Principal Asset Management℠

2022 Stewardship and Engagement report

Principal Asset Management℠

Introduction

With an increased demand for insights into the stewardship and engagement practices at Principal Asset Management℠ this report has transitioned from a specific U.K. Stewardship Report to a global stewardship report. To assist with our U.K. Stewardship Code submission we have included both a simple breakdown by Principle (as shown in the mapping table on the right) as well as a detailed table to highlight how we speak to all 12 U.K. Stewardship Code Principles in the appendix on pages **96-102**. We feel this enhanced report will be a significant step forward in communicating our stewardship and engagement capabilities to a larger audience.

We are proud of the other changes we have made during 2022, for example, we formalized our **Principal Asset Management Stewardship and Engagement Policy Statement** (PDF), unifying the work conducted across Principal Asset Management by our various investment teams under one guiding document. The policy provides a further framework to guide company engagement and is an important structure for executing our stewardship responsibilities.

In an effort to increase our investment in systems, processes, research, and analysis, equity teams within Principal Asset Management have implemented new data from providers like ISS and TruValue Labs within their analysis (Equities). Our investment teams also have access to tools like MSCI Climate Lab to help assess environmental risk.

Before 2022, we anchored to the ISS standard Base and Sustainable Proxy Voting Guidelines. However, during the course of 2021, using that year's voting results, we developed a focused list of changes that Principal Asset Management sought to incorporate into our 2022 Voting Guidelines and created a structured consultation period in which to achieve those goals.

We conducted peer reviews, participated in ISS surveys and meetings, and created an internal Guideline Task Force to create custom annual guidelines. This resulted in the 2022 adoption of two forms of custom Voting Guidelines: Principal Base Guidelines and Principal Sustainable Guidelines.

U.K. Stewardship Code mapping

Principle 1	7-10
Principle 2	19-30
Principle 3	85-88
Principle 4	13-16, 80-84
Principle 5	89-90
Principle 6	9, 11-12, 42-45
Principle 7	29, 32-41, 91-94
Principle 8	91-94
Principle 9	47-63
Principle 10	66-68
Principle 11	64-65
Principle 12	71-78

Read more on our detailed mapping on page 96.

Principal Asset Management℠

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01 About Principal Asset Management℠

We are a global leader in providing investment solutions. People depend on us to help them achieve their investment goals, no matter where they live or where they are in life.

Principal
Asset Management℠

A message from our leaders

At Principal Asset Management, our clients' best interests are at the center of all we do. We exist with the purpose of putting financial security within reach of people across the more than 80 markets we serve. We believe our insights should be based on a deep understanding of client needs and that every solution is as unique as their long-term objectives. We do this through our local teams of investment specialists, who leverage their expertise and pair it with our global investment network. When these coalesce, we can lead clients through the great challenges and opportunities life brings.

We are committed to aligning our stewardship efforts to support our client's best interests — we've been a signatory of the U.K. Stewardship Code since 2012. This 2022 Stewardship and Engagement Report showcases our stewardship standards and provides an opportunity to share the progress and evolution of both our sustainability practices as an organization and in offering products and services that align with clients' sustainability preferences.

As an organization, we continue to advance in our sustainability journey. We look forward to reporting continued progress—one that's strongly aligned with our advisors, strategic partners, employees, and communities we serve.

Pat Halter
President

Kamal Bhatia
Global Head of Investments

A global leader in asset management

Principal Asset Management is a diversified asset management organization and a wholly owned subsidiary of Principal Financial Group® Inc. Founded in 1879, Principal Financial Group is one of the originators of retirement solutions in the United States (started providing plan services in 1941), and continues to be a leading global financial institution, offering a wide range of financial products and services through a diverse family of financial services companies. At Principal Asset Management, we are well-positioned to serve organizations and individuals, offering institutional and retirement expertise, guidance, and outcome-based strategies for real-life challenges.

Principal Asset Management is a multi-team investment organization that manages assets on behalf of a broad range of sophisticated investors in over 80 nations and territories. We manage assets on behalf of public and private pension funds, foundations and endowments, central banks, insurance companies, sub-advisory arrangements, sovereign wealth funds, and individual investors. Our network of specialized investment teams offers access to investment capabilities and expertise in fixed income, equity, and real estate investments, asset allocation, lifecycle funds, exchange-traded funds, stable value management, and alternative investment strategies.

Principal World Headquarters
Des Moines, Iowa
United States

Principal Asset Management℠

Our purpose

As long-term stewards of our clients' investments, we have a strong and unwavering commitment to behaving responsibly and sustainably in accordance with our clients' stated investment objectives.

This commitment is reflected throughout everything we do for our clients – in our purpose, investment beliefs, strategy, and culture. We strive to improve on our actions and approach in all areas and actively engage with our clients to ensure we understand their views where we are managing their assets.

1990s

Began managing custom-screened, socially responsible mandates for some institutional clients

2010s

Became a signatory to the United Nations Principles for Responsible Investing (PRI)

Became a signatory to the Financial Reporting Council U.K. Stewardship Code

2020s

Maintains:

- Sustainable investing integration capabilities
- Internal ESG ratings
- ESG guiding policies
- Principal Asset Management Sustainable Investment Council
- Principal Asset Management Sustainable Investing Oversight Committee

As an asset manager entrusted with numerous individuals' savings and retirement plans, we bear a significant responsibility in keeping investors' interests at the forefront of everything we do. Our fiduciary duties contribute to the organization's shared purpose—

to help foster financial security for all.

At its simplest, our purpose can be described as "doing what's right for the right reasons."

Principal
Asset Management℠

Our culture and values

Our core values are the foundation of our continued long-term success. Integrity, commitment, and best-in-class service are the driving forces within our business and our people. Asserting these values every day in our investment beliefs drives our approach to being both a responsible investor and a responsible owner.

A strong, positive culture is key. We continuously seek to improve and maintain a work environment based on our core values, with diversity and inclusion being foundational to our approach. Our culture champions integrity, respect, community, and trust - enabling our employees to reach their full potential and do their best work for our customers. Talented employees are the heart and soul of our company. We believe development inspires individuals to engage, empower, and embrace a growth mindset that directly contributes to the success of our organization.

Our culture helps us deliver on our purpose and values, makes us a better company, and is simply the right thing to do.

Awards and recognition

Principal® was named one of Barron's 2022
100 Most Sustainable Companies
(January 2023)

Principal was named a 2022 Forbes
The Best Employer for Women
(Recognized by Forbes for our 2021 data)

Listed as a 2022 Forbes
The Best Employers for Diversity
(May 2022)

For the **11th consecutive year**, named a
Best Place to Work in Money Management by Pensions & Investment
(December 2022)

Included in the Bloomberg
Gender-Equality Index (GEI)
for our commitment to transparency in gender-data reporting
(January 2022)

Name by Diversity MBA as a 50 Out Front:
Best Place to Work for Women and Diverse Managers
(July 2022)

Principal was named a member of the 2021 Bloomberg Gender-Equality Index for the **seventh straight year, scoring a 100/100 on the Corporate Equality Index** and naming Principal Asset Management as one of the
Best Places to Work for LGBTQ Equality
(January 2022)

Scored 100 out of 100 on the Disability Equality Index (DEI) for our disability inclusion efforts.
(July 2022)

Principal was ranked by Newsweek as one of
America's Most Responsible Companies
(2023, Newsweek/Statista December 2022. One of 500 companies ranked in 2022. Compensation was paid to Newsweek/Statista for rights to publicize the award and use it in marketing materials)

Information on this slide is related to Principal Financial Group®, unless noted otherwise.

Our investment beliefs

Principal Asset Management acts as a fiduciary for our clients and always strives to act in their best interests. In doing so, we maintain the highest regard for good corporate governance and model our business accordingly. We live by our values and our belief that, subject to our clients requirements, no matter the asset class, investing responsibly and sustainably helps generate positive long term outcomes for our clients. By designing new, sustainable investment products, incorporating environmental, social, and governance (ESG) factors into our evaluation process, engaging with clients on the financial, social, and environmental performance of their investments, and encouraging our investee companies to act sustainably, we can help drive better outcomes for our clients over time.

Our customer focus, workforce development, operational excellence, and integrity all serve our mission to promote financial security for all. We're making continuous progress on our sustainable investing initiatives by coordinating our strategy across the entire Principal enterprise and expanding the scope and detail of our reporting. We use stakeholder feedback from consumers, employers, investors, and employees to prioritize long-term goals and guide our communication.

We believe good stewardship of stakeholders builds value for shareholders. Put simply, we create value by living our values.

Principal Asset Management[SM]

Our stewardship and engagement strategy

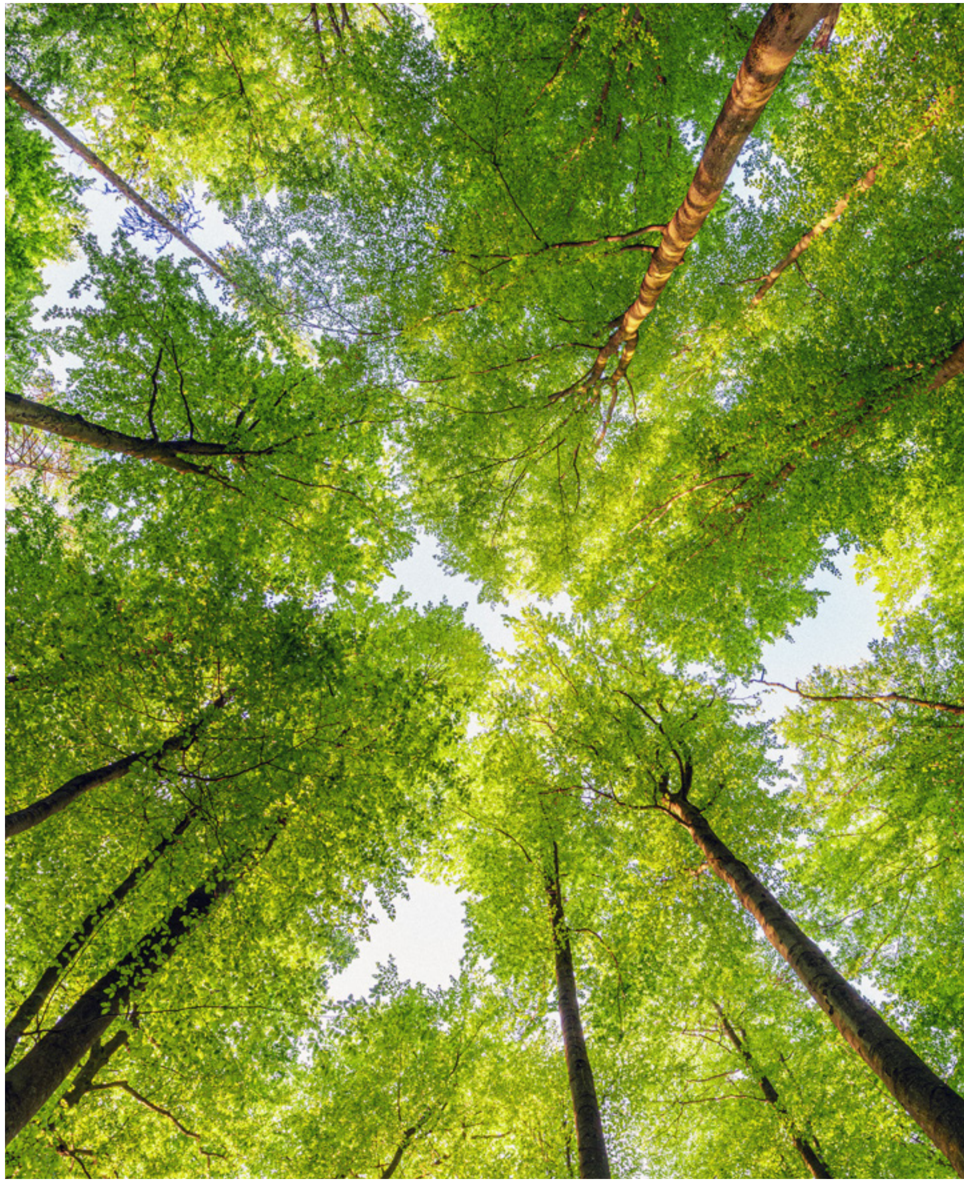
As an investor, Principal Asset Management is in a privileged position. We are committed to engaging with and encouraging companies to be leaders of sustainability through long-term stewardship of their human, natural, and financial resources.

Our analysts meet with senior executives and investor relations teams of the companies we invest in to discuss topics relevant to our investment including material sustainability issues, company ownership, board membership, and remuneration. Through engagement, we seek to strive for shared values, reduce potential investment risks, and drive better client experience and outcomes.

By being active stewards of our clients' investments, we can better understand and align our efforts with their stated investment objectives, which may include sustainability objectives. Sustainable investing is a core strategy for Principal Asset Management. To help create a more successful, resilient, and sustainable business and world, we are continually making our sustainable investing initiatives, including stewardship, more transparent and integrated into our policies and procedures. Stewardship activities are a part of each investment teams' separate philosophies and processes. Each team has autonomy to define the approach and scope of its engagement with companies and participation in industry and sector collaborative engagements.

Read more on sustainable investing initiatives in chapters 4 & 5.

Read more on stewardship activities in chapter 4.



Assets under management

When clients choose to invest with Principal Asset Management, they gain access to the full range of our global investment management expertise. As of 31 December 2022, Principal Asset Management manages US $464.7 billion of assets.

Our key areas of strength include:

- Breadth and depth of capabilities
- Consistent client results
- Quality of research
- Global reach

Total AUM

Our diverse range of asset classes is managed by our global investment teams. As of 31 December 2022.

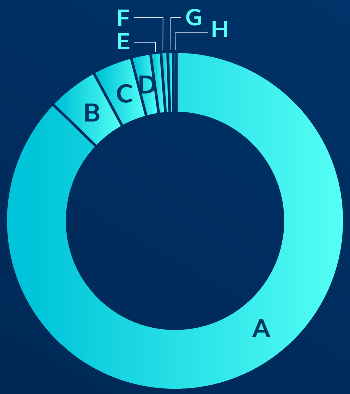
Principal Asset Management

A	Real estate	$98.7B
B	Equities	$180.9B
C	Fixed income	$183.0B
D	Alternatives	$2.1B

Assets under management, *continued*

AUM by geography

Our assets under management are predominately invested in North America, but we invest in multiple geographies and global asset classes.



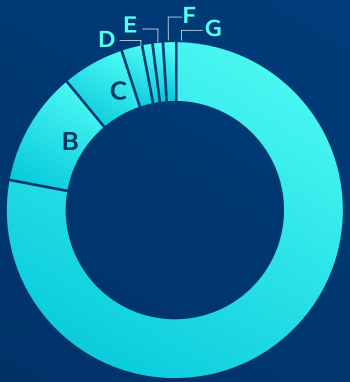
A	North American	$405.5B
B	Asia	$22.6B
C	Europe	$17.8B
D	Central America	$8.6B
E	Oceania	$4.6B
F	Middle East	$3.0B
G	South American	$2.5B
H	Africa	$0.2B

AUM in Europe

In 2022, we continued to focus on converting and launching new funds that comply with rigorous sustainability requirements while meeting varying client demands, regulatory requirements, and greater expectations for transparency in sustainable investment management. As of December 31, 2022, Article 8/9 assets under management totaled $7.4B. In 2023, we're planning to launch or convert additional funds which will have sustainability characteristics requiring disclosure under Article 8 or Article 9 of SFDR.

Client distribution by location

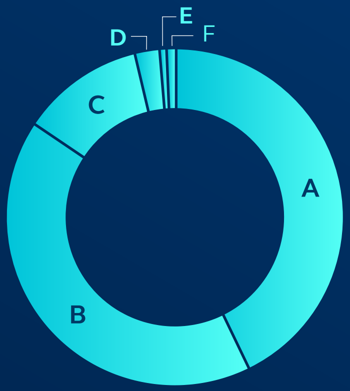
Though headquartered in the U.S., we have grown our global footprint to more than 80 nations and territories. Europe (including the U.K., our European base of operations) is a very important part of our growth plans.



A	North America	78%	E	Central America	1%
B	Europe	11%	F	Middle East	1%
C	Asia	6%	G	South America	1%
D	Oceania	2%	H	Africa	0.07%

Breakout by client type

We predominantly manage assets for institutions; retail assets are generally via intermediaries.



A	Corporate	$199.2B
B	Insurance	$193.3B
C	Public/Governmental	$55.0B
D	Union/Multiple employer	$11.0B
E	Individual/Family office	$3.1B
F	Non-profit	$3.1B

Principal Asset Management[SM]

Industry-wide engagement

At Principal Asset Management, we firmly believe in participating in industry initiatives that support and promote the ongoing improvement and proper functioning of our financial markets. We actively engage with various institutions, councils, associations, and industry groups across all levels of the organization. Through our various roles within these organizations, we are able to engage and encourage stakeholders and policymakers on a broad range of issues that impact our industry and stay at the forefront of best practices.

We actively participate within various industry groups around the word in a number of different ways, including calls, committees, and working groups, and thus have been able to contribute and collaborate on sustainable investing issues and best practices.

Affiliations with organizations focused on sustainability issues:

Organization	Principal entity affiliation	Since
United States Green Building Council	Principal Real Estate Investors	2007
Energy Star Partner	Principal Real Estate Investors	2009
Principles for Responsible Investment	Principal Global Investors	2010
Carbon Disclosure Project (CDP)	Principal Financial Group	2011
Better Building Alliance	Principal Real Estate Investors	2014
Global Real Estate Sustainability Benchmark (GRESB)	Principal Real Estate Investors	2014
U.S. Department of Energy Better Buildings Initiative	Principal Real Estate Investors	2014
Business Roundtable	Principal Financial Group	2019
CEO Action for Diversity & Inclusion	Principal Financial Group	2020
Sustainable Development Goals	Principal Financial Group	2020
ANA Alliance for Inclusive and Multicultural Marketing	Principal Financial Group	2021
Investor Alliance for Human Rights	Principal Global Investors	2021
The Council of Institutional Investors	Principal Global Investors	2021
The International Corporate Governance Network	Principal Global Investors	2021
United National Global Compact	Principal Financial Group	2021

Membership organizations and industry initiatives

On the following pages are some examples of how we have played an active role within industry initiatives across the globe, including how we have participated, the extent of our contribution, and an assessment of our effectiveness.

Membership organizations and industry initiatives, *continued*

INVESTOR ALLIANCE FOR HUMAN RIGHTS
AN INITIATIVE OF ICCR

The Investor Alliance for Human Rights is a collective action platform for responsible investment that is grounded in respect for people's fundamental rights. The initiative aims to provide the investment community with expertise and opportunities to put the investor responsibility with respect to human rights into practice, this is done by:

1. Providing practical tools for implementation of responsible business standards at each step of the investment lifecycle;
2. Supporting direct engagement with portfolio companies on their own human rights practices; and
3. Coordinating actions that ask policy makers and standard-setting bodies to create level playing fields for responsible business.

Participating within a consultation process and allowing the Investor Alliance for Human Rights to consult on behalf of members, we are able to provide feedback on any potential new guidelines, tools, and resources to help others make more informed investment decisions.

In 2022, we participated in the consultation process with the Investor Alliance for Human Rights members, with the aim of providing new guidance on the due diligence for private markets. Due in part to that collaboration, there has been new guidelines released by the PRI in 2023.

ICI Global

ICI Global carries out the international work of the Investment Company Institute, a leading association representing regulated investment funds. As an active member, Principal Asset Management has numerous individuals across the U.S., U.K., and Europe, that participate in various working groups, industry calls and symposiums, discussing a number of topics regarding investment fund regulation, including those relating to sustainable investing and the continued improvement of functioning financial markets.

Our Europe Chief Executive Officer (CEO) acts as Chair for the ICI Global EMEA steering council which covers key regulatory topics for funds and markets, including requirements related to sustainable investing considerations and the investment process.

By being able to participate within the ICI Global forums, we respond to regulators' priorities and contribute to the optimization of capital markets by providing valuable input into effective regulation in the marketplace and for funds. The ultimate goal is to strengthen the foundation of the asset management industry for the benefit of the long-term investor.

Principal Asset Management's contributions support ICI Global's efforts to strengthen legal frameworks and promote sound governance and fiduciary practices.

PRI Principles for Responsible Investment

Principal Asset Management has been a PRI signatory since 2010, highlighting the firm's dedication to sustainable investing issues. The PRI works to achieve a sustainable 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 to a sustainable financial system that lie within market practices, structures, and regulation.

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 PRI Transparency Report is made publicly available on our website and can also be found on the PRI website.

