’s research, water scarcity risk is now analyzed as part of our standard climate risk analysis process, and market-specific impact reports and water management practices are utilized to inform underwriting and valuations where applicable.

The White House launched the National Building Performance Standards Coalition in January 2022. As of December 2023, 13 jurisdictions have adopted a Building Performance Standard, and 33 are committed to passing a policy by Earth Day 2024.

Source: [Institute for Market Transformation](#).

Two assets in Texas executed a multi-year agreement for wind-generated green energy, which is expected to avoid 270 metric tons of CO2 equivalent annually.

Physical climate risk analysis was added to the standard analysis process for all new loan originations, and portfolio-level climate risk assessments were completed on six of our European portfolios to improve property and fund climate resilience.

2023

Completed portfolio-level CRREM transition risk modeling for assets with emissions data in open-end discretionary private equity funds and select separate accounts to prioritize assets that are stranded or stranding in the near-term for additional decarbonization efforts.

Piloted property-specific carbon emissions reduction action plans for 48 assets.

2024

We began requesting ENERGY STAR data from borrowers as part of the annual borrower sustainability survey to enhance tracking of private debt emissions.

The SEC Climate Rule for climate-related disclosures is published. Certain companies will be required to start complying with select disclosures in 2025 and scope 1 and 2 emissions disclosures starting in 2026.

We plan to submit 14 strategies to GRESB in 2024 (7 US and 7 European strategies) to continue to provide actionable insights to our investors.

We have continued to investigate opportunities for onsite solar. To date, we have six operational onsite solar projects and six under construction, we have had eight projects accepted into community solar programs (of which one project is operational, one project is under construction, and six are allocated) and 14 projects are pending allocation into community solar programs.



Principal Real Estate has won nine consecutive ENERGY STAR Partner of the Year Awards, driven by our properties' dedication to improving energy efficiency. In the past 12 months, 31 new assets earned ENERGY STAR certification, bringing our total to 69 ENERGY STAR certified assets, with an average ENERGY STAR score of 88. 225 West Santa Clara (pictured) is one of our ENERGY STAR certified properties. This property has earned ten ENERGY STAR certifications.

In 2024, our sustainability priorities include

- Identifying a software platform to assist with sustainability data tracking and analytics
- Refining our plan for developing property-specific emissions reduction plans across our US open-end private equity real estate funds
- Enhancing data coverage through the use of additional tools such as smart meters
- Expanding renewable energy generated and procured

Looking to the future, we will continue to adapt and refine our sustainable investing platform as the ESG landscape evolves. We will remain involved in industry groups to inform reporting standards and monitor regulations. Property and fund regulatory compliance will continue to be monitored, and new requirements will be approached proactively. We are excited to continue our sustainable investing journey in the coming years as we work toward net zero greenhouse gas emissions, reduce our environmental impact, increase our social contribution, and continue to provide risk-adjusted returns to our investors.

Risk Considerations

Past performance does not guarantee future results. Investing involves risk, including possible loss of principal. Potential investors should be aware of the risks inherent to owning and investing in real estate, including: value fluctuations, capital market pricing volatility, liquidity risks, leverage, credit risk, occupancy risk and legal risk. All these risks can lead to a decline in the value of the real estate, a decline in the income produced by the real estate and declines in the value or total loss in value of securities derived from investments in real estate.

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¹The U.S. Environmental Protection Agency (EPA) annually honors organizations that have made outstanding contributions to protecting the environment through energy efficiency.

²Green Lease Leader - IMT and the U.S. Department of Energy's Better Building Alliance awards landlords and tenants who incorporate green leasing to drive high-performance and healthy buildings.

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