Principal Global Investors

Sustainability Risks Policy

This document sets out the policies of **Principal Global Investors**[1] (the "**Firm**"), on the integration of sustainability in our investment decision-making process. 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 formalise how sustainability is integrated into our business and processes, and to make new public and client-facing disclosures on sustainability matters.

1.2 In overview, the Firm's sustainability values are a core commercial strategy for Principal to help create a more successful, resilient, and sustainable world and achieving desired outcomes for clients. We pledge to make our ESG initiatives more transparent and fully integrated into our investment management process.

1.3 This document sets out the Firm's policies in respect of the integration of sustainability risks in our investment decision-making process, as required by Article 3 SFDR. The policy applies to the Firm and applies in respect of all portfolio management services, investment advisory services, AIF management and UCITS management carried on by the Firm.

1.4 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)

1.5 This policy applies as from 10 March 2021.

[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.

2. Purpose of this policy

2.1 Under SFDR, "**sustainability risk**" means an environmental, social or governance event or condition that, if it occurs, could cause an actual or a potential material negative impact on the value of an investment.

2.2 This policy therefore approaches sustainability risk from the perspective of the risk that ESG events might cause a material negative impact on the value of our clients' investments.

2.3 The Firm recognises that the world faces growing environmental, social, and governance-related risks. A key part of our role as a fiduciary is to act in the best interests of our clients, and this includes appropriately taking account of how those ESG risks could impact on our clients' investments. This policy therefore establishes our framework to identify, measure, manage and monitor ESG risks to our clients.

2.4 For the purposes of SFDR, sustainability risk is <u>not</u> concerned with the risk of harm that our investment decisions may do externally to sustainability factors. In other words, this policy covers "*value*" rather than "*values*".

2.5 The external harm of investments is covered by a separate regime under SFDR, which considers the principal adverse impacts of a Firm's investment decisions on sustainability factors. The Firm is compliant with the principal adverse impacts rules under Article 4 SFDR and has separately implemented a due diligence policy on this matter.

3. Governance and senior management responsibility

3.1 Principal Global Investors 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 Advisor is seeking, many of them have created their own ESG teams, dedicated resources and implementation structures.

3.2 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 PGI establishes itself as an ESG leader with clear vision and appropriate policies and procedures.

3.3 The Firm's Operating Committee, Global Risk Committee and ESG Working Group have approved this policy.

3.4 Any risk issues or breaches related to this policy will be reported to PGI Chief Risk Officer.

4. Sustainability Risk Management

4.1 The Firm integrates sustainability risk considerations in a manner consistent with our fiduciary responsibilities. Managed appropriately, we believe sustainability risk management contributes to enhanced long-term returns and reduced risks.

4.2 As part of our multi-investment team model, each investment team may focus their time and expertise as they deem appropriate for their management processes when investing including the option to implement procedures to (i) identify, (ii) measure, (iii) manage and (iv) monitor sustainability risks.

5. Identify, Measure, Monitor and Manage Sustainability Risks

5.1 Investment teams may identify sustainability risks which are potentially likely to cause a material negative impact on the value of our clients' investments, should those risks occur. A summary of the types of risks are covered in Section 6 of this policy and are broadly divided into the three categories of environmental, social and governance risks.

5.2 In measuring sustainability risk, investment teams may take account of the "physical" or tangible risks of a sustainability event (for example, the impact of severe climate events leading to business disruption or losses for our investment positions). In addition, teams may take account of the "transition" risk, which focuses on the risk to investments as the world moves towards a more sustainable environmental and social model. For example, the move towards mandatory use of electric vehicles may negatively impact the value of manufacturers of combustion engines.

5.3 Investment teams may manage sustainability risk by using relevant ratings for a particular investment. The application of any risk limit will vary based on investment strategy and by underlying investment type.

5.4 Investment teams may conduct periodic monitoring of the existing client portfolios, to check that positions remain within sustainability risk limits, and takes corrective action if those limits are breached.

6. Appropriate Sustainability Risks

6.1 As noted above at section 4 of this policy, each investment team may take steps to identify environmental, social and governance risks that could, if it occurs, cause an actual or a potential material negative impact on the value of an investment. This risk may include – for example – one or more of the following areas which will vary based on the financial product and investment team.

6.2 **Environmental** sustainability risks for the value of our clients' portfolios may include:

- Climate change
- Carbon emissions
- Air pollution
- Water pollution
- Harm to biodiversity
- Deforestation
- Energy inefficiency
- Poor waste management practices
- Increased water scarcity
- Rising sea levels / coastal flooding
- Wildfires / bushfires

6.3 **Social** sustainability risks for the value of our clients' portfolios may include:

- Human rights violations
- Human trafficking
- Modern slavery / forced labour
- Breaches of employee rights / labour rights
- Child labour
- Discrimination
- Restrictions on or abuse of the rights of consumers

- Restricted access to clean water, to a reliable food supply, and/or to a sanitary living environment
- Infringements of rights of local communities / indigenous populations

6.4 **Governance** sustainability risks for the value of our clients' portfolios may include:

- Lack of diversity at Board or governing body level
- Inadequate external or internal audit
- Infringement or curtailment of rights of (minority) shareholders
- Bribery and corruption
- Lack of scrutiny of executive pay
- Poor safeguards on personal data / IT security (of employees and/or customers)
- Discriminatory employment practices
- Health and safety concerns for the workforce
- Poor sustainability practices in the supply chain
- Workplace harassment, discrimination and bullying
- Restrictions on rights of collective bargaining or trade unions
- Inadequate protection for whistle-blowers
- Non-compliance with minimum wage or (where appropriate) living wage requirements

7. Disclosure of this policy

7.1 SFDR requires that the Firm must publish on our website information about this policy. The Firm satisfies this requirement by disclosing policy on our website available **here**.

7.2 SFDR also requires that the Firm must include, in the pre-contractual disclosures for our financial products, a description of the way sustainability risks is integrated into our investment decisions. The Firm satisfies this requirement by referencing this policy itself in pre-contractual disclosures.

7.3 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.