

# Stewardship and Engagement Policy Statement

## Purpose

Principal Asset Management has been a signatory to the United Nations Principles for Responsible Investment (PRI) since 2010, highlighting the firm's dedication to sustainable investing and Environmental, Social and Governance (ESG) issues. PRI works to achieve a 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 that lie within market practices, structures, and regulation.

The purpose of this policy is to outline how the expectations of stewardship and engagement that are applied by the investment teams of Principal Asset Management conform to the expectations of the PRI requirements.

## Scope

Consistent with Principal Asset Management's 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 worked with many regional jurisdictions on their Stewardship and Governance codes governing locally listed firms including, the United Kingdom, Japan, Hong Kong, and Singapore. Principal Asset Management either submitted to adhere to, or submitted a statement of support of, these jurisdictions. In addition, in the UK, we achieved Tier 1 status<sup>1</sup> for the FRC's UK Stewardship Code<sup>1</sup>, demonstrating the highest level of commitment.

Principal Asset Management has also aligned with global policy initiatives and accords that support our goals. In addition to PRI and UN Global Compact, we have joined: 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.

## 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.

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<sup>1</sup> The Code comprises a set of 12 'apply and explain' Principles for asset managers and asset owners, and a separate set of six Principles for service providers. To become a signatory to the Code, organizations must submit to the FRC a Stewardship Report demonstrating how they have applied the Code's Principles in the previous 12 months.

## 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. As a fiduciary for our clients, we welcome the broader investment prism that the PRI Principles represent. Furthermore, we value the voice that our status as a PRI signatory gives us in defining and shaping the sustainability discussion, the development of best practices, and ultimately the potential to enhance the risk-adjusted returns we deliver to clients.

## 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 Global Investors publicly commits, where consistent with our fiduciary responsibilities, to the following:

1. To incorporate ESG issues into our investment analysis and decision-making processes
2. To be active owners and incorporate ESG issues into our ownership policies and practices
3. To seek appropriate disclosure on ESG issues from the entities we invest in
4. To promote acceptance and implementation of the Principles within the investment industry
5. To work with other signatories to enhance effectiveness in implementing the Principles
6. To report on our activities and progress towards implementing the Principles



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

## Stewardship and Engagement

For us, engagement means 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), voting on shareholder proposals, and maintaining a Sustainable proxy voting guidelines set that is guided by ESG objectives.

Stewardship activities are a part of each investment team’s specialized philosophy and process. Consistent with Principal AM’s specialized investment team model, each team has autonomy to define the scope of its engagement with companies and participation in industry and sector collaborative engagements. Engagement takes place across all actively managed asset classes. The engagement approach is determined by the specific investment process of the underlying asset class, whether it is equities, fixed income, asset allocation or real estate.

We believe engagement has the potential to contribute to enhanced long-term returns and reduced risks. Consistent with our overall investment philosophy, our engagement approach focuses on fundamental improvement. We encourage companies to strive to be better versions of themselves. 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 securities, engagement currently takes place within our investment process as part of the fundamental research driving security selection. As stewards of ownership stakes in businesses, we are in a privileged position to engage with and influence companies to foster sustainable stakeholder relations in a manner that seeks to accrue

longer-term societal benefits, reduce potential investment risks, and drive better client experience and outcomes. Through engagement, our analysts meet with senior executives and investor relations professionals of the companies we invest in to discuss a range of topics relevant to our investment theses, including material sustainability issues and topics such as company ownership, board membership, and remuneration.

Proxy voting also enables us to take advantage of our equity shareholder power to effect positive change. Principal Asset Management has a separate Proxy Voting Policy and Proxy Voting Committee to oversee the voting of proxies and the Proxy Advisory Firm, make determinations as to how to instruct the vote on certain specific proxies, verify ongoing compliance with the Proxy Policy, review the business practices of the Proxy Advisory Firm and evaluate, maintain, and review the Proxy Policy on an annual basis.

We also use the services of third-party research providers and broker-dealers to enhance our research process as well as help facilitate direct engagement with companies. Some of our equity investment professionals have access to tools that can help track and support engagement activities and outcomes.

Within our fixed income teams, stewardship activities are mainly carried out by individual analysts. Analysts are responsible for generating an ESG score on every company they cover, and their score is informed by information the analysts collect from company disclosures, direct engagement with the management of the companies they cover, as well as relevant third-party data. Analysts are tasked with addressing ESG issues when engaging with management so that their internal ESG score can be as informed as possible. Analyst ESG scores are housed in Bloomberg and shared within the business unit.

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 a unique, overarching environmental-social-and-governance framework developed to drive superior asset management and fiduciary governance, and deliver positive financial and environmental results. The PRPI program is grounded on a foundation of good governance, transparent reporting, clear policies, and sound research. Principal Real Estate has a long-standing commitment to corporate stewardship. Our real estate teams approach engagement across stakeholders, tenants and communities, upholding the objectives and values of the PRPI. Each property's engagement plan is created by the property manager with strategies tailored for the specific property type, tenant profile, opportunities for engagement with the community, and geographic location.

Through our compliance and oversight functions, PrinRE verifies that each property that participates in the PRPI ESG Platform has a tenant and community engagement program. Outcomes are measured in a variety of ways including tenant satisfaction, tenant retention, and tracking of environmental and social key performance indicators. An annual compliance survey is sent to property managers to confirm they have followed the PRPI requirements and appropriate action is taken, dependent on scenario/situation, to ensure alignment is achieved.

As asset allocators, the building blocks that Principal Asset Allocation 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 allows 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 multi-pronged approach to ensure that we are building portfolios that reflect our ESG philosophy. We believe 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 superior ESG profiles and enhanced investor returns, without veering from the 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 ESG methodology.

## Key themes

As a global firm, we recognize that standards and norms of corporate governance can differ between markets. However, we believe there are certain fundamental elements of governance practices that are intrinsic to any company's ability to create long-term value. This set of global themes are set out in this overarching policy statement, which are anchored in transparency and accountability:

- Board and directors
- Climate risk
- Diversity, equity and inclusion
- Good governance practices and shareholder protections
- Human rights
- Remuneration
- Shareholder proposals

Our [proxy voting guidelines](#) explain how these key themes help to inform our voting decisions.

## 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.

***Date of last policy review: February 2023***

**Important information:**

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