

# Principal Global Investors, LLC

Form ADV Part 2A

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This brochure provides information about the qualifications and business practices of Principal Global Investors, LLC (“PGI”). If you have any questions about the contents of this brochure, please contact us at 800-533-1390. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission (“SEC”) or by any state securities authority. Additional information about PGI also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

PGI is a registered investment adviser. Registration of an Investment Adviser does not imply any certain level of skill or training. The oral and written communications of an Adviser provide you with information about which you determine to hire or retain an Adviser.

## **Item 2: Material Changes Summary**

This brochure is our annual updating amendment to the prior brochure dated March 29, 2018. There have been no material changes from the last annual update.

### **Item 3 – Table of Contents**

Item 1 – Cover Page.....	1
Item 2 – Material Changes.....	2
Item 3 – Table of Contents.....	3
Item 4—Advisory Business.....	4
Item 5—Fees and Compensation.....	5
Item 6 – Performance-Based Fees and Side-By-Side Management.....	13
Item 7 – Types of Clients.....	13
Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss.....	14
Item 9 – Disciplinary Information.....	28
Item 10 – Other Financial Industry Activities and Affiliations.....	28
Item 11 – Code of Ethics.....	32
Item 12 – Brokerage Practices.....	34
Item 13 – Review of Accounts.....	44
Item 14 – Client Referrals and Other Compensation.....	46
Item 15 – Custody.....	46
Item 16 – Investment Discretion.....	46
Item 17 – Voting Client Services.....	47
Item 18 – Financial Information.....	47
Appendix I -- Privacy Notice	

## **ITEM 4 -- ADVISORY BUSINESS**

PGI is a diversified global asset management organization utilizing a multi-boutique strategy which enables PGI to provide an expanded range of diverse investment capabilities through a network of specialized investment groups and affiliates. Its' capabilities encompass an extensive range of equity, fixed income, currency and ETF investments. PGI, established in 1998, is a wholly owned subsidiary of the Principal Global Investors Holding Company (US), LLC (the "Holding Company"). The Holding Company was established in 2017 and is an indirect wholly owned subsidiary of Principal Financial Services, Inc. ("PFSI"). PFSI is a wholly owned subsidiary of Principal Financial Group, Inc. (NASDAQ: PFG).

PGI provides investment advisory services to institutional investors and individuals. PGI has divided its investment management operations into several unique boutiques. The equities boutiques render advice primarily for equity securities. The fixed income boutique renders advice primarily for debt securities. The currency boutiques render advice for active and passive currency. The asset allocation boutique renders advice primarily on asset allocation strategies.

PGI works with clients to determine their investment needs. Individual portfolios can be tailored to the specific requirements of the client through an investment advisory agreement. Clients can direct PGI to impose restrictions on their investments.

PGI serves as investment adviser and fund administrator for Principal Funds, Inc., Principal Variable Contracts, Inc., and the Principal Exchange-Traded Funds (collectively referred to as "Principal Funds"). PGI serves as a "manager of managers" on behalf of Principal Funds. As a manager of managers, PGI recommends the hiring and firing of sub-advisory firms and provides ongoing oversight of the sub-advisory firms in connection with the services provided to the Principal Funds.

### **Separately Managed Accounts ("SMA") / Wrap Programs**

PGI provides investment advisory services to Separately Managed Account/Wrap fee programs ("SMA Programs") or similar programs, sponsored by broker-dealers, banks or other investment advisers affiliated with broker-dealers. PGI typically directs trades to the sponsor firm, on occasion handles the placement of trades in some SMA program client accounts or provides model portfolio recommendations to the program sponsor. The delivery of changes in model portfolio recommendations typically occur after similar changes have been implemented, or in the process of implementation, across institutional accounts and mutual funds managed by PGI. It should be expected therefore that accounts receiving recommendations that are implemented following PGI's institutional accounts could have different performance than the institutional accounts because of favorable or unfavorable market changes during the ensuing period.

For trade rotation purposes, the equities boutiques' "model only" programs are accorded rotation slots on a similar basis as the slots accorded to other SMA discretionary

programs. The primary difference is that the model portfolio is communicated to the “model only” program sponsors or designated overlay manager for execution.

Fixed income SMA Program clients currently trade at the same time as other fixed income clients except for time limitations set forth in client agreements.

Generally, the services provided by PGI to SMA program ERISA plan clients ordinarily are described in the client’s contract with the SMA sponsor and/or in the sponsor’s program brochure.

Assets Under Management

PGI managed \$235,884,668,918 in discretionary assets and \$60,096,623,870 in non-discretionary assets as of December 31, 2018.

**ITEM 5 – FEES AND COMPENSATION**

PGI offers its services for compensation based primarily on a percentage of assets under management or on a fixed fee basis.

**Equities Fee Schedules:**

PGI's standard annual fees for investment management services are based on the fair market value of assets under management as outlined in the table below. Published fee schedules are shown for unaffiliated client portfolios which are individually managed (segregated and discretionary) and subject to the stated minimum accounts sizes. Fees and minimum investment amounts in all categories and ranges can be subject to negotiation as appropriate, and be higher or lower than those described below.

<b>International Equity</b>	<b>Fee Schedule</b>
Global Equity	0.50% on the first \$50 million 0.45% on the next \$50 million 0.40% Thereafter Minimum Account Size: \$25 million
International Core Equity International Growth Equity Global Opportunities Equity	0.55% on the first \$50 million 0.50% on the next \$50 million 0.45% Thereafter Minimum Account Size: \$50 million
International Small Cap Equity	0.85% on the first \$50 million 0.80% on the next \$50 million 0.70% Thereafter Minimum Account Size: \$50 million

Global Dynamic Risk Premium	0.30% on the first \$100 million 0.25% Thereafter Minimum Account Size: \$50 million
International Dynamic Risk Premium	0.30% on the first \$100 million 0.20% Thereafter Minimum Account Size: \$50 million
Global Strategic Beta Index International Strategic Beta Index	0.175% on the first \$100 million 0.15% Thereafter Minimum Account Size: \$50 million
Emerging Global Leaders Equity Emerging Markets Equity Global Small Cap Equity	0.75% on the first \$50 million 0.70% on the next \$50 million 0.60% Thereafter Minimum Account Size: \$50 million
Diversified International Equity International All Country Equity International Opportunities Equity	0.60% on the first \$50 million 0.55% on the next \$50 million 0.50% Thereafter Minimum Account Size: \$50 million
International Opportunities ADR Equity	0.55% on the first \$55 million 0.50% on the next \$50 million 0.45% Thereafter Minimum Account Size: \$50 million
European Equity	0.50% on the first \$50 million 0.40% on the next \$50 million 0.30% Thereafter Minimum Account Size: \$25 million

Domestic Equity	Fee Schedule
U.S. Small Cap Equity U.S. Small Cap Select Equity U.S. Small Cap Opportunities Equity	0.60% on the first \$50 million 0.55% on the next \$50 million 0.45% Thereafter Minimum Account Size: \$10 million
U.S. Large Cap Dynamic Risk Premium	0.25% on the first \$100 million 0.15% Thereafter Minimum Account Size: \$50 million
U.S. Strategic Beta Indexes	0.15% on the first \$100 million 0.125% Thereafter Minimum Account Size: \$50 million

Aligned Investors	Fee Schedule
U.S. Blue Chip Equity U.S. Mid-Cap Equity	0.60% on the first \$50 million 0.55% on the next \$50 million 0.45% Thereafter Minimum Account Size: \$25 million
Focused Equity	0.70% on the first \$50 million 0.65% on the next \$50 million 0.55% Thereafter Minimum Account Size: \$25 million

Edge Equity	Fee Schedule
International Equity Income ADR Global Equity Income	0.60% on the first \$50 million 0.55% on the next \$50 million 0.50% on the next \$100 million Negotiable on all thereafter Minimum Account Size: \$25 million
Capital Appreciation Equity Income	0.50% on the first \$50 million 0.45% on the next \$50 million 0.40% on the next \$100 million Negotiable on all thereafter Minimum Account Size: \$25 million
Concentrated Mid Cap	0.60% on the first \$50 million 0.55% on the next \$50 million 0.50% on the next \$100 million Negotiable on all thereafter Minimum Account Size: \$25 million

Small Mid Cap Value/Equity Income SMID Equity Income	0.70% on the first \$50 million 0.65% on the next \$50 million 0.60% on the next \$100 million Negotiable on all thereafter Minimum Account Size: \$25 million
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**Fixed Income Fee Schedules:**

PGI's standard annual fees for investment management services are based on the fair market value (unless book value is specified in the negotiated contract) of assets under management as outlined in the tables below. Published fee schedules are shown for unaffiliated client portfolios which are individually managed (segregated and discretionary) and subject to the stated minimum accounts sizes. Fees in all categories and ranges described below can be subject to negotiation as appropriate. Fees and minimum investment amounts in all categories and ranges can be subject to negotiation as appropriate, and be higher or lower than those described below.

Fixed Income	Fee Schedule
Global Bonds Global Corporate Plus Global Investment Grade Corporate Core Plus Universal	0.35% on the first \$50 mm 0.30% on the next \$50 mm 0.25% on the next \$50 mm 0.20% thereafter Minimum Account Size: \$50 mm
Core Plus Bond	0.30% on the first \$100 mm 0.25% on the next \$100 mm 0.20% thereafter Minimum Account Size: \$50 mm
Core Plus Bond Opportunistic	0.40% on the first \$50 mm 0.35% on the next \$50 mm 0.30% on the next \$50 mm 0.25% thereafter Minimum Account Size: \$50 mm
Corporate Plus Investment Grade Corporate Intermediate Duration Investment Grade Corporate Long Duration Investment Grade Corporate Long Duration Fixed Income Credit Emphasis Long Duration Core Plus	0.30% on the first \$50 mm 0.25% on the next \$50 mm 0.20% thereafter Minimum Account Size: \$50 mm
Emerging Market Broad	0.50% on the first \$100 mm 0.45% on the next \$100 mm

