# Manager Profile

## Principal Diversified Real Asset Portfolio

Sub-advised by BlackRock Financial Management, Brookfield Investment Management, Credit Suisse Asset Management, Fischer Francis Tree & Watts, Macquarie Capital Investment Management, Pictet Asset Management, Principal Real Estate Investors, Principal Portfolio Strategies, Symphony Asset Management, and Tortoise Capital Advisors

Principal Portfolio Strategies[1] is a specialized boutique that engages exclusively in the creation of asset allocation solutions. Principal Portfolio Strategies has an established market presence as a manager of multi-asset class and/or multi-manager products. Additionally, the boutique oversees the proprietary due diligence process for identifying, selecting, and monitoring investment managers. The philosophy of Principal Portfolio Strategies is to design innovative strategies that address specific portfolio risks, rather than simply aligning with an investment style.

[1]Principal Portfolio Strategies is involved in the creation of asset allocation solutions and is responsible for the initial selection and ongoing monitoring of affiliated and unaffiliated investment managers. Principal Portfolio Strategies is a specialized investment management group within Principal Global Investors, the investment adviser to Principal Funds.

### Portfolio Philosophy and Process

**Portfolio Philosophy:** Asset classes perform differently in varying economic conditions, and no one investment strategy performs in all inflationary environments. The Principal Diversified Real Asset portfolio (the portfolio) is a multi-strategy, multi-manager investment option constructed to serve three important functions that may benefit portfolios in any inflationary environment:

- **Inflation sensitivity:** With values that tend to rise with consumer prices, real assets historically have helped prevent the loss of purchasing power.
- **Diversification:** As alternatives with historically low correlation to traditional stocks and bonds, real assets help mitigate risk when added to a broader portfolio.
- **Enhancing return potential:** Offering attractive historical return profiles, real assets have the potential to enhance total overall portfolio return in various market environments.

Asset allocation and diversification do not ensure a profit or protect against a loss.

The portfolio is made up of twelve investment “sleeves” managed by different sub-advisors. Day-to-day management of the portfolio’s allocations and the sub-advisor hiring and monitoring functions are performed by Principal Portfolio Strategies.

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

**Portfolio Management Process:** Principal Portfolio Strategies is responsible for the day-to-day management process of the portfolio. These responsibilities generally include:

- Establishing underlying asset classes and sub-advisors to manage each strategy consistent with the portfolio’s overall objectives.
- Rebalancing among underlying sub-advised portfolios based on market and economic factors.
- Monitoring sub-advisors to ensure each is performing well against its stated benchmarks.
- Evaluating and delivering additional asset-class components that may provide added yield with market-like risk, increased diversification, and price appreciation.

## Portfolio Management Process

1. **Select Investable Real Asset Strategies**
2. **Develop Capital Market Forecasts**
3. **Construct Efficient Portfolio**
4. **Portfolio Construction and Design**
5. **Manager Search Process**
6. **Monitor Fund**
7. **Rules-Based Rebalancing**



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## Principal Portfolio Strategies Portfolio Management Team

**Jake Anonson,** *CFA*, *CAIA*, Jake is a Portfolio Manager for Principal Portfolio Strategies, a specialized boutique that engages in the creation of asset allocation solutions. In this role, he is responsible for conducting research, assessing risk, and making relative value recommendations relating to specific aspects of the Dynamic Outcome strategies. Jake is a member of the Investment Oversight and Risk Committee and has over 22 years of industry experience. Before joining Principal®, he was a Managing Director with Miles Capital, a boutique institutional asset manager. Prior to joining Miles Capital, Jake served in various capacities with Principal Global Investors and Principal Real Estate Investors. While at Principal®, he has worked with both retail and institutional strategies and clients. Prior to joining Principal®, Jake worked as a Credit/Business Analyst with various firms as well as a Bank Examiner with the Office of the Comptroller of the Currency. Jake has earned the right to use the Chartered Financial Analyst® designation and has passed the CPA[2] exam. He has also earned the Chartered Alternative Investment Analyst designation.

