

# Principal Fixed Income sustainable investing principles

Guided by our responsibility to our clients

Our clients' long-term best interests define the responsibility of Principal Fixed Income. And that responsibility to clients is the key factor guiding our commitment to sustainability issues. This client-first focus is central to how we integrate sustainability considerations and environmental, social, and governance (ESG) factors across our investment portfolios. Our clients also benefit from the voice Principal Asset Management has as a signatory to the Principles for Responsible Investment (PRI), introduced by the United Nations. That voice includes a role in defining and shaping the ongoing global discussion on sustainability considerations, and in developing best practices. Ultimately, we believe the integration of sustainability considerations and ESG factors offers the potential to enhance the risk-adjusted returns we deliver to clients.

**Because we steadfastly define our investment philosophy by deep fundamental research and disciplined risk management, we see ESG integration as a natural extension of what we have always done.**

But, in practical terms, what does that mean for how we manage fixed income portfolios for our clients? How do we embed sustainability considerations into the fundamental research that is at the heart of our investment philosophy and process? And what if an investor has very specific sustainability requirements? These are just a few of the questions we aim to answer for you in this brief introduction to sustainable investing at Principal Fixed Income.

## Principal Asset Management has a long-standing commitment to sustainable investing

Principles for Responsible Investment (PRI), introduced by the United Nations



Signatory to the  
Principles for Responsible  
Investment since 2010

## Our commitment

We take ESG factors into consideration across all actively managed asset classes, with the approach determined by each investment group's process.

We strive to invest in companies that operate in a socially and environmentally acceptable manner, uphold robust corporate governance policies, and maintain appropriate board structures.

Our primary consideration of sustainability issues takes place within our investment process by our sector-focused research analysts.

We continually assess the latest developments in sustainability issues and seek the most effective way to incorporate best market practices into our investment process.

Our Fixed Income Sustainability Policy Working Group works closely with the Principal Asset Management Sustainable Investing Oversight Committee and Sustainable Investment Council, sharing ideas for ESG integration.

We are committed to providing our research analysts and key personnel robust, evolving training programs to enhance awareness of sustainability issues.

## What frames our sustainable investing research?

### Proprietary fundamental research

Our research analysts—more than 30 sector-focused investment professionals—obtain the information they need for their fundamental analysis from a diverse range of sources. Relevant information includes:

- Public company information
- Meetings and calls with corporate management teams
- Industry contacts, conferences, and publications
- Media reports
- Direct dialogue with and publications from rating agencies
- Third-party insights

Our analysts also leverage various internal resources, including our economic team, legal counsel, and investment professionals from other asset classes.

### Proprietary ESG scores allows for

- Frequent ESG rating updates
- Full company engagement
- Better ability to identify companies in transition
- Flexibility in data gathering
- Forward looking ESG Scores
- Consistent framework across universe of issuers

### Third-party insights

Our analysts supplement their own fundamental research with insights from third-party ESG research providers to help ensure they appropriately integrate ESG factors into their investment thesis.



**MSCI** is a globally recognized leader in ESG research. Their team of approximately 400 analysts covers roughly 11,000 companies\* and assesses the quantitative aspects of a company's exposure to ESG risks and opportunities, including how well a company is managing its exposure versus industry peers.

- ESG ratings
- ESG controversies
- Business involvement screening
- Climate change metrics
- Climate value-at-risk
- ESG sustainable impact metrics
- EU Sustainable finance module
- ESG government ratings

**Norm-based research:** Assesses companies' adherence to global principles on human rights, labor standards, environmental protection, and anti-corruption.

**Controversial weapons screening:** Assesses companies' involvement in banned or controversial weapons, including: cluster munitions, anti-personnel mines, depleted uranium, nuclear weapons, and biological and chemical weapons.

\*As of 20 May 2025.  
Source: MSCI ESG Research.

Considering **sustainability issues** is an integral part of our objective to deliver attractive risk-adjusted returns over time.

## How it all comes together

We integrate our sustainable investing perspective in all levels of our investment process.