	0.40% thereafter Minimum Account Size: \$50 mm
Investment Grade Opportunistic	0.35% on the first \$50 mm 0.30% on the next \$50 mm 0.25% thereafter Minimum Account Size: \$50 mm
Global Credit Opportunities Global Capital Structure Opportunities	0.45% on the first \$50 mm 0.40% on the next \$50 mm 0.35% thereafter Minimum Account Size: \$50 mm
Global Short Duration Credit Global Short Duration Fixed Income	0.35% on the first \$50 mm 0.30% on the next \$50 mm 0.25% thereafter Minimum Account Size: \$50 mm
Global Sovereign Bonds	0.40% on the first \$50 mm 0.35% on the next \$50 mm 0.30% on the next \$50 mm 0.25% thereafter Minimum Account Size: \$50 mm
Mortgage Backed Securities	0.30% on the first \$50 mm 0.25% on the next \$50 mm 0.20% thereafter Minimum Account Size: \$50 mm
Private Market Private Placements	0.25% on the first \$100 mm 0.20% on the next \$100 mm 0.15% thereafter Minimum Account Size: \$50 mm
Ultra Short Enhanced Yield	0.25% on the first \$25 mm 0.20% on the next \$75 mm 0.15% thereafter Minimum Account Size: \$50 mm
Ultra Short High Quality	0.15% on the first \$100 mm 0.13% on the next \$100 mm 0.10% thereafter Minimum Account Size: \$50 mm
Core Plus	0.30% on the first \$100 mm 0.25% on the next \$100 mm 0.20% on the next \$100 mm Negotiable on all thereafter Minimum Account Size: \$25 mm
Investment Grade Credit	0.30% on the first \$50 mm 0.25% on the next \$50 mm 0.20% on the next \$50 mm Negotiable on all thereafter Minimum Account Size: \$25 mm

Mortgage Securities	0.25% on the first \$100 mm 0.20% on the next \$100 mm 0.15% on the next \$100 mm Negotiable on all thereafter Minimum Account Size: \$25 mm
Short Term Income	0.20% on the first \$150 mm 0.15% on the next \$150 mm 0.10% on the next \$150 mm Negotiable on all thereafter Minimum Account Size: \$25 mm

High Yield	Fee Schedule
Bank Loans	0.50% on the first \$100 mm 0.45% on the next \$150 mm 0.40% thereafter Minimum Account Size: \$50 mm
High Yield High Yield Traditional High Yield Quality Constrained	0.50% on the first \$50 mm 0.45% on the next \$50 mm 0.40% thereafter Minimum Account Size: \$50 mm
Global High Yield High Yield Opportunistic	0.50% on the first \$50 mm 0.45% on the next \$50 mm 0.40% thereafter Minimum Account Size: \$50 mm
Short Duration High Yield	0.50% on the first \$50 mm 0.45% on the next \$50 mm 0.40% on all thereafter Minimum Account Size: \$50 mm
High Yield High Quality	0.50% on the first \$50 mm 0.45% on the next \$50 mm 0.20% on the next \$50 mm Negotiable on all thereafter Minimum Account Size: \$25 mm

Municipal	Fee Schedule
Opportunistic Municipal	0.30% on the first \$50 mm 0.25% on the next \$50 mm 0.20% thereafter Minimum Account Size: \$50 mm
Municipal California Fixed Income Municipal Fixed Income	0.25% on the first \$100 mm 0.20% on the next \$100 mm 0.15% thereafter Minimum Account Size: \$50 mm

**Asset Allocation Fee Schedule:**

PGI's standard annual fees for investment management services are based on the value of assets under management as outlined in the table below. Published fee schedules are shown for unaffiliated client portfolios and subject to the stated minimum accounts sizes. Fees and minimum investment amounts in all categories and ranges can be subject to negotiation as appropriate, and be higher or lower than those described below.

Asset Allocation Strategies	Fee Schedule
TR-Balanced TR-Conservative Growth TR-Conservative Balanced TR-Flexible Income TR-Strategic Growth	0.60% on the first \$50 mm 0.50% on the next \$50 mm 0.40% on the next \$100 mm negotiable on all thereafter Minimum Account Size: \$25 mm
Active Income Global Income Active Balanced	0.60% on the first \$200 mm 0.55% on the next \$200 mm 0.45% on the next \$400 mm negotiable on all thereafter Minimum Account Size: \$100 mm

The asset allocation clients are institutional clients. Each institutional client has the ability to negotiate individual fee schedules based upon a number of factors which include, but are not limited to; specific asset classes, asset allocation models and the overall size of the relationship. The fees charged by PGI's fee schedule encompass the management fees that are charged on the underlying investment level as well as the services provided by PGI.

**For Separately Managed Account/Wrap fee programs ("SMA Programs"):**

The annual fees paid to PGI for SMA strategies generally range from 0.23% to .55% of the relevant SMA account holders respective accounts. Some SMA programs provide for the wrap fee (including the portfolio management portion payable to PGI) to be paid by the SMA account holder before the services are rendered to the SMA account holder by PGI, while some SMA programs provide for the wrap fee (and PGI's portfolio management portion) to be paid in arrears by the SMA account holder after PGI provides services for the period covered by the fee. In the event the SMA program provides for prepayment of fees by the SMA account holder, the SMA account holder is directed to the program sponsor's brochure for information concerning termination and refund conditions and procedures.

For additional information regarding brokerage fees and other transaction costs, see Item 12.

## **ITEM 6 – PERFORMANCE-BASED FEES AND SIDE-BY-SIDE MANAGEMENT**

Certain PGI accounts are charged performance fees in compliance with Rule 205-3 of the Investment Advisers Act of 1940. Any such performance fees will be negotiated on an individual basis with the client. PGI is willing to consider incentive fees in appropriate circumstances. In measuring clients' assets for the calculation of performance-based fees, PGI realized and unrealized capital gains and losses are included dependent upon contractual provisions. Performance based fee arrangements can create an incentive for the adviser to recommend investments which could be riskier or more speculative than those which would be recommended under a different fee arrangement. Such fee arrangements also create an incentive to favor performance based fee-paying accounts over other accounts in the allocation of investment opportunities.

PGI manages investments for a variety of clients including pension funds, retirement plans, mutual funds, exchange-traded funds, large institutional clients, SMA program accounts and private funds. The potential of conflicts of interest can arise from the side-by-side management of these clients based on fees structures.

PGI has policies and procedures designed and implemented to ensure that all clients are treated fairly and to prevent this conflict from influencing the allocation of investment opportunities among clients.

## **ITEM 7 – TYPES OF CLIENTS**

PGI provides portfolio management services to individuals, high net worth individuals, corporate pension and profit-sharing plans, Taft-Hartley plans, charitable institutions, foundations, endowments, municipalities, registered mutual funds, private investment funds, ETFs, trusts, sovereign wealth funds, foreign funds, supranationals, central banks, collective investment trusts, wrap programs, insurance separate accounts, life insurance company general accounts, fund of funds and other U.S. and international institutions. Some of PGI's clients are affiliates.

Generally, the minimum account size for opening and maintaining a separately managed equity portfolio/account is \$10-50 million and is based on the type of strategy used for the client's portfolio.

Generally, the minimum account size for opening and maintaining a separately managed fixed income portfolio/account is \$25-50 million and is based on the type of strategy used for the client's portfolio.

PGI reserves the right in its sole discretion to accept client accounts with fewer initial assets.

The minimum account size for the SMA programs that PGI participates in are generally \$100,000, although the investment minimum differs from program to program and is determined by wrap program sponsor, not PGI.

## **ITEM 8 – METHODS OF ANALYSIS, INVESTMENT STRATEGIES AND RISK OF LOSS**

Investing in securities involves risk of loss that clients should be prepared to bear.

### **Equities**

PGI has various equity boutiques that offer a number of actively managed and systematic strategies, all utilizing equity securities to help meet its clients' investment objectives and goals. PGI is generally a long-only manager. The vast majority of the portfolios are discretionary. Please refer to Item 16 regarding discretion over client accounts.

Equity boutiques provide client-focused investment solutions spanning equity markets worldwide. This process generally utilizes internally generated fundamental research that focuses on bottom-up stock selection within a sophisticated comparative framework. The entire scope of research encompasses over 10,000 companies, large and small, in emerging and developed markets. The use of technical methods of analysis can also be used within the research. The proprietary systems include some data sourced from outside investment research specialists. Teams of investment analysts are organized by regions and industry sectors globally. Their research plays an integral part in the selection of securities for the client portfolios. Research teams avail themselves of various approaches including meeting with senior management of companies whose stocks in which the boutiques have invested or being considered for investment in when deemed appropriate or as necessary, in the teams' judgement. The analysts will also research investment publications on general economic conditions, financial publications from the investment banking industry, corporate annual reports and regulatory filings.

The types of equity securities typically utilized for these strategies include common stock (exchange traded, over the counter and initial public offerings) issued by US and foreign (ex-US) corporations or other issuers. The boutiques can utilize different instruments, at their preference, to fulfill their selection including but not limited to: 1) American Depositary Receipts and Global Depositary Receipts if liquidity is suitable; 2) Open end funds and Exchange Traded Funds (ETFs) for cash equitization purposes; 3) Although rare - closed-end funds, participation notes, private placement securities and rights and

warrants on equity securities; 4) forward currency contracts to hedge the exposure of foreign currency fluctuations in the equity portfolios.

PGI offers a broad range of global and regional equity strategies across developed and emerging markets, specified market segments and style preferences which include, but not limited to:

### **Global Equity Strategies**

#### *Global Opportunities Equity*

Our borderless Global Opportunities Equity strategy invests in companies domiciled in developed and emerging market countries, aiming to provide long-term risk adjusted returns with lower absolute volatility than the broad equity market (e.g. MSCI AC World Index).

Like all of our active equity strategies, Global Opportunities Equity seeks companies demonstrating positive fundamental change, with exploitable expectation gaps, at attractive relative valuations. Our Global Opportunities Equity strategy provides our portfolio managers broad latitude to focus on our highest conviction investment opportunities across the world, intentionally disregarding standard market indexes when selecting stocks, and determining sector and region weights. Our framework incorporates base volatility premia (the “price of defense”) as well as size, value, momentum, and other key style factors. At the client’s request for individually managed accounts, this strategy can be further tailored to exclude certain emerging markets or single countries or sectors.

#### *Global Equity*

These strategies are designed for investors seeking broad exposure to selected equity investment opportunities in developed markets based companies.

#### *Global Dynamic Risk Premium*

This strategy is actively managed with a quantitative approach, incorporating measures of variable risk premiums (i.e. multi-factor) for stock selection decisions. The objective is to provide stronger returns or minimize risk relative to a traditional market-capitalization-weighted benchmark. The strategy can be tailored to specific client needs and objectives.

#### *Global Strategic Beta Index*

This strategy is passively managed and replicates a rules-based “strategic beta” index designed by PGI. The proprietary index incorporates a factor-based approach to generating potential outperformance relative to traditional, capitalization weighted indexes. The strategy can be tailored to specific client needs and objectives and is also available in a dedicated emerging markets format.

