

Principal U.S. Real Estate Equity Securities

31 December 2023

Strategy description

Our strategy strives to deliver consistent and attractive risk-adjusted excess total returns, on a gross basis, over the long term. We focus on constructing benchmark-differentiated portfolios with our sources of potential alpha broadly diversified. We invest in listed equity of REITs, REOCs, and other real estate companies that own income-producing property, develop real estate assets or perform other property related activities in global markets.

Strategy facts

Manager: Principal Real Estate

Inception: 01 January 1998

Index: MSCI U.S. REIT Index

Targeted number of holdings¹: 35-45

Expected turnover¹: <100%

Key differentiators

- **Consistent and stable leadership.** Kelly Rush founded our REIT capabilities over 20 years ago and Tony Kenkel and Keith Bokota have 20 years and 14 years working on the strategy, respectively.
- **Global platform of resources.** We are a top-10 global real estate manager with capabilities across private and public equity and debt².
- **Thoughtful portfolio construction.** A process that strives to deliver consistent excess returns by capturing frequent and diversified mispricing opportunities.

Portfolio management

Kelly D. Rush, CFA

39 years' experience

Keith Bokota, CFA

18 years' experience

Anthony Kenkel, CFA, FRM

26 years' experience

Investment philosophy

We believe that reliable and consistent alpha generation can be achieved through skill, rigorous fundamental analysis, and an emphasis on diversified, bottom-up stock selection that favors higher quality companies.

Composite performance (%)

	3M	1YR	3YR	5YR	10YR	Performance start 01 April 2000
Principal U.S. Real Estate Equity Securities (gross)	15.59	14.23	6.72	9.40	9.59	11.97
Principal U.S. Real Estate Equity Securities (net)	15.38	13.38	5.94	8.69	8.93	11.31
MSCI U.S. REIT Index	16.00	13.74	7.10	7.39	7.59	9.79

12-month rolling returns (%)

	Jan 19 - Dec 19	Jan 20 - Dec 20	Jan 21 - Dec 21	Jan 22 - Dec 22	Jan 23 - Dec 23
Principal U.S. Real Estate Equity Securities (gross)	32.21	-2.44	41.02	-24.55	14.23
Principal U.S. Real Estate Equity Securities (net)	31.52	-2.95	40.05	-25.13	13.38
MSCI U.S. REIT Index	25.84	-7.57	43.06	-24.51	13.74

Source: Principal Global Investors.

As of December 2023. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

Risk Considerations

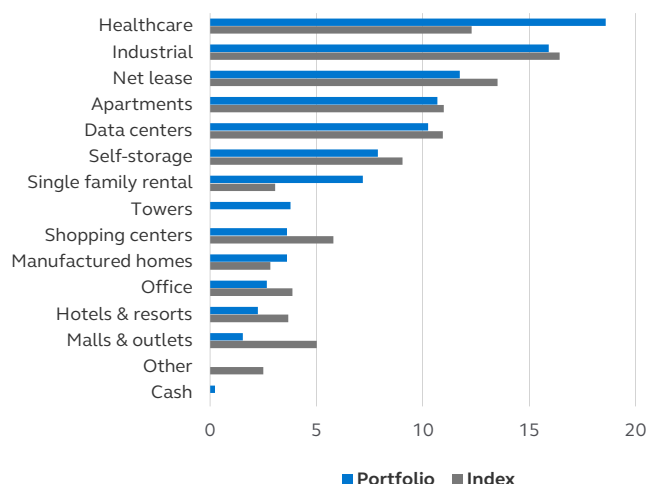
- The potential for profit is accompanied by the possibility of loss.
- Equity markets are subject to many factors, including economic conditions, government regulations, market sentiment, local and international political events, and environmental technological issues that may impact return and volatility.
- There is a risk that an investment will decline in value.

¹Investment guidelines are subject to change.

²Managers ranked by total worldwide assets (net of leverage, including contributions committed or received, but not yet invested; REOCs are included with equity; REIT securities are excluded), as of 30 June 2022. "The Largest Real Estate Investment Managers," Pensions & Investments, 3 October 2022.

