

# Principal Global Fixed Income's ESG principles

Guided by our responsibility to our clients



Our clients' long-term best interests define the responsibility of Principal Global Fixed Income. And that responsibility to clients is the key factor guiding our commitment to environmental, social, and governance (ESG) issues. This client-first focus is central to how we integrate ESG factors across our investment portfolios. Our clients also benefit from our voice as part of Principal Global Investors' signatory status of the United Nations-sponsored Principles for Responsible Investing (PRI). That voice includes a role in defining and shaping the ongoing global ESG discussion, and in developing best practices. Ultimately, this participation provides 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 ESG into the fundamental research that is at the heart of our investment philosophy and process? And what if an investor has very specific ESG requirements? These are just a few of the questions we aim to answer for you in this brief introduction to ESG investing at Principal Global Fixed Income.

## Principal Global Investors' long-standing commitment to ESG

United Nations sponsored Principles for Responsible Investing (PRI)



Signatory since 2010 overall "A+" rating

## Our ESG 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 ESG issues takes place within our investment process by our sector-focused research analysts.

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

Our Fixed Income Sustainability Policy Board works closely with Principal Global Investors' ESG Working Group and Investment Council, sharing ideas for ESG integration and improvements.

We are committed to providing robust, evolving training programs for our research analysts and other key personnel to enhance awareness of PRI and ESG considerations.

## What frames our ESG research?

### Proprietary fundamental research

Our research analysts—more than 35 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 270+ analysts covers 8,500 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 fund metrics
- › 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 31 March 2021. Source MSCI.

“We think considering ESG factors is an integral part of our objective to deliver attractive risk-adjusted returns.”

David Blake, chief investment officer, Principal Global Fixed Income

## How it all comes together

We integrate our ESG 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.

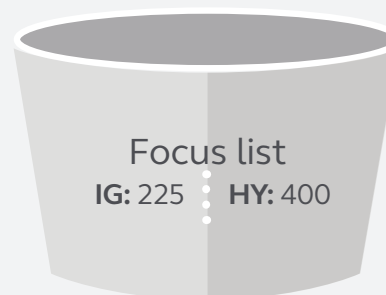
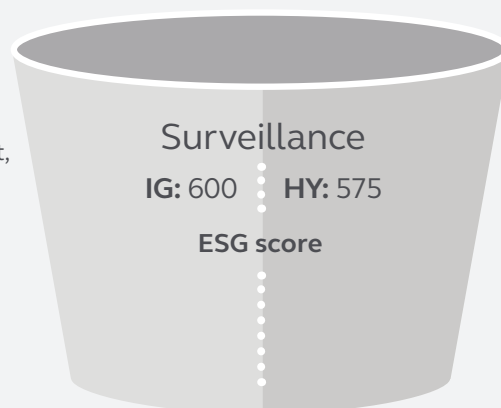
### 3 ESG Implementation

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

## Investment universe

IG – Over 1,000 issuers

HY – Over 1,000 issuers



## PGFI ESG Scoring Grid

Our scoring system seeks to increase clarity and comparison of a company’s ESG standing. The methodology used seeks to account for the current ESG risk management practices of the company, the future direction, and plans of the company to address existing risks, as well as the financial impact that could result from poor ESG risk management.

