

Principal Global Investors

ESG from the lens of an asset manager

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Chief Executive Officer &
President – Principal Global Investors

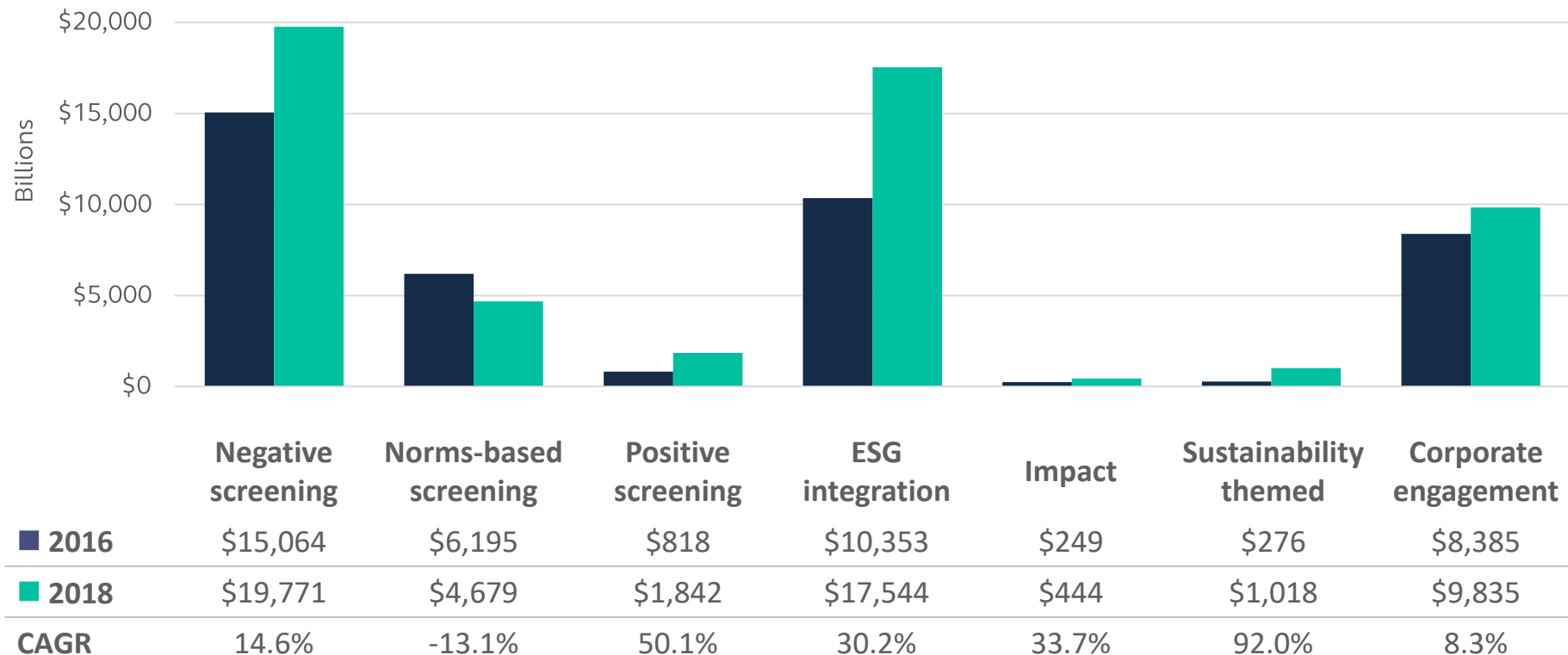
ESG Investment Landscape

Spectrum of ESG Investing Strategies

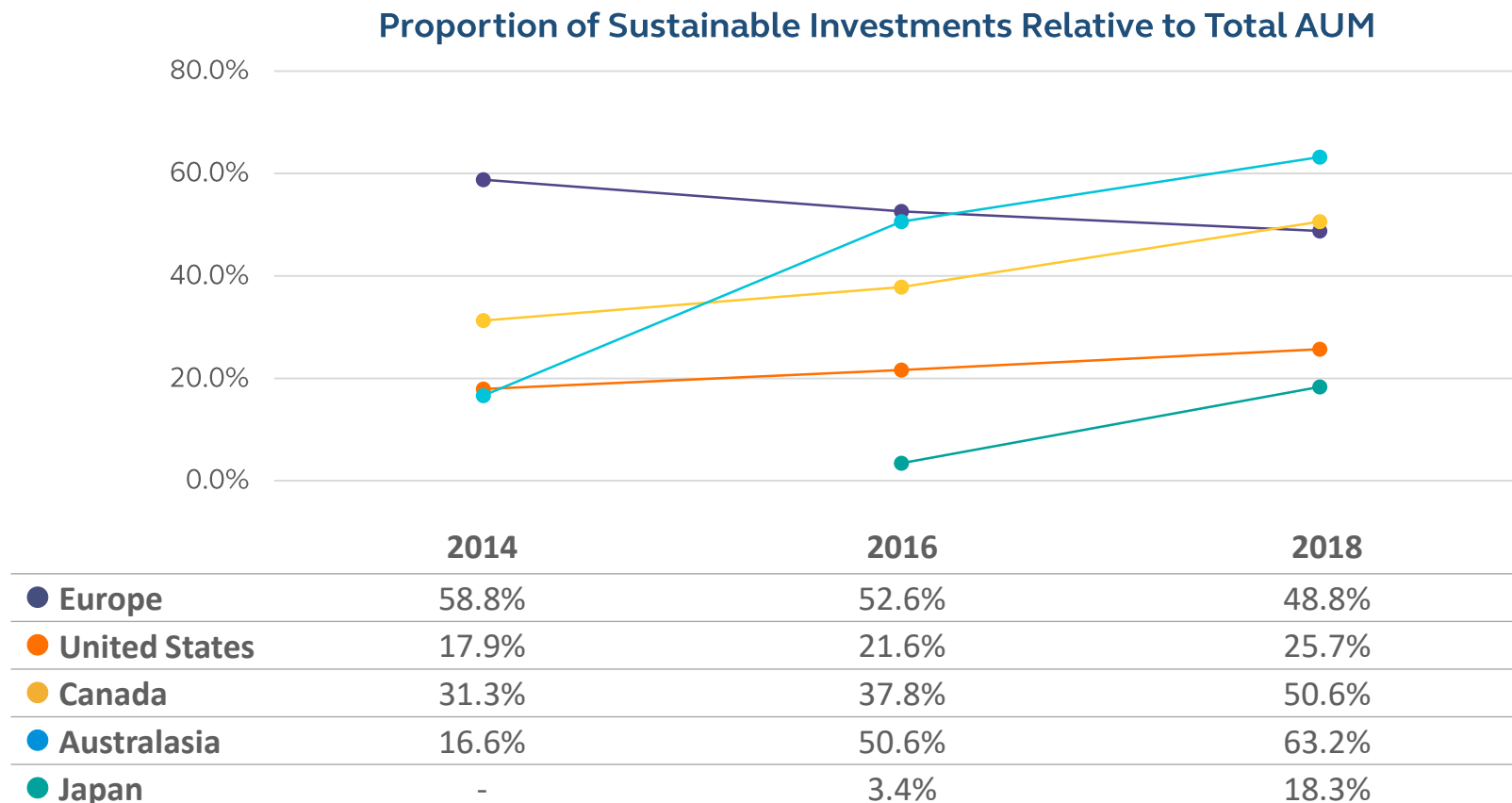
Screening	Full ESG Integration	Impact/ Thematic	Engagement/ Stewardship
▪ Negative screening: Exclusion of investments from certain sectors, companies or practices per specific ESG criteria ▪ Positive screening: Inclusion of investments with positive ESG performance relative to industry peers ▪ Norms-based screening: Exclusion of investments against minimum standards of business practices based on international norms	▪ Proactive inclusion of environmental, social and governance factors into financial analysis	▪ Focus on investment themes/sectors that are related to sustainability; aim to solve specific ESG challenges; or deliver positive ESG impact	▪ Use of shareholder power to influence corporate behaviour on ESG practices through direct corporate engagement, filing or co-filing shareholder proposals, and proxy voting

Global sustainable assets reached \$31Tn

Global Growth of Sustainable Investing Strategies



Most regions have increased their proportion of sustainable investments



Why is ESG Important?

ESG can potentially improve investment outcomes...



How Does Principal Live Responsible Investing?

Our commitment to environmental, social, and governance issues (ESG) revolves around one key factor:



A dedication to our clients' best interest

- ESG committee in place to ensure proper governance and oversight
- ESG integration occurs across all asset classes, with the approach determined by each boutique's investment process
- Signatory of the Principles for Responsible Investing (PRI)
- Industry leader in responsible real estate investing; unique Pillars of Responsible Property Investing sustainability platform
- Extensive experience managing client mandates with specific ESG requirements

Long-standing tradition of corporate stewardship

Principles for
Responsible
Investing (PRI)



Became a signatory in December 2010

PRI signatory status: overall “A” rating

Principal publicly commits, where consistent with our fiduciary responsibilities to:

- 1 Incorporate ESG issues into our investment analysis and decision-making processes
- 2 Be active owners and incorporate ESG issues into our ownership policies and practices
- 3 See appropriate disclosure on ESG issues from the entities we invest in
- 4 Promote acceptance and implementation of the principles within the investment industry
- 5 Work with other signatories to enhance effectiveness in implementing the principles
- 6 Report on our activities and progress towards implementing the principles

Committed to ESG material issues

Governance, ethics and risk

- Board governance
- Shareholder rights and representation
- Risk management
- Transparency, accountability and reporting
- Data security and privacy
- Policy and political advocacy
- Anti-corruption



Responsible investing

- Responsible proxy voting
- Integration of ESG analysis
- ESG / Socially Responsible products

Consumer protection & integration & product impact

- Fair marketing and advertising
- Customer education
- Product equity and access
- Digital engagement
- Product responsibility/Ethical product pricing

Environmental impact of operations

- Energy use and GHG emissions
- Water use
- Waste



Employee integration & development

- Talent attraction and retention
- Leadership and development
- Engagement and satisfaction
- Diversity and inclusion

Community investments

- Volunteerism
- Community investments



Our dedication to ESG issues has received industry recognition...

Principal was named one of the **World's Most Ethical Companies** by the Ethisphere Institute.¹
(February 2019)

Principal scored an **A-** on our response to CDP's 2018 Climate Change questionnaire.²
(December 2018)

Principal was named one of the 2018 "**NAFE Top Companies for Executive Women**" by the National Association for Female Executives.³
(July 2018)

For the third straight year, Principal received a **perfect score** on the Human Rights Campaign Foundation's 2018 Corporate Equality Index.⁴
(July 2018)

One of the **100 best companies**, by Working Mother magazine for the 16th year in a row and also given the designation of being a member of Working Mother's "Hall of Fame".⁵
(July 2018)

Principal was recognized by Forbes as one of **America's Best Employers for Diversity**.⁶
(January 2018)

¹ 2019 World's Most Ethical Company by the Ethisphere Institute, February 26, 2019

² CDP S&P 500 Climate Change Report 2018, December 2018

³ 2018 NAFE Top Companies for Executive Women, Working Mother, July 24, 2018

⁴ 2018 Diversity Best Practices Inclusion Index Organisations, Working Mother, July 19, 2018

⁵ 2018 Working Mother 100 Companies, Working Mother, July 24, 2018

⁶ 2018 Forbes America's Best Employers for Diversity List, Forbes, January 2018

How is ESG Integrated into our Investment Philosophy and Process?

ESG is integrated into our boutiques' investment process

1990s:

Began managing ESG-focused mandates for some of the world's largest pension funds

2010:

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

Boutiques	ESG Investment Capabilities
Principal Real Estate Investors	Pillars of Responsible Property Investing initiative, Green Fund thematic product, and a dedicated Sr. Director of Sustainability
Principal Global Fixed Income	Manage mandates with controversial weapon exclusions and norms-based screens
Principal Global Equities	Option for ESG benchmarks , custom proxy solutions and thematic product
 Columbus Circle Investors	Manage mandates with faith-based negative screening capabilities
 Origin Asset Management	Manage mandates with negative screening
 Post Advisory Group	Ability to provide high yield mandates with ESG reporting including carbon footprint vs. benchmark
 SPECTRUM	Manage mandates with controversial weapon exclusions ; Preferred Securities is a natural fit for these mandates

Principal Real Estate Investors:

Real estate – guided by the three pillars of responsible property investing



Market Resilience

Reinforcing the social and economic vitality of markets where we do business through:



Equitable contracting practices



Job creation



Focus on healthy and productive buildings



Corporate Governance

Managing risk and meeting investor objectives through:



Integrity



Transparency



Managerial oversight



Property Performance

Delivering enhanced financial and environmental performance through:



Stakeholder engagement



Operational best practices



Reducing energy, water and waste consumption

Principal Real Estate Investors:

Real estate – delivering sustainable performance and accomplishments

Target and track performance of 175 properties, covering 36 million square feet of gross floor area¹:

18.5%

Cumulative energy savings
since baseline

\$8.9 Mn

Annual avoided energy costs
since baseline

\$52.5 Mn

Cumulative energy cost
savings over baseline

89%

of our office portfolio is
green certified

Being recognised by industry organization for our ongoing commitments to excellence in ESG



“A+” performance band score in the PRI Direct Property Assessment for the **second year in a row** (2018)²



Green Star designations from GRESB for the **fifth year in a row** (2014 – 2018)³



A **six-time** CDP S&P 500 Climate Performance Leader (2018)⁴



U.S. Environmental Protection Agency’s ENERGY STAR® Partner of the Year (2016-2018), and the Sustained Excellence Award in 2018 and 2019⁵

¹ Property results are current as of January 2019

² For further details please refer to the PRI Assessment Methodology, Principal Global Investors’ full Assessment Report and Transparency Report, all of which is available upon request.