### *Global Small-Cap Equity*

The Global Small-Cap strategy invests in a broad-market of developed and emerging market economies. It is focused on investing in small-capitalization companies and managed to provide broadly diversified portfolios by region, country, and sector. This strategy has been further tailored to expand into mid-cap companies, with an overall portfolio income objective: Global SMID value & income.

## **International Equity Strategies**

### *Diversified International Equity, International All-Country Equity, International Opportunities Equity*

These strategies offer a broad exposure to equity investment opportunities outside the United States. They are active core strategies including moderate strategic allocations to emerging markets.

### *International Core Equity, International Growth Equity*

These strategies can provide broad exposure to selected equity investment opportunities in developed markets outside of the U.S., utilizing a disciplined active approach. The growth oriented strategy is focused on delivering growth without excessive valuation premiums.

### *International Small Cap*

The objective is to provide a diversified exposure among selected smaller capitalization companies in developed regions outside the U.S. utilizing a disciplined active core approach.

### *International Equity Income ADR*

This strategy seeks a relatively high level of current income and long-term growth of income and capital by investing primarily in non-U.S. companies in developed markets.

### *European Equity,*

The objective is to provide regional and country exposure tailored to investor's preferences.

### *International Dynamic Risk Premium*

This strategy is actively managed with a quantitative approach, incorporating measures of variable risk premiums (i.e. multi-factor) for stock selection decisions. The objective is to provide stronger returns or minimize risk relative to a traditional market-capitalization-weighted benchmark. The strategy can be tailored to specific client needs and objectives.

### *International Strategic Beta Index*

This strategy is passively managed and replicates a rules-based "strategic beta" index designed by PGI. The proprietary index incorporates a factor-based approach to generating potential outperformance relative to traditional, capitalization weighted indexes. The strategy can be tailored to specific client needs and objectives.

Each of the above strategies can be tailored to include emerging market country exposure upon request.

### **Emerging Markets Equity Strategy**

*Emerging Markets Equity, Emerging Global Leaders Equity*

These strategies can provide diversified exposure among companies within growing segments of the economy in emerging markets countries and focused on delivering growth without excessive valuation premiums.

### **Domestic Equity Strategies**

*U.S. Small Cap, U.S. Small Cap Select, U.S. Small Cap Select Value*

The objectives of these strategies are to provide a diversified exposure among selected smaller capitalization U.S. companies. The U.S. Small Cap and U.S. Small Cap Select strategies are core offerings while the U.S. Small Cap Select Value strategy has value oriented characteristics.

*MidCap, Blue Chip, Focused Equity*

The MidCap, Blue Chip, and Focused Equity strategies are designed for investors seeking equity investment opportunities irrespective of benchmark orientation. The strategy focuses primarily on long-term ownership of high quality businesses with sustainable competitive advantages, owner-operator management teams, and discounted valuations.

*U.S. Large Cap Dynamic Risk Premium*

This strategy is actively managed with a quantitative approach, incorporating measures of variable risk premiums (i.e. multi-factor) for stock selection decisions. The objective is to provide stronger returns or minimize risk relative to a traditional market-capitalization-weighted benchmark. The strategy can also be managed relative to an all cap benchmark.

*U.S. Strategic Beta Indexes*

These strategies are passively managed and replicate a rules-based “strategic beta” indexes designed by PGI. The proprietary indexes incorporate a factor-based approach to generating potential outperformance relative to traditional, capitalization weighted indexes. US Strategic Beta Indexes are available that provide exposure to specific types of factors including quality growth, shareholder yield, deep value, and momentum as well as a universe of innovative mid and small cap healthcare companies. Mega cap and small cap versions of the US Strategic Beta Indexes are also available.

### *Capital Appreciation*

This strategy seeks long-term growth of capital by investing in common stocks of companies across the capitalization spectrum.

### *Equity Income*

This strategy seeks a relatively high level of current income and long-term growth of income and capital by investing primarily in the common stocks of U.S. large-cap companies.

### *Concentrated Mid Cap*

This strategy seeks long term growth of capital by investing primarily in the common stocks of U.S. companies in the medium market capitalization range.

### *Small Mid-Cap Value/Equity Income*

This strategy seeks a relatively high level of current income and long-term growth of income and capital by investing primarily in common stocks of small and mid-cap U.S. companies.

### *SMID Equity Income*

The objective of this strategy is to seek a relatively high level of current income and long-term growth of income and capital by investing primarily in common stocks of small and mid-cap U.S. companies.

## **Passive and Enhanced Index Strategies**

In addition to actively managed strategies, PGI also manages passive index replication strategies and offers benchmark-focused strategies that provide a low-cost enhancement to traditional passive management. This enhanced index strategy reflects a systematic approach, distinct and complementary to traditional active strategies. It utilizes the Dynamic Risk Premium process (described above) for a small proportion of the portfolio while keeping the overall benchmark risk profile and style characteristics largely intact.

## **Active Equity Philosophy and Risk Management**

PGI's philosophy is that equity markets are not perfectly efficient, and therefore provide opportunities to add value through fundamental research and active risk management. The strategies are built on the belief that bottom-up stock selection is the most reliable and repeatable source of consistent competitive performance over time. To that end, the lead portfolio manager for each strategy collaborates directly with the investment analysts regarding the output of their analysis, and is ultimately responsible for security selection and for the individual weighting of each portfolio holding.

Risk management is embedded in the boutiques' investment process. The portfolio managers have a number of risk management systems/tools at their disposal, each serving a different purpose within the portfolio construction process. These systems monitor risk and guidelines (in terms of region, country, currency, sector, industry, market capitalization distribution, style factor distribution, beta sensitivity and individual position weights) in each client's portfolio. Generally, the portfolio management teams monitor portfolio risk exposures through a series of weighting constraints relative to each portfolio's benchmark and each portfolio's overall characteristics and individual security holdings.

Furthermore, the risk management tools allow for Senior Management of the boutiques to view portfolio positioning for their respective strategies at any time. The Chief Investment Officers for equity are charged with supporting risk management efforts that quantify the portfolio managers' success in achieving risk and return objectives for the accounts they manage. There is a monthly peer review meeting to discuss risks across all strategies. These meetings focus on a review of all strategies and use detailed reports of absolute and relative portfolio weightings in sectors, companies, industries and market capitalization as well as a wide range of portfolio level systematic risk metrics.

Prospective clients should be aware that no risk management system is fail-safe, and no assurance can be given that risk frameworks employed by the boutiques will achieve their objectives and prevent or otherwise limit substantial losses. There is also the risk that the investment approach taken will be out of favor at times, causing strategies to underperform other strategies or funds that also seek capital appreciation but use different approaches to the stock selection and portfolio construction process.

### **Risks of Equity Investment Strategies**

Every strategy entails market risk, liquidity risk and operational risk. Past performance does not necessarily predict future returns. Clients are subject to the risk that stock prices will fall over short or extended periods of time, and clients could lose all, or a substantial portion, of the value of their investments. Historically, the equity markets have moved in cycles, and the value of equity securities can fluctuate significantly from day to day. Individual companies can report poor results or be negatively affected by industry and/or economic trends and developments. The prices of these companies' securities can decline in response. These factors contribute to price volatility, which is a principal risk of equity investing.

The Global and International Equity strategies utilize foreign investments. Foreign investments are subject to special risks not typically associated with domestic U.S. stocks. Investing in issuers headquartered or otherwise located in foreign countries poses additional risks since political and economic events unique to a country or region will affect those markets and their issuers. These events will not necessarily affect the U.S. economy or similar issuers located in the United States.

## **Fixed Income**

PGI manages strategies covering a full range of global fixed income securities including products that integrate multiple fixed income sectors (multi-strategy) as well as products that emphasize a single fixed income sector.

The fixed income multi-strategy services focus on U.S. dollar-denominated securities as well as fixed income securities issued outside the United States and denominated in multiple currencies benchmarked to a range of short, intermediate and long duration strategies. Within the single sector focused strategies these include global and U.S. dollar-denominated strategies focused on investment grade corporate credit, high yield securities, emerging market debt, municipals or government and government related bonds.

PGI believes superior returns are best achieved through the integration of rigorous fundamental research, a global perspective and disciplined risk management.

These common threads serve as the three cornerstones of the fixed income process:

### *Macro/Risk Perspective*

A broad approach to identifying macro trends and inconsistencies.

### *Investment Research Framework*

A consistent comparative framework based on fundamentals, technicals, valuations and independent internal research, which is used throughout the investment process and facilitates communication as well as portfolio positioning.

### *Risk Management*

A comprehensive, multi-dimensional approach to risk management at each stage of the investment process.

## **Fixed Income Strategies**

### *Bank Loans*

The Bank Loan strategy seeks to provide a return consisting of income and capital appreciation over the long term primarily through security selection. Investments are in U.S. dollar denominated floating rate bank loan securities.

### *Emerging Market Broad*

The Emerging Market Broad strategy focuses on independent, forward-looking fundamental analysis of both sovereign and corporate credits within the context of the global business cycle. The goal of the strategy is to add value to an actively managed emerging markets debt portfolio.

### *Global Bonds*

The Global Bonds strategy aims to exploit global bond market opportunities through assessment of the global business/growth cycle and the relative position of individual countries within the cycle. The goal of the strategy is to add value to an actively managed global bond portfolio. The strategy includes: Global Bonds, Global Corporate Plus, Global Investment Grade Corporate, Global Credit Opportunities, Global Short Duration Credit and Global Short Duration Fixed Income.

### *High Yield*

The high yield strategy tactically allocates across the high yield spectrum, focusing on the individual ratings of securities. The goal of the strategy is outperformance of the benchmark over a three to five-year period with a below market level of volatility. High yield strategies include: High Yield Traditional, Global High Yield, High Yield Opportunistic, High Yield, High Yield Quality Constrained and Short Duration High Yield.

### *Investment Grade Corporate*

The Investment Grade Corporate Credit strategy is built upon a forward-looking credit research process to identify quality issuers in the investment grade universe. This strategy benefits from a dedicated team of credit analysts and high yield specialists to add value to an actively managed credit portfolio. This strategy includes: Investment Grade Corporate.

### *Long Duration*

The Long Duration strategy seeks to provide consistent outperformance through an active management strategy capturing multiple sources of excess returns. The goal of the strategy is to add value to an actively managed long duration portfolio. This strategy includes: Long Duration Fixed Income Credit Emphasis, Long Duration Core Plus, Long Duration Investment Grade Corporate.

### *Multi-Sector Fixed Income*

The Multi-Sector Fixed Income strategy seeks to provide consistent risk-adjusted returns through balancing the understanding of the quantitative risks with the associated return opportunities. The goal is to provide consistent alpha created through sector allocation, security selection and structural positioning/asset replication. This strategy includes: Core Plus Bond Opportunistic, Core Plus Bond, Corporate Plus, Core Plus Universal and Core Plus Long Term Focus.