**Jessica Bush,** *CFA*, Jessica is a Portfolio Manager for Principal Portfolio Strategies, a specialized boutique that engages in the creation of asset allocation solutions. She is responsible for the manager selection and asset allocation modeling for the Dynamic Outcome strategies. Jessica is a member of the Investment Risk and Oversight Committee. Prior to her dedicated role on these strategies, she served as a Senior Research Analyst on the Manager Research team responsible for the evaluation and monitoring of the sub-advisors under the due diligence program used by Principal Funds. Jessica has over 13 years of industry experience. Prior to joining Principal® in 2006, she was a Senior Portfolio Analyst on the fixed-income team at Putnam Investments. Jessica earned a B.A. in Business Administration from the University of Michigan. She has earned the right to use the Chartered Financial Analyst® designation.

**Marc Dummer,** *CAIA*, *CIMA*®, Marc is a Managing Director and Portfolio Manager for Principal Portfolio Strategies, a specialized boutique that engages in the creation of asset allocation solutions. In this role, he is responsible for conducting research, assessing risk, and making relative value recommendations relating to specific aspects of the Dynamic Outcome strategies. He is a member of the Investment Oversight and Risk Committee and has over 30 years of industry experience. Prior to his Portfolio Manager role, Marc was a Senior Relationship Manager for Principal Global Investors, where he represented portfolios to Principal Global Investor's largest and most sophisticated institutional clients, with mandates spanning the equity, real estate, fixed-income, and currency asset classes. Before joining Principal®, he co-managed fixed-income general account assets for a group of privately held insurance companies. Marc received an M.B.A. and a Bachelor's Degree in Finance from the University of Utah. Marc has earned the right to use the Certified Investment Management Analyst℠ and Chartered Alternative Investment Analyst designations.

**Kelly Grossman,** *FSA*, Kelly is the Director of Investment Strategy & Research within Principal Portfolio Strategies, a specialized boutique that engages in the creation of asset allocation solutions. In this role she focuses on risk modeling and research capabilities for outcome-based solutions. She is also a Portfolio Manager where she focuses on overall process direction, risk assessment, monitoring, asset allocation, and execution for the funds. Additionally, Kelly is a member of the Investment Oversight and Risk Committee. Prior to joining Principal Funds in 2009, Kelly was a Managing Director within the Capital Markets Group at Principal Global Investors. She was responsible for the CDO issuance platform as well as the development and analysis of other structured spread-lending opportunities. Kelly joined the company in 1991 as an Actuarial Assistant and held various other actuarial positions in pricing and product development before moving into the fixed-income division of Principal Global Investors in 1999. She has over 16 years of industry experience. Kelly received a Bachelor's Degree in Mathematics and Computer Science from the University of Northern Iowa and is a Fellow of the Society of Actuaries and a member of the American Academy of Actuaries.

**Ben Rotenberg,** *CFA*, *CAIA*, Ben is a Portfolio Manager for Principal Portfolio Strategies, a specialized boutique that engages in the creation of asset allocation solutions. In this role, he is responsible for conducting research, assessing risk, and making relative value recommendations relating to specific aspects of the Dynamic Outcome strategies. Ben is a member of the Investment Oversight and Risk Committee and has over 20 years of industry experience. Before joining Principal®, he was a Managing Director with Cliffwater LLC, an independent investment consulting firm specializing in alternative asset classes and strategies. There, he was a member of the firm's Investment Oversight and Risk Committee responsible for investment manager due diligence and assisting clients with asset allocation, manager selection, and portfolio construction. Prior to Cliffwater, Ben was Director of Research with National Fiduciary Advisors, an investment consulting firm in Los Angeles, where he was responsible for conducting investment manager due diligence across multiple asset classes. Ben began his investment career at Wilshire Associates, providing services to investment consultants in their Cooperative Universe Service division. Ben has earned the right to use the Chartered Financial Analyst® and Chartered Alternative Investment Analyst designations and is a member of the Los Angeles Society of Financial Analysts.

[2] CPA does not provide tax or accounting services on behalf of the companies of the Principal Financial Group®.

