

Principal Global Investors

Principal Adverse Impacts – Investment Due Diligence Policy

This document sets out the investment due diligence policy of **Principal Global Investors**¹ (the “**Firm**”), in respect of the principal adverse impacts of our investment decisions on sustainability factors. The Firm has a multi-investment team organization and manages assets on behalf of a broad range of sophisticated investors in over 75 countries. It manages assets on behalf of public and private pension funds, foundations and endowments, central banks, insurance companies, sub-advisory arrangements, sovereign wealth funds, and individual investors. The network of specialized investment teams offers a single point of access to world-class investment capabilities and expertise in fixed income, equity, currency, derivatives and real estate investments, asset allocation, lifecycle funds, exchange-traded funds, stable value management, and other structured investment strategies.

1. Introduction

- 1.1 The Sustainable Finance Disclosure Regulation (EU) No. 2019/2088 (“**SFDR**”) requires the Firm to consider the principal adverse impacts of our investment decisions on sustainability factors.
- 1.2 “Sustainability factors” are defined in the SFDR as meaning environmental, social and employee matters, in respect of human rights, corruption and anti-bribery matters.
- 1.3 In overview, the Firm has embraced Environment, Social, and Governance (ESG) as a core strategy to strengthen our business, advance our mission, and build a more inclusive, resilient, and sustainable global community while achieving results for our clients. This is part of our commitment to corporate citizenship, as well as an effort to listen, understand, and respond to the changing needs of our stakeholders.
- 1.4 The policy applies to all investment professionals of the Firm, and applies in respect of all portfolio management services, investment advisory services, AIF management and UCITS management carried on by the Firm but subject to the product-specific exceptions noted in section 3 of this policy.
- 1.5 For reference, the Firm maintains other policies and documentation related to sustainability, including:
 - Proxy Voting Policies and Procedures
 - EFAMA Stewardship Code
 - Principal Global Investors (Australia) Limited Stewardship
 - Principal Global Investors' Responsible Investing Policy
 - Principal Global Equities' Engagement Policy Statement
 - Principal Global Fixed Income Responsible Investing Statement
 - Principal Global Asset Allocation Responsible Investment (ESG) Policy
 - Principal Real Estate Investors' Responsible Property Investing
 - Principal Global REITs Responsible Investment and Engagement Policy
 - 2020 PRI Transparency Report
 - PGI Shareholder Engagement Policy (SRD II)
- 1.6 This policy applies as from 10 March 2021

- 1.7 Article 4 of SFDR requires that regulatory technical standards will be published, to supplement the high-level requirements of Article 4. As at 10 March 2021, those regulatory technical standards have not yet come into force. As such, this policy adopts the approach of principles-based compliance with Article 4. This policy will need to be reviewed and updated once the regulatory technical standards are finalised.

2. [Purpose of this policy](#)

- 2.1 The Firm's investment professionals may apply due diligence measures whenever they are making any investment decision, subject to the exceptions described below in section 3 of this policy.
- 2.2 This is to enable the Firm to identify and prioritise principal adverse sustainability impacts and indicators. This policy approaches sustainability from the perspective of the harm that our investment positions might do externally to sustainability factors, and what steps we take to mitigate that harm.
- 2.3 For the purposes of SFDR, the regime around principal adverse impacts is not concerned with the risk that ESG events could impact on the value of our clients' investments. In other words, this policy covers "values" rather than "value". The impact of sustainability risks on our clients' investments is covered by the Firm's separate Sustainability Risks Policy.

3. [Product-specific exceptions](#)

- 3.1 The SFDR permits certain financial products not to comply with the firmwide principal adverse impacts policy, even where the management entity is generally complying with the principal adverse impacts regime.
- 3.2 The Firm has decided that, while it will generally comply with the principal adverse impact regime across our product range, certain products will be excepted from compliance.
- 3.3 Products may be excepted for various reasons including scenarios where specific strategies do not allow (or have not matured to the extent that allows) Principal to conduct detailed diligence on the principal adverse impact of our investments on sustainability factors or where clients specifically instruct us not to follow the firmwide policy. If and where products fall into this category, Principal will share these in our website including details on why the product does not consider the principal adverse impacts on sustainability factors, and the reasons for that approach. This list will be updated from time to time.

4. [Governance and senior management responsibility](#)

- 4.1 The Firm has an established ESG Working Group which utilizes cross-functional representation including senior leaders from our global asset management platform and oversight provided by our Firm's operating committee. ESG integration occurs across all asset classes, with the approach determined by each investment team's process. Depending upon the outcomes each Investment team is seeking, many of them have created their own ESG teams, dedicated resources and implementation structures.
- 4.2 The Executive Director-Investments and Client Solutions leads the Firm's ESG Working Group with cross-functional representation including senior leaders from our global asset management platform. Oversight is provided by our Firm's Operating Committee. The group networks across Principal Global Investors' global business to deliver strategic responses to make sure that the Firm establishes itself as an ESG leader with clear vision and appropriate policies and procedures.
- 4.3 The Firm's Operating Committee and ESG Working Group have approved this policy.

