

Principal Fixed Income's 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 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, we believe the integration of sustainability considerations and ESG factors has 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 factors 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 sustainable investing at Principal Fixed Income.

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

United Nations sponsored
Principles for Responsible
Investing (PRI)



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

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 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 400+ analysts covers 10,800 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 30 June 2023.
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.

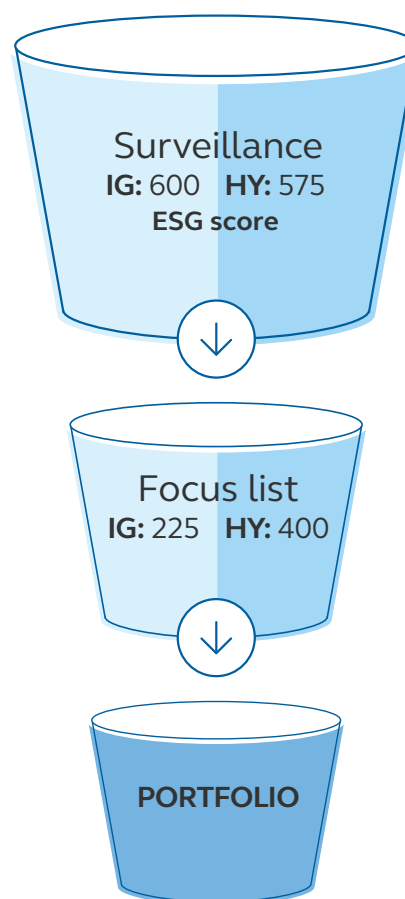
3 Implementation

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

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%		
Total			8	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.

Full ESG Main objective is performance while demonstrating ESG integration and engagement.

Integration: Strategies that integrate ESG into the investment process and commit to promoting specific ESG characteristics, which could include:

- Sector/Security exclusions
- Carbon risk management

Thematic: Investment in themes or assets specifically related to sustainability (for example, clean energy, green technology or sustainable agriculture).

Impact: Targeted investments aimed at solving social or environmental problems, and including community investing, that generate measurable environmental or social impact.

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



Signatory to
the Financial
Reporting Council
U.K. 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-
2022 Sustained
Excellence
2018-2022³

¹ Awarded to Principal Asset ManagementSM (a trade name of Principal Global Investors, LLC), Financial Reporting Council UK Stewardship Code.

² 2016-2022 Global Real Estate Sustainability Benchmark (GRESB) assessments for Principal Real Estate's U.S. Core strategy representing data from 31 December 2015 to 31 December 2021; 2020-2022 GRESB assessments for Principal Real Estate's European Core strategy representing data from 31 December 2019 to 31 December 2021; 2022 GRESB assessment for Principal Real Estate's European Office strategy representing data from 31 December 2021. 4-star rating reflects top 40% worldwide performance.

³ Source: Energy Star, 2022 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 2022, U.S. Environmental Protection Agency.

Our 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 ESG 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.

Neither this document, nor the sustainability considerations contained therein, relate to a specific investment strategy/product managed by Principal Asset Management (or its affiliates) nor their classification under the Sustainable Finance Disclosure Regulation (EU) No. 2019/2088. More information on the Principal Asset Management Sustainable Investing Policy can be found at <https://www.principalam.com/eu/about-us/esg>.

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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