## Risks Associated with the Principal Diversified Real Asset Portfolio

**It is important to be aware of and consider the potential risks of any investment you may be considering. The potential risks of investing in the Principal Diversified Real Asset portfolio include the following:**

**Equity investment options** involve greater risk, including heightened volatility, than fixed-income investment options. **Fixed-income investment options** (inclusive of U.S. Treasury Inflation-Protected Securities) are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. or any other government entity. **Floating rate debt instruments** are subject to credit risk, interest rate risk, and impaired collateral risk, which means that the value of the collateral used to secure a loan held by the Fund could decline over the course of the loan. **Credit risk** refers to an issuer's ability to make interest and principal payments when due. **Investments concentrated in natural resources industries** can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political, and economic developments, the success of exploration projects, tax and other government regulations, and other factors. **Investing in derivatives** entails specific risks relating to liquidity, leverage, and credit that may reduce returns and/or increase volatility.

**REIT securities** are subject to risk factors associated with the real estate industry and tax factors of REIT registration. An **MLP** that invests in a particular industry (e.g., oil and gas) may be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income paid by an MLP to its investors.

**Global infrastructure companies** may be subject to a variety of factors that may adversely affect their business, including high interest costs, high leverage, regulation costs, economic slowdown, surplus capacity, increased competition, lack of fuel availability, and energy conversation policies.

**International and global investing** involves greater risks such as currency fluctuations, political/social instability and differing accounting standards.

**Commodity-Related Investment Risk:** The value of commodities investments will generally be affected by overall market movements and factors specific to a particular industry or commodity, which may include weather, embargoes, tariffs, and economic health, political, international regulatory and other developments. Exposure to the commodities markets may subject the fund to greater volatility than investments in traditional securities.

**Commodity Index-Linked Notes Risk:** The value of commodities may be affected by overall market movements and other factors affecting the value of a particular industry or commodity. These notes expose the fund to movements in commodity prices. They are also subject to credit, counterparty, and interest rate risk. Commodity index-linked notes are often leveraged. At the maturity of the note, the fund may receive more or less principal than it originally invested. The fund may also receive interest payments on the note that are less than the stated coupon interest payments.

BlackRock

BlackRock is a premier provider of global investment management, risk management and advisory services. The firm manages assets across equity, fixed income, real estate, liquidity, and alternative investments. Clients include corporate, public, and union pension plans, insurance companies, mutual funds, endowments, foundations, charities, corporations, official institutions, and individuals worldwide.

Through BlackRock Solutions®, the firm offers risk management and advisory services that combine capital markets expertise with proprietarily-developed systems and technology.

BlackRock serves clients in North and South America, Europe, Asia, Australia, Africa, and the Middle East. Headquartered in New York, the firm maintains offices in 30 countries around the world.

## Investment Philosophy and Process

**Philosophy:** BlackRock's disciplined fixed income investment process seeks to add value through:

- Controlling average effective duration* and yield relative to a benchmark index.
- Security selection.
- Relative value sector/sub-sector rotation between nominal U.S. Treasuries, mortgage-backed securities (MBS), and corporate bonds.
- Rigorous quantitative security and portfolio valuations.
- The judgment of experienced portfolio managers.