Focus on initiatives in Europe

BVI, the German Investment Funds Association, representing the interests of 117 fund companies and asset managers with some EUR 4 trillion in investment capital for private investors, insurance companies, pension funds, banks, churches and foundations.[1]

We are an active member of BVI and participate in their regular meetings across several workstreams (often quarterly), including:

- Real Estate
- Sustainability
- Regulatory & Legal
- Risk Management

Our aim is to engage with other members of the fund industry, bring in Principals view, to understand developments and changes in the market as well as work on market standards and practices.

We are a member of the advisory council of the Diversity Project, a cross-company initiative championing a truly diverse, equitable and inclusive U.K. investment and savings industry. The advisory council is made up of CEOs or equivalent and their role is to provide support, access, advice, strategic input, and commitment to the steering committee and workstreams as appropriate. The members are also responsible for ensuring that the output of the Diversity Project and its workstreams is acted upon within their organizations, as appropriate. During 2022 our Europe CEO participated in working groups and forums with the advisory council, and we participated in the Pathway Program, a yearlong program that focuses on developing future female portfolio managers in order to address the absence of women in money-managing roles.

Åsa Norrie

Europe CEO & Head of European Distribution

1 As of 9/30/2023 as reported on BVI website.

Reflecting on our participation

During 2022, we continued to join, attend, and participate in multiple industry groups, initiatives, and organizations with a focus on sustainable investing related topics. These organizations have allowed us to collaborate with industry peers and stakeholders, provide feedback and insight, as well as lead and participate in various discussions that help to establish a foundation for long term value enhancement. These interactions not only enhance the knowledge within our investment teams and overall organization but demonstrate our contribution to key industry initiatives that help to promote the continued improvement of the functioning of financial markets. We are proud to be a part of membership organizations that help to lay the groundwork for success in sustainable investing for the industry, our organization, and our clients.

Principal Asset Management[SM]

CHAPTER

02 Governance and resourcing

Our governance structures and processes help ensure our investment professionals have the information and resources needed to create and maintain sustainable investment products and solutions for clients and to drive our stewardship priorities.

Resourcing stewardship activities

Each investment team has the responsibility of determining, for their asset class, the most appropriate approach to sustainability and stewardship. Many teams maintain their own sustainable investment teams, dedicated resources and implementation structures to best pursue the best outcomes for that asset class.

Given the scope of our global asset management business and the different asset classes we work with, the rationale for our sustainable investing approach and stewardship governance structure is to ensure that all areas of the business are represented at a strategic level while maintaining the independence to develop dedicated and individual sustainable investing approaches within the overall vision.

The alignment and collaboration between Principal Asset Management and Principal Financial Group Sustainability Task Force allows our governance and oversight teams to understand the differing nature of the various parts of the business and to react and continuously improve our policies and processes accordingly. This ensures that senior leaders maintain governance and oversight responsibilities – and that they are also involved at the Principal Financial Group level – increases the accountability of the governance teams and helps promote consistent and effective integration of our sustainable investing and stewardship practices.

Principal Asset Management[SM]

Sustainable investing oversight and collaboration

At Principal Asset Management, we continually review and look for opportunities to improve our governance structures and processes directly related to the oversight and accountability of our stewardship practices across the business.

Starting with the Nominating and Governance Committee of the Principal Financial Group Board of Directors, we extensively collaborate on matters pertaining to sustainability. The graphic to the right displays our aligned collaboration between investment management and the enterprise.

Sustainable investing oversight and collaboration, *continued*

PRINCIPAL FINANCIAL GROUP

Sustainability Task Force

The Principal Financial Group Sustainability Task Force is made up of members appointed by Chairman, President, and CEO Dan Houston. The members are leaders across the organization and report quarterly to the Principal Board of Directors. The role of the Sustainability Task Force is to ensure that material sustainability issues are integrated into and help guide our business decisions, drive our comprehensive sustainability strategy, and continually engage with stakeholders. This keeps us aligned with internal goals and third-party standards, including those of the U.N. Global Compact, which Principal joined at the participant level in January 2021, as well as other business groups such as the Business Roundtable and the CEO Action for Diversity and inclusion.

Throughout 2022, the Task Force met monthly to agree on and oversee implementation of our approach to sustainability reporting frameworks – such as GRI, SASB, TCFD, and CDP – public policy engagement, social and environmental goals and targets, and performance against our sustainability commitments and stewardship priorities.

Beth Wood
Chair, EVP, and
Chief Marketing Officer

Binay Chandgothia
Managing Director,
Portfolio Management

Kevin Farley
Vice President,
Enterprise Worksite Services

Jane Keairns
Director,
ESG and Emerging Strategies

Natalie Lamarque
EVP, General Counsel
and Secretary

Miriam Lewis
Chief Inclusion Officer

Ken McCullum
EVP and
Chief Risk Officer

Jo Christine Miles
Director, Principal Foundation
and Community Relations

Chris Reddy
Executive Managing Director,
Principal Asset Management

Sustainable investing oversight and collaboration, *continued*

PRINCIPAL ASSET MANAGEMENT

Sustainable Investing Oversight Committee

Led by Chris Reddy, the Sustainable Investing Oversight Committee classifies, reviews, approves, and assures implementation of products and strategies Principal Asset Management actively markets in accordance with appropriate sustainable investing definitions. It also reviews alignment of internally developed classified products and capabilities on a periodic basis to assure alignment remains appropriate. Additionally, the Committee reviews global policy accord recommendations and regulatory/industry policy submissions and identifies critical risks affecting sustainability support within the firm. The Committee meets at least quarterly.

The Committee was expanded in 2022 to include voting members from our international offices to help assure implementation of funds and strategies in accordance with the appropriate sustainability-related definitions.

Chris Reddy

Executive Managing Director, Principal Asset Management

Chris Reddy also serves on the Principal Financial Group Sustainability Task Force as the representative from Principal Asset Management, and is accountable for the Principal Asset Management Sustainable Investing Leadership Team (**Pg 23**).

PRINCIPAL ASSET MANAGEMENT

Sustainable Investment Council

Led by Daniela Spassova, the objective of the Sustainable Investment Council is to be the connective hub of sustainable investing information in the firm; establish consistency across investment teams; share best practices and provide support to all investment teams; assist investment teams in formulating strategy and reporting; sharpen our sustainable investing stories at the firm and strategy level; and serve as the liaison between Principal Asset Management and the broader Principal organization. The Council meets quarterly.

Daniela Spassova, CFA

Managing Director, Investments and Client Solutions

Daniela Spassova also serves on the Principal Asset Management Sustainable Investing Oversight Committee and the Sustainable Investing Leadership Team leading research, stewardship, and engagement activities.

Principal Asset Management℠

PRINCIPAL ASSET MANAGEMENT

Sustainable Investing Leadership Team

Our Sustainable Investing Leadership Team helps ensure that our investment professionals have the information and resources to create and maintain investment products and solutions for clients. Whereas there is a high degree of collaboration, team members' specific roles align with specific areas of accountability.

Since Principal Asset Management is comprised of a variety of independently functioning teams, it is important to note that the role of the Sustainable Investing Leadership Team is to provide the appropriate support for sustainability-related needs

Chris Reddy

Executive Managing Director, Principal Asset Management

Daniela Spassova, CFA

Managing Director, Investments and Client Solutions

Jeff Vorwerk, CIMA®

Strategic Portfolio Director, ESG Operations

Coordinates with supporting areas including operations, technology, marketing, and communications.

Syd Del Cid

Senior ESG Research Analyst

Responsible for sustainable investing research initiatives.

Ryan Fitzgerald

ESG Stewardship and Engagement Analyst

Liaises on stewardship and engagement initiatives.

Sustainable Investing Working Groups

Our Sustainable Investing Working Groups focus on specific areas to embed sustainable investing throughout our business:

- **Sustainable Investing Data Governance Group:** establishes and monitors data infrastructure with controls around the acquisition and distribution of ESG data to the rest of the organization.
- **Product & Distribution Group:** focuses on sustainable investing related product and distribution considerations.

How our governance structures support effective stewardship

We believe our governance structures continue to effectively support our stewardship activities. Our global strategy is implemented across our business, while giving our investment teams the flexibility to shape the strategy to their own considered approach. This ensures that each team takes responsibility and accountability for their own assets and their own relevant client needs – which we believe leads to better outcomes for our clients.

In addition, our Sustainable Investing Oversight Committee and Sustainable Investment Council play a central role in ensuring our consistent yet flexible approach. They bring together investment teams and senior leaders from different parts of the organization to review investment products and capabilities, and promote best practice as all teams comply with greater expectations from regulators and clients alike.

As we continuously review and assess our governance structures and processes to ensure they effectively support our evolving stewardship efforts, we are planning to implement a dedicated Stewardship and Engagement Working Group with a focus on collaboration around investment team engagement activities. In addition, during 2023 we plan to add a resource located in Europe to our Sustainable Investing Leadership Team.

Principal Asset Management℠

Investment teams

Independent perspectives, sharper insights

Specialized investment teams each utilize unique ways of optimizing outcomes.

Principal Asset Managements investment capabilities span all major asset classes across both public and private markets.

EQUITIES

FIXED INCOME

ASSET ALLOCATION

REAL ESTATE

Over 600 investment professionals bring a depth of investment knowledge.

Seasoned investment professionals *average 17 years in the industry* and 13 years with our firm.

Investment professionals *from 13 countries* offer global perspectives.

Organizational and workforce structures

Across all asset classes, our dedicated portfolio management teams are backed by significant industry and firm-wide experience:

Team	Investment professionals	Average industry tenure	Average tenure with Principal
Principal Equities	100+ equity investment professionals including research associates, analysts, and portfolio managers	18 years	12 years
Principal Fixed Income	150+ investment professionals	17 years	11 years
Principal Real Estate	275+ global investment professionals	17 years	14 years
Principal Asset Allocation	25+ investment professionals	16 years	9 years

As of 12/31/2022.

The portfolio management teams are supported by dedicated professionals across operations, global research, data & analytics, and finance. We conduct regular internal and external sustainable investing training to ensure our staff are adequately resourced to carry out all duties as they relate to stewardship activities. Staff is also encouraged to attend workshops and industry events to strengthen awareness of sustainable investing best practices, where relevant to their roles.

Investment team working groups

Additional sustainable investing working groups at the asset class level include:

Working group	Responsibilities
PRINCIPAL EQUITIES *Purposeful Equity strategy group*	Meets quarterly and comprises portfolio managers, traders, and analysts. It works closely with the Principal Asset Management Sustainable Investing Oversight Committee in order to advance best practices in research, analytics, and client advisory.
PRINCIPAL EQUITIES *Data & Client Group*	Meets monthly and focuses on reviewing internal ESG ratings and sharing research and engagement outcomes. It comprises investment professionals from Principal Equities and a member of the Principal Asset Management Sustainable Investing Leadership team.
PRINCIPAL FINISTERRE *ESG Committee*	Responsible for reviewing ESG ratings of existing holdings and making investment recommendations.
PRINCIPAL FIXED INCOME *Sustainability Policy Working Group*	Comprises cross-functional representation from portfolio managers, traders, and analysts, and works closely with Principal Asset Management Sustainable Investment Oversight Committee to share ideas for sustainable investing integration and evaluate how sustainable investing issues can most effectively be incorporated into our investment processes.
PRINCIPAL REAL ESTATE *Private Equity Sustainable Investing Working Group*	This tactical working group is made up of cross disciplinary members of Principal Real Estate Investors Private Equity teams and senior leadership. The working group is tasked with formulating ESG strategy, championing the ESG program, implementing strategies outlined in the Pillars of Responsible Property Investing (PRPI) ESG platform, presenting the PRPI ESG platform to stakeholders, monitoring progress toward and ensuring results for ESG goals, facilitating centralized initiatives, and strengthening accountability and oversight on the private equity program's execution.
PRINCIPAL REAL ESTATE *Responsible Property Investing Working Group for Private Debt*	Made up of key representatives from the private debt origination teams, this group sets both organizational and fund level priorities and helps drive those through the organization and down to the property level.

Investment in systems, processes, research, and analysis

Our investment teams have developed tools, frameworks, and processes to analyze and integrate sustainable investing information into all applicable levels of the investment process.

With the differing needs of our asset classes, each team is responsible and accountable for undertaking their own research and for incorporating the results of that research into their investment processes and engagement priorities. By doing this on an asset class basis, the specific needs of our clients remain at the forefront of our work.

Relevant examples include but are not limited to:

- During 2022, Principal Asset Management subscribed to additional data sources and analytical tools for the investment teams in order to enhance their analysis and research capabilities, in line with our client's preferences.
- Principal Equities adopted the following tools:
  - Use of ISS ESG security ratings coverage and global non-financial data & analytics
  - TruValue Labs ESG information through FactSet
- Our investment teams and Sustainable Investing Leadership team also have access to tools like MSCI Climate Lab to help assess environmental risk

Principal Equities utilises tools that help track and support engagement activities and outcomes.

Principal Fixed Income utilises its proprietary Value Scoring Model and ESG Scorecard to screen securities.

Principal Real Estate created and adopted a Pillars of Responsible Property Investing (PRPI) framework in 2008 to deliver positive financial and sustainable investing outcomes for all stakeholders.

Using service providers to support investment and engagement processes

At Principal Asset Management, investment teams have access to numerous service providers that help in their research, enhance their investment process, and support our engagement activities. Investment teams have access to multiple third-party data sources including MSCI, ISS, Bloomberg, TruValue Labs from which sustainability-related data can be obtained. These sources are integrated into our portfolio management systems to provide a more comprehensive view of sustainable investing across portfolios.

Read more on how service providers are assessed and monitored in chapter 6.

Principal Equities has a dedicated committee responsible for developing and monitoring our proxy voting policy across vote themes as well as providing oversight of all matters related to proxy voting, including the services of our third-party proxy research and administration provider, Institutional Shareholder Services (ISS).

We partner with ISS to inform our development of the proxy voting policy, gather information necessary to execute the policy, provide research recommendations and administer the voting process.

Read more on our proxy voting policy and procedures in chapter 5.

Principal Real Estate continuously employs the skills and expertise of relevant partners to help implement its PRPI framework. This includes but is not limited to:

- Property Managers are critical to the success of our ESG goals and follow our comprehensive property manager guidelines
- RE Tech Advisors’ expert third-party sustainability consultants assist with sustainability program operations, communications, performance reporting, and to address real estate-specific research questions
- MSCI provides climate risk due diligence and portfolio level climate risk analysis
- Longevity completes BREEAM assessments and assists with data collection for European fund GRESB submission

Compensation and performance management

At Principal Asset Management, all investment team members are accountable for living our core values through their performance and compensation structures.

Our investment professionals benefit from a competitive compensation structure. The objective of the structure is to align individual and team contributions with client performance objectives in a manner that is consistent with industry standards and business results. We ensure that our fiduciary duty to act in the long-term best interests of our clients is robustly reflected in our compensation and performance structure.

Compensation for investment professionals is comprised of fixed pay (base salary) and variable incentive components. As team members advance, the variable incentive opportunity increases in its proportion commensurate with responsibility levels, taking the form of a profit-based incentive plan with funding based on pre-tax, pre-bonus operating earnings generated by the team. Our plan aims to offer team members a clear view of the business, allowing them to share in current and future business growth (team profits). It also emphasizes the importance of investment performance, long-term business growth, team collaboration, regulatory compliance, operational excellence, client retention, and client satisfaction. To assess investment performance, we measure against client benchmarks and peer groups over one-year, three-year, and five-year periods, calculated quarterly.

This approach promotes a long-term focus and actively discourages short-term thinking across all asset classes which we believe is fully aligned with our core values, culture and investment belief that investing responsibly and sustainably is the best way to help generate positive long-term outcomes for our clients. While portfolio-level performance outcomes are the largest driver of variable compensation, all awards for investment personnel include a significant discretionary component to recognize individual contributions including attribution analysis, communication effectiveness, process alignment, and team collaboration.

Technology

Across all investment teams, we employ technology to optimize our investment processes. We have invested a significant amount of capital and research into developing a comprehensive proprietary platform that includes powerful analytical, portfolio construction, risk management, and operational systems. Our platform includes a variety of analytical systems, portfolio rebalancing, trade management, monitoring tools, company and industry research, portfolio construction, and risk management systems.

CHAPTER

03 Sustainable investing

Our commitment to sustainable investing revolves around a key factor—our fiduciary responsibility to our clients. Acting in their best interest comes first and foremost. Our approach to sustainable investing is at all times driven by that priority.

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Our approach

We believe sustainable investing offers the potential to enhance outcomes by providing a holistic view of the environmental, social, and governance (ESG) factors driving risk and return. The sustainable investing continuum on the following page encompasses all types of investing apart from traditional investing.

Our sustainable investing approach integrates ESG considerations and factors across all actively managed asset classes, where required to meet clients needs. The investment team determines the integration approach based on the specific investment process within the underlying asset class.

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To meet our various client needs, we classify our products and investment strategies across our sustainable investing continuum.

Screening

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

ESG integration: Foundational

Main objective is performance while demonstrating ESG integration and engagement.

Three major integration methods:

- ESG score as an added factor
- ESG score as a filter
- Individual E, S, and G scores as filters

We define foundational ESG integration as using an ESG score as another risk factor.

ESG integration: Enhanced features

Main objective is performance while demonstrating ESG integration and engagement.

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.

Stewardship and engagement

Striving for shared value and employing stakeholder power to encourage corporate behavior, including through direct corporate engagement (i.e., communicating with senior management and/or boards of companies).

Our products are classified each year by the Principal Asset Management Sustainable Investing Oversight Committee and based on our internal sustainable investing continuum 2022 AUM would fall into the following categories.

As of December 31, 2022

ESG integration—Foundational AUM	*$228.3B*
ESG integration—Enhanced features AUM	*$29.2B*
Thematic AUM	*$95.9M*
Impact AUM	*$0.87M*

In total, approximately

$257.7B

are sustainable investment products,

~55% of assets managed by Principal Asset Management.[2]

2 AUM representative of Principal Asset Management investment teams as of December 31, 2022. AUM that are sustainable investment products are internally classified by Principal Asset Management and not by any third party or regulatory body.

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Our approach, *continued*

Consistent with our overall investment philosophy, our sustainable investing approach focuses on delivering better outcomes for our stakeholders. Managed appropriately, we believe ESG integration may contribute to enhanced long-term returns and reduced risks. Where consistent with the specific investment team's strategies and practices, the consideration of ESG factors is embedded directly within our research process in assessing the fundamental attributes of companies. Our focus is not limited to companies that rate highly according to third-party research providers, but strive to be better versions of themselves. Our focus and commitment can therefore be summarized by our guiding purpose: 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 delivering better outcomes for our stakeholders.

The table on the following page illustrates how each investment team integrates sustainable investing and stewardship to best complement their investment expertise.

OUR GUIDING PURPOSE

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 delivering better outcomes for our stakeholders.

Our approach, *continued*

Asset class	Investment team	Our approach
ASSET ALLOCATION	*Principal Asset Allocation*	Our sustainable investing process focuses on measurement, activation, and management of related factors at the asset class and strategy level. We prefer our sub-advisors to be signatories for the PRI to ensure we are engaging with investment partners that share our belief that ESG issues may impact the performance of investment portfolios. We require that each sub-advisor submit an ESG policy that details their individual philosophy and ESG methodology.
EQUITY	*Principal Aligned*	Our process involves frequent discussions with former employees, customers, suppliers, etc. to fully understand the health of the stakeholder ecosystem. We generally have small-to-zero weight in industries known for heavy environmental costs as they tend to be capital intensive, commoditized businesses without competitive advantages.
EQUITY	*Principal Dynamic Growth*	Our approach to ESG considerations is informed by our active avoidance of unresolved or anticipated major controversies from a risk management perspective, naturally leading to strategies with low fossil fuel involvement.
EQUITY	*Principal Edge*	Our proprietary qualitative industry ranking approach evaluates ESG factors and focuses on diversity, carbon emissions, and pay equity within the context of each sector, recognizing leaders and laggards.
EQUITY	*Principal Equities*	Our proprietary ESG ratings framework incorporates risk considerations and change catalysts associated with ESG-related issues.
EQUITY	*Principal Origin*	Our focus on the quality and sustainability of financial returns, central to our investment process, helps us consistently avoid companies with larger carbon footprints.
FIXED INCOME	*Principal Finisterre*	Our ESG-integrated quantitative process is used to detect opportunities and exclusions to enhance and improve a portfolio's ESG footprint.
FIXED INCOME	*Principal Fixed Income*	A natural extension of what we've always done, incorporating ESG research into our fundamentals, technicals, and valuations framework helps provide guidance for decision within a portfolio.
FIXED INCOME	*Post Advisory Group*	We consider various ESG factors during the analysis and due diligence of each issuer, encapsulated through our proprietary Value Scoring Model tool.
FIXED INCOME	*Spectrum Asset Management*	Out tiered-risk approach measures the severity of ESG issues as part of the qualitative assessment in our proprietary credit analysis. We weight ESG risks and opportunities alongside other qualitative and quantitative credit metrics.
EQUITY FIXED INCOME ALTERNATIVE	*Principal Claritas*	ESG metrics are evaluated qualitatively during the analysis process and may be quantitatively applied, if applicable, to reflect a higher discount rate or explanation of potential liability to be reflected in the company's valuation.
REAL ESTATE	*Principal Real Estate*	We believe ESG practices in real estate help reduce risk, improve a property's competitive stature, and increase tenant interest and retention, providing a foundation for potentially higher rents. As fiduciaries for our investors, we understand, quantify, and act upon ESG through our Pillars of Responsible Property Investing.

