

Principal Edge

Our approach to sustainable investing

Over the past two decades there has been a dramatic shift with regards to sustainable investing not only within the investment industry, but amongst companies and clients themselves. At Principal Edge, our disciplined investment philosophy has remained largely unchanged over the past 20 years with our focus on quality companies that we believe can be much larger over our long-term investment horizon of 5 years. However, this does not mean we have turned a blind eye to the evolving landscape. In fact, considering ESG (environmental, social, and governance) factors in the investment process aligns closely with our investing philosophy and belief that companies which operate legally, ethically, and are good corporate citizens may be more likely to realize long-term financial success. As a result, we have taken meaningful steps to fully integrate ESG factors into our process and engage directly with companies in which we invest.

We believe ESG practices may help mitigate risk

Central to our process is a focus on quality. Our analysts start by assessing each company relative to its industry to identify the best businesses with our fundamental research process that utilizes a proprietary qualitative industry ranking approach where we assess companies on five factors: competitive advantage, complexity, financial strength, potential for profitability change, and shareholder friendliness. Each factor has a maximum score of 10 and those companies averaging 6.5 or better make Edge's 'Good Company List'. Elements of ESG fall into the analysts' five factor evaluation to determine a company's quality with our analysts focused on three specific ESG factors: Reducing Carbon Emissions, Diversity, and Pay Equity. As a team, we highly value these three factors which we monitor and advocate for and are consistently applied within our industry review process.

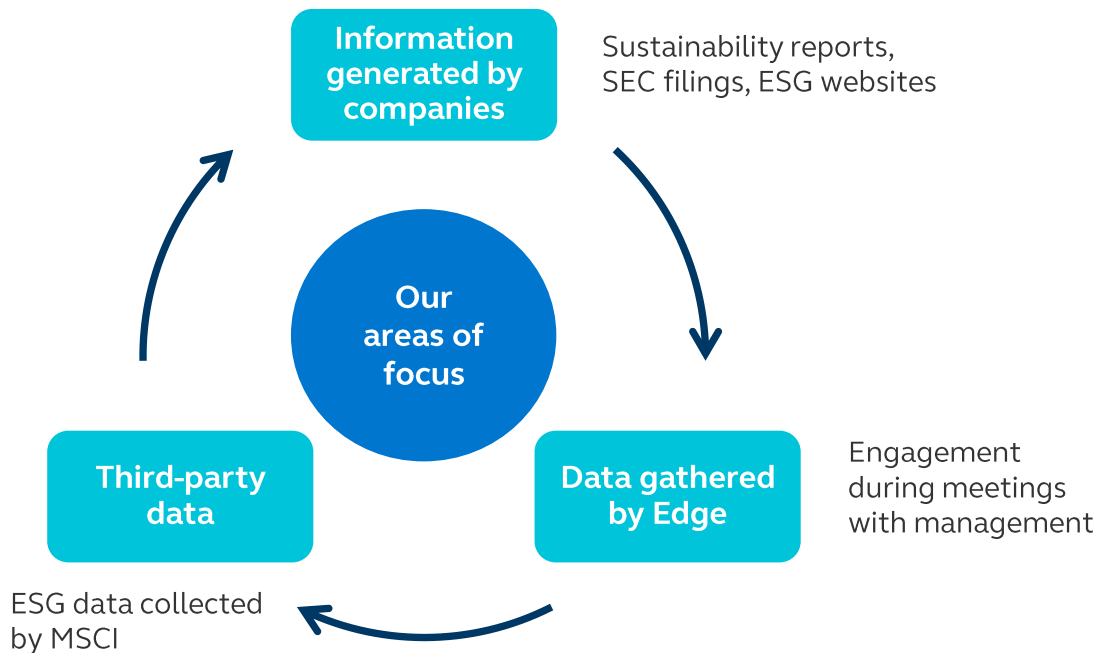
- **Reducing Carbon Emissions:** Obtaining detailed historical carbon emissions data is difficult, but disclosures are becoming better each day. Between company-issued sustainability reports, meetings with management teams, and the use of the raw data from MSCI, we believe we can analyze a company's carbon practices and progress towards stated goals in a way that is meaningful. Our primary metric for evaluating carbon emissions is Scope 1 and Scope 2 carbon emissions intensity relative to sales. This is considered relative to a company's particular sub-industry peers.
- **Diversity:** We believe diversity both on a company's board and within their workforce ties directly into a company's competitive advantage (or lack thereof) and that a broader perspective ultimately benefits a company's strategic direction. Research has also shown this, as 'companies in the top quartile for gender diversity on executive teams were 25 percent more likely to have above-average profitability than companies in the fourth quartile'.¹
- **Pay Equity:** Our analysts look at the ratio of a CEO's compensation to the average/median employee and the five-year trend of the ratio. Additionally, we look at companies relative to peers in their respective sub industry. We believe the best companies are focused on their stakeholders by investing in their business and returning capital to shareholders, not filling a CEO's wallet.