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

**Process:** BlackRock's investment process utilizes a team approach in managing fixed income portfolios.

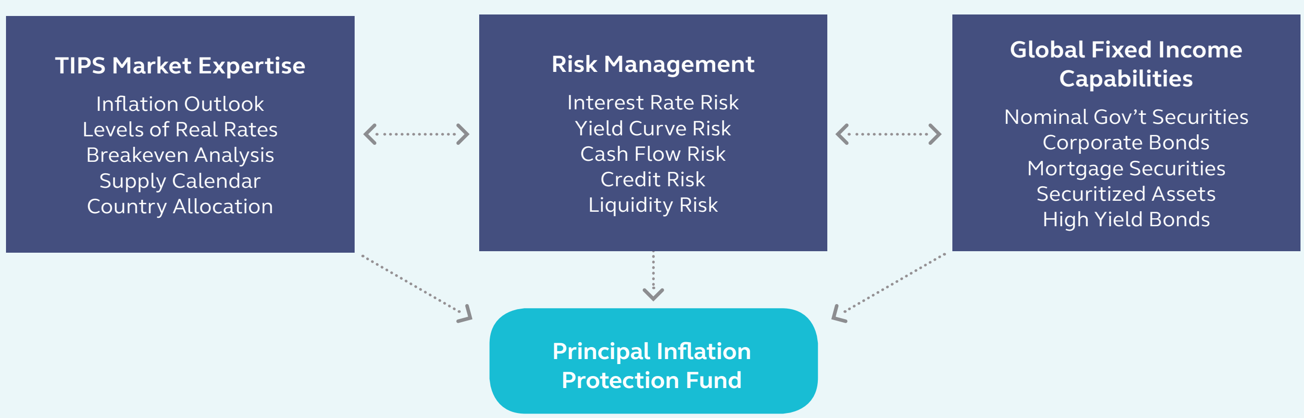
The Fixed Income Portfolio Management Group includes Portfolio Teams and Investment Teams. Portfolio Teams are responsible for top-down asset allocation and portfolio construction within specific strategies, and for ensuring portfolios are in compliance with guidelines and constraints. Investment Teams are responsible for research, bottom-up idea generation, ongoing surveillance on all positions, and trade execution, financing and settlement. Research analysts are part of the Investment Teams and are responsible for credit and macroeconomic research.

The portfolio is broadly diversified in primarily inflation-protected securities, including U.S. Treasury Inflation Protected Securities (TIPS), U.S. and non-U.S. government bonds, agencies, corporate bonds, MBS, commercial mortgage-backed securities, and asset-backed securities. The portfolio may also utilize derivative instruments, non-investment-grade securities or other sectors of the fixed income universe.

BlackRock believes that experienced professionals using a disciplined investment process and sophisticated analytical tools can consistently add value to portfolios. Within this framework, BlackRock has assembled a team of professionals with expertise throughout the global capital markets — and, over the years, has continued to make significant investments in technology and analytics. Portfolio managers use proprietarily-developed analytics to identify relative value opportunities and construct portfolios diversified by sector, sub-sector and security.

*Average effective duration is a time measure of a bond portfolio's interest-rate sensitivity, based on the weighted average of the time periods over which the cash flows of all of the portfolio's bond holdings accrue to the portfolio. Time periods are weighted by multiplying by the present value of each bond's cash flow divided by that bond's price. (A bond's cash flows consist of coupon payments and repayment of capital).

BlackRock's Investment Process



Brookfield

Brookfield Investment Management Inc. (the firm) is a global investment manager focused on specialized equity and fixed income securities. The firm is a subsidiary of Brookfield Asset Management, a global alternative asset manager with more than 100 years of ownership and operating experience in real estate, infrastructure, power, and private equity. Brookfield Investment Management encompasses all of the public securities investment capabilities of Brookfield Asset Management.

Brookfield Investment Management's equities capabilities were founded in 2000 by current Brookfield Investment Management Chief Executive Officer and Co-Chief Chief Investment Officer, Mr. Kim G. Redding. Initially operating as a specialized investment manager of real estate securities, the equities platform grew in less than a decade to make Brookfield Investment Management a leading investment manager of real estate and infrastructure securities on a global scale.

## Investment Philosophy and Process

**Philosophy:** Brookfield Investment Management believes the long-term nature of infrastructure cash flows and the abundance of hard assets are best suited to bottom-up, fundamental analysis. The foundation of the firm's team-based investment approach is having high quality, centrally located investment professionals dedicated to meeting client investment objectives and helping to provide excellent client service. The firm's dedicated research and portfolio management team is supplemented by the broader infrastructure investment platform of Brookfield Asset Management and AMP Capital Investors.

Brookfield Investment Management believes the long-term outlook for global infrastructure securities is attractive and that this view is enhanced by the valuations currently available across the asset class. Investor interest in infrastructure has increased dramatically in recent years due to a combination of global population growth, much-needed spending on infrastructure and a deficiency in government budgets. The firm believes the inherent nature of infrastructure — incorporating predictable and stable long-term cash flows — offers an attractive risk/return profile and the potential for strong investment returns.