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Sustainable investing examples

Principal Equities embraces the clean energy imperative. Yet, rather than excluding resource intensive industries (unless directed by client or fund mandate), we focus on companies demonstrating strong progress and commitment to carbon reduction and renewable energy initiatives in capital investment plans. As a manager with experience in international and emerging markets, including small- and mid-cap strategies globally, we focus on change that can make an even greater impact than merely aligning with somewhat arbitrary third-party "low carbon" designations. We believe ESG initiatives that focus on change potential present the best opportunities to make a real difference.

Principal Fixed Income monitors sustainable investing issues using a scorecard with weighted fundamental, technical, and valuation components that vary by sector; ESG is weighted as 20% of the total fundamental score. Regardless of the sector, factors within environmental, social, and governance profiles will be analysed to arrive at a final ESG score for the company/credit.

Principal Real Estate follows its Pillars of Responsible Property Investing (PRPI) program to ensure responsibility throughout the investment lifecycle; the PRPI is a structured governance program that is reported publicly and transparently.

Within Principal Equities

Our key principles:

Clients first

We serve unique and global clients, but our culture is centered on serving retirement plan investors. This substantial commitment requires continual diligence to ensure that our focus, interests, and incentives are fully aligned with the interests of each client we serve and the governing fiduciary standards of each jurisdiction in which we operate.

Independent assessment

We see third-party ESG scoring metrics as helpful background information, but we look beyond those biases and do not screen only based on rating information.

Supporting a sustainable transition

We believe restricting opportunities to well-rated ESG companies is not a long-term viable alpha source. Instead, we focus on identifying companies with scope for improvement.

Risk reduction

We believe that avoiding companies that knowingly exploit economic externalities at the expense of others is an essential source of enhanced returns, risk reduction, and fiduciary responsibility. While we do not overtly exclude entire industries (unless at the direction of clients), our selection criteria embrace the importance of downside risk mitigation including standards for financial stability and quality, corporate governance, and trust.

Active engagement

Rather than demanding specific actions, we take a consultative approach, sharing our views and preferences and asking, "What is changing?" This fosters more constructive dialogue and can be further supplemented formally through proxy voting.

Sustainable investing examples, *continued*

Our investment teams proprietary technologies and infrastructure enhance our ability to tailor strategies to distinct client and regulatory parameters, a key competitive strength. Similar to how we approach other traditional aspects of our fundamental research process, our approach underscores the importance of independent assessment, not third-party rating/scoring systems.

Principal Equities conduct three levels of independent assessment on each recommended company.

Review the company's corporate stewardship reporting and plans including third-party ESG analytics (MSCI, ISS, Bloomberg, and GRESB), controversy tracking, and upcoming proxy initiatives.

Identify key upcoming sustainable investing engagement priorities for monitoring and discussion with company management teams, aligned with and tailored to industry drivers and risks.

Assign independent proprietary ratings for owned companies. Companies are rated relative to industry peers, segmented by geographic regions to maximize comparability and avoid structural biases (that are typical of third-party ratings). The ratings incorporate two distinct dimensions, with three ratings categories for each:

- Sustainability Risk Level (Low, Medium, High)
- Sustainability Trend (Improving, Stable, Deteriorating)

Depending on the client mandate, recommended stocks can include all three risk levels, but the greatest focus is on the trend rating. Recommendations strongly favor improving or stable profiles. A deteriorating trend rating generally accompanies a sell recommendation.

Sustainable Investing policies

During 2022, Principal Asset Management approved and adopted a Sustainable Investing Policy Statement. This Policy Statement reviews our purpose, scope, responsibility, approach, commitment, and integration of how this policy statement is applied by the investment teams of Principal Asset Management. The policy is reviewed once a year and is publicly available via our sustainable investing website.[3]

Principal Equities, Principal Fixed Income, Principal Asset Allocation, and Principal Real Estate maintain and publish their sustainable investing policies. In addition, our equities and fixed income investment groups have engagement policies.

Read more about our Sustainability Investing Policies at Principal Asset Management

3 https://www.principalam.com/eu/about-us/esg

Sustainable investment integration and monitoring

The consideration of sustainability factors is integrated into our sustainable investing approach across all actively managed asset classes. The integration approach is determined by the specific investment process of the investment team within the underlying asset class.

Some investors may require a more customized approach to their sustainable investing objectives, so we provide a range of portfolio construction options. Our flexible investment process allows us to manage investment strategies to any universe a client may define.

As the sustainable investing landscape continues to evolve, we offer options that follow a repeatable investment process while supporting our clients' values and helping them reach their financial goals. We will continue to adapt our sustainable investing efforts to the changing needs of the world around us.

Our clients benefit from the signatory status of Principal Asset Management in the PRI which allows us to play a role in defining and shaping the ongoing global sustainable investing discussion and best practices.

Principal Fixed Income assigns a specific ESG score for each issuer owned in the high-yield universe using a numeric-based system ranging from 1 (poor) to 10 (excellent).

The score indicates the analyst's overall view of the company from sustainable investing perspective. Our analyst raise any concerns about sustainable investing issues and other fundamental concerns during meetings with corporate management teams. The response they receive feeds into their assessment of the company's outlook and potential fit for the portfolio or strategy. Principal Fixed Income has developed a process for tracking sustainable investing engagements and outcomes.

Principal Fixed income ESG score rating system

☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆ ☆

Poor **Excellent**

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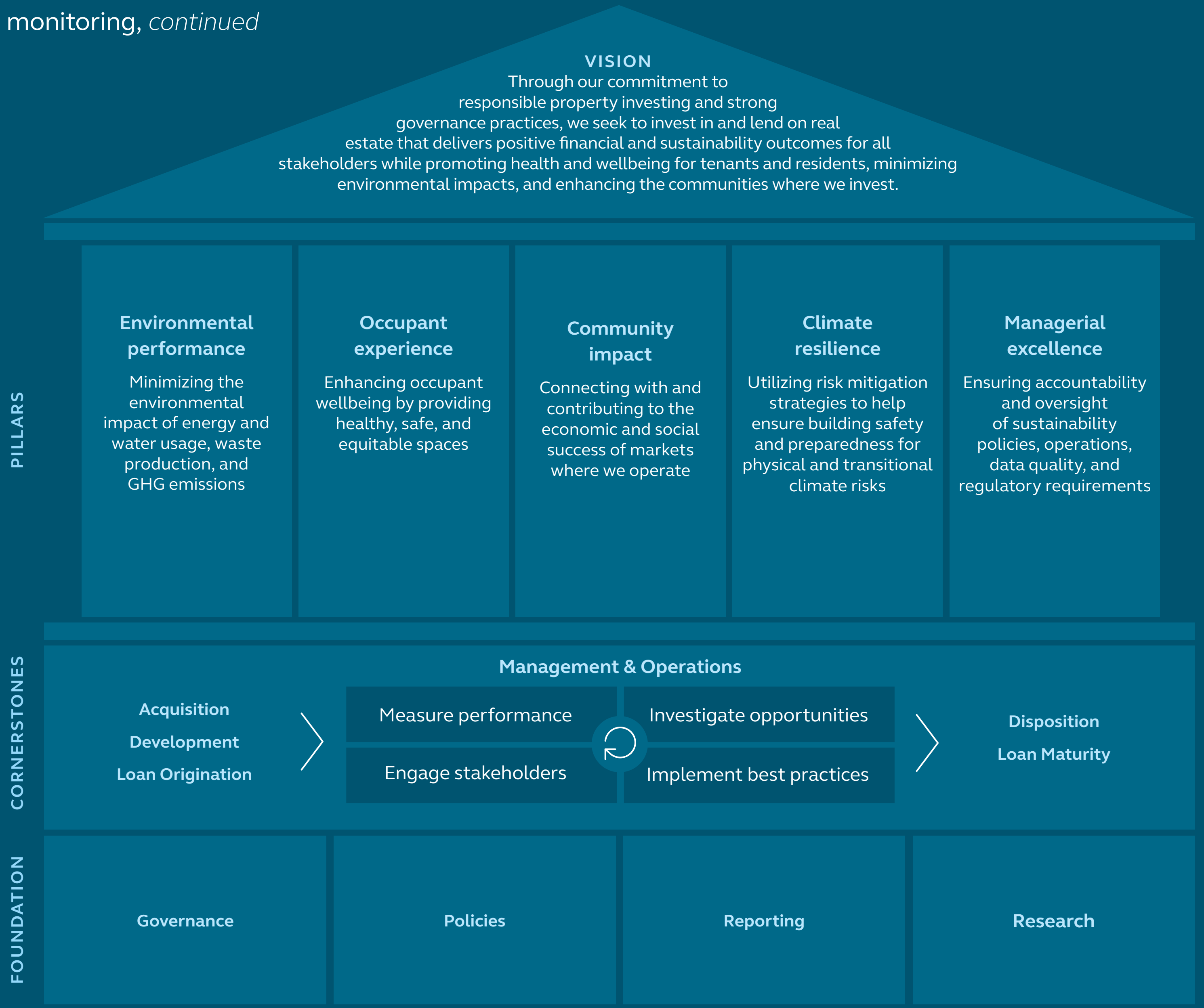
Case Study

Pillars of Responsible Property Investing (PRPI)

Principal Real Estate's Private Equity and Private Debt Sustainable Investing Platform

Principal Real Estate's PRPI program outlines how responsible property investing is incorporated throughout the investment lifecycle.

There are many levels of structured program governance that are reported publicly to provide transparency to stakeholders; set and follow clear sustainable investing policies while continually researching new practices for improved sustainable investing performance.



Case Study

Pillars of Responsible Property Investing (PRPI), *continued*

Starting at acquisition, each team identifies material sustainable investing issues during due diligence, utilizing a standard process for existing assets and new development projects.

Examples include:

- historic environmental performance
- sustainable building features
- physical climate risk
- transitional climate risk
- location and access to transportation
- regulatory requirements

That information is incorporated into investment decisions including the committee underwriting process and annual business planning; it forms the baseline for key performance indicators that are tracked and monitored over the life of the investments and factored into the financial modelling as appropriate.

Sustainability issues are a key part of the management and operations of the assets including third-party property managers and JV partners as well as engagement with tenants, residents, and other stakeholders. This continuous improvement cycle includes measuring performance, investigating opportunities, implementing best practices, and engaging stakeholders.

Principal Real Estate has established a portfolio-wide target to reduce GHG emissions by 40% by 2035 with an ultimate goal of net zero by 2050 (using a 2019 baseline) which is in alignment with the net zero goal set by Principal Financial Group.

We define net zero in accordance with the Net Zero Asset Managers Initiative: the annual carbon emissions generated from a building's use of fossil fuel, greenhouse-gas-emitting energy reduced to zero based on the adoption of energy efficiency, on and offsite renewable energy sources, and carbon removal offsets, if needed.

Principal Real Estate targets for 2035 (over a 2019 baseline)

20% reduction in energy-use intensity	20% reduction in water-use intensity
20% waste diversion (from site to landfill)	50% data coverage (input into ENERGY STAR portfolio manager)
20% of energy use from renewables	50% of portfolio with sustainable building certifications

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Client focus

Our commitment to sustainable investing revolves around our fiduciary responsibility to our clients. Acting in their best interests comes first and foremost. As a global asset manager, we see different client demands across markets, various product types and nuanced regulatory requirements depending on region, but the one unifying factor has been our sustainable investing strategy.

An inherent part of our sustainable investing strategy is to remain agile and responsive to changing client demands, regulations, and reporting requirements. We work alongside our clients and their financial professionals to help meet their investment objectives. However, this is not a one-size-fits-all approach, so we take a client-centric approach to each investment strategy based on several factors including the length of investment time horizon, asset class, relevant geography, and the specific needs of the particular clients (including sustainable investing).

We have focused on converting and launching new funds that comply with greater expectations of sustainability from regulators and clients alike.

In 2022, *we converted nine existing products to Article 8 status* under the EU's Sustainable Finance Disclosure Regulation (SFDR). *Additionally, we launched six new products;* four which we consider to have enhanced ESG integration features, a private credit direct lending product with ESG integration practices, and a thematic strategy focused on sustainable food systems that is aligned with the United Nations Sustainable Development Goals.

Client collaboration

As a global asset manager, we offer a broad group of specialized investment teams in each market we operate in. We take a client-first approach, empowering clients with choice and confidence, recognizing there isn't a one-size-fits-all approach to sustainable investing. By collaborating with our clients, we can better understand what type of engagement and investments best support their values and goals.

We believe that communication with our clients is key. Our stewardship activity involves engaging with and listening to our clients as well as sharing outcomes achieved.

Every institutional client is allocated a dedicated client relationship manager who forms a trusted partnership with the client, oversees the negotiation of the investment management agreement, handles day-to-day enquiries, and organises client review meetings with the portfolio managers. This allows us to engage directly with the client and ensures they have a single point of contact with the firm to resolve questions or concerns and address their needs. We strive to make the onboarding experience as seamless and streamlined as possible to set the stage for a mutually beneficial long-term relationship.

Clients receive monthly and/or quarterly reports (dependent on requirements). For those that have stated sustainable investing as an important part of their investment thesis, we provide specific sustainable investing reporting (including stewardship); some examples are provided below. Client portfolio review meetings are held quarterly, semi-annually, or annually as dictated by the client's preference. During the meeting, we discuss the performance of their portfolio and market conditions as well as give examples of how the sustainable investing policy was followed and the effect it had on the portfolio. Meetings are an opportunity to discuss any changes to investment or sustainable investing criteria, ensuring the client's portfolio is up to date and aligned with their needs.

Case Study

Carbon reduction plan

During 2022 our client service and Principal Equities team continued to work with a German investor to implement a carbon reduction plan for their mandate to help them with their future net-zero goals. This included building a framework to reduce the carbon emissions of the current portfolio by 25% over the next 5 years. This framework is now in place and is currently ahead of the targets set by the client.

During this period we have also implemented a similar plan for a Swiss investor, that has broadly similar aims.

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Client preferences

Feedback from our clients is crucial to continuously improving our services, communication, and reporting efforts; we review and respond to all client queries in a timely and appropriate manner. Fostering excellent client relations, meeting compliance and regulatory requirements, and maintaining an excellent reputation of integrity are all paramount to us.

Aside from day-to-day contact with our clients, senior managers monitor client satisfaction independently through an ongoing interview process. The results of these interviews are reported to senior management and all professionals involved in serving the specific client. We conduct formal client satisfaction surveys periodically across our European and U.S. clients. Any issues identified as a result of surveys or meetings are taken in-house, and the team will work to rectify them and reengage with the client to confirm a satisfactory outcome.

We are focused on understanding our clients' views and investment preferences to determine how we can incorporate them into their portfolios and client agreements. As part of ongoing discussions, clients may express additional views and preferences to apply to their portfolio, and we take positive actions accordingly. There may be occasional instances where client requests would unintentionally cause wider issues in their portfolio; in these circumstances, we engage with the client to give them full visibility into the effects of their proposed change, and confirm if they would like us to proceed as well as how they would like us to set stewardship priorities on their behalf.

All policies outlining our long-standing commitment to corporate stewardship and sustainable investing are publicly available on our **website**.

Case Study

ESG & Regulatory

A French client, for whom Principal Fixed Income is a sub-advisor on its mutual fund platform, informed us that they needed to achieve Article 8 under SFDR to satisfy their underlying clients. We worked with them to enhance the investment guidelines as well as build out a mechanisms for excluding entities that perform poorly on our ESG scoring system, as well as those that the client has chosen to exclude based on their own internal requirements.

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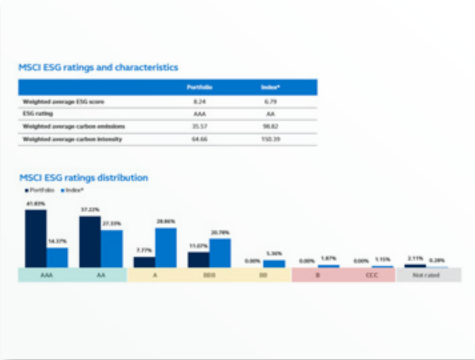
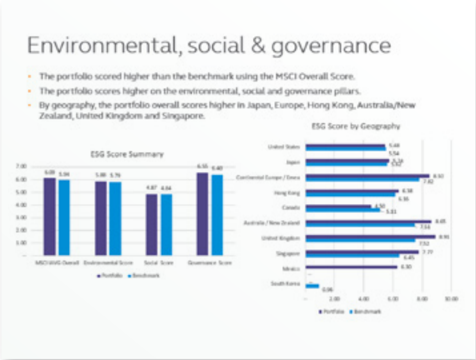
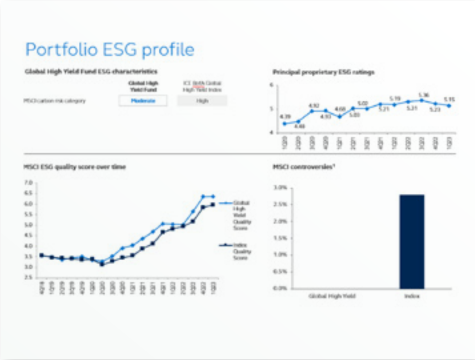
Client reporting examples



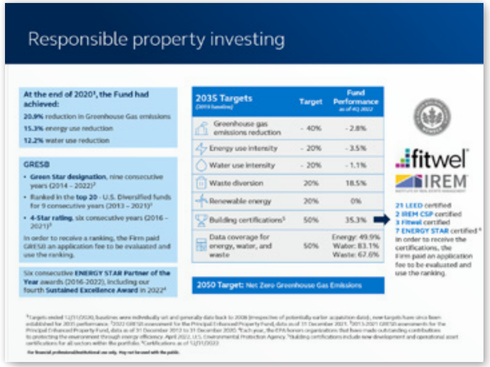
The above is used by the Principal Equities team to show quarterly updates on the ESG scoring within the client's portfolio.



The above is used by the Real Estate Investment Trusts team to provide quarterly updates on the ESG scoring within the client's portfolio, leveraging MSCI information.



The above is used by our Principal Fixed Income High Yield Team to provide quarterly updates to the client on their portfolio's ESG score relative to the benchmark.



The Private Real Estate team report on sustainability and its impact on investment performance is included as part of standard client reporting in the annual reports.

Images are for illustrative purposes only.

Serving our clients

When assessing our effectiveness in serving the best interests of our clients, we focus on our core values – integrity, commitment, and best-in-class service. Our talented global teams continually deliver all of these in today's ever-changing markets. We believe that the best interests of our clients are served by providing value through long-term, responsible, and sustainable stewardship of assets.

We believe we have served our clients' interests effectively, as demonstrated by our explanation of how these values are integral to our culture and approach. However, we are continuously seeking to improve as we consider this to be the only way to ensure our clients' best interests are fully served.

People and communities are at the core of our business. We are well-positioned to connect clients' goals with innovative ideas, expertise, guidance, and real-life solutions, and we strive to enable investors to realize their financial goals, help businesses reach their full potential through financial growth, and contribute to the development of connected communities and improved economies worldwide.

Principal Asset Management[SM]

CHAPTER

04 Stewardship in action

Stewardship activities are essential to our role as active, long-term investors.

Active ownership and engagement

For us, engagement means striving for shared value and employing stakeholder power to encourage corporate behavior. This includes direct corporate engagement, for example communicating with senior management and/or boards of companies, voting on shareholder proposals, and maintaining sustainable proxy voting guidelines. We believe that by encouraging corporations to be leaders in sustainability through better long-term stewardship of human, natural, and financial resources, we can play an active role in delivering better outcomes for our stakeholders.

While we have been successful in seeking certain changes in line with our clients' expectations when directly engaging with issuers (see our case studies below), we also view unsuccessful attempts as opportunities to reconsider our approach and look for alternative ways to engage.

In 2022, we formalized our **Principal Asset Management Stewardship and Engagement Policy Statement** (PDF), unifying the work conducted across Principal Asset Management by our various investment teams under one guiding document. The policy provides a further framework to guide company engagement and is an important structure for executing our stewardship responsibilities.