³ 2018 GRESB assessment, data as of December 31, 2017.

⁴ CDP Climate A list was established in 2011 and names the world’s businesses leading on environmental performance. <https://www.cdp.net/en/scores>

⁵ Each year, the EPA honors organizations that have made outstanding contributions to protecting the environment through energy efficiency. April 2019, U.S. Environmental Protection Agency.

Principal Global Fixed Income:

Fixed Income – embedded ESG into our proprietary fundamental credit research

1 Assign a specific ESG signal for each issuer in the investment-grade (IG) and high-yield (HY) universes

Warning

Extreme caution

Caution

Positive / benign

Analysts raise any concerns about ESG issues, and other fundamental concerns, during meetings with corporate management teams. The response feeds into the assessment of the company's outlook and potential fit for the portfolio.

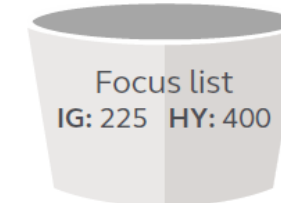
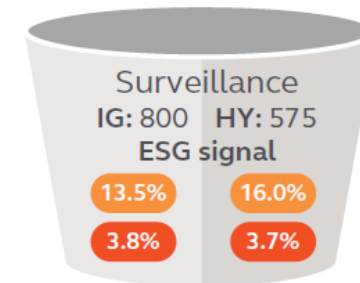
2 Assign an explicit numeric ESG score

ESG is factored into the fundamentals component of our FTV (fundamentals, technicals, valuations) framework, and accounts for 10% of the total fundamental score.

3 Create client-defined ESG portfolios

Our flexible investment process allows us to screen out any securities, industries, or countries a client specifies.

Investment universe
IG – Over 1,000 issuers
HY – Over 1,600 issuers



Principal Global Equities:

Equities – aligned with our focus on sustainable fundamental change

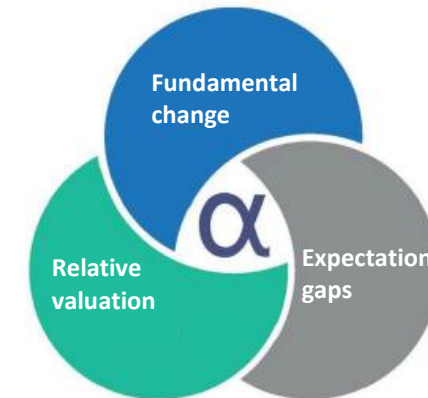
Over a decade of history in custom socially-responsible and faith-based mandates that incorporates sustainable and SRI proxy voting options, as well as full suite of specialty ESG indices...

Environmental and Social

- Qualitative assessment of risk factors and change catalysts
- MSCI analytical tools increase awareness and understanding of risks and controversies
- As always, our responsibility is to determine if risks are adequately priced

Governance

- Inherent to our investment process: sustainable fundamental change, sentiment and valuation re-rating
- Direct linkage to fiduciary considerations, aligned with shareholders



ESG Integration

\$2.09 billion*

assets under management

Over a decade of history in custom-socially responsible and faith based mandates, including seamless incorporation of client specified criteria

Sustainable and social responsible investing proxy voting options

Full suite of specialty ESG indices.

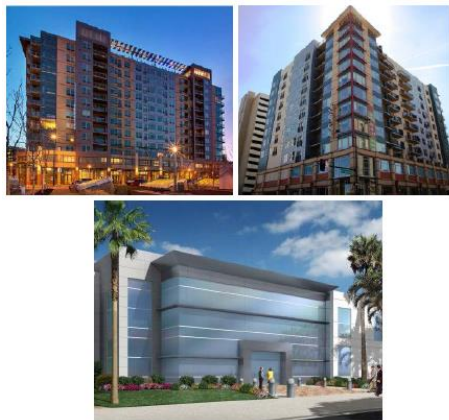
MSCI ESG company profiles are fully integrated in our analyst research dashboard

* As of 30 June 2019
For illustrative purposes only.

Looking Ahead

Evolve into an ESG leader

- ✓ **Firm Culture:** continue strong engagement with PRI and other ESG influencers
- ✓ **Investment Approach:** integrate ESG across our investment processes and asset classes
- ✓ **Client Solutions:** partner with clients to develop ESG-related solutions



*Aligned with our commitment to responsible property investing, Principal had created **two closed-end commingled green property strategies that delivered strong investment results even during the global financial crisis.***

***A third closed-end property strategy** is proposed that will closely parallel the very successful approach of the previous two strategies.*

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