**Company ABC** - ESG Score Sheet  
**Ticker ABC**  
**Sector: Construction Machinery**

Factor	Subfactor	Suggested Items of Consideration	Subfactor Scoring	Subfactor Weight	Factor Weight	Analyst Comments
Environmental	Toxic and Carbon Emissions	Percentage of operations with high/moderate/low carbon and toxicemission/intensity and policies in place to manage/reduce/emissions	6	20%	40%	Has achieved best practice ISO 14001 certifications for some of its facilities and has ISO 14001 audits (internal and third party) to mitigate toxic emissions risk.
	Environmental Opportunities	Degree to which the company is investing in renewable energy, clean technology and green building	9	20%		Spending on clean tech space. Offers hybrid trucks and buses. ABC offers cleaner engines with better fuel economy and reduced NOx emissions.
	Optional Other			0%		
Social	Health/Safety/Nutrition	Risk and management of health and safety-related issues that can lead to accidents causing production disruption, litigation, liabilities, etc.: nutritional evaluation of product portfolio	9	20%	40%	Health and safety policy and procedures put in place. Low workplace accidents.
	Workforce & Community Management	Ability to adequately motivate, compensate, retain and manage workforce; high-reliance on skilled workers; jurisdictional & community relationships; supply chain labor standards	6	20%		ABC could improve by undertaking employed channel checks (surveys, etc.). Retention programs would also improve worker engagement.
	Optional Other			0%		
Governance	Board Evaluation	Factors include CEO/chairman independent, entrenched board, board member experience, the presence of key committees (audit, compensation, etc.)	7	10%	20%	Independent majority. CEO/Chairman combined. VW holds two board positions. Holds meetings in absence of executives. Fully independent audit committee.
	Management Evaluation	Factors include management tenure, relevant experience, compensation & incentives	8	5%		CEO and CFO 6 year tenure. Applicable experience. Compensation adequate versus industry but does include early vesting provisions.
	Business Ethics	Risk and history of ethics issues such as fraud, corruption, misconduct, instability, etc.; anticompetitive practices	9	5%		None. Great track record.
	Optional other			0%		
<b>Total</b>			<b>8</b>	<b>100%</b>	<b>100%</b>	

### As a result, our ESG portfolio construction options include:

**Negative screening:** We can include a client’s specific screening lists into their investment management agreement. Alternately, we can incorporate third-party lists to exclude categories like banned weapons or United Nations offenders.

**Full ESG integration:** We can exclude all issues with poor ESG scores from the portfolio. We can construct the portfolio so that its portfolio ESG score is higher than that of the relevant benchmark index.

**Thematic & Impact:** We have the capability to focus on themes or sectors to solve specific ESG challenges or deliver positive ESG impact.

# Principal Global Investors' commitment to ESG integration revolves around one key factor: **dedication to our clients' best interests**

## Commitment

- ▶ ESG working groups in place to help ensure proper governance and oversight
- ▶ ESG integration occurs across all actively managed asset classes, with the approach determined by each investment group's process
- ▶ Signatory of the Principles for Responsible Investment (PRI) since 2010
- ▶ Industry leader in responsible real estate investing; unique Pillars of Responsible Property Investing sustainability platform
- ▶ Decades of experience managing client mandates with specific ESG requirements

## Recognition



Joined the United Nations Global Compact (January 2021)



"A+" score for Strategy & Governance and strong scores in PRI Assessment (2020)<sup>1</sup>



GRESB 4-Star rating, fifth consecutive year (2020)<sup>2</sup>



An eight-time CDP S&P 500 Climate Performance Leader (2020)<sup>3</sup>



2021 ENERGY STAR Partner of the Year winner for Sustained Excellence (2021)<sup>4</sup>

<sup>1</sup> For further details please refer to the PRI Assessment Methodology, Principal Global Investors' full Assessment Report and Transparency Report, all of which is available upon request.

<sup>2</sup> Source: 2020 GRESB Assessment. Data as of 31 December, 2019. Rating represents top 40% worldwide performance.

<sup>3</sup> CDP Climate A list was established in 2011 and names the world's businesses leading on environmental performance

<sup>4</sup> Awarded to Principal Real Estate Investors.

## Our ESG evolution



## More about our ESG approach and capabilities

ESG 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 ESG goals, please contact your Principal Global Investors representative.

For additional information, please visit us at [www.principalglobal.com](http://www.principalglobal.com).

### Risk Considerations

Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal. Neither this document nor the environmental, social and governance (“ESG”) information contained herein, relate to a specific ESG investment strategy/product managed by Principal Global Investors, LLC, or its affiliates. ESG, while a component of our investment analysis, is only one part of the overall assessment in our decision-making activities. Further, ESG factors can have an impact in a variety of ways and our investment team may weight the impact of any of the underlying components of ESG in a different manner, depending on the specific instrument or company being evaluated. Such information is provided as additional insight into the relevant investment processes and should not be viewed as a change in investment team’s underlying investment strategy, risk parameters, or portfolio construction guidelines. ESG criteria may present additional advantages or risks and does not protect against market risks or volatility. You should not make any investment assumptions based solely on the information contained herein. There is no assurance that any ESG component in our investing strategy will be successful.

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