As a global firm, we recognize that standards and norms of corporate governance 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 is outlined in our Stewardship policy, and 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

We aim to:

- Engage and collaborate with the companies we invest in, using our shareholder advantage to encourage responsible and sustainable practices by the company.
- Encourage greater transparency by companies on their sustainability practices.
- Encourage companies to manage risks related to ESG factors and react swiftly to achieve a competitive advantage relative to peers regarding remuneration, boards/directors, audit issues, regulations, litigations, and other impactful market factors.
- Encourage companies to disclose relevant ESG metrics through public reporting and to explain how they may fit into the company's overall business activities.

Objectives for sustainable investing, engagement, and stewardship.

As a fiduciary for our clients, we welcome the broader investment prism that the PRI Principles represent. 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, we believe the consideration of sustainability issues and ESG factors has the potential to enhance the risk-adjusted returns we deliver to clients. Examples of ESG and Sustainable Investing policies are listed below but are not limited to the following. For a complete list please see our **website**.

- **Principal Equities Sustainability Overview**
- **Principal Fixed Income Sustainable Investing Policy**
- **Principal Asset Allocation Sustainable Investing Policy Statement**
- **Pillars of Responsible Property Investing ESG Policy**
- **Principal Listed Infrastructure Sustainable Investing Policy**

Stewardship activities

Stewardship activities are a part of each investment team's separate philosophy and process. Each team has freedom to define the scope of its engagement with companies and participate in industry and sector collaborations.

- We use our equity shareholder advantage to create direct engagement opportunities. During 2022, Principal Equities teams conducted approximately 2,200 discussions with management teams of current and prospective investee companies.
- Fixed income engagements revolve around direct communication with issuers.
- Our Real Estate teams approach engagement across stakeholders, tenants, and communities, upholding the objectives and values of the Principal Real Estate PRPI.

Principal Equities

In implementing our investment process, we seek to mitigate unnecessary risk for our clients and enhance potential shareholder value. Ongoing monitoring of investee companies is a key element of this process, facilitated by our ongoing communication with the management of companies we invest in on behalf of our clients.

Sustainable investing considerations are embedded in the fundamental research conducted by our analysts who provide essential insights into industry trends and company-specific considerations. These insights are crucial for evaluating sustainable competitive advantages and risks at a company and industry level.

We seek to invest in companies that are well-managed and/or are improving their corporate governance. Our belief is that sound corporate governance creates a framework within which a company can be managed in the best interests of its shareholders.

Specifically, we view governance considerations as integral to our investment philosophy and process. Companies that demonstrate strong shareholder protections and alignment policies naturally garner premium valuations over peers with lesser standards. At the same time, improving governance policies and practices provide a basis for improved relative valuation, while governance dilution or deterioration represents an inherent source of risk and valuation compression.

Our analysts identify and formally comment on the most relevant sustainable investing engagement priorities within their thesis documented for each company. They specifically focus on how pertinent sustainable investing priorities shape our overall views on sustainable, fundamental change for each company. To promote greater consistency and repeatability across the firm, our research teams have identified specific sustainable investing pillars for each major market sector. Across all sectors, leadership and governance are key dimensions, but other dimensions differ. Most importantly, these issues are considered within the context of their impact on the sustainability of a company's fundamentals, ultimately driving the timing, amount, and certainty of future earnings and cash flows.

To supplement our independent assessments, we integrate MSCI ESG analytics in our process and monitoring tools, giving us access to company specific ESG scores, trends, potential controversies, and other notable sustainable risk considerations. The overall ESG score and the underlying scores of environmental, social, and governance are integrated directly with our central research dashboard. We emphasize trends in ESG metrics over current levels and scores, recognising that mainstream ESG scoring metrics may incorporate significant structural biases – systematically favouring large capitalisation companies and developed market nations. This runs counter to the aspirational aims of sustainable investing engagement, as companies with below-average scores may offer greater opportunities for positive change—and vice versa.

We monitor investee companies through investment publications, corporate annual reports, regulatory filings, meetings, road shows, company visits, outside investment research of broker-dealers, and other third-party sources. Our monitoring process feeds into investment decisions prior to buying and on an ongoing basis; our analysts look for early identification of fundamental drivers of an investee company and make buy, sell, hold, or sizing recommendations.

Our proprietary tool captures and communicates these recommendations to relevant portfolio managers.

Over the years, our processes have grown to include engagement with companies on sustainability issues and we believe that direct communication between investors and companies on sustainability matters is an important element of the portfolio management services provided to clients. Engagement may lead us to make decisions that favor actions intended to maximize a company's shareholder value and contribute to our overall research to develop a holistic fundamental view of the company. We take seriously our commitment to our community and society. We believe that we must take responsibility for educating others and ourselves by addressing a range of sustainability issues that encourage the wellbeing of our community and society and may enhance shareholder value.

Case Study

Principal Listed Infrastructure - Engagement priorities

Our engagement efforts focus on the following topics:

1. **Management alignment**

   We believe that management teams whose compensation is aligned with sustainability initiatives are more likely to deliver positive sustainability outcomes. We will ask issuers to add and/or increase relevance of ESG and sustainability metrics to incentive programs, in particular long-term incentive programs.

2. **Credibility of emissions reduction targets**

   We believe emissions reduction targets need to be backed by robust management planning and accountability. We will advocate for issuers to provide concrete plans in support of emissions reduction targets, encourage third party validation of targets where appropriate and encourage acceleration of targets where possible. Particularly for those issuers for whom Scope 3 emissions are material, we will encourage Scope 3 emissions disclosures and/or Scope 3 emissions target setting.

3. **Workforce diversity**

   We believe companies with workforces that reflect the diversity of their service territories will be better positioned to meet the evolving needs of their customers. We will ask issuers to disclose workforce breakdowns as relevant in their local markets. We will also encourage the publication of related targets. For companies that are clear laggards in terms of board diversity, we will also advocate for improvement.

4. **Market perception of underappreciated issuers**

   We believe improved market recognition of a company’s sustainability credentials can support our efforts to generate excess returns. We will engage with issuers, MSCI and other third-party research providers with the aim of clearing misconceptions around an issuer’s sustainability credentials, in particular for emerging market and small cap companies.

Principal Fixed Income

Our philosophy is defined by deep fundamental research and disciplined risk management—integrating sustainable investing into our process is a natural extension of what we have always done.

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 analysts directly engage and raise any concerns about sustainability issues like lax safety or environmental protocols that would result in worker injury or release of pollutants into the environment, during direct engagement meetings with corporate management teams.

If we consider that sustainability issues have resulted or are likely to result in a material risk to the company’s business or ability to meet financial obligations, increased frequency and urgency of engagement occurs. If an issue inconsistent with the interests of our clients is identified, we take appropriate action in mitigating our exposure.

Our analysts directly engage and raise any concerns about sustainability issues such as a company's involvement in the financing of controversial weapons and other fundamental concerns such as regulatory or legal infractions that could impact a company's ability to attract customers and hence remain profitable.

Principal Real Estate

Stakeholder engagement is a key part of Principal Real Estate's PRPI initiative. We share an engagement toolkit with property management teams to provide direction and resources to better involve and inform stakeholders.

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 compliance and oversight, we verify that each property participating in the PRPI platform has a tenant and community engagement program. Outcomes are measured through tenant satisfaction, tenant retention, and tracking of environmental and social key performance indicators.

Private Real Estate teams are required to develop a communication, education, and engagement plan for tenants and community stakeholders. Tenant engagement provides guidance for encouraging tenants to participate in sustainable practices, and improve their environmental performance, whilst our community engagement program seeks to engage local stakeholders with sustainable activities.

Our engagement toolkit for Property Managers includes the following guidance:

- Comply with our health and wellness policy
- Utilize our green leasing language, which allows us to: pass energy efficiency-related capital expenses through to tenants, require disclosure of tenant utility consumption information for the purposes of whole building benchmarking, require tenants to purchase efficient equipment and fixtures during improvement projects, and install submeters to track tenant space energy consumption.
- Participate in our enhanced appraisal program by collecting relevant sustainability information detailed in the appraisal checklist to share with appraisers.
- Leverage utility and regional incentives, rebates, and technical resources.
- Seek applicable performance certifications.
- Develop a tenant, vendor, and community engagement plan.

Tenant engagement for each property is unique, but often includes environmental and social issues included in lease agreements:

- Utility management consumption and reporting
- Sustainable procurement
- Indoor environmental quality management
- Environmental initiatives
- The community engagement program includes:
  - Public space enhancement program
  - Employment in local communities
  - Community health/well-being programs
  - Property and tenant support of local charities/community groups
  - Sustainability education programs
  - Community outreach events
  - Publishing articles about energy savings methods in local papers
  - Partnering with local schools on energy reduction education

Investment Team Case Studies

We have included case studies from 2022 which highlight our approach to stewardship and engagement. While there are no significant changes in overall investment processes, the new case studies demonstrate the continued effectiveness of our process, and reflect the importance of our investment teams when managing ESG risks, resourcing stewardship, engaging with issuers on ESG matters, and escalating our efforts when necessary.

Case studies of direct engagement

Consumer Staples company

Example from Principal Equities

ENGAGEMENT TYPE: Direct - Letter to the Board

BACKGROUND: Principal has held investments in the global convenience store industry for more than a decade

OBJECTIVES: As outlined in the letter, we are confident that a strategic focus on this core convenience store franchise and strengthened alignment of governance structures will unlock significant long-term value and a path to even stronger growth and earnings power for the company.

ACTIVITIES:

Three strategic recommendations:

1. When well-managed, the convenience store industry offers attractive returns and opportunities for consolidation. This convenience store is the market leader in the U.S. and plays an active role in that consolidation. In addition, there is further opportunity to expand the company's international footprint. As investors, we encourage the company to invest time and resources in international convenience retail businesses and move to diminish investment and loss in non-convenience retail units.
2. As we engage with all our investee companies, we are consistently encouraging them to establish a diversified Board of Directors with a majority of outside directors to bring additional experience, perspective, and oversight while reducing the potential for conflicts of interest including our intent to utilize proxy voting to encourage movement toward this balance.
3. We would like to see more ownership of the company at the executive level to ensure that shareholder interests align with management incentives. We believe long-term investment plans (LTIP) that include ownership and focus on return metrics through time encourage the organization's leaders to act on decisions that benefit the company and all owners.

OUTCOMES: Engagement is ongoing with clarity on these specific issues expected in 2023.

Industrials company

Example from Principal Equities

ENGAGEMENT TYPE: Direct –Meeting with company's Chief Sustainability Officer

BACKGROUND: Based in Germany, this group is one of the largest suppliers of food processing technology as well as a wide range of other end-markets, offering a comprehensive service portfolio.

OBJECTIVES: Following the release of their first environmental strategy in June 2020, our priority is encouraging improvements to the Long Term Incentive Plan (LTIP) structure.

ACTIVITIES: In March 2022, our industrials analyst met with the group's Chief Sustainability Officer as part of her first roadshow since the role was created. It was a broad discussion ranging from her priority in the role to sustainability targets.

Incentive structure was a main topic given its engagement priority. As of 2021, they have a new policy set for three years. Scope 1&2 emissions are included in the LTIP, and the targets are based on linear paths to their 2030 targets. The total shareholder return part is now linked to the DAX ESG Index rather than the DAX, and vesting is now four years rather than three. Measures around customer and employee satisfaction are in the annual bonus but not LTIP. We have previously communicated our views on LTIP best practices to the company.

OUTCOMES: Under new management, the group has made progress in the past year in setting targets on a wide range of sustainability issues, but they started much later than peers, meaning it will take time to actually get this newfound focus entrenched into the company culture. Nevertheless, they are taking some positive steps.

Principal Asset Management℠

Industrials company

Example from Principal Equities

ENGAGEMENT TYPE: Direct - Letter to the Board and Management

BACKGROUND: In November 2022, we engaged discussion on the content moderation business, following an article containing allegations in the Bureau of Investigative Journalism (which followed two articles in Forbes in August, 2022).

Following the meeting, we penned a letter to encourage changes to working practices to help encourage that this company has best-in-class safety standards for employees. Content moderation is essential to protecting society, but we want to ensure that the company is the right place for this work to be done.

OBJECTIVES: Principal Equities has been a significant shareholder in this company for several years. Following allegations made against the company regarding working practices in content moderation, we met with the CFO/Deputy CEO and Chief Transformation Officer to discuss this business. We previously listened to three investor calls held by the company. The purpose of this letter was to encourage the company to undertake the following steps relating to the content moderation business.

ACTIVITIES:

Careful selection of employees: those selected to oversee workflows involving egregious material should be subject to a particularly thorough selection process. The company should develop processes – including the use of psychometric testing – to reduce the risk of more vulnerable personality types being exposed to damaging content.

Compulsory psychological support: while all content moderation employees are encouraged to utilize counselling services, we recommend these sessions be compulsory and not just provided when requested by the employee, as some employees might be fearful of coming forward. The company should also mandate counselling sessions for an extended period after employees leave the company (at least a year).

Limit employee exposure to egregious material: company employees working on workflows with potentially egregious material spend 20% of their time on breaks and 10% doing other activities such as training, leaving 70% of time spent working through potentially egregious material. We believe 70% is too high; we suggest limiting exposure to potentially egregious material to a minority of an employee's time, as this will reduce the risk of developing psychological issues.

Work closely with governments/regulators: the company should work closely with regulators to ensure that they are setting the highest industry standards to minimize risks to employees. This is necessary to ensure that content moderation activities reside with the appropriate party – be it law enforcement or the private sector.

Publish results of external audit: the company should share the detailed results of an external audit into working practices of content moderation staff in the country with investors (even if some confidential information is redacted).

Investor day: we recommend that the company holds an educational investor day on the content moderation business including:

- A detailed break-down of the type of work
- Extensive details on working conditions, policies, and procedures for employees working in content moderation
- Why they are the right company to be doing this high-risk work

OUTCOMES: Engagement remains ongoing with clarity on these specific issues expected in 2023.

By taking the steps outlined above, the content moderation business model can be adjusted to incorporate the highest possible standards to minimize risks to employees and the company. An objective re-assessment of the strategy to grow the content moderation business - and its potential to create sustainable shareholder value - should then be undertaken.

If management cannot convince investors that they are the right company to do this work - and to assign a strong multiple to the earnings from this business - we would encourage the company to make real consideration of exiting this business.

Case studies of direct engagement, *continued*

Healthcare company

Example from Principal Equities

ENGAGEMENT TYPE: Direct – Calls with company management

BACKGROUND: Principal has been a long-term holder of the major pharmaceutical company with key franchises in the central nervous system, diabetes, oncology, and immunology markets.

OBJECTIVES: Improving access to healthcare, specifically insulin, is highly relevant and important to broader population health. Insulin markets are concentrated between two companies. Initial biosimilars have come to market but access to insulin is still a highly political topic. This company needs to improve access and focus on growth in other business areas (GLP1, obesity, oncology, Alzheimer's).

ACTIVITIES: Our healthcare analyst engaged twice with the company in 2022 on their approach to pricing across a variety of assets, not just insulin.

For its PD1 therapy, the company is less enthusiastic on its ability to gain FDA approval with Chinese patient only data. The initial strategy was to use approved Chinese data to bring it to the U.S. and price at a material discount to other PD1 therapies to attempt to disrupt a market with increasing competitiveness but sticky prices. Additionally, we discussed potential pricing for other GLP1 therapies. Management was understandably vague but want to make sure pricing is commensurate with value with potential value-based agreements on the table.

OUTCOMES: In mid-December, the company had a press release regarding collaboration with a pharmaceutical company to increase insulin access across low-to-middle income countries. Increasing access and affordability has been a key area of engagement for us, especially for necessity products like insulin. This collaboration is a good example of continued innovation and progress. Further steps are encouraged including finding a way for increased access to more novel, innovative, and effective forms of insulin.

Financials company

Example from Principal Equities

ENGAGEMENT TYPE: Direct – Engagement meeting with the company's investor relations

BACKGROUND: This company operates as a global financial services company. The firm provides investment banking products and services to its clients and customers including corporations, governments, financial institutions, and individuals.

On September 20, 2022, it was announced that the company had agreed to pay $35 million to settle an investigation conducted by the SEC into the firm's failures, over a five-year period, to protect the personal identifying information of 15 million customers. The SEC said its order found that the company failed to properly dispose of devices carrying its customers' personal identifying information when the firm decommissioned servers as part of a broader hardware refresh program. Without admitting or denying its findings, the company consented to the SEC's order finding that the firm violated the Safeguards and Disposal Rules and agreed to pay the penalty.

OBJECTIVES: Following the release of the report, our financial analysts contacted the head of the company's investor relations to inquire about the issue and remedies that have been put in place to avoid future issues.

ACTIVITIES: The head of IR reiterated that these issues are from a 2015-2016 timeframe, even though the fine was just announced; they said they have made significant changes to the firm's third-party due diligence when it comes to hiring firms to decommission computers and servers and enhanced encryption procedures. She reiterated that there was never any evidence of an external breach or hack and that clients were notified.

OUTCOMES: The analyst was comfortable with the hearings and remedies to the situation. The engagement was considered closed with the next priority under review.

Financials company

Example from Principal Equities

ENGAGEMENT TYPE: Direct - Engagement meeting with the company's investor relations

BACKGROUND: This company is a leading global provider of insurance and employee benefit programs, serving 90 million customers in more than 60 countries.

On March 24, 2022, the company announced a broad set of 2030 diversity, equity, and inclusion (DEI) commitments designed to address the needs of the underserved and underrepresented through a mix of investments, products and services, supply chains, volunteering, and community efforts. The company noted the DEI commitments augments their sustainability efforts and are informed by the UN Sustainable Development Goals (SDGs).

OBJECTIVES: Following release of the report, our financial analyst sent a note to the company's investor relations to get a better understanding about the specific SDG commitments, as measurement is important.

ACTIVITIES: The email inquiry was about what the specific SDG commitments were tied to and about management KPIs tied to the DEI commitments. Investor relations responded that the chosen SDGs are #5 (gender equality) and #10 (reduced inequalities). They also responded that the executive leadership team is responsible for the DEI goals.

OUTCOMES: Measurement is important and helps to track tangible progress and add alpha. Based upon the company's investor relations' response below, our outcome was achieved.

> "We know that leadership commitment and accountability drive the change from commitment to action. In early 2021, we launched our Global DEI Leadership Council, chaired by our CEO. The Council's focus is on achieving our long-term aspiration to be a top company for DEI with top quartile performance. The Council drives and executes our DEI strategy across businesses, functions, and regions; provides strategic guidance and insight to improve performance; and visibly promotes and champions DEI internally and externally.
>
> Additionally, our executive leadership team is accountable for delivering on a shared sustainability goal for the enterprise, of which DEI (and the 2030 DEI Commitments) is a key component. Performance and progress toward that enterprise sustainability goal directly impact leadership performance ratings and compensation.
>
> Progress is tracked by various groups across the organization. In addition to publishing updates in our annual Sustainability Report, metrics will also be reported twice a year to our Board of Directors."

Case studies of direct engagement, *continued*

Consumer Staples

Example from Principal Equities

ENGAGEMENT TYPE: Direct - Meeting with CEO, CFO, and IR

BACKGROUND: The company stands apart from peers with a conscious capitalism inspired stakeholder model, prioritizing the long-term benefits of each stakeholder:

- farmers and suppliers
- customers and consumers
- communities
- the environment
- crew members
- shareholders

The company believes the approach has been validated by results and its designation as a Certified B Corporation.

OBJECTIVES: Priorities are to understand their climate impact and to improve transparency by reporting their carbon emissions. Once disclosed, work to set reductions targets.

ACTIVITIES: Completed their baseline FY19 scope 1,2,3 measurement and have improved transparency through disclosing them. Still contemplating goals; ideally, ready to share before year end. Not opposed to offsets but would prefer to change the way we operate.

OUTCOMES: Climate change and potential shifts in the pasture belt are top of mind for them, so they are constantly tracking and modeling potential impacts. Seeking more geographic diversification through new farm contracts.

Gaming

Example from Principal Fixed Income – Global High Yield

ENGAGEMENT TYPE: Direct – meeting with investor relations

BACKGROUND: Governance at the company remains a concern. The company is largely controlled by two families who have been slow to create board independence.

OBJECTIVES: The objective of the engagement was to gain insight of their views on board independence, their steps towards it, and what their objectives and long-term outlook are for family influence over the company.

ACTIVITIES: We met with investor relations and asked direct questions about their goal to have an independent board and any progress towards it. They shared that two-thirds of the board is currently independent after adding directors late last year, one-third of which are women. They relayed that the focus for the board is making sure skill sets are aligned.

OUTCOMES: While the board has become more independent, family ownership of the majority of voting shares is still intact. Even with greater board independence, their goal of retaining family control led us to reduce our position due to the lower governance score. While the overall ESG score of the firm is strong, the governance portion is likely capped until there is greater change.