Brookfield Investment Management's fundamental, bottom-up, value-based stock selection methodology is complemented by a top-down overlay. The firm's disciplined investment approach focuses on free cash flow generation with an emphasis on primary research, including asset inspections, site visits, management meetings, financial modeling, and sensitivity analysis. Investment decisions are based on total-return expectations.

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

**Process:** Brookfield Investment Management believes that excess returns are generated as a result of superior research efforts, dedicated focus on the infrastructure asset class and a value-based investment process. The firm's research-intensive investment process allows for the construction of relatively concentrated portfolios of approximately 30 to 50 securities. Portfolios generally have allocations to each of the four main sectors: transportation, energy, communications, and water. Diversification across global regions, including exposure to higher-growth emerging markets also is incorporated into portfolio construction.



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## Brookfield Global Infrastructure Securities Investment Process

Investment Universe

| Quantitative Screening | Fundamental Analysis | Investment Themes | Portfolio Construction |
|---|---|---|---|
| Proprietary Analytical Framework (“Skyway”)<br>Key Screening Factors<br>• Asset level analysis<br>• Company level analysis<br>• Valuation analysis | • Desktop analysis<br>– Cash flow projections<br>– Balance sheet assessment<br>– Valuation<br>• On-site due diligence<br>– Asset visits<br>– Management meetings<br>– Regulatory due diligence<br>• Broader Brookfield Platform<br>– Leverage investment team experience and expertise. | • Economic outlook<br>• Industry fundamentals<br>• Geographic fundamentals<br>• Thematic views<br>• Investment themes and outlook integrated into bottom-up fundamental analysis. | • Ensure investment themes and relative valuation opportunities appropriately expressed in portfolio.<br>– Economic exposures<br>– Industry exposures<br>– Geographic exposures<br>– Currency exposures<br>– Diversification effects |

The firm’s investment process includes four main components:

**1. Initial screening/quantitative analysis**
The universe of potential investments — approximately 260 companies — is analyzed through the firm’s proprietary quantitative screening model, Skyway. Skyway consists of quantitative and qualitative factors which result in a ranking of the investment universe.

The model framework encompasses three types of analysis: **1) asset level, 2) company level, and 3) valuation**. Skyway also is used as a risk management tool as the companies are segmented into four categories: Core Value, Core Growth, Opportunistic Value and Special Situations. The firm’s portfolios generally are heavily weighted in the two core categories, typically accounting for approximately 70% to 90% of the total exposure.

Through the quantitative screening model, the investment universe is narrowed to fewer than 100 potential investments, which are further analyzed.

**2. Analysis and detailed due diligence**
Each investment opportunity requires extensive due diligence and is scrutinized to determine the drivers of cash flows, risks, and overall quality of the investment. The majority of the firm’s time is focused on this aspect of due diligence, and the majority of the value is added at this stage. The three broad categories consist of:

**1.** fundamental analysis;

**2.** on-site due diligence; and

**3.** accessing the broader infrastructure of Brookfield Asset Management’s investment platform.

**3. Sector and geographic overlay (investment themes and sector biases)**
Investment decisions are driven by the bottom-up fundamental analysis. Simultaneously, Brookfield Investment Management’s macro views regarding specific infrastructure sectors and regions also influence portfolio construction. Key macro themes that influence portfolio construction include:

- economic growth projections in various regions;
- inflation expectations;
- credit environment;
- outlook for developed versus emerging markets;
- bias for yield versus growth; and
- degree of defensive positioning.

**4. Portfolio construction and monitoring**
Portfolio construction is conducted by the portfolio managers and is formally reviewed weekly. However, portfolio managers make changes more frequently when required. A committee of the firm’s senior executives formally reviews the portfolio construction and performance of the infrastructure team monthly, but is informally involved more frequently.

Founded in 1856, Credit Suisse Group has a long tradition of meeting the complex financial needs of a wide range of clients. The history of Credit Suisse Asset Management, LLC dates back to 1935, when Credit Suisse Asset Management (New York) was founded as BEA (Basic Economic Appraisals) Associates. All institutional investment management divisions within the Credit Suisse Group were re-branded in 1997 under one entity: Credit Suisse Asset Management.

As one of the world's leading banks, Credit Suisse provides its clients with private banking, investment banking and asset management services worldwide.