Companies falling behind peers or failing to make progress towards their stated goals could see their complexity, competitive advantage, and shareholder friendliness scores negatively affected.

¹ <https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters>

Our ESG analysis

Like our fundamental research process, we believe ESG analysis should be informed by multiple data sources. To assess our three specific ESG factors, Principal Edge engages directly with the companies we cover, and we track the content and number of ESG-related conversations. Additionally, we analyze ESG information provided directly from the company (sustainability reports, ESG websites, etc.) and ESG data collected from third-party sources such as MSCI. This data is formally incorporated into our five-factor ratings methodology using our bottom-up, fundamental, quality franchise driven investment philosophy.



Investment Stewardship and promotion of sustainability

Our team generally does not engage with management teams with the primary purpose of instigating ESG-related changes (i.e. we are not ESG activist investors). Instead, by integrating ESG factors directly into our five-factor evaluation, we are more likely to avoid companies where we have concerns about ESG-related issues before investing at all. For companies currently held in our strategies, we engage directly with management teams in our ongoing conversations with a focus on promoting carbon emission reduction, diversity, and pay equity. Furthermore, our proxy voting policies and procedures are also an important component of our stewardship and engagement process. Representatives from our team participate in the Principal Asset Management Proxy Voting Committee which is responsible for developing and monitoring our proxy voting policies along with providing oversight of proxy voting related matters. Although we have established a general proxy voting policy using the ISS Standard Proxy Voting Guidelines, our teams may decide to diverge from those guidelines if it is believed to be in the best interest of the client as we tend to focus on the goal of generating potential shareholder value. By focusing on the ESG factors that are most likely to affect our evaluation of the quality of a business and that also have reliable data sets, we believe we can help mitigate risk and potentially improve investor outcomes over the long-term.

ALIGNED WITH OUR CLIENT'S VALUES

Governance, ethics and risk

We empower our clients with choice and collaborate in a personal, customized way to support their values and goals.

Flexible approach

Our adaptability to these issues allows us to offer options that follow a repeatable investment process within an evolving sustainable investing landscape.

Portfolio-specific sustainable efforts

Our investment teams integrate sustainability characteristics across all actively managed asset classes where consistent with our fiduciary responsibility and clients' preferences.

COMMITMENT AND RECOGNITION



Signatory to the Financial Reporting Council UK Stewardship Code (2021)¹



Joined the United Nations Global Compact (January 2021)



Signatory to the Principles for Responsible Investment since 2010



GRESB 4-Star rating, seventh consecutive year (2022)²
(In order to receive a ranking, the Firm paid GRESB an application fee to be evaluated and use the ranking.)



ENERGY STAR Partner of the Year 2016-2023 Sustained Excellence 2018-2023³

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

¹Awarded to Principal Asset Management (a trade name of Principal Global Investors, LLC), Financial Reporting Council UK Stewardship Code. ²Source: 2016-2022 Global Real Estate Sustainability Benchmark (GRESB) assessment for Principal Real Estate's Core strategy representing data from 31 December 2015 to 31 December 2021. Rating represents top 40% worldwide performance. Awarded to Principal Real Estate Investors. ³Source: Energy Star, 2023 Energy Star Partner of the Year, awarded to Principal Real Estate Investors. Each year, the EPA honors organizations that have made outstanding contributions to protecting the environment through energy efficiency. April 2023, U.S. Environmental Protection Agency.

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