Natural gas distribution/utilities

Example from Principal Fixed Income – Asian High Yield

ENGAGEMENT TYPE: Direct – meeting with investor relations

BACKGROUND: In 2022, the company had several transactions and arrangements with connected persons and its parent group. Governance at the company remains a concern.

OBJECTIVES: The objective of the engagement was to achieve insight into their view on board independence and regulations on connected transactions.

ACTIVITIES: We met with investor relations and asked direct questions about their regulations over connected transactions and progress towards it. They shared that their regulation and disclosure over connected transactions comply with Chapter 14A of Hong Kong Listing Rules to take into account the interests of shareholders as a whole when it or one of its subsidiaries enters into connected transactions (Chapter 14A can be viewed at **https://en-rules.hkex.com.hk/rulebook/chapter-14a-connected-transactions**). The connected transactions have been reviewed by independent non-executive directors of the company (the company's Board consists of 11 directors, including five executive directors, two non-executive directors, and four independent non-executive directors) and an auditor. The independent non-executive directors of the company need to confirm that the transactions have been entered:

1. in the ordinary and usual course of business of the group;
2. on normal commercial terms; and
3. in accordance with the relevant agreements governing such transactions and on terms that are fair and reasonable and in the interests of shareholders of the company as a whole.

Related-party transactions, including gas procurement and increased LNG terminal usage, are limited to less than 5% of cost of goods sold.

OUTCOMES: Given the willingness of the company to share their detailed management over the related transactions, we ascertained that the impact of the related transactions is not significant enough to affect our view on the governance of the issuer at this stage. We continue to monitor potential related transactions and engage the company on its rationale for these activities.

Utilities

Example from Global Listed Infrastructure

ENGAGEMENT TYPE: Direct – Meeting with CFO.

BACKGROUND: Our discussions with this energy company in 2022 largely focused on assessing the evolution of the company's decarbonization initiatives, specifically its plans for the retirement of several coal generation units and continued rollout of new renewable generation. While their net zero ambitions were consistent with those of peers at the time of our initial investment in 2021, we noted that the company expected to continue to operate its coal generation longer than many peers, including one peer with operations concentrated in the same state.

OBJECTIVES: Our objective for the engagement was to evaluate the reasons for the company's planned timing of coal retirements and renewable generation growth and to assess the potential for its decarbonization targets to be accelerated.

ACTIVITIES: We met with representatives of investor relations and sustainability teams in March 2022 to discuss, among other sustainable investing related items, the credibility of its emission reduction targets. At that meeting, we sought to understand the potential to accelerate the targets and the key limitations the company was facing in doing so. The company indicated that the conversion of one very large coal plant had the potential to be accelerated. We met with the CEO and CFO later that spring, and management confirmed in a group setting that the acceleration of coal unit closures was likely to be included in the company's integrated resource plan (IRP), a regulatory filing that sets out a utility company's long-term power generation capacity needs, when filed in October 2022.

OUTCOMES: The company accelerated the retirement of two coal units from 2028 to 2025 and 2026 and of its largest coal plant from 2040 to 2035 with the filing of its integrated resource plan ("IRP") in October 2022. The IRP filing also included the addition of 15.4GW of renewable generation capacity and 1.83GW of battery storage by 2042. As a result of the IRP filing, the company advanced its goal to reduce its CO2 emissions by 80% from 2040 to 2035 and added a target to reduce CO2 emissions by 90% by 2040 (using an industry-standard 2005 baseline). Importantly, these accelerated commitments were made alongside critical social contributions, such as commitments to reskilling employees that support its legacy generation base. The above outcomes are in addition to the company having accelerated its scope 3 net zero target for its gas company from 2050 to 2040 in April 2022 and are part of a broader pattern that gives us conviction in the company's decarbonization trajectory even though its business began this decade as more carbon intensive than many U.S. utility peers. Going forward, we expect to engage with the company at least once annually to monitor continued progress on its decarbonization commitments.

Communications infrastructure

Example from Global Listed Infrastructure

ENGAGEMENT TYPE: Direct

BACKGROUND: MSCI identified several deficiencies in this communication company's sustainable investing practices relative to domestic and global peers, including its board composition and governance structures. MSCI also penalized the company's social score based on labor intensity, consequent exposure to work disruption risks, and limited labor management initiatives, as well as finding limited evidence of initiatives to bridge the digital divide or increase communications for underserved populations.

Our independent assessment of the company's sustainable investing practices and social impact diverged meaningfully compared to the views expressed by MSCI. This company constructs and operates cell towers in China in both urban and rural areas. These towers are a foundational building block for mobile communications in the country and a key enabler of access to information. By the nature of its business, it is a critical player in bridging the digital divide and increasing access to information. The company is active in promoting inclusive telecom services for remote rural areas, undertaking numerous projects of inclusive telecom services, and has various initiatives to support rural revitalization. In addition, the company provides emergency communication support against natural disasters and has initiatives to support infrastructure resilience.

OBJECTIVES: Our objective in engaging with the company was to discuss in detail the criticisms raised by MSCI and learn more about the company's sustainable investing resourcing. We sought to communicate the importance we, as shareholders, place on board independence and diversity and understand the company's timeframe for demonstrating continued improvement in these areas. We asked the company to engage in more regular communications to ensure all positive sustainable investing attributes are reflected in third-party ratings.

ACTIVITIES: In October 2022, we met with the company's head of IR, who is the only company executive working directly on sustainable investing related matters. Broadly, the conversation reinforced our view that MSCI's assessment of the company is negatively impacted by the company's lack of sustainable investing resourcing, therefore offering an incomplete view of the company's fundamentals in addition to failing to reflect meaningful improvements being made. Supplementing our engagement with the company, we proceeded to engage directly with MSCI over the subsequent six weeks to clear up certain misperceptions. This entailed multiple rounds of email correspondence. MSCI responded to our questions with additional information about its methodology and ratings rationale. We raised further questions and shared additional details regarding areas of disagreement including 1) how a larger employee base creates operational efficiencies and reduces labor intensity; 2) employee training disclosures; 3) ways in which the company improves communications and information services for underserved populations; and 4) how the company directly contributes to affordability for mobile access to the Chinese society. We expressed our conviction that the company deserves a higher score in the areas of labor management, access to communications, and board composition and urged MSCI to take our examples into consideration going forward.

OUTCOMES: The company confirmed its intent to add a female director by year-end 2024, improving board diversity and allowing the company to comply with Hong Kong listing rules. We intend to reconfirm the company's commitment to doing so at least once a year until this deadline. We note that the company already has a dual board structure with half of the supervisory board consisting of female directors, so we see the lack of female representation on the board of directors as reflective of a gender-imbalanced talent pool linked to Chinese politics rather than a reflection of the company's commitment to female advancement. The company also added two independent directors with meaningful capital markets experience in 2022, and the updated slate represents a stronger board than reflected by MSCI in our view. Board independence has now improved from <30% to 40% since the company's 2018 IPO.

Our engagement also resulted in a correction of a technical error on MSCI's part, which increased the company's social score. MSCI updated their report to reflect the new board appointments and improved governance after we brought it to their attention. We continue to disagree with MSCI's broader view of the company's ESG quality and certain aspects of their methodology in reflecting the company's full social contributions, as elaborated in our email communications. We hope to further our dialogue in time, especially as the company improves its disclosures in these areas. In the meantime, we will continue to encourage the company to improve disclosures and further their direct communications with MSCI. Going forward, we expect to engage with the company at least once annually to monitor continued progress on its decarbonization commitments.

Transportation infrastructure

Example from Global Listed Infrastructure

ENGAGEMENT TYPE: Direct – Meeting with company sustainability teams.

BACKGROUND: The air travel industry is under increasing scrutiny for its environmental impact, so we are continuously seeking to update our views regarding the viability of the airport business model in a net zero world and how we should approach discounting transition risks for airport infrastructure in our investment underwriting.

Aviation is responsible for around 2.5% of global CO2 emissions, and demand for flying remains very high. There are limited near term solutions to reducing this impact, as electric and hydrogen aircraft technology remains decades away, but one of the more credible solutions to decarbonizing aviation is via the use of sustainable aviation fuels (SAF).

OBJECTIVES: The objective of our engagement was to assess whether this transportation infrastructure company was taking appropriate steps to support the broader industry's decarbonization plans, specifically as it relates to its efforts to facilitate greater usage of SAF.

ACTIVITIES: We met with representatives of the company's sustainability and IR teams in April and October of 2022 to discuss the role that they are playing in reducing carbon emissions within the aviation ecosystem and outside of the company's own directly reportable Scope 1-3 emissions. Whilst we discussed its Climate Action Plan and other sustainable investing matters more broadly, we focused our conversations on the steps the company is taking to incentivize take up and in the provision of SAF.

OUTCOMES: The company confirmed that it is seeking to provide regulatory incentives for airlines to use cleaner fuels in its ongoing conversations with Spain's Ministry of Transport. Precedent exists, where many airports currently offer discounted tariffs to airlines using aircraft models that reduce noise and nitrogen oxides emissions.

We expect that this company will achieve a final draft regulatory agreement that includes such incentives by year-end 2023, with implementation possible from 2024.

The company also confirmed its involvement in a national program that would coordinate the logistics in bringing SAF to airports and provide visibility on demand by scaling airline requirements across a country-wide network. This is a critical contribution, as supply of SAF is quite limited at present. We will confirm progress on these two initiatives in a follow-up engagement conversation in 2023.

Case studies of direct engagement, *continued*

Property manager

Example from Principal Real Estate

ENGAGEMENT TYPE: Direct – Meeting with property managers.

BACKGROUND: Property manager engagement

Objectives: Property managers are engaged in the Pillars of Responsible Property Investing platform that includes Principal Real Estate's sustainable investing targets and property performance expectations. Objectives for property manager engagement are to improve utility data collection for better energy, water, waste, and emissions monitoring and reporting; and to improve property ESG performance by helping property managers implement and tenants adopt sustainable operating best practices.

ACTIVITIES: The ESG Handbook for Property Managers is a comprehensive resource that describes property manager responsibilities for sustainable building operations. In 2022, we updated this resource to align with current best practices and improve usability. This was followed by a training webinar that helped property managers develop an understanding of the requirements outlined in the handbook, the importance/impact of the requirements, and implementation steps.

Specific to data collection, we conduct targeted outreach on a quarterly basis to properties with missing or out of date energy, water, and waste data. This engagement with property managers reinforces the importance of data collection and benchmarking and helps improve property manager engagement on sustainable investing at the property.

OUTCOMES: The outcomes of this engagement are ongoing as we continually work to improve data collection and sustainability performance. We will continue to conduct outreach activities. In 2023, we began conducting sustainable investing audits at select properties. This is a one-on-one meeting with our senior ESG analyst and the property manager to review the requirements outlined in the ESG Handbook for Property Managers, answer questions, and discuss property-specific sustainability successes and challenges.

Technology company

Example from Post Advisory

ENGAGEMENT TYPE: Direct - Social/governance meeting with company.

BACKGROUND: This company is a leading provider of mission-critical, software products and software-enabled services that allow financial services providers to automate complex business processes and effectively manage their information processing requirements. We have been investors in their loans and bonds for many years. On May 13, MSCI downgraded their ESG rating to B from BB, citing high data privacy risks paired with lagging information security measures such as employee cybersecurity training programs and independent audits of information security as reasons for the downgrade. Additionally, MSCI highlighted employee lawsuits and limited engagement channels to help monitor workforce morale.

OBJECTIVES: We encouraged the company to work collaboratively with MSCI to either provide enough clarification or make the necessary improvements to address MSCI's concerns.

ACTIVITIES: We subsequently spoke with the company regarding the downgrade; they disagree with MSCI's assessment that their information security measures, workforce monitoring tools, and workforce satisfaction were lagging.

OUTCOMES: The company intends to work with MSCI and is planning to release another ESG report later this year that will expand on its latest workforce initiatives.

Healthcare company

Example from Post Advisory

ENGAGEMENT TYPE: Direct – Governance call with management.

BACKGROUND: In early November 2022, this company reported Q3 results that fell short of analyst estimates. Despite strong demand from customers, EBITDA significantly declined quarter-over-quarter and year-over-year due to rising raw materials costs, freight costs, and supply chain issues. As a public company, they had historically provided investors with detailed guidance for the fiscal year but stopped in early 2020 at the onset of the COVID-19 pandemic, making it more difficult to understand the underlying drivers of profitability. We scheduled a call with management following the Q3 earnings release.

OBJECTIVES: To better understand the headwinds the company was facing.

ACTIVITIES: During this call, we encouraged management to restore some form of more detailed guidance and place a greater emphasis on transparency and data accessibility. Management thanked us for our support as large bond holders and stated that they would look into solutions to keep investors better informed.

OUTCOMES: Management subsequently hosted an analyst day in December that included a lengthy discussion on guidance and a clearly communicated policy on the enhanced data and disclosures that investors can expect in future earnings releases. Company unsecured bonds fell over four points in the weeks following the initial earnings announcement but subsequently recovered by the end of December. We believe the price recovery is at least partially driven by the increased transparency and management's commitment to a more robust guidance policy moving forward.

Financials company

Spectrum Asset Management

ENGAGEMENT TYPE: Direct – meeting with Head of Investor Relations and Chief Sustainability Officer

BACKGROUND: The company is facing legacy compliance and risk control issues (governance), but it has shown progress in recent years. Like its industry peers, the company has indirect exposures to environmental and social risks.

Objectives: The objective of the engagement was to gain insight on the improved governance practices, future plans and their views on environmental and social issues.

ACTIVITIES: We met with investor relations and the sustainability team, and asked questions about improvement on the governance structure, their plans on sustainable finance, and cybersecurity strategies. They shared their perspectives on each topic, emphasizing the company's focus is to meet clients' demand regarding sustainable finance, and they have done collaborative work internally and externally with regulators to tighten risk controls.

OUTCOMES: The engagement meeting confirms our ESG views of the company. Since governance weights more in our credit analysis, we remain cautious on its governance practices and await more positive updates from regulators.

Escalation of stewardship activities

At Principal Asset Management, our analysts and portfolio managers consider escalation of issues on a case-by-case basis. If an investment analyst deems an issue requires escalation, the individual analyst decides how to execute the appropriate course of action. This may include:

- seeking additional information using all available research methods
- making investment recommendations
- deviating from a voting recommendation
- divesting in an asset

Analyst decisions may be made autonomously or in collaboration with a portfolio manager(s) if a transaction is required. Specific client instructions on handling a mandate supersede this process.

Factors that lead to an escalation process may vary by industry, company, and geography as well as by our exposure to the company. We utilise third party data providers to analyse company ratings and risk factors to determine materiality when monitoring issues. For example, when a company makes changes that impact one or more ESG factors resulting in lower rated ESG scores, our analysts may conduct further due diligence and company engagement, as part of their escalation process.

We engage in predominantly private meetings with management and their advisors, concerns and progress documented by our analysts and stored within our research database. We reserve the option to exit our shareholding if we believe the timeframe for effective improvement and/or change does not suit the best interests of our clients.

While escalation does not directly translate to our real estate business, there may be circumstances whereby escalation on specific property issues is necessary with our partners, developers, and property managers. For example, a data center purchased by a Principal client was identified as a high risk for extreme heat. The Principal Real Estate team took emergency preparedness steps – subscribing to local alert systems, developing a tenant communication plan, and updating building policies to include risk mitigation strategies and emergency response actions.

Diversified manufacturing

Example from Principal Fixed Income - Global High Yield

ENGAGEMENT TYPE: Direct – Meeting with company CFO

BACKGROUND: Lack of disclosure from C-suite team

OBJECTIVES: Get insight on current trends and standing of the company as the company has been strategically not hosting earnings calls.

ACTIVITIES: Our analyst met with the company's CFO to get first-hand insight into their sustainable investing goals, trends, and metrics. The company abstained from holding earnings calls for three quarters due to an ongoing strategic review.

Although the company has provided annual guidance, we believe backlogs are being consumed rapidly and are more cautious around the outlook and lack of disclosure.

OUTCOMES: After our engagement, the company continued to opt for maintaining disclosure limited to the publication of its 10-Q and 10-K, meaning we're unable to get real-time updates and insight. Given the negative impact of this lack of disclosure and manufactured opaqueness from the executive team, the governance score of the company continues to decline to the point where we reduced our exposure to the company.

REASONS FOR ESCALATION: Escalation was deemed necessary to set expectations on when further disclosure and up-to-date company information would be available to investors.

Finance companies

Example from Principal Fixed Income - Global High Yield

ENGAGEMENT TYPE: Escalation

BACKGROUND: We had a favourable view of the company, but a lawsuit filed against them required escalation of engagement.

OBJECTIVES: Gain insight into the scope of the recent lawsuit against the company and its impact on their sustainable investing profile.

ACTIVITIES: Our analysts requested and attended a meeting with the company treasurer to get insight on the recent lawsuit against the company.

OUTCOMES: While the news was not a surprise, the call reinforced our view that the company has excellent defence against the allegations and that liability will be immaterial to the company's credit profile. We remain comfortable that the company maintains best-in-class underwriting and collection procedures in the subprime lending space.

REASONS FOR ESCALATION: Escalation was prompted by the filing of a lawsuit against the company, and we engaged directly with the treasurer of the company.

Collaborative engagements

Engagement is one of many elements that influence our holistic view of shareholder value and long-term, risk-adjusted return potential. Through collaboration, we play an active part in defining and shaping the ongoing sustainable investing discussion, the development of best practices, and the potential to enhance the risk adjusted returns we deliver to clients.

Collaboration at an industry level on thematic risks

As a global investment manager, we take seriously our commitment to society on a global basis. We must educate ourselves and others by addressing a range of ethical, social, environmental, and governance issues that are critical to the well-being of the many communities in which we operate and may impact our clients' investments and shareholder value.

Tackling the big issues of our time – most notably climate change – cannot be done individually; it requires full collaboration at an industry level and beyond to have any chance of long-term success.

Collaboration with existing and prospective investee companies

We use our position as one of the largest asset managers in the world in a positive manner to act directly and collaboratively with investee companies.

During 2022, Principal Equities teams conducted approximately 2,200 discussions with management teams of both current and prospective investee companies. We prefer to begin the process by simply asking, "What is changing?" as this tends to foster more constructive dialogue and can be further supplemented formally through proxy voting and other tactics (including the prompt disposition of shares as warranted).

Our key focus for engagement themes remained unchanged:

- Engaging on particular sustainability practices, such as carbon emission levels or diversity and inclusion practices
- Greater transparency and alignment of sustainability practices and how they fit into the company's overall business activities
- Management of governance risks

Collaboration with peers/ asset managers/investors on specific issues

While we believe that direct communication between investors and companies on sustainable investing matters is an important element of the portfolio management and research services we provide, we also support collaborative engagements with our peers on specific issues that are aligned with our clients' best interests and in keeping with our internal policies and procedures.

We utilize collective engagement if an issue is deemed – by us or a client – to create significant corporate or broader economic stress or if it would significantly and meaningfully reduce the value of the company. These may include issues related to sustainable investing topics, but we consider that effective stewardship is not just limited to sustainable investing topics and can encompass any issue that may impact the long-term, risk-adjusted returns we seek to deliver.

Case studies of recent collaborative engagement

Sustainability data

Example from Principal Real Estate

ENGAGEMENT TYPE: Collaborative

BACKGROUND: ESG data on commercial real estate loans is limited due to data collection challenges. Each lender requests different sustainability data, so there isn't consistency in the information borrowers should track and report.

Objectives: We sought to collaborate with other lenders to create a more consistent borrower sustainability survey to improve sustainability data collection.

ACTIVITIES: Two of Principal Real Estate's private debt team members participated in the MISMO Green Borrower Questionnaire working group. This included providing information on the sustainability data points that Principal Real Estate tracks, sharing the questions asked on Principal Real Estate's borrower sustainability survey, reviewing proposed questions for the standardized borrower sustainability survey, and providing feedback for improved clarity.

OUTCOMES: As a result of Principal Real Estate and others' participation in the working group, a standardized Green Borrower Questionnaire was published by MISMO. Principal Real Estate's borrower sustainability survey has been updated to align with this standard, helping to distribute this standard data collection to borrowers.

The current version of the survey is focused on environmental data. Next steps are to expand the standard survey to include social and governance questions.

ROLE AND CONTRIBUTION: Member of working group. See details on activities above.

Physical climate risk

Example from Principal Real Estate

ENGAGEMENT TYPE: Collaborative

BACKGROUND: Climate risk analysis is an increasingly critical component of commercial real estate risk due diligence. There are many vendors who provide climate risk services, but for firms new to climate risk analysis, it can be challenging to know how to select a vendor or analysis tool and to implement climate risk analysis into the investment process effectively

OBJECTIVES: We sought to share information on selecting a climate risk analysis tool or vendor and incorporating climate risk analysis in the standard investment process with other asset owners and managers. In addition, our engagement sought to facilitate a discussion on successes other owners and managers have had with climate risk analysis to help advance the industry's climate risk knowledge.