The firm's asset management business offers products across a broad spectrum of investment classes — including alternative investments such as commodities, hedge funds, real estate and credit, as well as multi-asset-class strategies (which includes equities and fixed income products). Credit Suisse's asset management business manages portfolios, mutual funds, and other investment vehicles for a broad spectrum of clients ranging from governments, institutions, and corporations to private individuals. The Credit Suisse asset management business is operated as a globally integrated network to deliver the bank's best investment ideas and capabilities to clients around the world.

## Investment Philosophy and Process

**Philosophy:** The investment team believes in an enhanced index approach to managing indexed commodities. The firm believes the most compelling reason to own commodities is that the asset class has exhibited positive gains that are uncorrelated to stocks and bonds; the firm also believes that enhanced indexing is the best way to offer this diversification. Through this philosophy, the team seeks to add incremental alpha from the commodity and cash components of the portfolio, using a risk-controlled process that seeks to maintain the diversification qualities of the benchmark. For this reason, the team does not add significant duration or credit risk from the cash portion, as this would add back correlation to the bond market.

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**Process:** Credit Suisse's commodities investment process is designed to take benchmark-relative risk within the commodity portion of the portfolio, while taking minimal risk from the cash portion of the strategy.

The Credit Suisse Enhanced Total Commodity Return Strategy offers an enhanced index approach to managing commodities. This strategy is designed to outperform the index by trading based on relationships that have occurred in a historical context for one commodity future, versus the same underlying contract of a different maturity. Quantitative and qualitative research is employed to identify optimal periods to time the rolling of the underlying contracts. The goal is to achieve a higher return relative to the roll yield generated within the benchmark index. The passive spot index exposure and the active roll management are achieved through the use of commodity-structured notes.

The commodities team at Credit Suisse Asset Management, LLC has over 18 years' experience in the commodities asset class and has continually built and strengthened its capability to add value and enhance returns.


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Credit Suisse's Commodities Investment Process

Spot Return + Roll Yield + Collateral Yield = Total Return

Roll Yield = Alpha Generation Opportunities

**Spot Return**
Price return on real asset.

Credit Suisse replicates the index's spot return by purchasing swaps.

**Roll Yield**
Return impact due to migration of futures position from near to far contract.

**Credit Suisse Value Added:**
Identification of structural inefficiencies that seek to add value through the management of the roll.

**Collateral Yield**
Return earned on pledged collateral.

**Credit Suisse Approach:**
Conservative cash management seeks to avoid any unintended correlation to fixed income or equity markets.

**TOTAL RETURN**

**RISK CONTROL**

Fischer Francis Trees & Watts (FFTW) is a global investment management firm providing active fixed income and currency strategies to institutional investors. The firm manages single- and multi-currency mandates across global, U.S., and emerging markets. The firm is headquartered in New York with investment staff also located in Boston, London, and Paris.

FFTW was founded in 1972 and became a wholly owned subsidiary of BNP Paribas Investment Partners in 2006. It is ultimately owned by BNP Paribas group, one of the world's largest financial institutions, providing the global resources to strengthen its capabilities.

## Investment Philosophy and Process

**Philosophy:** FFTW's investment philosophy for managing currency portfolios consists of four components:

1. Separation of alpha (manager skill) and beta (market returns) is critical in building a long-term investment strategy.
2. A blend of discretionary and systematic processes allows for the separation of alpha and smart beta.
3. Models are not appropriate in all market environments and the investment process should incorporate the discretion to turn models off at times, and rely solely on portfolio manager judgment.
4. Management of downside risk ranks hand-in-hand with the search for excess return.

The investment team subscribes to the notion that true currency alpha can be generated using a discretionary flexible global macro approach, while currency beta factors such as trend, carry, and other FX investment styles can best be captured using systematic models. FFTW also believes that the successful management of currency portfolios in today's market is highly dependent upon sophisticated risk management practices. Therefore, the development, integration, and utilization of risk tools, for both discretionary and systematic approaches, must rank among the firm's highest priorities. FFTW accepts that the real world is complex, subtle and ever-changing and that rigid beta models that attempt to capture excess return have a limited degree of efficiency and could cause large drawdowns.