### *Municipal Bonds*

The municipal strategies invest in securities issued by, or on behalf of, state or local governments, and other public authorities and are tax-exempt. The strategies invest in a broad array of municipal bonds with varying maturities. Municipal strategies include: Municipal California Fixed Income, Municipal Fixed Income and Opportunistic Municipal.

### *Securitized Debt*

Mortgage-Backed Securities strategy invests primarily in Fannie Mae, Freddie Mac, and Ginnie Mae agency mortgage-backed securities (MBS), with the ability to invest in treasuries, U.S. agencies, asset-backed securities (ABS) and non-agency MBS. This strategy invests entirely in U.S. based issuers.

The Government & High Quality Fixed Income strategy seeks to provide a high level of current income consistent with stability and liquidity by investing primarily in securities issued by the U.S. government, its agencies and instrumentalities and other high quality Mortgage Backed Securities.

### *Stable Value*

Morley Stable Value strategy seeks to provide capital preservation and stable, competitive returns through the consistent application of three factors: a disciplined investment process that combines top-down economic research with fundamental bottom-up security analysis, a focus on building high-quality, well diversified portfolios by wrap provider, investment manager and mandate and a commitment to risk management.

### *Systematic*

The Systematic strategies utilize the primary factor of default risk as a filter, in conjunction with a portfolio optimizer, to systematically construct a diversified debt portfolio to capture higher yield with lower credit losses than a passive strategy. Our Systematic strategies may invest across multiple fixed income sector or focused on one sector such as emerging market or high yield.

### *Other Strategies*

Private Market seeks to provide incremental yield and return over comparable public corporate bonds, while also focusing on preservation of capital. Performance will primarily come from security selection.

The Global Capital Structure Opportunities strategy has a global credit focus that invests primarily in investment grade-rated financial issuers and opportunistically allocates across the entire debt capital structure. The strategy consists of high conviction portfolios, holding fewer issuers than traditional investment-grade corporate mandates. The strategy maintains an average of investment grade credit quality at all times.

The Investment Grade Opportunistic strategy is a global investment grade credit strategy that invests primarily in global investment grade corporate bonds and opportunistically in

some lower rated issuers maintaining an average portfolio credit quality of BBB or higher. This strategy uses thematically driven security selection to build highly concentrated portfolios and is implemented on a best ideas basis.

The Short Term Income strategy seeks to provide a high level of current income consistent with stability and liquidity by investing primarily in high quality short-term fixed income securities that are deemed to be investment grade at the time of purchase.

The Ultra Short High Quality and Ultra Short Enhanced Yield strategies invest in short duration securities across multiple fixed income sectors, including those not typically included in traditional money market funds, with the goal to provide yield benefits and necessary liquidity.

### *Derivatives*

While derivatives are not a specific strategy, periodically they are able to be utilized in certain portfolios by agreement with the client. Common fixed income derivatives used are credit default swaps (CDS) (Risk – credit exposure or protection), interest rate swaps (Risk – fixed rate for floating rate exposure or the reverse), treasury futures (Risk – exposure or protection on interest rate movements), TBA (To Be Announced MBS Forward) (Risk - Risk – exposure or protection on upcoming issuance), collateralized debt obligations (CDO) (Risk – see structured instruments below), and currency swaps (Risk – exposure or protection on rate movement between two or a basket of currencies) among others. Certain of these instruments are subject to regulation by the Commodity Futures Trading Commission (“CFTC”) under the provisions of Dodd-Frank Financial Reform legislation. The purchase of derivatives occurs in either the exchange traded and over the counter markets. The exchange traded derivatives market is very transparent as are the settlement risks (i.e. Treasury Futures). This is not necessarily the case in the over the counter market (CDS, interest rate swaps, etc.). In this market, one trades a portfolio risk for a counterparty risk. To help mitigate counterparty risk, the Firm utilizes collateral agreements, as required, by clients or applicable regulations.

Various instruments have moved to centralized clearing over the past several years. In addition, several of the instruments are moving to electronic trading (SEFs) as the CFTC and SEC approves trading platforms. With the advent of centralized clearing, there are initial and ongoing margin requirements the client must meet. In addition, a Legal Entity Identifier (“LEI”) number must be obtained by the client and contained on each trade. This is to help identify systemic risk at an entity or consolidated enterprise level.

Derivatives are primarily used for asset replication, hedging and structured products. In an asset replication use, credit default swaps are purchased when a portfolio manager believes that there is attractive pricing versus the cash bond market to gain exposure to a given name, sector or index.

All derivatives used for hedging purposes involve basis risk. This occurs when the value of underlying hedging instrument moves differently (not perfectly correlated) than the corresponding item being hedged.

### Risks of the Fixed Income Strategies

Structured products are complex credit instruments involving a series of CDS or CDOs as an example. The instruments typically have several tranches and the investing party is potentially exposed to one or several levels of payment risk. The instrument will have provisions which spell out participation in revenue and loss or repayment of principal when certain conditions are experienced by the underlying assets.

PGI does not primarily recommend a particular type of fixed income security. However, within the fixed income team, the firm manages strategies requested by institutional investors seeking fixed income solutions to their investment objectives.

There are a number of risks which affect fixed income investments which include but are not limited to: interest rate, credit, volatility, liquidity, duration, prepayment, derivative, optionality, inflation, reinvestment, event, sector, disclosure, foreign exchange, legal, economic, geopolitical, and systemic.

All fixed income securities are subject to interest rate and credit quality risk. The market value of fixed income securities generally declines when interest rates rise and an issuer of fixed income securities could default on its payment obligations.

**Concentration Risk:** a strategy that concentrates investments in a particular industry or group has greater exposure than other strategies to market, economic and other factors affecting the industry or group.

**Derivatives Risk:** transactions in derivatives (such as options, futures, and swaps) have to potential to increase volatility, cause liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

**Duration Risk:** duration is a measure of the expected life of a fixed income security and its sensitivity to changes in interest rates. The longer a portfolio's average duration, the more sensitive the fund will be to changes in interest rates.

**Prepayment Risk:** unscheduled prepayments on mortgage-backed and asset-backed securities reinvested at lower rates. A reduction in prepayments resulting in increase in the effective maturities of these securities, exposing them to the risk of decline in market value over time.

**U.S. Government Securities Risk:** Yields available from U.S. government securities are generally lower than yields from other fixed income securities.

U.S. Government Sponsored Securities Risk: securities issued by U.S. government sponsored enterprises such as FHLMC, FNMA and the Federal Home Loan Bank are not issued or guaranteed by the U.S. Treasury.

The High Yield strategy is also subject to greater credit quality risk than higher rated fixed income securities and should be considered speculative.

The Emerging Market Debt and Global Bonds strategies are also subject to Foreign Securities Risk, which includes the loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; changes in foreign exchange rates and restrictions; settlement delays and limited government regulation.

State and Political Subdivisions Risk: subject to credit, transparency/disclosure, political, and other similar risks.

Changes to tax laws can result in various risks with regards to bonds.

### **Asset Allocation**

PGI asset allocation boutique Principal Portfolio Strategies (PPS) primarily provides asset allocation services, which includes recommendations relating to overall asset class selection, risk management, asset class rebalancing and manager selection within asset classes, both within and outside of PGI. PPS can utilize asset classes in their modeling such as U.S. and foreign equity, U.S. and foreign fixed income, cash equivalents, and real estate with further differentiation based on market capitalization (as an example, large-cap vs. small-cap) and/or investment style (as an example, value vs. growth) as well as other asset subclasses. The Firm also makes recommendations and allocations to underlying investment strategies as detailed below.

PPS conducts detailed analyses and review of the appropriateness of the exposure and weightings of each asset class within a specific client's portfolio or mandate based upon the agreed upon parameters of each individual investment management agreement. PPS will assess current asset class weightings based upon any number of individual factors and makes adjustments to those allocations over time. In identifying potential areas of investment, PPS takes into consideration the ability of an asset class to provide capital appreciation, the ability to generate current income, certain diversification characteristics of the asset class, the potential need for capital preservation and/or certain risk hedging characteristics when making its allocation recommendations.

PPS also evaluates the risk premium associated with each asset class or sector in an effort to determine the appropriateness of the allocations related to the overall intended risk profile and strategy of the client. PPS employs an asset allocation approach to portfolio construction as client assets are allocated across one or any number of predetermined separate accounts or commingled funds. PPS primarily utilizes mutual funds, unit investment trusts, separate accounts, ETFs and/or other commingled funds that are

typically sub-advised by affiliated managers. The portfolio construction process includes a comprehensive analysis of manager style for each of the asset classes employed in the asset allocation strategy, based on their portfolio returns and holdings.

PPS conducts a rigorous investment due diligence process on each affiliated manager, and on other managers who might be specified by the client. This due diligence takes into account qualitative factors: quantitative factors; an assessment of each manager's style against our medium-term view on markets; and finally, an assessment of their ability to manage the investment risk in their holdings.

After a portfolio is initially constructed, PPS monitors the aggregate portfolio as well as the underlying managers for each asset class on an ongoing basis to determine that the asset allocation model continues to operate within each client's stated investment guidelines. The asset class selection and risk management analyses are used to determine both the timing of portfolio rebalancing and the magnitude by which allocations are allowed to drift away from neutral target allocations. Portfolio rebalancing recommendations typically rely on a combination of fundamental and quantitative inputs within pre-established risk parameters and rebalancing is employed generally as a risk reduction measure rather than a tactical measure.

Underlying portfolio risks include, but are not limited to, size/style drift and earnings quality for equities; credit quality and interest rate sensitivity for fixed income portfolios; specific sectors and countries for real estate portfolios. There is also a risk that one, some or all of the underlying portfolios selected for inclusion in the asset allocation models do not meet their stated investment objective or that the overall asset allocation recommendations that are made by PPS do not perform as expected. As with every investment, there is also the risk that the investment decisions made result in the loss of principal and that the investment could be worth less money at the time of redemption than the investor contributed to the portfolio.

PPS monitors portfolio risk in a number of ways, including the processes detailed above relating to portfolio construction and the ongoing monitoring of the portfolios. PPS monitors the performance of each underlying manager in the portfolio relative to the benchmark established for each asset class as well as relative to a peer group.

PPS continually monitors the macro-economic environment to which the asset classes are exposed. The economic environment is a factor in the risk analysis allocation and portfolio rebalancing decisions discussed above.

A variety of software applications are used to monitor the current asset allocation mix in the client's portfolio to identify the principal sources of portfolio risk, and to verify that the risk/return profile for the portfolio is in agreement with the client's stated investment objective and applicable guidelines.