ACTIVITIES: We presented our physical climate risk analysis tool selection process and incorporation into the investment lifecycle at the Better Buildings Conference.

OUTCOMES: Asset owners and managers who attended the session learned what questions to ask and features to look for when reviewing climate risk analysis providers and gained insight into a methodology for incorporating the results of climate risk analysis into the asset investment process. We continue to share our insights with interested asset owners and managers.

ROLE AND CONTRIBUTION: Presenter. See details on activities above.

Healthcare

Example from Post Advisory

ENGAGEMENT TYPE: Direct (collaborative) environmental

BACKGROUND: In late September 2022, a syndicate of underwriters brought to market a financing for the largest U.S.-based privately held manufacturer and distributor of healthcare supplies to hospitals, post-acute settings, physician offices, and surgery centers. The company is vertically integrated, combining manufacturing, sales, and distribution capabilities. The underwriters bought a term loan, secured bonds, and unsecured bonds to market.

OBJECTIVES: During the call, we wanted to address the carbon footprint, given the company's very large fleet of vehicles and warehouses (over 25 manufacturing centers, 52 distribution centers, four sterilization centers, and 1,250 trucks).

ACTIVITIES: As part of the diligence process, we participated in a small group call with management. In this call, we stressed the importance of sustainability considerations, specifically environmental considerations.

OUTCOMES: To date, the company has not published a net zero target or emissions reduction targets compared to a baseline, and we encouraged them to do so. Although they highlighted a small reduction in emissions per square foot, the installation of solar panels, and the electrification of the fleet, we believe those are just the first steps in reaching what is increasingly becoming a standard net zero target in companies of comparable size. As part of the syndication, we purchased term loan, secured bonds, and unsecured bonds. While the investment decision was primarily made because we believed the term loans and bonds offered good risk / reward, we intend to coordinate with other creditors to press the company to set (and ultimately achieve) environmental targets.

CHAPTER

05 Actively exercising our rights and responsibilities

As a fiduciary and as a responsible investor, we are stewards of capital and must exercise our rights accordingly for the benefit of all.

As explained in Chapter 1, our core values and investment beliefs shape our approach to sustainable investment and stewardship in the best interests of our clients, while helping to make positive impacts on our world. As well as being responsible investors, we must be responsible owners – taking the opportunity to exercise our shareholder rights in the furtherance of our commitments. In line with our governance structures and individual asset level approaches explained in Chapter 2, we take a bespoke approach to the way in which we exercise our rights and responsibilities across our assets.

Proxy voting committee

Our Proxy Voting Committee is comprised of analysts and portfolio managers who are part of our Principal Equities investment teams as well as members from our sustainable investing leadership team. Committee members lead their investment teams in adopting policy, overseeing governance of proxy and engagement, managing conflicts, sharing best practices and other proxy research and engagement activities. Internal legal, operations, compliance, and risk consult the Proxy Voting Committee and are non-voting members.

The Proxy Voting Committee (i) oversees the voting of proxies and the proxy advisory firms, (ii) makes voting determinations on certain specific proxies, (iii) verifies ongoing compliance with the Proxy Voting Policy, (iv) reviews the business practices of the proxy advisory firm, (v) reviews the Proxy Voting Policy, and (vi) monitors shares and voting rights.

In 2021, the Proxy Voting Committee determined additional vote disclosures were needed to create a preferred level of transparency and elevate engagement topics. We sought out information from both internal and external participants and providers in what may formulate a more meaningful approach to disclosures. During 2022 we worked with ISS in the framework for robust disclosure, agreed to terms and conditions and have a project slated for 2023 implementation, which will produce elevated disclosure materials through our website.

Proxy voting – an integral part of the investment process for Listed Equities

Analysis of corporate governance issues, proxy voting, regular engagement with companies and participation in industry and sector collaborative engagements are important components of portfolio management for active investments. As such, they are core responsibilities for our more than 100 equity investment professionals.

We believe a company's sustainability practices are likely to have an effect on the long-term value of the company, and, therefore, we may take these factors into consideration when voting. Proxy voting is not only our fiduciary responsibility but also an important tool for interacting with company management and impacting the outcomes we seek to achieve for our clients.

Our approach to exercising our rights and responsibilities through proxy voting is conducted in line with our client expectations and our wider sustainable investing and stewardship policies. Rather than take a one-size-fits-all strategy to voting, our approach may differ across asset classes, products and jurisdictions as we seek particular outcomes for our clients. We appreciate that a considered approach is necessary so that we understand the varied drivers in different geographies and across asset classes in a way that will ultimately lead to the best outcomes for our clients.

Principal Asset Management has a committee responsible for developing and monitoring our **Proxy Voting Policy (PDF)** and guidelines across all vote themes, as well as providing oversight of all matters related to proxy voting. This includes the services of our third-party proxy research and administration provider, Institutional Shareholder Services (ISS).

We use prior outcomes, current market conditions and research to inform the development of our Custom Voting Guidelines. We then work with ISS to gather information necessary to execute the policy, collaborate with peers, and administer the voting process.

In some cases, we utilize sustainability or other thematic guidelines as well as our Proxy Voting Committee's ability to customize guidelines to best meet our clients' needs, as deemed appropriate.

We also work collaboratively across our teams. The expertise of our active teams is leveraged to enhance the outcomes for our passive products when it comes to voting. Our active products leverage the scale of passive ownership when looking to make an impact on our voting results. We also use the recommendations of the Proxy Voting Committee and its oversight and controls for our passive products . If we take a position in active products, we will align votes in our passive shares with those outcomes.

Read more about our approach to exercising voting rights in our Proxy Voting Policy (PDF).

Proxy voting guidelines

The Proxy Voting Committee, on an annual basis, or more frequently as needed, directs each investment team to review their recommended draft proxy voting guidelines ("Draft Guidelines"). The Proxy Voting Committee then determines whether any investment teams have positions on issues that deviate from the Draft Guidelines.

Based on this review, Principal Asset Management adopts Proxy Voting Guidelines. Where an investment team has a position which deviates from the Draft Guidelines, an alternative set of guidelines for that investment team may be created. Collectively, these guidelines will constitute our current Proxy Voting Guidelines and may change from time to time (the "Guidelines"). The Proxy Voting Committee has the obligation to determine that, in general, voting proxies pursuant to the Guidelines is in the best interests of clients.

Before 2022, we anchored to the ISS standard Base and Sustainable Guidelines. However, during the course of 2021, using that year's voting results, we developed a focused list of changes that Principal Asset Management sought to incorporate into our 2022 Voting Guidelines and created a structured consultation period in which to achieve those goals.

We conducted peer reviews, participated in ISS surveys and meetings, and created an internal Guideline Task Force to create custom annual guidelines. This resulted in the 2022 adoption of two forms of custom Voting Guidelines: Principal Base Guidelines and Principal Sustainable Guidelines. Clients have the discretion based on their preferences to align with our base guidelines policy or the sustainable guidelines policy.

There may be instances where proxy votes will not be in accordance with the Guidelines. Clients may instruct us to utilize a different set of guidelines, request specific deviations, or directly assume responsibility for the voting of proxies as further explained below. In addition, we may deviate from the Guidelines on an exception basis if the investment team has determined that it is the best interest of clients in a particular strategy to do so, or where the Guidelines do not direct a particular response and instead list relevant factors. Any such a deviation will comply with the Exception Process which shall include a written record setting out the rationale for the deviation.

The subject of the proxy vote may not be covered in the Guidelines. In situations where the Guidelines do not provide a position, the particular investment team will consider the relevant facts and circumstances of a particular vote and then vote in a manner we believe to be in the clients' bests interests. In such circumstance, the analysis will be documented in writing and periodically presented to the Proxy Voting Committee. To the extent that the Guidelines do not cover potential voting issues, we may consider the spirit of the Guidelines and instruct the vote on such issues in a manner that we believe would be in the best interests of the client.

Fixed income assets

The fixed income portfolio management team engages with issuers that we consider do not meet high standards on environmental, social, or governance metrics as measured by our proprietary vale scoring model and ESG scorecard. We work to engage with these companies to encourage responsible and sustainable practices aligned with our investment thesis for the company.

Additionally, we encourage companies to disclose relevant and material ESG metrics through public reporting and to describe how these considerations inform the company's overall business activities. These types of engagement, we believe help encourage greater transparency from companies we invest in and improve the overall sustainability metrics of our portfolio.

We review all prospectuses and transaction documents for fixed income assets. We work with the underwriters – and, if necessary, our peers – to ensure that our securities experience the most limited impairment possible and issuers do not overstep the boundaries of contract and good governance to impair our obligations.

When a company issues new debt, we are involved in conversations around indentures. We actively negotiate covenants within indentures upon new issue in the global high-yield market. Access to trust deeds and/or impairment rights along with reviewing prospectus and transaction documents are all standardized in the global high-yield marketplace.

Our approach on Securities Lending

Some clients may have entered into securities lending arrangements with agent lenders to generate additional revenue. If a client participates in such lending, the client will need to inform us as part of their contract with Principal Asset Management if they require us to take actions in regard to voting securities that have been lent. If not commemorated in such agreement, we will not recall securities and as such, they will not have an obligation to direct the proxy voting of lent securities.

In the case of lending, Principal Asset Management maintains one share for each company security out on loan by the client. We will vote the remaining share in these circumstances.

In cases where Principal Asset Management does not receive a solicitation or enough information within a sufficient time (as reasonably determined by Principal Asset Management) prior to the proxy-voting deadline, Principal Asset Management or the Proxy Advisory Firm may be unable to vote.

Principal Asset Management[SM]

Client instructions

Clients have wide discretion to override our Proxy Voting Policy in respect of segregated accounts. Our policy specifically allows clients to do direct voting when we act for them on a segregated basis.

When a client authorizes us to vote proxies on their behalf, they may obtain a summary report relating to their account by contacting their relationship manager. Principal Asset Management also makes custom voting policies available to all clients, and they may elect to align with any specific objectives unique to their segregated mandate, including sustainability policies.

Therefore, a clients investment strategy can, and does, affect voting determinations. For example, we generally consider social issues when voting proxies for socially screened portfolios and accounts and generally consider environmental issues when voting proxies for environmentally screened portfolios and accounts. We may also take social or environmental issues into account when voting proxies for portfolios and accounts that do not have social or environmental screens if we believe that doing so is in the best interests of the relevant client(s) and otherwise consistent with our duties, such as where material environmental or social risks may have economic ramifications for shareholders.

Clients may also instruct Principal Asset Management, specific to their account, to utilize a different set of guidelines, or request specific deviations or full administration of their own proxy voting responsibilities directly.

Regional variances in proxy voting

Principal Asset Management utilizes the Policy and Guidelines for both U.S. and non-U.S. clients, although there are some significant differences between voting U.S. company proxies and voting non-U.S. company proxies.

U.S.

For U.S. companies, it is usually relatively easy to vote proxies, as the proxies are typically received automatically and may be voted by mail or electronically.

Global

With respect to non-U.S. companies, we make reasonable efforts to vote most proxies and follow a similar process to those in the U.S.

However, in some cases it may be both difficult and costly to vote proxies due to local regulations, customs or other requirements or restrictions, and such circumstances and expected costs. The major difficulties and costs may include: (i) appointing a proxy; (ii) obtaining reliable information about the time and location of a meeting; (iii) obtaining relevant information about voting procedures for foreign shareholders; (iv) restrictions on trading securities that are subject to proxy votes (share-blocking periods); (v) arranging for a proxy to vote locally in person; (vi) fees charged by custody banks for providing certain services with regard to voting proxies; and (vii) foregone income from securities lending programs.

Principal Asset Management[SM]

Proxy voting results

Outcomes

FOCUS

Board Diversity

IMPORTANT DRIVERS

Board Composition

Compensation

Based on the review of our 2021 vote guidelines, vote results and investment recommendations, the Proxy Voting Committee determined that Board Diversity would be a continued focus of the 2022 efforts when composing the guidelines.

For the 2022 vote cycle, Board Composition and Compensation were themes which we felt were important drivers in the results we were seeking.

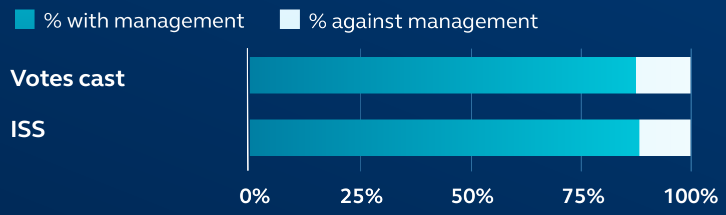
Meetings overview

During 2022, of 5,046 votable meetings, Principal Asset Management voted in 5,022 meetings, including 19 proxy contests. The votes cast on ballots during the reporting period are aligned with management recommendation in 89% of cases. Across categories, votes cast on management proposals show the closest alignment to the ISS Benchmark Policy guidelines, which include climate change and greenhouse gas emissions, board diversity, sustainability reporting, and sustainable investing compensation-related proposals.

Category	Number
Votable meetings	5,046
Meetings voted	5,022
Proxy contests voted	19
Meetings with against management votes	2,659
Meetings with against ISS votes	431

Alignment with management

The following chart shows the proportion of votes cast with management and against management and alignment with the ISS policy recommendations across the Globe.

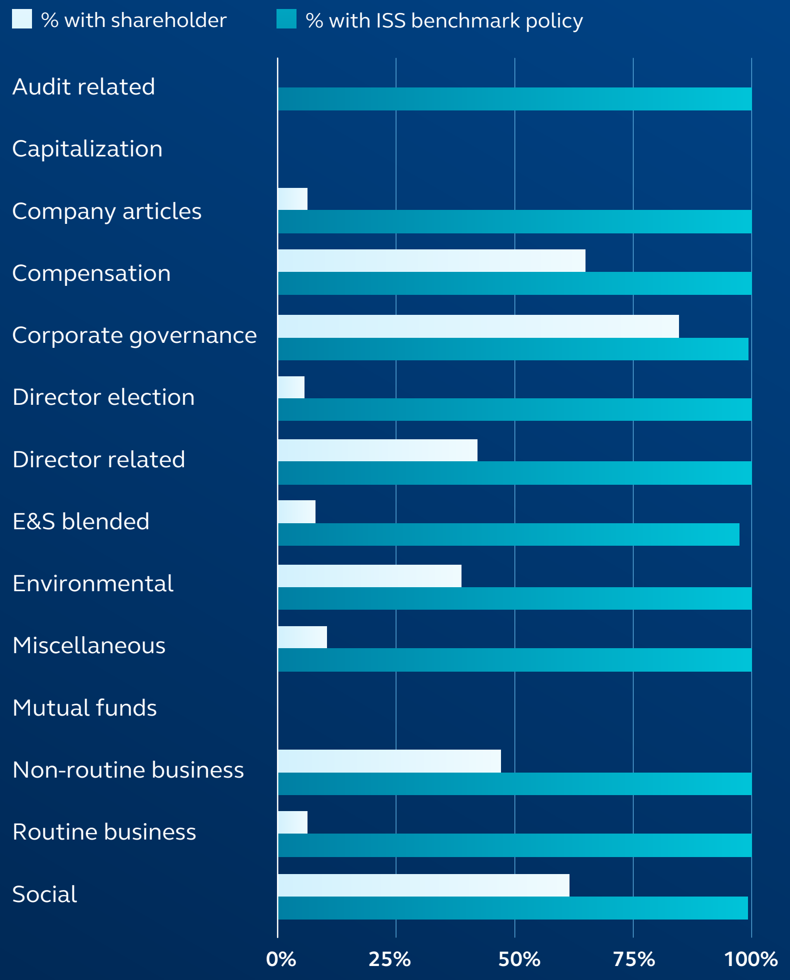


Principal Asset Management℠

Proxy voting results, *continued*

Votes cast on management proposal categories vs. ISS benchmark policy

Votes cast on shareholder proposal categories vs. ISS benchmark policy



Find proxy results on the Principal Asset Management sustainable investing website.

Reporting Period: 1 January 2022 through 31 December 2022. This disclosure covers the shareholder engagement process of i) Principal Equities, ii) Principal Aligned and iii) Principal Edge (specialised investment management groups in Principal Global Investors LLC) and iv) Principal Real Estate Securities (a specialised investment management group in Principal Real Estate Investors, LLC).

Case studies and rationale of governance structure proxy voting

Real estate company

VOTED: For proposal

VOTE OUTCOME: Proposal accepted

KEY TAKEAWAYS: A minority shareholder is seeking one seat on the 11-member board. Although the companies fundamental performance has moved in the same direction and with a similar magnitude to its closest competitor, its total shareholder return and valuation have persistently lagged.

The board's refreshment, management's tangible steps to improve investor communications, and the acknowledgement by company leadership that it must reduce the multiple gap, lead to the conclusion that the dissident has not made a compelling case for immediate change - though its campaign may have helped to sharpen management's focus on key issues for shareholders. Support is therefore warranted for the management nominees on the management card, but shareholders are advised to monitor the company's efforts.

Manufacturing company

VOTED: Against proposal

VOTE OUTCOME: Proposal accepted

KEY TAKEAWAYS: A company which owns 8.8 percent of shares outstanding, is seeking four seats on what will be a 10-member board after this AGM. The individual who has served as CEO since the 2005 IPO, succeeded his father as board chair in January 2018. From this inflection point through launch of the dissident's campaign in September 2021, the board failed to hold management accountable for operational stagnation, which translated into total shareholder return underperformance.

The company has since made a series of changes to board composition and leadership, and total shareholder return has improved dramatically. Despite this apparent reversal of fortunes, there continue to be concerns with operational performance and corporate governance. The dissident has made a compelling case for further change. A new board member will bolster the board's independence, while adding industry and executive experience, and another new board member will provide the perspective of a significant independent shareholder. In combination with other independent voices already on the board, the addition of these two dissident nominees should be sufficient to ensure independent oversight of management and ensure that the interests of shareholders are prioritized.

CHAPTER

06 Managing risk and policies

As a global company operating in a regulated industry, we understand the expectations to embed sustainable, ethical, and equitable policies and practices throughout our business functions, and teams.

Principal Asset Management℠

Active risk management

A key management philosophy for Principal

We identify and respond to internal, external, market-wide, and systemic risks through our Enterprise Risk Management (ERM) Program.

Active risk management is an essential component of our culture and business model. Our ERM Program includes the Principal Financial Group Chief Risk Officer (CRO), whose team operates independently from the business units and investment teams. Within Principal Asset Management, there is a dedicated CRO as well as regional and local risk professionals, where applicable. In addition, our regional risk committees review and manage risk, reporting to the broader governance structure.

The Enterprise Risk Management Committee, comprised of members from the Executive Management Team, provides enterprise-wide oversight of material risks faced by the organization including specific consideration and focus on market-wide and systemic risks as they emerge and evolve.

Principal Asset Management and the Principal Financial Group Board of Directors oversee the execution and performance of risk management responsibilities. The Board considers strategic threats, opportunities, and risks that Principal and its businesses and investment teams manage. The Chief Risk Officer and other members of the Executive Management team provide reports to and have discussions with the Board in relation to the Principal risk profile, the impact of external and systemic risks, and the way in-flight, strategic initiatives intersect with market-wide and systemic risk considerations. The Board receives updates from management on how we are responding to and managing market-wide and systemic risk issues.

In 2022, some key topics discussed by the Board included:

Climate-related risk management

ERM uses a variety of scenario planning, risk assessments, modeling, and exercises to identify, assess and manage current or potential climate risks and opportunities in our business practices. As transition and physical (acute and chronic) climate risks are identified, material factors are incorporated into ERM activities. While these vary according to the line of business, product, or service, understanding and reacting to them is important to our ERM practices.

We use a risk-based approach, including materiality, likelihood, and severity, to help management prioritize risks. Risk acceptance, mitigation, control, or transfer are all considered as risk-informed decisions are made across the enterprise as part of implementing our business strategy.