Top 10 holdings (%)³

		Sector	Portfolio	Index	Active weight ⁴
1	Prologis, Inc.	Real estate	7.7	11.6	-3.9
2	Welltower Inc.	Real estate	6.2	4.4	1.8
3	Equinix, Inc.	Real estate	6.0	7.1	-1.1
4	Extra Space Storage Inc.	Real estate	5.7	3.2	2.5
5	Ventas, Inc.	Real estate	5.6	1.9	3.7
6	AvalonBay Communities, Inc.	Real estate	4.8	2.5	2.3
7	VICI Properties Inc	Real estate	4.4	3.0	1.4
8	Digital Realty Trust, Inc.	Real estate	4.2	3.8	0.4
9	American Tower Corporation	Real estate	3.8	0.0	3.8
10	Essex Property Trust, Inc.	Real estate	3.7	1.5	2.2

Sector allocation(%)³Portfolio characteristics³

	Portfolio	Index
Dividend Yield Weighted Median	3.61	3.91
Free float market cap	\$34.3B	\$36.4B
Number of holdings	39	120
Leverage (net debt & preferred/total cap)	26.9%	28.0%
Price/net asset value	102.8%	103.2%
Price/funds from operations (NTM)	18.1x	16.6x
Dividend growth (NTM)	3.8%	3.8%
Earnings growth (NTM)	3.5%	2.7%
Active share ⁵	43.7%	—

Composite risk statistics (gross)⁶

	3YR	5YR
Sharpe ratio	0.22	0.38
Standard deviation	19.89	19.69
Information ratio	-0.15	0.65
Tracking error	2.52	3.10

³ Source: FactSet. Characteristics and weightings shown are of the representative portfolio. FactSet data is subject to revision over time, which may result in slight differences among data points reported during the same period. Unless otherwise noted, characteristics use weighted median calculation to moderate the distortive effects of reported gains/losses from nonrecurring asset sales and/or mark-to-market IFRS accounting.

⁴ Portfolio security weight minus the benchmark security weight.

⁵ A measure of the proportion of stock weights in a manager's portfolio that differ from the index.

⁶ Source: Principal Global Investors.

Due to rounding, figures and percentages shown may not add to the total or equal 100%. The index benchmarks are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the portfolios included in the composites and the methods of calculating performance of the composite and the index may not be identical.

Investment process overview

Bottom-up approach focused on stock selection to generate alpha

Fundamental research	➔ Idea generation	➔ Security selection	➔ Portfolio construction
<ul style="list-style-type: none"> Specialized by geography and sector Internal proprietary views Global platform of resources <p>Weekly regional meetings cover company news, macro events, markets, and research activities</p>	<ul style="list-style-type: none"> Security analysis of fundamental quality score, relative value, and catalysts Analyst buy/sell recommendations <p>Research, models, and recommendations stored in centralized database and shared with team</p>	<ul style="list-style-type: none"> Study investment ideas through team discussions PMs identify best ideas globally <p>Formal analyst presentations and weekly portfolio manager calls</p>	<ul style="list-style-type: none"> Combine bottom-up ideas with top down macro views Size positions according to potential return and risk Robust risk and style management <p>Three global portfolio managers collaborate on portfolio decisions</p>

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All figures shown in this document are in US dollars unless otherwise noted. Indices are unmanaged and do not take into account fees, expenses and transaction costs are not available for direct investment.

MSCI U.S. REIT Index is a free float-adjusted market capitalization weighted index that is comprised of equity REITs that are included in the MSCI U.S. Investable Market 2500 Index, with the exception of specialty equity REITs that do not generate a majority of their revenue and income from real estate rental and leasing operations. The index represents approximately 85% of the U.S. REIT universe. Information regarding the comparison to the MSCI U.S. REIT Index is available upon request.

Composite performance results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance results reflect a reduction for investment advisory fees based on the firm's applicable asset management fee schedule. Effective March 2021, composite net performance is calculated using the highest applicable fee as shown in the composite fee schedule. Prior to March 2021, composite net returns were derived based the aggregation of underlying portfolios net returns that were either calculated by applying actual client fees for non-affiliated clients or a model tiered fee schedule for affiliated clients, unless otherwise noted. Composite net returns after January 1, 2011, are inclusive of performance-based fees (where applicable). Performance-based fees are accounted for on a cash basis. Prior to January 2003 certain commingled funds which returns may be utilized in a Composite's performance track record had net returns that reflected a deduction for administrative fees in addition to direct trading expenses and investment management fees. Therefore, the average fees will be higher during these time periods.

Each portfolio included in the composite is managed according to its own individual investment restrictions and limitations and therefore their characteristics may vary from those of the Representative Portfolio shown. Portfolio performance, characteristics and volatility may differ from the benchmark shown. Holdings and weightings are subject to change daily. The holdings listed should not be considered a recommendation to purchase or sell any security and there is no assurance an investment in these securities will be profitable.

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