## All Strategy Risks:

With the increased use of technologies such as the Internet to conduct business and the sensitivity of client information, investment strategy and holdings, a portfolio is susceptible to operational, information security and related risks. In general, cyber incidents can result from deliberate internal or external attacks or unintentional events and are not limited to gaining unauthorized access to digital systems, and misappropriating assets or sensitive information, corrupting data, or causing operational disruption, including the denial-of-service attacks on websites. Cyber security failures or breaches either internally at PGI or externally by a third-party service provider or at or against issuers of securities in which the portfolio invests have the ability to cause disruptions and impact business operations. Such events could potentially result in financial losses, the inability to transact business, violations of applicable privacy and other laws, regulatory fines, penalties, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, including the cost to prevent cyber incidents.

## **ITEM 9 – DISCIPLINARY INFORMATION**

Registered investment advisers are required to disclose all material facts regarding any legal or disciplinary events that would be material to your evaluation of PGI or the integrity of PGI’s management. PGI has no information applicable to this item.

## **ITEM 10 – OTHER FINANCIAL INDUSTRY ACTIVITIES AND AFFILIATIONS**

PGI is registered with the CFTC as a Commodity Trading Advisor (“CTA”) and as a Commodity Pool Operator (“CPO”). PGI operates one or more controlled foreign corporations (“CFC”) of the registered fund for which it acts as a registered CPO and is a member of the National Futures Association (“NFA”). PGI advises qualified eligible persons (“QEPs”) under CFTC Regulation 4.7.

PGI is an affiliate of Principal Securities, Inc. (“PSI”), a retail investment adviser registered with the SEC and a broker-dealer which is a FINRA member firm that markets a variety of proprietary and non-proprietary mutual funds, unit investment trusts and limited partnerships. PGI currently does not execute security transactions with PSI. PSI is an introducing broker-dealer for retail funds business.

PGI is under common control with Principal Funds Distributor, Inc. (“PFD”), a registered broker-dealer and a FINRA member. PFD serves as a principal underwriter for Principal Funds, Inc. and Principal Variable Contracts, Inc. PGI does not currently execute security transactions with PFD.

Some of PGI's staff are registered representatives of PFD and/or PSI. From time to time in their capacity as registered representatives of PSI, solicit investment in Principal Funds or in unregistered private investment funds which are sponsored or managed by PGI or its affiliates. Only the registered representatives on PGI's distribution staff are eligible to receive sales compensation for any sales of shares of the Principal Funds or interests in unregistered private investment funds. In addition to the sales compensation paid to PGI's distribution staff, Principal Funds and unregistered private investment funds pay advisory fees that are received by PGI or its affiliated advisers. As such, there is a conflict of interest when Funds that are paying advisory fees to PGI or its affiliated advisers are recommended by the sales staff.

PGI is under common control with Spectrum Asset Management, Inc. ("Spectrum"), a registered broker-dealer and an investment adviser registered with the SEC. PGI executes securities transactions for clients through Spectrum in certain circumstances, but only in compliance with applicable rules. Spectrum is also a member of the NFA and registered with the CFTC.

PGI is the investment adviser to the Principal Funds, which includes three separate registered investment companies.

PGI is under common control with Principal Real Estate Investors, LLC, an investment adviser registered with the SEC. Principal Real Estate Investors offers portfolio management and investment advisory and subadvisory services concerning primarily equity real estate and commercial mortgage investments to affiliated (including PGI) and non-affiliated persons. PGI furnishes certain personnel, facilities, and other resources to Principal Real Estate Investors and certain of its clients. On occasion, PGI utilizes personnel or other resources of Principal Real Estate Investors to assist PGI in the performance of investment advisory services. PGI and Principal Real Estate Investors have other common directors and officers.

PGI is under common control with Principal Financial Advisers, Inc. ("PFA"), a registered investment adviser with the SEC. PGI and PFA share personnel in the performance of investment advisory services.

PGI is an affiliate of Post Advisory Group, LLC ("Post"), an investment adviser registered with the SEC. Post, in general, offers services in managing client funds invested in high yield debt securities and distressed securities. On occasion, Post provides such services as a sub-adviser to PGI. PGI and its affiliates share investment and compliance information, as well as certain personnel and other resources, with Post as necessary for Post to fulfill its service as sub-adviser to PGI.

PGI is an affiliate of Columbus Circle Investors ("Columbus Circle"), an investment adviser registered with the SEC. Columbus Circle, in general, offers services in managing client funds invested in equity securities. On occasion, Columbus Circle provides such services as a sub-adviser for PGI. PGI and its affiliates share investment and compliance

information, as well as certain personnel and other resources, with Columbus Circle to fulfill its service as sub-adviser to PGI.

PGI is under common control with Spectrum, an investment adviser registered with the SEC. Spectrum offers portfolio management and investment advisory and subadvisory services concerning primarily preferred securities to affiliated (including PGI) and non-affiliated persons. PGI and its affiliates share investment and compliance information, as well as certain personnel and other resources, with Spectrum to fulfill its service as sub-adviser to PGI. PGI is a party to a revenue sharing agreement dated September 28, 2001, with Spectrum, as amended, whereby certain advisory fees generated by Spectrum and its affiliate broker-dealer are allocated between the PGI and Spectrum.

PGI is an affiliate of Origin Asset Management LLP (“Origin”), an investment adviser registered with the SEC. Origin in general offers services in managing client funds invested in global (ex U.S.) equity securities. On occasion, PGI utilizes personnel or other resources of Origin to assist PGI in the performance of investment advisory services.

PGI is an affiliate of Finisterre Capital LLP (“Finisterre”), an investment adviser registered with the SEC. Finisterre in general offers services in managing client funds invested in emerging market fixed income securities. Finisterre is also a member of the National Futures Association and registered with the CFTC as a CTA and a CPO. On occasion, PGI utilizes personnel or other resources of Finisterre to assist PGI in the performance of investment advisory services.

Some Separately Managed Account/Wrap fee programs (“SMA Programs”) include investment styles with respect to which one or more of PGI’s affiliated investment advisory firms has particular expertise and experience. Where that is the case, both PGI and the affiliated advisory firm(s) will be involved in the provision of investment advisory services to program participants electing the investment style, with (i) the affiliated advisory firm responsible for providing model portfolio creation and maintenance services for the style, and (ii) PGI responsible for placing client account trades, proxy voting (for those clients electing to authorize the investment adviser to vote proxies), implementing reasonable client-imposed investment restrictions, establishing and implementing procedures used to select securities to be liquidated when a client requests partial liquidation of the client’s account, and all other responsibilities imposed upon the investment adviser in the particular wrap fee program. In some wrap fee programs, the affiliated advisory firm is also granted authority to handle larger trades, typically those associated with changes to the model portfolio, where appropriate, in order to seek best execution. In those situations, in which one of PGI’s affiliated advisory firms provides model portfolio creation and maintenance services, the affiliated advisory firm ordinarily provides those services as a sub-adviser to PGI and the client’s direct agreement ordinarily is with PGI as the investment adviser. In those situations, PGI is responsible to the client for the actions and decisions of PGI’s affiliated sub-adviser and

PGI is responsible for paying its affiliated sub-adviser out of the fees PGI receives as the client's investment adviser. In the event that PGI uses Spectrum as a broker on trades for accounts in wrap fee programs, no brokerage commissions will be paid to Spectrum in connection with those trades.

Principal Global Investors Trust Company ("PGI Trust"), an Oregon banking corporation, is under common control with PGI. PGI Trust is trustee of certain collective investment trusts. PGI Trust, as trustee, retains PGI as investment adviser for one or more bank collective investment trusts. For some of the bank collective investment trusts, PGI is granted discretion or mandated to retain one or more affiliated investment advisory firms as sub-adviser.

Principal Life Insurance Company ("Principal Life") is an affiliate of PGI. Principal Life is licensed as an insurance company in all 50 states and the District of Columbia. PGI and Principal Life have entered into a Subsidiary Expense Reimbursement Agreement pursuant to which Principal Life or its global affiliates will furnish certain personnel, services and facilities used by PGI and PGI will reimburse Principal Life for its expenses incurred in that regard. PGI and Principal Life have certain common officers. PGI manages certain portfolios and accounts within the general and separate accounts of Principal Life. PGI provides advice and management services to Principal Life's spread lending operations.

Principal International, Inc. ("Principal International") is an affiliate of PGI, as both Principal International and PGI are direct or indirect wholly owned subsidiaries of PFSI. PGI manages certain portfolios of Principal International and of Principal International's insurance subsidiaries.

Principal Insurance Company (Hong Kong) Limited ("PIC Hong Kong") is an affiliate of PGI, as both PIC Hong Kong and PGI are indirect wholly-owned subsidiaries of PFSI. PGI acts as sub-adviser with regard to certain portfolios of PIC Hong Kong.

PGI utilizes personnel or other resources or services of its non-US affiliates, Principal Global Investors (Europe) Ltd, Principal Global Investors (Singapore) Ltd, Principal Global Investors (Australia) Ltd, Principal Global Investors (Hong Kong) Ltd, and Principal Global Investors (Japan) Ltd to assist PGI in the performance of investment advisory services. Those advisory affiliates recommend to their clients, or invest on behalf of their clients in securities that are the subject of recommendations to, or discretionary trading on behalf of, PGI's clients. Investment professionals from the advisory affiliates render portfolio management, research or trading services to PGI's clients, including registered investment companies, and are subject to supervision by PGI. Biographies of these professionals will be provided as required or upon request.

PGI is part of a diversified, global financial services organization with many types of affiliated financial services providers, including but not limited to broker-dealers, insurance companies and other investment advisers. PGI enters into arrangements, as needed, to provide services or otherwise enter into some form of business relationship

with these foreign and/or domestic affiliates. Additional disclosure of these relationships will be provided upon request.

PGI acts as investment adviser to certain index ETFs for which the NASDAQ Stock Market LLC (“NASDAQ”) serves as index service provider. PGI retains certain intellectual property rights with respect to such indexes and may also be consulted by NASDAQ prior to the implementation of index rule changes. PGI has not identified any material conflicts of interest resulting from such relationship.