By placing a strong emphasis on risk control and drawdown risk management, upside volatility for FFTW's currency alpha product historically has been 2-3 times downside volatility.

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**Process:** The investment process is designed to exploit structural inefficiencies in global currency markets, while focusing on managing downside risk. FFTW makes use of systematic (model-driven) processes as well as discretionary processes, with an emphasis on discretion. The models employed include yield delta (changes in interest rate spreads between two currencies), carry (sell currencies with the lowest interest rates and purchase those with higher interest rates) and trend (model is overweight the currency that has performed best over the near-term period). Each of FFTW's models was developed in-house allowing for a continuous process of review and enhancement.

Understanding that models generally do not perform well in all market environments, the discretionary component of FFTW's process relies on portfolio manager judgment to turn models on and off and generates ideas that focus on valuation, as well as drivers of capital.

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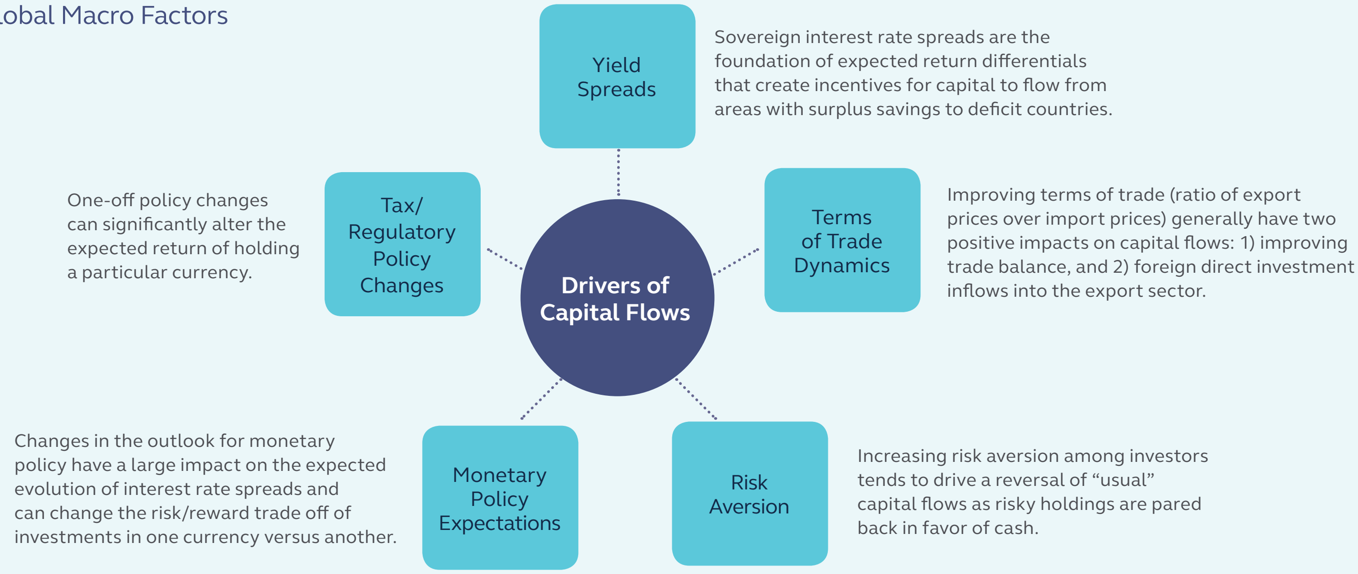
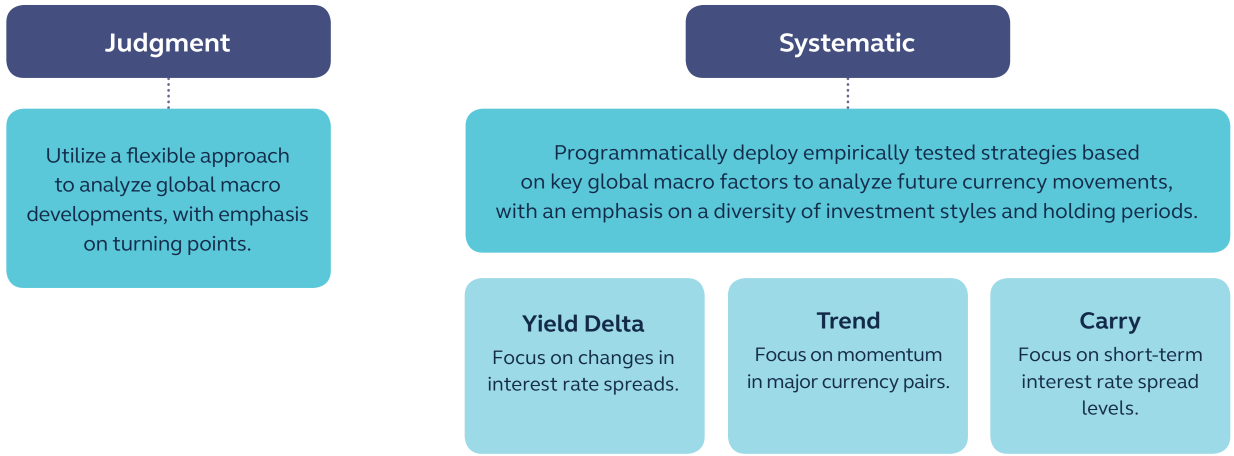
## Global Macro Factors