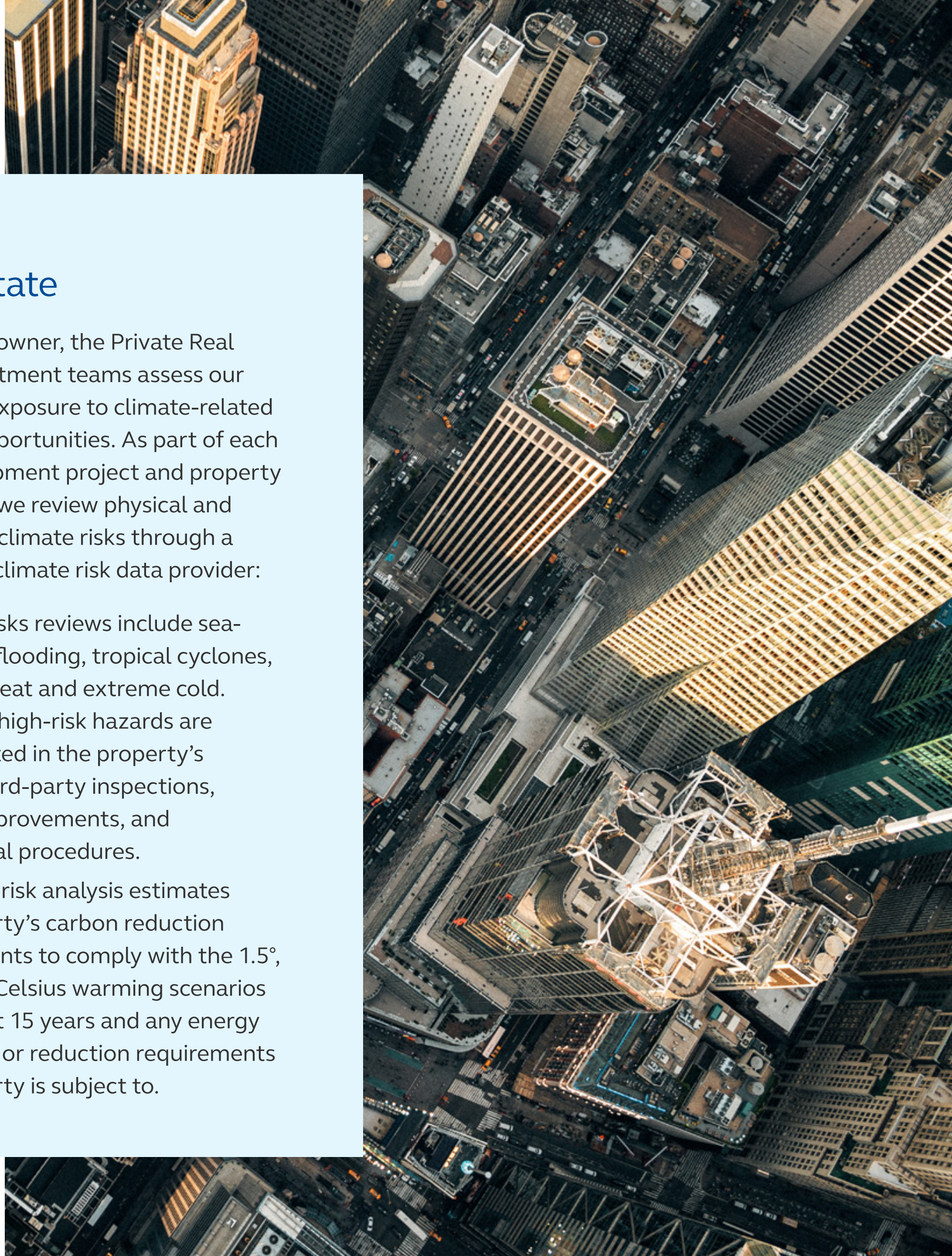
Looking ahead, primary oversight of climate disclosures will be part of our Board Audit Committee's oversight of financial statements and SEC disclosures, which is in line with industry benchmarking and best practices.

EXAMPLE:

Real Estate

As an asset owner, the Private Real Estate investment teams assess our portfolio's exposure to climate-related risks and opportunities. As part of each new development project and property acquisition, we review physical and transitional climate risks through a third-party climate risk data provider:

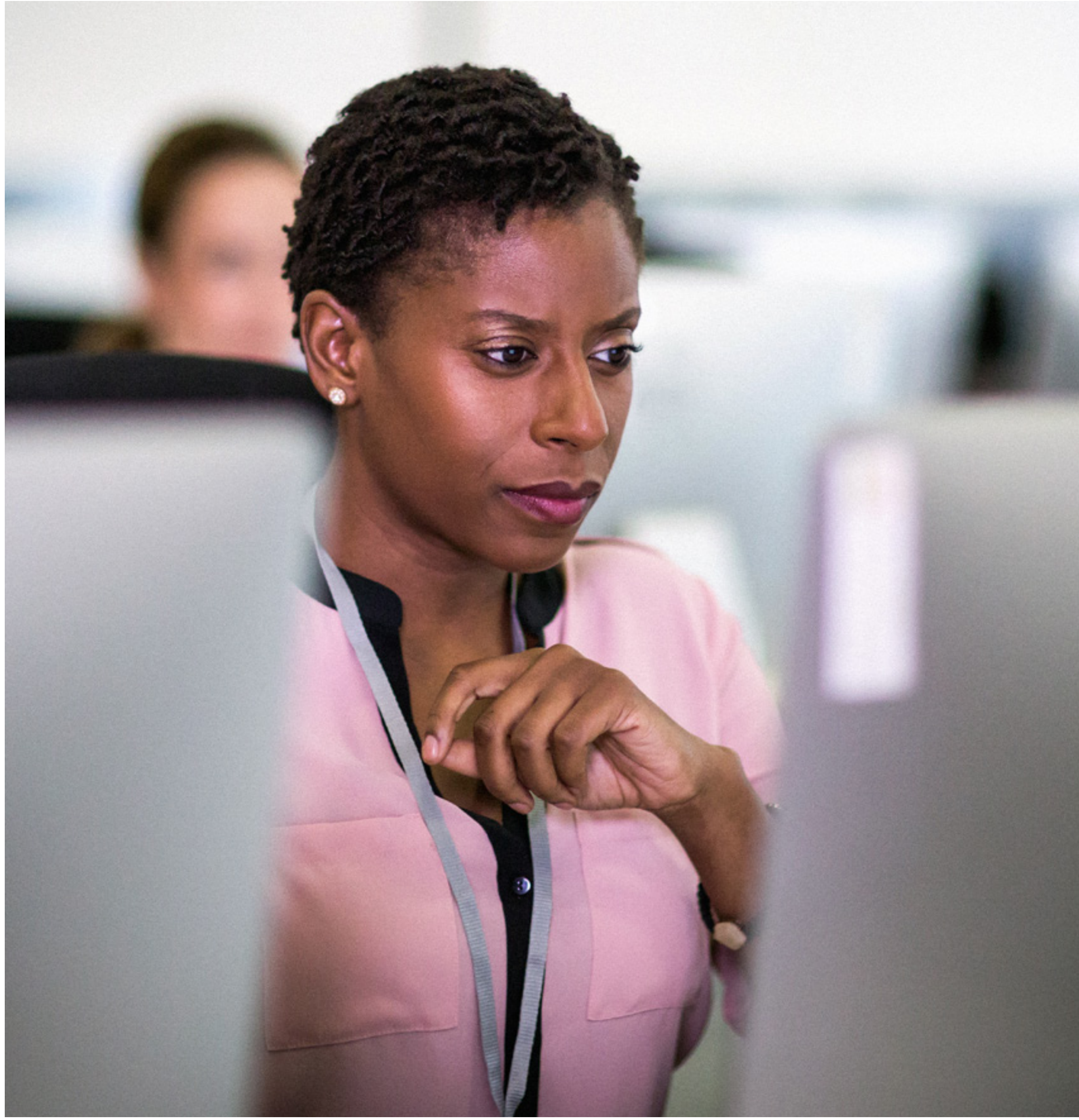
- Physical risks reviews include sea-level rise, flooding, tropical cyclones, extreme heat and extreme cold. Identified high-risk hazards are incorporated in the property's design, third-party inspections, capital improvements, and operational procedures.
- Transition risk analysis estimates the property's carbon reduction requirements to comply with the 1.5°, 2°, and 3° Celsius warming scenarios in the next 15 years and any energy disclosure or reduction requirements the property is subject to.



Cybersecurity and data privacy

We take the protection of the confidentiality of the personal data entrusted to us by our customers, employees, business partners, and other individuals seriously. We limit access to personal data to those with a business need, and only disclose such information as required or permitted by law. Our enterprise approach combines information security, privacy, and data governance to foster a culture of data protection.

We understand the nature of cyber threats and the importance of being able to defend against and respond to them. We proactively assess risk on new services or systems integrated with Principal network or data. In our systems and applications, we continuously test for and resolve weaknesses and vulnerabilities using network and infrastructure vulnerability testing, dynamic application security testing, static application security testing, and adversary emulation. The frequency of automated vulnerability scanning varies from daily to monthly depending on the type of testing and target. Principal also undergoes a third-party assessment of our information security program maturity every two years.



Aligning investments and risk

The Principal specialized investment team model empowers our investment professionals to focus their time and expertise as they deem appropriate for management processes when investing including assessing, measuring, and monitoring investment and market risks.

Our investment teams use a variety of risk-management techniques and tools appropriate to their asset class to monitor sustainability risks at the company-specific and portfolio level. Using a mix of proprietary risk management tools and third party analytics, risk monitoring is integrated into each of our investment processes to continually assess new and evolving potential sources of risk that could affect portfolio performance.

We consider opportunities and risks from several different perspectives. Risk management helps ensure compliance with investment guidelines and provides the necessary oversight to manage drawdowns on an absolute and/or relative basis.

We believe risk management processes should be intuitive, scalable, predictive, and reflective of current market conditions. Risk management is ingrained in every step of our investment process from broad allocation to individual security selection.

Effectiveness assessment

Our ERM is effective in identifying and helping us to respond to market-wide and systemic risks as we have formalized the process to identify, measure, monitor, communicate, and manage risks within established limits and risk tolerances.

Our ERM policy and related resources set guidelines, targets, and limits to avoid undesirable risk, behavior, or concentrations. We use an integrated risk management framework to help inform strategic and tactical decision making and help us adapt to changes in our businesses and the external environment.

Our internal risk committees meet regularly. Each business unit has its own committee that oversees the risks that are material to it. We also have internal committees that provide oversight around a certain risk or group of related risks across the enterprise. This matrix approach helps us maintain comprehensive risk coverage and preserve an integrated view of risks.

As highlighted in Chapter 1 – About Principal Asset Management – Principal Asset Management is an active member, participant and/or signatory to various organizations and industry initiatives that collaborate around market-wide risks and industry issues. Some of these organizations are well-established networks of asset managers and institutional investors that focus on effective industry collaboration and seek to enhance long-term value for investors and clients by being advocates for a spectrum of sustainable investing issues. It is through these collaborations that we effectively play our part in responding to market-wide and systemic risks and promote well-functioning markets.

Read more on examples of our collaboration with industry peers and stakeholders in chapter 4.

2022 ERM key milestones

- Deployed risk assessments throughout the organization, including scenario, foundational, Risk and Control Self Assessment (RCSA), and business process.
- Began an evaluation of severity levels used for risk assessments and reporting with internal and external feedback gathered to provide insight into setting quantitative (financial) thresholds with qualitative language.
- Matured our key risk indicators (KRIs) program with improved metrics, enhanced trending, and more thorough stakeholder reporting.
- Worked with subject-matter experts to establish thresholds and boundaries and began applying trend analysis for quarterly board reports.

Conflicts of interest

Principal Asset Management is fully committed to the highest standards of ethical and professional behavior, a critical part of which is the identification and management of potential and actual conflicts of interest. In accordance with our beliefs and standards and in compliance with the global regulatory environment in which we operate, we developed a detailed suite of policies and procedures to assist in the identification and mitigation of conflicts of interest including but not limited to our Code of Conduct[4], Code of Ethics, and Trade Allocation policies (together, Conflicts Policies).

We expect all our employees to adhere to our high standards and processes when managing any potential conflict of interest with our clients, always acting in the highest ethical and professional manner. We require all employees to apply our Conflicts Policies in a fair and appropriate manner, acting in the best interests of our clients and ensuring that conflicts do not have an adverse impact on those interests. Failure to adhere to our Conflicts Policies can lead to disciplinary action, up to and including dismissal.

Our Conflict Policies are reviewed annually and updated where necessary. All staff is required to complete mandatory annual Code of Conduct training to reinforce the obligation on employees to identify, manage, and report conflicts that arise within their functional roles.

These policies ensure we practice, among other things, good governance and that we as a global group of companies, staff, and representatives adhere to the best possible standards of good governance in a transparent, holistic, and sustainable manner.

4 Available on our website https://www.principal.com/sustainability/esg-data-center

The main aspects of our Conflicts Policies are summarized as follows:

Identifying conflicts

As a global organization, we recognize that conflicts may arise in multiple ways across the business, affecting different parts and jurisdictions of our operation across our various services and products. Being able to identify and manage conflicts at a global level is central to ensuring our high standards of professionalism are maintained.

A non-exhaustive list of potential conflict areas:

- Employee: employee personal account dealing, business gifts and entertainment receipt/ provision, United States political contributions, and engagement in outside business activities
- Affiliate/business relationships: affiliate relationships, board memberships, broker-dealer relationships, and client access to information (e.g., side letters)
- Investment: when managing multiple accounts, conflicts may exist in the allocation of investment opportunities. We may also invest in securities issued by a company that has engaged us to manage assets on their behalf.
- Fees: conflicts may exist where we manage accounts side by side and charge differing fees to those clients and where certain accounts pay a performance fee.

Conflict management

We seek to identify and mitigate conflicts to the extent possible through the implementation of various policies and procedures, such as:

- Code of Ethics: requires reporting of employee personal securities accounts as well as pre-clearance of personal trades, certain transactional restrictions, and preclearance and disclosure of U.S. political contributions
- Insider Trading policy: requires reporting of potential material non-public information and trading restrictions while in receipt of such information
- Outside business activity reporting and preapproval requirements, gifts and entertainment reporting and approval requirements, and pre-set allowable thresholds
- Trading policies on the fair and equitable practices for trade aggregation and allocation, cross trading, best execution, treatment of commissions, proxy voting, and prohibitions on manipulative trading practices related to client accounts and portfolios

Global conflict management

We have various systems and controls to identify, prevent, and manage conflicts of interest globally, many of which are outlined and implemented at Principal Financial Group, Principal Asset Management investment teams, and all regional levels including the U.K. and European jurisdictions. These include but are not limited to the following:

- Conflicts of Interest
- Global Code of Conduct
- Investment Research
- Gifts and Entertainment Policy and Standards
- Anti-Bribery and Corruption Policy
- Travel and Entertainment Policy
- U.S. Political Activity and Government Relations Policy
- Insider Trading Policy

Evaluating our conflict management process

Within our identification and management of conflicts, we consider how these may impact our stewardship activities including:

- where we choose to engage with an investee company that is also a client
- where we hold voting rights in a company that is a shareholder of a Principal entity
- where the engagement priorities of our clients differ
- where an employee has a personal relationship with a senior officer of or an outside activity associated with a company with which we engage

We did not identify any material conflicts during 2022 that were not appropriately mitigated through our existing conflict management policies and processes. However, we have provided some examples below of how potential conflicts relating to stewardship are identified, managed, or otherwise addressed.

Conflicts of interest related to proxy voting

To assist in conflict mitigation efforts related to proxy voting, we engage with ISS. ISS provides corporate governance advisory and proxy voting services as well as research on eligible individual companies and vote administration for such ballots.

When our clients give us the discretion to vote, the portfolio manager(s) votes on all their investee companies' motions in the best interest of each client. The portfolio managers determine what is best for the client based on investment objectives and relevant voting preferences. In adherence with the Proxy Voting Policy, portfolio managers are required to receive approval from the compliance department prior to deviating from the Principal Custom Proxy voting policy recommendation.

In exceptional circumstances, consultation with senior management, compliance, legal, and/or the potentially affected client might occur before a decision on how to vote is made. To avoid any specific conflict of interest with our parent company, Principal Financial Group, we do not actively invest managed portfolios in shares of our parent company. We seek to avoid any conflict of interest when voting on an investee company's resolutions if that company is also a client of Principal Financial Group.

Proxy votes cast in accordance with the Proxy Voting Policy and ISS recommendations are generally not viewed as the product of any conflicts of interest because such votes are cast pursuant to a predetermined policy based upon the recommendations of an independent third party.

Conflicts of interest when allocating investment opportunities

Principal Real Estate recognizes the importance of transparency and fairness in the allocation of potential investment opportunities, particularly in private asset classes with heterogeneous assets that cannot be readily replicated.

Ideally, we seek to avoid mandates that are directly competing and situations where a conflict of interest with a fund or a client may appear. However, such situations can arise as investment strategies evolve and markets change. COVID-19 is a good example of a structural change, with many more investors seeking specialist asset classes – such as data centers or logistics – and wishing to add these assets to their investment strategies.

Three main conflicts that may arise are:

1. **Between two separate funds/clients that are competing for the same type of investment opportunity**

   Where two or more client mandates are equally well-placed to acquire an investment, a rotation log is created. The first such asset is allocated to the client mandate with the longest tenure. Following the successful conclusion of the transaction, that client mandate moves to the bottom of the log. Subsequent opportunities are offered to the next client mandate on the log.

2. **Where one client is selling an asset another client wishes to acquire**

   In such situations, the client wishing to acquire the asset might be the best buyer, so it is in the interest of both parties that the potential purchaser is allowed to bid. Here, the vendor is informed of the situation, and, if they agree, a separate team is formed to represent the potential buyer, with clear segregation of information and duties. The asset in question is exposed to the market using a suitably qualified third party. The potential "internal" purchaser is treated in the same way as third-party bidders, and the successful party is selected based on the best interests of the vendor.

3. **Between Principal Real Estate and a fund/client**

   When Principal Real Estate is directly conflicted, the situation is disclosed, and the fund/client's interests are put first. In addition, there is a segregation of duties between the Management Committee which looks at running and developing the business and the Investment Committee which focuses only on the investment rationale and suitability for the client.

Such conflicts are rare, as we believe the long-term interests of Principal are best served by always putting the interests of our client ahead of our own.

Conflicts of interest with investment personnel personal trading

Specific conflicts may arise when investment personnel (portfolio managers, traders, etc.) engage in personal trading activity. For example, a portfolio manager's personal security trading should have no effect on the decisions they make for the mandates they manage. To mitigate these conflicts of interest:

- No portfolio manager may personally transact in securities that are held or traded in an actively managed mandate for which they are responsible.
- Portfolio managers must obtain approval to transact in securities as well as in certain reportable funds (including the fund they manage at Principal)
- All staff must seek approval to transact in securities; those with access to real-time trading data are prohibited from trading a security seven calendar days before and after the firm's portfolios have transacted in the same security. This blackout period runs for a total of 15 calendar days.

Our policies

Many of our enterprise policies and standards directly impact and are intended to promote the effective operation of our stewardship activities[5]. These include but are not limited to:

- Conflicts Policies
- Sustainable Investing Policy Statement
- Supplier Management Policy
- Stewardship and Engagement Policy Statement

Generally, our policies are reviewed at least annually by the relevant business owner and/or governance forum. Each review is carried out to:

- Ensure the policy remains appropriate and reflects the high standards to which Principal adheres
- Ensure the policy's continued effectiveness in meeting business objectives and obligations
- Identify any material changes in business activities that would impact the effectiveness of the policy or require changes to the policy
- Identify any new risks or conflicts of interest
- Identify changes to applicable laws or regulations and evaluate the need to revise written policies and procedures
- Identify areas of potential improvement

5 For a full list of our ESG/sustainability related policies see our website: https://www.principal.com/sustainability/esg-data-center

Assurance in relation to stewardship

We operate a level of internal assurance to ensure that our policies and standards are effective from a stewardship perspective.

The output from each policy review, including all recommended changes to those policies, is reviewed and approved by the relevant teams and business leaders, relying on the expertise of teams who understand our business and activities and so are best placed to provide knowledgeable and robust challenge and support.

Generally, the Principal Asset Management Operating Committee provides internal assurance by promoting good governance structures and maintaining oversight of all business units, including those related to our stewardship activities.

In 2022, our internal assurance around sustainable investing & stewardship was evidenced by the annual approval of our sustainable investing policies by our Sustainable Investing Oversight Committee.

The Sustainable Investing Oversight Committee helps assure implementation of funds and strategies in accordance with the appropriate sustainability-related definitions, working with each investment team to help categorize alignment with our internal framework into traditional and ESG Integrated Strategies. Our Sustainable Investment Council supports the sharing of best practices among investment professionals when constructing and managing client portfolios.

During 2022, our internal Compliance and Internal Audit functions conducted independent reviews of sustainable investing initiatives and investment team processes to evaluate whether practices were materially aligned with stated investment team policies and applicable statements within global framework submissions. We consider this level of independent review important to ensuring we report our stewardship activities in a fair, balanced, and understandable manner.

Our process for improvement is not limited to the annual review; it is conducted throughout the year by all appropriate levels of governance oversight across Europe, our Sustainable Investing Oversight Committee, and the overall Operating Committee in line with our standards.