## **ITEM 11 – CODE OF ETHICS, PARTICIPATION OR INTEREST IN CLIENT TRANSACTIONS AND PERSONAL TRADING**

PGI has adopted a Code of Ethics (the “Code”). The principal purposes of the Code are to provide policies and procedures consistent with applicable laws and regulations, including Rule 204A-1 under the Investment Advisers Act of 1940, to prevent conflicts of interests or the appearance of such conflicts when PGI’s officers, directors, employees and certain non-employees of PGI with access to client and trading information of PGI (“Access Persons”) own or engage in their own personal transactions involving securities. The Code requires all Access Persons to adhere to high standards of honest and ethical conduct, and the interests of our advisory clients must be placed first at all times. All Access Persons of the firm are required to certify upon association/employment and annually thereafter that they have read, understood and complied with the Code. This includes that they have complied with the requirements and disclosed covered accounts, reportable securities and pre-cleared transactions as required by the Code. Access Persons are permitted to personally buy and sell securities of issuers that PGI also trades for its clients, so long as those buy and sell transactions are conducted in accordance with the Code. As such, there are procedures in place to prevent instances where potential conflicts of interest arise between the personal securities transactions of the Access Persons and the securities transactions that PGI conducts for the accounts of clients. Compliance monitors personal trading via the on-line pre-clearance system, FIS Personal Trading Assistant. The procedures provide for the maintenance of a master securities list that includes all securities traded by PGI for purchase or sale on behalf of clients. All Access Persons are required to obtain pre-clearance approval to buy and sell reportable securities (excluding exempt securities and transactions) through the online monitoring system, FIS Personal Trading Assistant, before executing a personal security transaction to make sure the proposed transaction conforms to our Code provisions. There is also quarterly review of reportable transactions, as well as annual certification of accounts and holdings by Access Persons. Please refer to the Code for a detailed overview of provisions.

Clients of PGI can obtain a copy of the Code of Ethics by contacting the Chief Compliance Officer at 800-533-1390.

From time to time, PGI advises clients to purchase securities which could coincide with other client purchases, one or more affiliates of PGI could also (1) be purchasing or

selling and/or (2) holding. Such situations will be subject to procedures designed to assure fair allocation of available transactions. PGI also advises clients to participate in investment vehicles (e.g. Principal Global Investors Trust), with other participants and potentially include one or more affiliates of PGI. PGI recommends to its clients the purchase, sale or holding of shares of affiliated mutual funds and/or ETFs for which PGI and its affiliates also provide advisory services while considering suitability. PGI has policies and procedures that address trading and potential conflicts of interest. These conflicts, along with all potential conflicts of interest, are overseen according to our relevant policies and procedures.

PGI will invest its own financial assets primarily in U.S. Treasury securities that it also recommends to clients. It also invests its own financial assets in a short-term investment pool of its indirect parent company, PFSI or in a checking account in the name of PGI.

PGI furnishes investment advice with respect to various portfolios of its direct parent company, Principal Life. In fulfilling its responsibilities, PGI buys and/or sells for Principal Life securities or other investment products that it also recommends to its clients who are not related persons of PGI.

PGI is the investment manager of various securities portfolios of Principal Life, Principal International and other related persons. PGI is the adviser to a number of the Principal Funds, a family of mutual funds organized by Principal Life and distributed by Principal Securities, Inc. and Principal Funds Distributor, Inc. Principal Life, Principal International, PSI and PFD are related persons of PGI. In carrying out its responsibilities in each of these arrangements, PGI buys or sells for related persons securities that it also recommends to its clients who are not related persons of PGI.

## **ITEM 12 – BROKERAGE PRACTICES**

As a discretionary adviser, PGI determines which securities or other instruments are bought or sold for an account, the amount of such securities or other instruments and the timing of the purchases and sales, the broker, dealer, underwriter (and in the case of the Currency Boutique, the foreign exchange dealer) through which transactions are effected and the commission rates or spreads paid, except as specifically directed by the client. Our discretion in those matters, however, is limited by our responsibility to act in the best interest of our clients in fulfilling their investment objectives. PGI does not engage in principal trading with client accounts.

## Equities

### Selection of Brokers and Dealers

PGI seeks to obtain the best overall execution when selecting a broker or dealer for Client portfolio transactions. In selecting brokers and dealers, PGI considers a variety of factors including, but not limited to:

- Their financial strength and stability;
- Best price for the trade;
- Reasonableness of their commission, spreads or markups;
- Their ability to execute and clear the trade in a prompt, orderly and satisfactory manner;
- Quality of their executions in the past and existing relationship to date;
- The confidentiality they provide as to the trades placed through them by PGI;
- Their execution capabilities and any related risks in trading a particular block of securities;
- Their broad market coverage resulting in a continuous flow of information concerning bids and offerings;
- The consistent quality of their services, including the quality of any investment-related services provided (e.g. a first call on the release of influential securities reports);
- Their record keeping practices (e.g. timely and accurate confirmations); and
- Their cooperation in resolving differences.

PGI may also use the above factors to establish generally the proportion of the overall commissions to be allocated to each broker or dealer used in effecting equity trades on behalf of its clients. There is a broker voting process that includes research analysts, portfolio managers and traders. The broker vote is designed to rank brokers based on the quality of research and trading services provided. Recommendations are made for commission allocation based on the results of the vote. These factors and the results of the broker vote are used as general guidelines by the equity trading desk in deciding which broker-dealer to use for specific securities transactions. Because of the variety of factors used to select brokers or dealers, the determining factor in seeking best execution is not the lowest possible commission, but whether the transaction represents the best overall execution for the client. In some instances, PGI will pay a broker commissions that are higher than the commissions another broker might have charged for the same transaction. Please see the section on Soft Dollar Practices below for additional information about brokerage and research services received by PGI.

PGI maintains an approved list of brokers and dealers. New counterparty arrangements must be reviewed and approved by the Counterparty Team of PGI before trading can begin through the new counterparty. Alternative trading systems that meet the guidelines are also eligible for consideration. The traders are required to direct trades only through approved counterparties. Counterparties are regularly monitored by the Counterparty

Team for signs of deterioration in business operations, creditworthiness and rating changes.

PGI Equities does not use affiliated broker-dealers to place client trades for equity securities.

#### Brokerage Commissions

Transactions on stock exchanges and other agency transactions involve the payment by the client of negotiated brokerage commissions. Such commissions vary among different brokers and dealers and a particular broker or dealer often charges different commissions according to such factors as the difficulty and size of the transaction or the means of execution (i.e. program, algorithmic or sales trader) Although commission rates are considered by PGI in our brokerage selection process and are reasonable in relation to the value of the services provided, our clients may not realize the lowest possible commission rates as our determination process considers the additional factors outlined above.

#### Client Directed Brokerage

If PGI agrees, a client can instruct the Firm to direct trading for their account to a particular broker. If a client directs PGI to use a particular broker or dealer, the Firm it is possible the firm will be unable to negotiate commissions, obtain volume discounts, ensure best execution, and to batch trades on the client's behalf. Consequently, clients who direct the Firm to use a particular broker could possibly pay more in commissions than those who do not. No assurance can be given that transactions executed in accordance with such directed brokerage arrangements result in the best execution available to the client. Separately Managed Account/Wrap fee programs ("SMA Programs") occasionally include client directed brokerage provisions. More commonly, SMA Program clients pay a fee to the sponsor that covers, among other things, brokerage commissions for trades executed with the sponsor or the sponsor-designated broker-dealer. The fee does not cover brokerage commissions charged on trades executed with other broker-dealers. As a result, best execution decisions by PGI for SMA Program trades tend to favor use of the program sponsor or the sponsor-designated broker-dealer because of the commission expense, although other circumstances sometimes dictate that other brokers be used in our seeking to achieve best execution. Depending on a variety of factors, including the amount of the wrap fee, the trading activity and the value of custodial and other services, the single fee may or may not exceed the separate costs of such services. The policy is to seek execution of portfolio transactions at prices which are advantageous to our clients as a whole and at commission rates that are competitive, taking into account the full range and quality of an executing broker-dealer firm's services. This process of weighing the interests of each of the clients may result in the trade orders for accounts subject to client directed brokerage arrangements, (including SMA Programs) being placed after completion of non-directed orders so as to avoid conflicts in the trading marketplace. In addition, client directed brokerage on behalf of employee benefit plan clients might be subject to special requirements under the Employee Retirement Income Security Act of 1974 ("ERISA").

### Soft Dollar Practices

It is PGI's policy to use all soft dollar credits generated by brokerage commissions attributable to client accounts in a manner consistent with the "safe harbor" established by Section 28(e) of the Securities Exchange Act. In most cases, services retained via soft dollar arrangements are exclusively used for either research or in connection with brokerage and trading functions within that "safe harbor". In isolated-soft dollar arrangements, PGI could receive products and services that perform an administrative function as well as a research function, a brokerage/trading function, or both. In such cases, PGI will make a reasonable allocation of the cost of the product or service according to the use. PGI will pay for the portion of the product or service that consists of research or brokerage/trading in commission dollars. PGI will pay for the portion that provides administrative or non-research or non-brokerage/trading support directly rather than use soft dollar commissions.

Research products and services paid for with soft dollars are based on an established research budget. PGI either pays for such products and services out of its own assets or it directs certain broker-dealers with whom it executes trades on behalf of its clients to pay for such products and services from the commissions generated with them for that purpose. Transactions commission rates are negotiated at an execution rate and a commission credit rate. At the time of the transaction the research component of the commission is swept to a centralized commission aggregator account maintained by a Third-Party on behalf of PGI. The centralized commission account is used to pay for approved research consumed to support PGI's investment process. Although PGI typically knows the amount of total commissions directed to specific broker-dealers, it lacks information about what specific transactions and related commissions were used to pay the third-party research providers or when such payments were made. Accordingly, the amounts paid to broker-dealers for the purpose of obtaining research products and services are approximations based on the information in the PGI's possession.

### Trade Order Aggregation and Allocation for Equity Accounts

In carrying out the investment objectives of its clients, occasions arise in which PGI deems it advisable to purchase or sell the same equity securities for two or more client accounts at the same or approximately the same time. In those cases, PGI could submit the orders to purchase or sell to a broker or dealer for execution on an aggregate or "bunched" basis. PGI expects aggregation or "bunching" of orders, on average, to reduce the cost of execution. PGI, generally, will not aggregate a client's order if, in a particular instance, it believes that aggregation will increase the client's cost of execution. In some cases, aggregation or "bunching" of orders could increase the price a client pays or receives for a security or reduce the amount of securities purchased or sold for a client account. Trade orders for SMA Programs are not generally "bunched" with institutional client account orders. PGI, on occasion, "bunches" trades with its affiliate, Principal Real Estate Investors.