**1 Assign a specific ESG score for each issuer in the investment-grade (IG) and high-yield (HY) universes as follows:**

This score, a numeric based system ranging from 1-poor to 10-excellent, indicates that analyst's overall assessment of the company's ESG standing. Our analysts raise any concerns about ESG issues, and other fundamental concerns, during meetings with corporate management teams. The response feeds into the assessment of the company's outlook and potential fit for the portfolio.

**2 Explicitly utilize independent ESG score within FTV framework.**

The analyst's independent ESG score factored into the fundamentals component of our FTV (fundamentals, technicals, valuations) framework, and accounts for a meaningful portion of the total fundamental score.

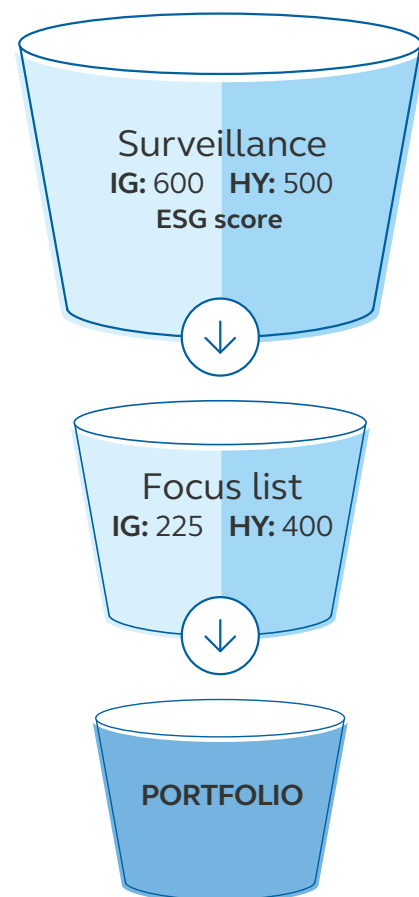
**3 Implementation**

Our flexible investment process allows for multiple sustainable investing construction options; including screening, full ESG integration, impact investing, and thematic investing.

### Investment universe

**IG – Over 1,000 issuers**

**HY – Over 1,000 issuers**



## Principal Fixed Income ESG scoring grid

### Customised proprietary scoring system to increase comparison through focus on materiality

- Sector and company exclusions based on internal ESG standards and client preferences
- Lowest scoring ESG issuers may be excluded

22

independent  
subfactors

>500

companies analyzed  
& scored

>40

sectors with varying  
subfactor weights

### Sector subfactors and weightings driven by materiality to the company's operations

#### Sector: Paper & Packaging

Factor	Subfactor	Subfactor scoring	Subfactor weight	Factor weight
Environmental	Toxic & Carbon Emissions	5.0	15%	55%
	Material Sourcing & Land Use	7.0	15%	
	Water Stress	7.0	10%	
	Product Waste	5.0	15%	
Social	Workforce & Community Management	6.0	10%	25%
	Privacy & Data Security	NA	0%	
	Product & Chemical Safety/Quality	6.0	15%	
Governance	Board evaluation	4.0	5%	20%
	Management evaluation	4.0	5%	
	Business ethics	7.0	10%	
Total		5.9	100%	100%

#### Sector: Cable & Satellite

Factor	Subfactor	Subfactor scoring	Subfactor weight	Factor weight
Environmental	Toxic & Carbon Emissions	7.0	10%	10%
	Material Sourcing & Land Use	NA	0%	
	Water Stress	NA	0%	
	Product Waste	NA	0%	
Social	Workforce & Community Management	6.0	15%	45%
	Privacy & Data Security	8.0	30%	
	Product & Chemical Safety/Quality	N/A	0%	
Governance	Board evaluation	6.0	15%	45%
	Management evaluation	6.0	15%	
	Business ethics	8.0	15%	
Total		7.0	100%	100%

For illustrative purposes only.

### As a result, our sustainable investing portfolio construction options include:

**Screening:** The exclusion or inclusion of certain sectors, companies, or practices based on specific ESG criteria.

**ESG** An investment strategy in which Environmental, Social, and/or Governance (ESG) characteristics are

**Integration:** considered, alongside other non-ESG characteristics, when making investment decisions with the goal of achieving risk and return objectives.