Examples of this include:

- As noted in Chapter 4 – Stewardship in Action - In 2022, we formalized our **Principal Asset Management Stewardship and Engagement Policy Statement** (PDF), unifying the work conducted across Principal Asset Management by our various investment teams under one guiding document. The policy provides a further framework to guide company engagement and is an important structure for executing our stewardship responsibilities.
- As noted in Chapter 5 – Actively exercising our rights and responsibilities – In 2022, we incorporated focused enhancements into our Voting Guidelines and created a structured consultation period in which to achieve those goals. This resulted in the adoption of two forms of custom 2022 Voting Guidelines: Principal Base Guidelines and Principal Sustainable Guidelines.

Principal Asset Management[SM]

Managing and monitoring service providers

Principal Asset Management adopts the Principal Financial Group Supplier Management Policy and Standards and the Global Sourcing Policy, designed to help mitigate and manage supplier risk, factor in the group's core values, and enhance measures to secure positive performance for the group.

Our value chain – suppliers, vendors, and business partners, both upstream and downstream of our business – serves a critical role in helping us deliver products and services to our clients and customers. By managing environmental, social, and governance risks and integrating these factors into our supply chain management process, we gain more transparency into how we can add extra value for our partners, mitigate business risks, and work to help create positive social and environmental impact.

Global Code of Conduct

We expect all suppliers, vendors, and companies we do business with to comply with our Global Supplier Code of Conduct, and/or our Global Code of Conduct.

In 2022, we updated our Global Supplier Code of Conduct to include more robust expectations and guidelines for suppliers related to environmental, social, and governance performance including human rights. We identified specific vendors that will be subject to routine risk evaluations. We also researched and evaluated supply chain management solutions to help manage supplier risk, environmental performance, and human rights. We're aiming to implement these in 2023.

All suppliers are evaluated with our NAVEX Risk Rate tool during onboarding for risk-based due diligence, including monitoring and screening for social impacts, negative news, and conduct-related risks. Principal monitors suppliers for unethical and illegal conduct, adverse civil or criminal litigation, illegal hiring practices, human trafficking, or other unethical behavior and negative media.

Supply chain management

The Supplier Management Policy and Standards are applicable to all Principal entities, including Principal Asset Management, and ensure that we actively and consistently monitor and manage supplier risk and performance during the entire engagement. The Supplier Management Policy and Standards sets out minimum expectations for managing suppliers from initial conversations through off-boarding.

Material considerations in supplier assessments include the following:

1. Supplier diversity

Diversity and inclusion are the foundation of our culture and vital to our continued success. Through our supplier diversity program, Principal actively supports and facilitates the purchase of products and services from diverse businesses. We strive to include diverse suppliers in all bidding opportunities and seek partners that contribute to our strategic business objectives as well as financial performance. We continuously look for opportunities to refresh our processes to improve our supplier bid inclusion and diverse spending across all categories.

For example, we have consciously removed suppliers of legal services from our shortlist where they have been unable to demonstrate diversity within their working practices.

Additional information on our **supplier diversity program** can be found on our website

2. Fair dealing and integrity

We want to work with companies that share our beliefs and treat their customers and employees with integrity.

3. Bribery, corruption, and anti-money laundering

As part of our supplier due diligence, we comply with our legal and regulatory obligations in undertaking checks and negotiating contractual agreements to ensure that our suppliers comply with local laws, rules, and regulations.

4. Human trafficking and slavery

We have zero tolerance for human trafficking and slavery; all employees are trained to recognize and report concerns in our business or supply chain.

We are committed to implementing and enforcing systems and controls to ensure human trafficking does not take place in our business or supply chains. We expect our suppliers to share our commitment. Our Supplier Code of Conduct requires that suppliers not engage in slavery or trafficking of persons and is communicated to third-party vendors, suppliers, etc. that we do business with at the time of contract negotiation. Principal Asset Management publishes a Modern Slavery and Human Trafficking Statement[6] that is approved by the Board, reviewed annually, and updated as required.

6 https://www.principalam.com/about-us/our-story/modern-slavery-and-human-trafficking-statement

Supplier risk assessment

All supplier engagements are assessed to determine the level of risk in their appointment. This includes assessing the nature of the services provided and the adequacy and appropriateness of such services for the applicable business units. A designated supplier manager is assigned for all suppliers, and a supplier risk assessment is completed. Where the supplier risk tier rating is assessed as high or medium and the supplier is determined to be critical to the business, the relevant business leader will be engaged. The supplier manager will complete a supplier management plan and a performance scorecard to document the risks and performance obligations.

Risk monitoring

Monitoring and managing a supplier's risk, contract compliance, and performance is ongoing and consistent. The supplier manager assesses and determines the minimum standards for a given supplier and continues to evaluate the supplier risk through frequent assessment. Supplier risk assessments are completed annually for high- or medium-risk suppliers and every two years for low-risk suppliers. If the supplier is deemed critical to the business or enterprise, a supplier management plan and performance scorecard document are required even if they have a low-risk tier rating. The performance scorecard is required bi-annually.

Supplier management plan

The supplier management plan is used to document the strategy for ongoing risk monitoring and performance management of a supplier throughout the lifecycle of the engagement including key contract provisions, contingency plans for short- and long-term supplier downtime, and issues monitoring.

Supplier performance scorecard

All suppliers with a risk rating of high or those deemed critical to the business are required to complete and present a performance scorecard every six months (or as events dictate). This process assesses how suppliers have met required obligations and highlights areas for supplier improvement as needed. For new suppliers with a high rating, a performance scorecard must be prepared and shared with the supplier within 180 days of engagement. The performance scorecard is used to update the supplier management plan and any associated performance considerations and agreed requirements.

Case Study

Monitoring service providers

Data providers:

Principal engages the services of multiple data providers to gain access to critical data used in the research and decision-making process and necessary for carrying out investment activities as part of our stewardship. The supply of such data is deemed to be business critical, so we engage with these suppliers throughout the year to ensure the services provided are maintained and meet expectations.

Ongoing engagement

Due to the critical nature of the data services that we use, if there are any issues identified with data quality and/or coverage, the relevant business unit makes direct contact to resolve the issues. We engage with our data providers on an ongoing basis to help them improve the accuracy and timeliness of their data as well as the level of coverage they provide for us across different sectors. We believe this engagement is important as it improves the precision of their data but also reinforces our internal scoring as we can update our ESG metrics and scoring quickly based on new information, set internal controls, and allow for greater coverage.

Monthly relationship calls

We believe regular and consistent engagement is important to ensure the services being provided meet our needs, as agreed in the supplier contract.

Monthly relationship calls are held between our data service provider's relationship managers and a Principal designated supplier manager, involving relevant internal business units as deemed appropriate. Discussions focus on new products, new initiatives, any outstanding issues, new or renewing contracts, status updates for ongoing project work, performance review of data services and licenses, progress on resolutions, training sessions, and feedback gathering.

Examples of agenda items for monthly relationship calls include but are not limited to:

- **ESG data integration** – implementation and training
- **WFH product enhancements** – features and training
- **Disaster recovery status** – status updates and future plans
- **New security features** – mechanics for setup
- **Licensing** – use cases and commercial review

Where relevant, the tracking of ongoing initiatives, issues, and corrective actions allows us to highlight when the supplier is not meeting our expectations and provides the opportunity for continuous improvement.

Annual review

At the end of each year, the supplier management plan is reviewed and updated. This annual review considers the activity during the year and any changes required to how the supplier was being managed in relation to the existing contract, risk assessment and monitoring process, issue tracking, and ongoing engagement.

Key agenda items discussed during the review are:

- Review of key performance indicators, any updates, and/or additions
- Corrective action plans and timing
- Review of the supplier's capacity against future requirements, projections, or initiatives
- Other topics as dictated by the nature of the supplier's engagement

We believe that application of and adherence to our Supplier Management Policy and Standards is effective, as demonstrated by the above example of how we have monitored our ESG Data service provider. The services with which Principal Asset Management were provided in the 2022 reporting period were delivered in a way that allowed us to carry out our stewardship activities in accordance with the high standards we set.

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CHAPTER

07 U.K. Stewardship Code

The following pages provide a detailed mapping analysis and breakdown showing where in the report we speak specifically to the 12 principles of the U.K. Financial Reporting Council (FRC) for continued commitment to being a U.K. Stewardship Code signatory.

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ID	Type	Principle	Description	Chapter	Page(s)
1	CONTEXT	*Principle 1*	Signatories should explain the purpose of the organization and an outline of its culture, values, business model, and strategy	CHAPTER 1	7-10
2	CONTEXT	*Principle 1*	Signatories should explain their investment beliefs, i.e. what factors they consider important for desired investment outcomes and why	CHAPTER 1	9
3	ACTIVITY	*Principle 1*	Signatories should explain what actions they have taken to ensure their investment beliefs, strategy, and culture enable effective stewardship	CHAPTER 1	7-10
4	OUTCOME	*Principle 1*	Signatories should disclose how their purpose and investment beliefs have guided their stewardship, investment strategy, and decision-making	CHAPTER 1	9-10
5	OUTCOME	*Principle 1*	Signatories should disclose an assessment of how effective they have been in serving the best interests of clients and beneficiaries	CHAPTER 1	10
6	ACTIVITY	*Principle 2*	Signatories should explain how their governance structures and processes have enabled oversight and accountability for effective stewardship within their organization and the rationale for their chosen approach.	CHAPTER 2	19
7	ACTIVITY	*Principle 2*	Signatories should explain how they have appropriately resourced stewardship activities, including their chosen organisational and workforce structures.	CHAPTER 2	19-27
8	ACTIVITY	*Principle 2*	Signatories should explain how they have appropriately resourced stewardship activities, including their seniority, experience, qualifications, training, and diversity.	CHAPTER 2	21-27
9	ACTIVITY	*Principle 2*	Signatories should explain how they have appropriately resourced stewardship activities, including their investment in systems, processes, research, and analysis.	CHAPTER 2	28
10	ACTIVITY	*Principle 2*	Signatories should explain how they have appropriately resourced stewardship activities, including the extent to which service providers were used and the services they provided.	CHAPTER 2	28-29
11	ACTIVITY	*Principle 2*	Signatories should explain how any performance management or reward programs have incentivised the workforce to integrate stewardship and investment decision-making.	CHAPTER 2	30
12	OUTCOME	*Principle 2*	Signatories should disclose how effective their chosen governance structures and processes have been in supporting stewardship; Signatories should disclose how they may be improved.	CHAPTER 2	24

ID	Type	Principle	Description	Chapter	Page(s)
13	CONTEXT	*Principle 3*	Signatories should disclose their conflicts policy and how this has been applied to stewardship.	CHAPTER 6	86-89
14	ACTIVITY	*Principle 3*	Signatories should explain how they have identified and managed any instances of actual or potential conflicts related to stewardship.	CHAPTER 6	86-89
15	OUTCOME	*Principle 3*	Signatories should disclose examples of how they have addressed actual or potential conflicts.	CHAPTER 6	86-89
16	ACTIVITY	*Principle 4*	Signatories should explain how they have identified and responded to market-wide and systemic risk(s), as appropriate	CHAPTER 6	81-84
17	ACTIVITY	*Principle 4*	Signatories should explain how they have worked with other stakeholders to promote the continued improvement of the functioning of financial markets	CHAPTER 1	13-16
18	ACTIVITY	*Principle 4*	Signatories should explain the role they played in any relevant industry initiatives in which they have participated, the extent of their contribution, and an assessment of their effectiveness, with examples	CHAPTER 1	13-16
19	ACTIVITY	*Principle 4*	Signatories should explain how they have aligned their investments accordingly	CHAPTER 6	84
20	OUTCOME	*Principle 4*	Signatories should disclose an assessment of their effectiveness in identifying and responding to market-wide and systemic risks and promoting well-functioning financial markets	CHAPTER 6	85
21	ACTIVITY	*Principle 5*	Signatories should explain how they have reviewed their policies to ensure they enable effective stewardship.	CHAPTER 6	90
22	ACTIVITY	*Principle 5*	Signatories should explain what internal or external assurance they have received in relation to stewardship (undertaken directly or on their behalf) and the rationale for their chosen approach.	CHAPTER 6	91
23	ACTIVITY	*Principle 5*	Signatories should explain how they have ensured their stewardship reporting is fair, balanced, and understandable.	CHAPTER 6	91
24	OUTCOME	*Principle 5*	Signatories should explain how their review and assurance has led to the continuous improvement of stewardship policies and processes.	CHAPTER 6	91

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ID	Type	Principle	Description	Chapter	Page(s)
25	CONTEXT	*Principle 6*	Signatories should disclose the approximate breakdown of their client base, for example, institutional vs retail, and geographic distribution	CHAPTER 1	12
26	CONTEXT	*Principle 6*	Signatories should disclose the approximate breakdown of assets under management across asset classes and geographies	CHAPTER 1	11-12
27	CONTEXT	*Principle 6*	Signatories should disclose the length of the investment time horizon they have considered appropriate to deliver to the needs of clients and/or beneficiaries and why	CHAPTER 1&3	9, 42
28	ACTIVITY	*Principle 6*	Signatories should explain how they have sought and received clients' views and the reason for their chosen approach	CHAPTER 3	43
29	ACTIVITY	*Principle 6*	Signatories should explain how assets have been managed in alignment with clients' stewardship and investment policies	CHAPTER 3	44
30	ACTIVITY	*Principle 6*	Signatories should explain what they have communicated to clients about their stewardship and investment activities and outcomes to meet their needs, including the type of information provided, methods, and frequency of communication to enable them to fulfill their stewardship reporting requirements	CHAPTER 3	45
31	OUTCOME	*Principle 6*	Signatories should explain how they have evaluated the effectiveness of their chosen methods to understand the needs of clients and/or beneficiaries	CHAPTER 3	45
32	OUTCOME	*Principle 6*	Signatories should explain how they have taken account of the views of clients and what actions they have taken as a result,	CHAPTER 3	42-45
33	CONTEXT	*Principle 7*	Signatories should disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding, and exiting. This should include ESG issues of importance to them	CHAPTER 3	32-41
34	ACTIVITY	*Principle 7*	Signatories should explain how the integration of stewardship and investment has differed for funds, asset classes, and geographies	CHAPTER 3	32-35
35	ACTIVITY	*Principle 7*	Signatories should explain the processes they have used to integrate stewardship and investment, including material ESG issues, to align with the investment time horizons of clients and/or beneficiaries	CHAPTER 3	39

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ID	Type	Principle	Description	Chapter	Page(s)
36	ACTIVITY	*Principle 7*	Signatories should explain the processes they have used to ensure service providers have received clear and actionable criteria to support the integration of stewardship and investment, including material ESG issues	CHAPTER 4&6	29, 92-95
37	OUTCOME	*Principle 7*	Signatories should explain how information gathered through stewardship has informed acquisition, monitoring, and exit decisions, either directly or on their behalf, and with reference to how they have best served clients and/or beneficiaries,	CHAPTER 3	39-41
38	ACTIVITY	*Principle 8*	Signatories should explain how they have monitored service providers to ensure services have been delivered to meet their needs.	CHAPTER 6	92-95
39	OUTCOME	*Principle 8*	Signatories should explain how the services have been delivered to meet their needs.	CHAPTER 6	92-95
40	OUTCOME	*Principle 8*	Signatories should explain the action they have taken where signatories' expectations of their managers and/or service providers have not been met.	CHAPTER 6	92-95
41	ACTIVITY	*Principle 9*	Signatories should explain how they have selected and prioritised engagement (for example, key issues and/or size of holding)	CHAPTER 4	47-52
42	ACTIVITY	*Principle 9*	Signatories should explain how they have developed well-informed and precise objectives for engagement with examples	CHAPTER 4	47-52
43	ACTIVITY	*Principle 9*	Signatories should explain what methods of engagement and the extent to which they have been used	CHAPTER 4	47-52
44	ACTIVITY	*Principle 9*	Signatories should explain the reasons for their chosen approach, with reference to their disclosure under Context for Principle 1 and 6	CHAPTER 4	47-52
45	ACTIVITY	*Principle 9*	Signatories should explain how engagement has differed for certain funds, assets, or geographies	CHAPTER 4	47-64
46	OUTCOME	*Principle 9*	Signatories should describe the outcomes of engagement that is ongoing or has concluded in the preceding 12 months, undertaken directly or by others on their behalf	CHAPTER 4	54-64
47	ACTIVITY	*Principle 10*	Signatories should disclose what collaborative engagements they have participated in and why including those undertaken directly or by others on their behalf.	CHAPTER 4	67-69
48	OUTCOME	*Principle 10*	Signatories should describe the outcomes of collaborative engagement.	CHAPTER 4	67-69

ID	Type	Principle	Description	Chapter	Page(s)
49	ACTIVITY	*Principle 11*	Signatories should explain how they have selected and prioritised issues, and developed well-informed objectives for escalation.	CHAPTER 4	65-66
50	ACTIVITY	*Principle 11*	Signatories should explain when they have chosen to escalate their engagement, including the issue(s) and the reasons for their chosen approach, using examples.	CHAPTER 4	65-66
51	ACTIVITY	*Principle 11*	Signatories should explain how escalation has differed for funds, assets, or geographies.	CHAPTER 4	65
52	OUTCOME	*Principle 11*	Signatories should describe the outcomes of escalation either undertaken directly or by others on their behalf.	CHAPTER 4	65-66
53	CONTEXT	*Principle 12*	Signatories should explain how they exercise their rights and responsibilities, and how their approach has differed for funds, assets, or geographies	CHAPTER 5	72-76
54	CONTEXT	*Principle 12*	For listed equity assets signatories should disclose their voting policy, including any house policies and the extent to which funds set their own policies	CHAPTER 5	72
55	CONTEXT	*Principle 12*	For listed equity assets signatories should state the extent to which they use the default recommendations of proxy advisors	CHAPTER 5	72-73
56	CONTEXT	*Principle 12*	For listed equity assets signatories should report the extent to which clients may override a house policy	CHAPTER 5	75
57	CONTEXT	*Principle 12*	For listed equity assets signatories should disclose their policy on allowing clients to direct voting in segregated and pooled accounts	CHAPTER 5	75
58	CONTEXT	*Principle 12*	For listed equity assets, signatories should state what approach they have taken to stock lending, recalling lent stock for voting and how they seek to mitigate 'empty voting'	CHAPTER 5	74
59	ACTIVITY	*Principle 12*	For listed equity assets, signatories should disclose the proportion of shares that were voted in the past year and why	CHAPTER 5	77-78
60	ACTIVITY	*Principle 12*	For listed equity assets, signatories should provide a link to their voting records, including votes withheld if applicable	CHAPTER 5	78
61	ACTIVITY	*Principle 12*	For listed equity assets, signatories should explain their rationale for some or all voting decisions	CHAPTER 5	79

ID	Type	Principle	Description	Chapter	Page(s)
62	ACTIVITY	*Principle 12*	For listed equity assets, signatories should explain how they have monitored what shares and voting rights they have	CHAPTER 5	71-73
63	OUTCOME	*Principle 12*	For listed equity assets, signatories should provide examples of the outcomes of resolutions they have voted on over the past 12 months	CHAPTER 5	79
64	ACTIVITY	*Principle 12*	For fixed-income assets, signatories should explain their approach to seeking amendments to terms and conditions in indentures or contracts	CHAPTER 5	74

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Disclosure

This report was prepared and submitted by Principal Global Investors (Europe) Limited trading as Principal Asset Management. The report sets out the actions taken by Principal Global Investors (Europe) Limited and where appropriate, its international affiliates to whom activities may be delegated, to comply with the 12 Principles of the UK Stewardship Code 2022 and has been approved by the Board of Directors as of 31 October 2023. Although this report is based upon sources, we believe to be reliable, we do not guarantee its accuracy or completeness. Unless otherwise stated, all statements, figures, graphs, and other information included in this report are as of the date of this report and are subject to change without notice. Activities outlined in the investment team case studies may not always refer to activity carried out in the UK/Europe.

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Principal Asset Management leads global asset management at Principal® and includes the asset management operations of the following members of Principal®: Principal Global Investors, LLC; Principal Real Estate Investors, LLC; Principal Real Estate Europe Limited and its affiliates; Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Origin Asset Management, LLP; Claritas Investimentos; Principal Global Investors (Europe) Limited; Principal Global Investors (Singapore) Ltd.; Principal Global Investors (Australia) Ltd.; Principal Global Investors (Japan) Ltd.; Principal Asset Management Company (Asia) Ltd., and includes assets where we provide model portfolios.

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Reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security and is provided for illustrative purposes. Expressions of opinion and predictions are accurate as of the date of this communication and are subject to change without notice.

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. There is no assurance that any strategy or integration of sustainability considerations and/or ESG factors will be successful or profitable.

The investment manager's investment philosophy and strategy may not perform as intended and could result in a loss or gain.

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