PGI will not aggregate orders unless it believes that aggregation is consistent with (1) its duty to seek best execution and (2) the terms of its investment advisory agreements with its clients. Aggregated orders will be executed only after order tickets have been received by the trading desk specifying the participating accounts and the number or percentage of shares to be allocated among the various accounts (“allocation statement”); each client portfolio that participates in an aggregated order will generally participate at the average share price for the securities in the same aggregate transaction on a given business day, with all transaction costs shared pro rata based on each client’s participation in the transaction; and if an aggregated order cannot be filled completely, allocation among orders will be made pro rata based on the allocation statement.

However, the order may be allocated on a basis different from that specified in the Allocation Statement if all accounts of clients whose orders are allocated receive fair and equitable treatment. PGI’s equity trading desk, at times, will depart from the above procedures if, in the exercise of its reasonable judgment, it determines that such a departure is in the clients’ interests taken as a whole. As a result of such allocations, there will be instances when a client’s account does not participate in a transaction that is allocated among other clients. As an example, there can be de minimis deviation from that stated in the Allocation Statement when necessary to correct a pro rata distribution that results in a participating account holding (1) too small a number of shares in relation to the size of the participating account or its investment strategy or (2) an odd-lot.

PGI enters aggregated orders to participate in initial public equity offerings (IPOs). In determining whether to enter an order for an IPO for any client account, PGI considers the account's investment restrictions, risk profile, asset composition and cash level. Accordingly, it is unlikely that every client account will participate in every available IPO order. Partially filled aggregated IPO orders will be allocated pro rata across participating accounts in accordance with the procedures set out above. It is possible, therefore, that some accounts participating in the aggregated order will receive no shares in the allocation.

#### Cross Trades

PGI generally will not arrange for one client to purchase or sell securities to another client (a “cross trade”) unless the clients in question have adopted a policy that permits cross trades and the regulatory authority governing the client accounts clearly permits the cross trade to occur. However, policies and procedures exist for those situations where cross trades are appropriate and permitted by applicable law. Cross trades are only considered in isolated instances when it is determined that there are two or more parties; at least one of which wishes to dispose of a particular security while the other(s) wishes to add it to its portfolio. Steps are taken to ensure that the transaction is in the best interests of both parties, the purchase and sale of the security satisfy the investment guidelines for each of the portfolios involved and the applicable regulatory requirements are satisfied, (as an example for mutual funds, consistent with the funds’ Rule 17a-7 procedures).

When entering into cross trades, PGI takes steps to obtain a price it has determined by reference to independent market indicators, and which PGI believes is consistent with its duty to seek “best execution” for each party and all parties are informed of all relevant details of the transaction and have consented. For all cross trades that are executed, a form must be completed and signed by the Portfolio Managers assigned to the portfolios and submitted to Compliance for review. The form requires that the Portfolio Managers provide written statements explaining why they believe the transaction is beneficial for both parties involved. The form also asks about any commissions or fees to be paid, if any, and how the market price was determined.

Transactions involving the purchase and sale of a security that involves an ERISA plan have additional requirements that are outlined in the policies and procedures.

Because PGI manages different styles of accounts with different portfolio managers, it sometimes happens that two or more portfolio managers initiate orders to buy or sell the same equity security at the same time. If one portfolio manager has entered a buy order for a stock while another portfolio manager has a sell order, the orders will be worked separately to ensure that one account does not buy from the other.

#### Trade Errors

PGI maintains a system of checks and balances designed to limit the errors it makes in placing trades for client accounts. Nonetheless, PGI will, from time to time, make such errors. It is PGI’s policy to absorb all losses on trades it places in error. In rectifying erroneous trades, PGI distinguishes between errors it identifies prior to the time a client’s custodian settles the erroneous trade and posts it to the client’s custodial statement (“Time of Settlement”) and those it identifies after the Time of Settlement. PGI maintains an error account and settles into it all erroneous trades it identifies prior to the Time of Settlement. Any profits from erroneous trades identified before settlement are retained in the error account and can only be used to offset losses caused by subsequent errors. It is PGI’s policy to accord clients any profitable erroneous trades it identifies after the Time of Settlement.

PGI’s policy covering the correction of trading errors generally applies only to the extent that PGI has control of resolving errors for client accounts. For the SMA Programs, the Sponsor Firms may have control over the resolution of errors of participating investment managers, including PGI.

Because of the actions or omissions by a broker-dealer, a trade executed in the market may materially differ from the instructions or order given by the Adviser’s Portfolio Manager or the trading desk personnel for that trade. Errors attributable to brokers are not considered trade errors but PGI will oversee the resolution of a broker’s error.

## Foreign Exchange Transactions – Incidental to Management of Equity Accounts

It is the responsibility of a client's custodian to handle foreign exchange transactions ("FX Transactions") for client accounts to settle trades and to repatriate dividends, interest and other income payments received into the client account's base currency when necessary. However, PGI will, when requested by the client and the Firm determines that it is cost effective or efficient, arrange for its trade desk or a third party to handle trade settlement related FX Transactions in unrestricted currencies. Under this type of arrangement, should a client so request, the trade desk is responsible for seeking best execution of FX Transactions, either with the client's custodian or with third parties. Unless otherwise agreed to, PGI will continue to issue standing instructions to each client's custodian for all other types of FX Transactions in unrestricted currencies, such as those related to dividend and interest repatriation. Because of various limitations regarding transactions in restricted currencies, (generally in jurisdictions where all FX Transactions must be done by the client's custodian) all FX Transactions in restricted currencies will continue to be effected by each client's custodian pursuant to standing instructions and PGI will not be in a position to seek best execution.

In cases where a client has not requested that PGI handle arrangements for trade settlement related FX Transactions in non-U.S. securities, and/or PGI has deemed that it is not cost effective to do so, the Firm will instruct the client's custodian to execute the necessary FX Transactions. This is done either through standing instructions communicated to the custodian when the account is established, or at the time settlement instructions are sent to the custodian for a particular transaction. The custodian is responsible for executing FX Transactions, including the timing and applicable rate, of such execution pursuant to its own internal processes. As clients generally have arrangements with their custodian regarding the execution of FX Transactions, such arrangements impact the fees and expenses charged to the client by the custodian.

## **Fixed Income**

PGI's principal objective in selecting broker-dealers and entering client trades is to seek best execution for clients' transactions. In general, best execution means executing trades at the best net price considering all relevant circumstances. While best execution is the objective for all transactions, it can be evaluated over time through several transactions rather than through a single transaction. In seeking best execution, the key factor is not necessarily the highest bid or the lowest offers, but whether the transaction represents the best qualitative execution.

PGI takes into account the following considerations in its attempt to seek best execution:

- Best price for the trade;
- The broker or dealer's ability to execute and clear the trade in a prompt, orderly and satisfactory manner;
- Quality of executions in the past and existing relationship to date;
- Confidentiality provided by the broker or dealer;

- The broker or dealer’s execution capabilities and any related risks in trading a block of securities;
- The broker or dealer’s broad market coverage resulting in a continuous flow of information concerning bids and offerings;
- The broker or dealer’s consistent quality of service, including the quality of any investment-related services provided;
- The broker or dealer’s record keeping practices (e.g. timely and accurate confirmations); and
- Cooperation in resolving differences.

PGI reviews a variety of internal and external trading reports and forensic tests to evaluate best execution with its Fixed Income trades.

PGI only executes fixed income trades through brokers or dealers that are approved by its Counterparty Team. Brokers and dealers are evaluated internally by the Counterparty Team credit analyst to determine the financial capability and stability of the counterparty. Once a broker or dealer is approved, it is added to the Counterparty Authorization List and communicated to Traders.

PGI conducts an annual fixed income broker review that gathers input from key investment staff. Portfolio managers, research analysts and traders rate brokers and dealers based on the value they believe they receive from the broker or dealer through reports, meetings, conference calls, management visits and other research. Traders rate brokers and dealers based on factors that includes, but are not limited to, execution quality, information flow, volume of trading in PGI’s orders, willingness to take the other side of the trade in a principal transaction, bids and offers and the broker’s execution cost history.

Based on their responses, an aggregate score will be calculated for each broker and dealer and a relative ranking determined. In addition to ratings, feedback is gathered on the strengths and weaknesses of each broker and dealer (e.g. research sales, strategy and trading).

PGI acts as investment adviser for a variety of accounts and will place orders to trade securities for each of those accounts from time to time. If, in carrying out the investment objectives of the accounts, occasions arise when purchases or sales of the same securities are to be made for two or more of the accounts at the same time, PGI may submit the orders to purchase or sell to a broker or dealer for execution on an aggregate or “bunched” basis (including orders for accounts in which PGI, its affiliates and/or its personnel have beneficial interests). In aggregating trade orders and allocating available securities, PGI must provide fair and equitable treatment to all clients participating in the “bunched order”. It is important to recognize, however, that all clients cannot be treated exactly alike. The fairness of a given allocation depends on the facts and circumstances involved, including the client’s investment criteria and account size and the size of the order. PGI aggregates trades to give clients the benefits of efficient and cost-effective delivery of investment management services. By aggregating trades, it is possible for PGI to also obtain more favorable execution. PGI may create several aggregate or

“bunched” orders relating to a single security at different times during the same day. On such occasions, when not restricted by the client’s investment management agreement, PGI generally prepares, before entering an aggregated order, a written allocation statement as to how the order will be allocated among the various accounts. Securities purchased or proceeds of sales received on each trading day with respect to each such aggregate or “bunched” order shall be allocated to the various accounts whose individual orders for purchase or sale make up the aggregate or “bunched” order by filling each account’s order in accordance with the allocation statement. In the event that the aggregated order cannot be completely filled, the securities purchased or sold will generally be allocated among the various accounts on a pro rata basis, subject to rounding to avoid less easily traded lots and individual issuer de minimis limits. Securities purchased for client accounts participating in an aggregate or “bunched” order will be placed into those accounts at a price equal to the average of the weighted prices achieved in the course of filling that aggregate or “bunched” order.

Although, PGI generally follows a pro rata allocation method, various judgmental and other factors could support non-pro rata allocations. Judgmental factors (e.g. changes in the availability of cash or liquidity needs subsequent to the initial order, a de minimis holding resulting from such an allocation, a change in the client’s needs subsequent to an initial allocation or other such judgmental factors) could form the basis of a decision for a non-pro rata allocation. In these cases, a portfolio manager must use reasonable business judgment in making a non-pro rata allocation that he or she believes is in the best interest of the affected clients.

PGI expects aggregation or “bunching” of orders, on average, to reduce the cost of execution. PGI, generally, will not aggregate a client’s order if, in a particular instance, it believes that aggregation will increase the client’s cost of execution. In some cases, aggregation or “bunching” of orders could increase the price a client pays or receives for a security or reduce the amount of securities purchased or sold for a client account.