**ESG** An investment strategy that integrates Environmental, Social, and/or Governance (ESG) characteristics into the investment process with the goal of achieving risk and return objectives while committing to the promotion of specific ESG criteria using enhanced product features such as, for example, specific sector exclusions, security exclusions, or carbon risk management frameworks.

**Thematic:** An investment strategy focused on themes or assets specifically related to sustainability (e.g., clean energy, green technology, or sustainable agriculture), with the goal of achieving risk and return objectives.




**Impact:** An investment strategy with targeted investments (e.g., community investing) aimed at addressing social or environmental challenges. These targeted investments are intended to generate measurable environmental or social impact while aligning to the goal of achieving risk and return objectives.

The commitment Principal Asset Management has to sustainable investing revolves around one key factor:

**dedication to our clients’ best interests**

- **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.

Recognition

 <p>Signatory to the Financial Reporting Council UK Stewardship (2023)<sup>(1)</sup></p>	 <p>Joined the United Nations Global Compact (January 2021)</p>	 <p>Signatory to the Principles for Responsible Investment since 2010</p>	 <p>GRESB 5-Star rating (2024)<sup>(2)</sup> for European Core strategy and European Office strategy</p> <p>GRESB 4-Star rating (2024)<sup>(2)</sup> for U.S. Core Strategy (9th consecutive year) and U.S. Green Property strategy</p> <p>GRESB Green Star rating (2024)<sup>(2)</sup> for 14 U.S. and Europe strategies</p> <p>(In order to receive a ranking, the Firm paid GRESB an application fee to be evaluated and use the ranking.)</p>	 <p>ENERGY STAR Partner of the Year 2016-2024 Sustained Excellence</p>
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<sup>(1)</sup> Awarded to Principal Asset Management (a trade name of Principal Global Investors, LLC), Financial Reporting Council UK Stewardship Code

<sup>(2)</sup> Source: 2024 Global Real Estate Sustainability Benchmark (GRESB) assessments representing data from January 1, 2023 to December 31, 2023. 5-star rating reflects top 20% worldwide performance; 4-star rating reflects top 40% worldwide performance. Green Star rating is awarded to entities with scores higher than 15 out of 30 on the Management and 35 out of 70 on Performance components. For information on the GRESB Green Star Rating please visit: <https://www.gresb.com/nl-en/faq/what-is-a-green-star/>.

<sup>(3)</sup> Source: Energy Star, 2024 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. March 2024, U.S. Environmental Protection Agency.

## Principal Asset Management sustainable investing evolution



### More about our sustainable investing approach and capabilities

Sustainable investing can mean different things to different investors. If you have questions about our process or want to find out more about how we can help you realize your sustainability goals, please contact your Principal Asset Management representative.

For additional information, please visit us at <https://www.principalam.com/>

## Risk Considerations

Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Integration of sustainability considerations and/or environmental, social and governance (ESG) factors is qualitative and subjective by nature. There is no guarantee that the criteria used, or judgment exercised, will reflect the beliefs or values of any particular investor. Investment teams have a high degree of investment process autonomy and may consider or weight sustainability and/or ESG criteria or factors differently (or not at all). For those teams that consider sustainability and/or ESG factors as part of the investment process in strategies that are not explicitly sustainability and/or ESG-oriented, those sustainability considerations and/or ESG factors are generally no more significant than other factors in the investment selection process, such that sustainability considerations and/or ESG factors may not be determinative in deciding to include or exclude any particular investment in the portfolio. Information regarding responsible practices or other sustainability metrics, including ESG data, differs by source and may not be accurate or complete. Integration of sustainability considerations and/or ESG factors may present additional advantages or risks, may not protect against market risk or volatility, and under certain circumstances may detract from investment performance. You should not make any investment assumptions based solely on the information contained herein. Information is provided as additional insight into the relevant investment processes and should not be viewed as a change in an investment team's underlying investment objectives, strategies, risk parameters, or portfolio construction guidelines. There is no assurance that any strategy or integration of sustainability considerations and/or ESG factors will be successful or profitable.

Proprietary model output is based upon certain assumptions that may change, are not guaranteed and should not be relied upon as a significant basis for an investment decision. Investment guidelines are subject to change.

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