4.4 Any risk issues or breaches related to this policy will be reported to the Firm's Chief Risk Officer.

5. [Principal adverse indicators – Diligence Phase](#)

5.1 The Firm's multi-investment team approach means investment teams may use methods best suited their requirements when implementing principal adverse indicators into the investment management process for on products managed by the firm, except for those products which have been carved-out under section 3.

5.2 Prior to making any investment decision, our Investment teams may conduct investment due diligence on the proposed investment position. This investment due diligence will evaluate a variety of factors as per the investment team's prescribed methodologies.

5.3 Diligence assessments will feed into the investment phase, as outlined at section 6 of this policy, below. These will be applied to our active investment management products only.

5.4 Investment professionals may conclude, using their reasonable judgment, that a particular factor is not commercially relevant to the assessment of a particular proposed investment, given the asset class of that proposed investment or the proposed investment strategy.

6. [Principal adverse impacts – Active investment phase](#)

6.1 Having completed diligence assessments, where relevant, investment professionals will evaluate the merits of a proposed investment, to determine the extent to which the results of the diligence exercise should weigh on our investment decision, taking into account sustainability values.

6.2 The Firm's policy is to allow the relevant investment professional to exercise their subjective judgment as to whether and how the results of the diligence process impact on the investment decision, as against the Firm's sustainability values:

- **Environmental:** We generally aspire to invest in investment positions which do relatively less adverse impact to environmental sustainability (as measured by carbon emissions, carbon footprint, use of non-renewable and renewable energy, and energy consumption intensity.)
- **Social:** We generally aspire to invest in investment positions which meet fundamental responsibilities in the areas of human rights, labour, environment, and anti-corruption, as measured by reference to the UN Global Compact.
- **Governance:** We generally aspire to invest in investment positions where we can engage and collaborate with the companies, we invest in using our shareholder advantage to encourage responsible ESG practices by the company when aligned with our investment thesis of the company.

6.3 The relevant investment professional is required to subjectively assess, using their reasonable judgment, if the proposed investment does have significant adverse impact, in light of those sustainability values.

6.4 The investment professional is further required to determine what the consequences of that shall be for our investment decision.

- If the conclusion is that there is no significant adverse impact, then that shall be recorded.

- The investment professional shall have complete discretion as to what decision to take, and these steps may include the following mitigating actions (amongst other things):
 - (i) Making a decision not to invest in the proposed investment.
 - (ii) Making a decision to invest, but with a limited position size.
 - (iii) Making a decision to invest, but with an intention to engage with the management of the issuer to improve their business from a sustainability perspective.
 - (iv) Making a decision to invest, but with an intention to make offsetting investments to balance or hedge the adverse impact being done through this investment.

The investment professional shall incorporate into their investment process the decision workflow and the mitigating actions that should be taken where appropriate.

- 6.5 The investment team shall incorporate into their investment process the required workflow to identify and record proposed investments where the diligence on the sustainability metrics reveals that one or more than one of the above adverse impact thresholds will be breached.
- 6.6 Breaches will be reported to the Firm's Chief Risk Investment Officer.
- 6.7 The investment professional shall be required to record their decision on what mitigating actions, if any, are appropriate to take.

7. [Disclosure of this policy](#)

- 7.1 SFDR requires that the Firm must publish on our website information about this policy, along with certain other information relating to the actions taking in relation to sustainability impacts, summaries of our shareholder engagement policies, and references to our adherence to responsible business codes. The Firm satisfies this requirement by disclosing a separate summary of this policy on our website, along with those other documents.
- 7.2 SFDR also requires that the Firm must include, in the pre-contractual disclosures for our financial products which adhere to this policy, a description of how the product considers the principal adverse impacts on sustainability factors. The Firm satisfies this requirement by disclosing a separate summary of this policy in pre-contractual disclosures.

For these purposes, "pre-contractual disclosures" means the prospectus or offering document for a fund, and the investment management agreement or other terms and conditions for a portfolio management service.

^[1] Refers to the following entities: Principal Global Investors LLC, Principal Real Estate Investors LLC, Post Advisory Group LLC, Spectrum Asset Management Inc., Principal Real Estate Europe Limited and its affiliates, Origin Asset Management LLP, Principal Islamic Asset Management Sdn. Bhd and Claritas Investimentos (together "Principal Global Investors"). Also includes the specialised investment management groups; Principal Global Equities, Principal Fixed Income, Morley Financial Services, Principal Global Asset Allocation, Aligned Investors, Columbus Circle Investors, Finisterre Capital and Edge Asset Management.