PGI generally does not engage in cross trades. However, PGI has procedures in place to effect cross trades when permitted by the clients and if permissible under applicable regulations applicable to both accounts. In all situations that involve a cross trade, the portfolio manager will be required to provide a statement that explains why the transaction is in the best interest of both parties. Under no circumstances an ERISA account will be permitted to participate in a cross trade without prior approval of the management of PGI and Compliance.

PGI generally does not intend to place portfolio trades for any of its fixed income clients with an affiliated broker-dealer.

It is PGI’s policy that the utmost care to be taken in making and implementing investment decisions on behalf of our funds and our client accounts. Nonetheless, PGI will, from time to time, make such errors. It is PGI’s policy to absorb all losses on trades it places in error. In rectifying erroneous trades, PGI distinguishes between errors it identifies prior to the time a client’s custodian settles the erroneous trade and posts it to the client’s custodial statement (“Time of Settlement”) and those it identifies after the Time of Settlement.

PGI policy covering the correction of trading errors generally applies only to the extent that the Firm has control of resolving errors for client accounts. For the SMA Programs, the Sponsor Firms may have control over the resolution of errors of participating investment managers, including PGI.

Because of the actions or omissions by a broker-dealer, a trade executed in the market could materially differ from the instructions or order given by the Adviser's Portfolio Manager or the trading desk personnel for that trade. Errors attributable to brokers are not trade errors but PGI will oversee the resolution of a broker's error.

PGI does not generally engage in principal transactions, as defined by Section 206-3 under the Advisers Act, as part of its trading processes for clients. In the event the Firm should endeavor to engage in a principal transaction, the Firm will take action to ensure compliance with the relevant requirements of the Advisers Act. Section 206(3) prohibits any investment adviser from engaging in or effecting a transaction on behalf of a client while acting either as principal for its own account, or as broker for a person other than the client, without disclosing in writing to the client, before the completion of the transaction, the adviser's role in the transaction and obtaining the client's consent. An investment adviser is not "acting as broker" if the adviser receives no compensation (other than its advisory fee) for effecting a particular agency transaction between advisory clients.

New issue portfolio securities (including new securities sold in reliance on Securities and Exchange Commission Rule 144A) will normally be purchased directly from the issuer or from an underwriter for the securities. Such transactions involve no brokerage commissions. Purchases from underwriters will include a commission or concession paid by the issuer (and not by clients of PGI) to the underwriter. In some new issue transactions, there is only one underwriter and, accordingly, any orders for that new issue security will be placed with that underwriter. In other new issue transactions in which an underwriting group is involved, pricing should be uniform among the underwriters and PGI will normally place its orders with the lead manager, in an effort to maximize the prospects for getting the orders filled. Secondary purchases from and sales to dealers will include the spread between the bid and asked prices. In general, PGI's primary objective in exercising any available authority concerning the selection of an underwriter, broker, or dealer is to obtain the best overall terms for the Firm's clients. In pursuing this objective, PGI considers all matters it deems relevant (both for the specific transaction and on a continuing basis), including the breadth of the market in the security, the price of the security, the financial condition and executing capability of the broker or dealer and the reasonableness of the compensation, if any, received by the underwriter, broker or dealer.

PGI Fixed Income does not accept the use of soft dollar credits and currently does not engage in "deal credit" arrangements in municipal bond transactions.

It is the responsibility of a client's custodian to handle foreign exchange transactions ("FX Transactions") for client accounts to settle trades and to repatriate dividends, interest and other income payments received into the client account to the account's base currency when necessary. However, PGI will, when requested by the client and the Firm

determines that it is cost effective or efficient, arrange for its trade desk to handle trade settlement related FX transactions in unrestricted currencies. Under this type of arrangement, should a client so request, the trade desk is responsible for seeking best execution of FX transactions, either with the client's custodian or with third parties. Unless otherwise agreed to, PGI will continue to issue standing instructions to each client's custodian for all other types of FX transactions in unrestricted currencies, such as those related to dividend and interest repatriation. Because of various limitations regarding transactions in restricted currencies, (generally in jurisdictions where all FX Transactions must be done by the client's custodian) all FX Transactions in restricted currencies will continue to be effected by each client's custodian pursuant to standing instructions and PGI Fixed Income will not seek best execution.

In cases where a client has not requested that PGI handle arrangements for trade settlement related FX transactions in non-U.S. securities, and/or the Firm has deemed that it is not cost effective to do so, PGI will instruct the client's custodian to effect the necessary FX transactions. This is done either through standing instructions communicated to the custodian when the account is established, or at the time settlement instructions are sent to the custodian for a particular transaction. The custodian is responsible for executing FX transactions, including the timing and applicable rate, of such execution pursuant to its own internal processes. As clients generally have arrangements with their custodian regarding the execution of FX transactions, such arrangements impact the fees and expenses charged to the client by the custodian.

## **ITEM 13 – REVIEW OF ACCOUNTS**

### Review of All Accounts

PGI reviews each client account to monitor portfolio performance and to ensure that each portfolio conforms to guidelines established by PGI and the client. Separately negotiated contracts with each client contain the precise nature of the advisory services to be furnished to that client. These contracts can specify the criteria and process for the account review furnished by the client. In addition, PGI uses its own review processes and procedures during the ongoing management of the client's portfolio. PGI generally sends reports to clients on the investment status of their portfolios quarterly, or more frequently if required under the terms of the client contract.

### Reviews by Strategy

#### **Equities:**

Equity portfolios receive ongoing review during the trading process. PGI utilizes a compliance system to assist in the automated review and monitoring of portfolios. Many client account investment guidelines can be input into this compliance system. Each equity trade order is submitted into the system and reviewed electronically for compliance with the account's investment guidelines. This is done prior to the trade order being submitted to PGI's trade desk. The system blocks trades that would cause an

explicit breach of client guidelines. PGI generates daily reports identifying exceptions for further analysis.

The portfolio managers utilize proprietary and third-party portfolio construction tools to monitor pre-trade and post-trade risks before trade orders are ever sent to the trading desk. These systems allow the team to evaluate the impact of potential trades on the overall portfolio exposures which cannot be monitored through automated compliance system, yet are a client objective or guideline.

Authorized members of the equity boutiques can monitor portfolios on an ongoing basis and allow for senior management to view portfolio positioning for all strategies at any time. Daily performance reports on representative samples of client portfolios are compared to relative benchmarks. PGI runs monthly risk analysis and exception reports on a representative sample of portfolios relative to benchmarks, and in addition, portfolio managers formally review a representative group of client portfolios each month.

**Fixed Income:**

Each fixed income portfolio is reviewed daily by its portfolio manager and team members assigned to that portfolio. PGI runs daily reports on a sampling of accounts indicating performance of each portfolio, market value and cash for each account included in the sampling. PGI has an oversight process to monitor portfolios. The Firm runs monthly performance reports on all accounts, which are provided to the members who have oversight authority. Risk management reports showing tracking error and characteristics are run at least quarterly. Each portfolio manager meets quarterly to review the activity in the portfolio(s) for which the portfolio manager is responsible.

**Reviewers**

PGI has several committees that review all client portfolios falling within their respective equities or fixed income area of focus. All committee members are officers of PGI and generally hold the title of Director, Managing Director or Executive Director. The appropriate committee assists the Portfolio Manager in reviewing objectives and constraints of the client, investment activity, operational activity, and client relations at least quarterly. The number of accounts each committee reviews varies by committee.

**ITEM 14 – CLIENT REFERRALS AND OTHER COMPENSATION**

PGI enters into compensation arrangements with certain related persons who act as solicitors of clients for the Firm. In addition, PGI has from time to time entered into arrangements with other persons who act as solicitors of clients when it appears to the

Firm that a solicitor could provide access to clients PGI might not otherwise have. Such arrangements will, at all times, be maintained in compliance with Rule 206(4)-3 of the Investment Advisers Act of 1940. PGI may pay any such solicitor (a) a salary, or (b) a percentage of the management fee PGI earns from the account a solicitor has introduced, or (c) a one-time fee, or (d) any combination of (a), (b), or (c). In the event PGI utilizes unaffiliated solicitors to procure clients for investment pools they manage, the payments will not be treated as cash solicitation fees per Rule 206(4)-3. The SEC in an Interpretive Letter dated July 28, 2008 to Mayer Brown LLP indicated that Rule 206(4)-3 does not apply to an investment adviser's cash payment to a person solely to compensate that person for soliciting investments in investment pools managed by the investment adviser.

### **ITEM 15 – CUSTODY**

When required, clients should receive at least quarterly statements from the broker dealer, bank or other qualified custodian that holds and maintains client's investment assets. PGI urges you to carefully review such statements and compare such official custodial records to the account statements that PGI provides to you. The statements can vary from custodial statements based on accounting procedures, reporting dates, or valuation methodologies of certain securities.

### **ITEM 16 – INVESTMENT DISCRETION**

PGI generally receives discretionary authority from the client at the outset of an advisory relationship to select the identity and amount of securities to be bought or sold. In all cases, however, such discretion is to be exercised in a manner consistent with the stated investment objectives for the particular client account.

When selecting securities and determining amounts, PGI observes the investment policies, limitations and restrictions of the clients for which it advises.

Investment guidelines and restrictions must be provided to PGI in writing.

### **ITEM 17 – VOTING CLIENT SECURITIES**

PGI has adopted and implemented written Proxy Voting Policies and Procedures which are designed to reasonably ensure that the Firm votes proxies in the best interests of its advisory clients who have authorized the PGI to address these matters on their behalf. PGI's guiding principles in performing proxy voting are to make decisions that (i) favor proposals that tend to maximize a company's shareholder value and (ii) are not influenced by conflicts of interest.

The principles and positions in the Policy are designed to guide the Firm in voting proxies, and not necessarily in making investment decisions. Portfolio Management

Teams base their determinations of whether to invest in a particular company on a variety of factors.

The client can authorize PGI to vote proxies or chose to retain that right. Clients can obtain a summary report relating to their account by contacting their representative. PGI has established a general Proxy Voting Policy using the Institutional Shareholder Services, Inc. (ISS) Standard Proxy Voting Guidelines (the Guidelines) except where a portfolio management team decides to diverge from the Guidelines. In this case, the policy requires certain procedures and documentation to be met.

Clients can obtain a copy of PGI's complete proxy voting policies and procedures upon request.

In the rare event that a proxy ballot is received for a fixed income account, the relevant portfolio manager will be responsible for voting the ballot.

## **ITEM 18 – FINANCIAL INFORMATION**

Registered investment advisers are required in this Item to provide clients with certain financial information or disclosures about the Firm's financial condition. PGI has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to clients, and has not been the subject of a bankruptcy proceeding.