Employing multiple processes simultaneously makes it possible to generate alpha with lower risk levels. The judgment, or discretionary, part of the strategy represents approximately 60% of the overall strategy's risk and return budget. The systematic- or model-driven processes — trend, carry, and yield delta — amount to approximately 40% of the overall strategy's risk and return budget. Each model is built to capitalize on particular economic and behavioral relationships that appear in currency markets. Strict stop/loss mechanisms are incorporated into each model either by currency pair or at the strategy level. An additional discretionary element utilized is to suspend the use of some or all of the FX models at various times when an assessment is made that the environment is not conducive to model trading.

## Diversified Investment




FFTW's Currency Alpha team is in constant dialogue regarding drivers of capital, trends in the market, the macroeconomic environment, legislative, tax and geopolitical risk. Ideas generate from these discussions as well as a detailed review of fundamental and technical factors. The team meets formally on a weekly basis to discuss elements of the process as pertains to both discretionary ideas and models. The investment process is overseen by FFTW's Chief Investment Officer as well.

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MACQUARIE

Macquarie Asset Management (MAM) is Macquarie Group's funds management business. MAM is a full-service asset manager, offering a diverse range of capabilities and products including infrastructure and real asset management, securities investment management and structured access to funds, equity-based products and alternative assets.

MAM has been managing assets for pension funds, institutions and retail investors since 1980 in Australia and 1929 in the United States (through Delaware Investments). MAM has a global reach, with a team of around 1,500 staff located in 20 countries including Australia, Asia, the UK, Europe and the U.S.

Macquarie Asset Management's listed infrastructure team is one of the largest dedicated listed infrastructure teams in the world. Their investment team consists of three portfolio managers, six analysts, and two traders, all of whom focus exclusively on listed infrastructure portfolios. The team is located in both New York and Sydney, allowing it to analyze and execute on a near 24 hour basis, five days a week.

## Investment Philosophy and Process

**Philosophy:** Macquarie Asset Management believes:

- infrastructure is an under-researched area of global equity markets and knowledge asymmetries exist;
- financial models based on rigorous proprietary fundamental research by an experienced and well resourced investment team can provide insights to alpha opportunities; and
- portfolios based on these alpha signals, combined with thoughtful risk management, will deliver attractive risk-adjusted returns over time.

MAM believes equity markets are relatively short-term in their focus and thus will typically respond to information that is less material to the fundamental long-term value of a company. MAM seeks to exploit the market's generally short-term focus, which may see mispricing (in both directions) of infrastructure stocks owning and operating long life assets.

MAM believes a systematic, fundamental valuation-based approach to identifying long-term value in listed infrastructure companies will produce investment performance better than investments made on the basis of short-term market factors.

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

**Process:** MAM invests in listed infrastructure companies that own and operate physical infrastructure assets such as toll roads, airports and pipelines, but does not hold infrastructure support companies. This purity of definition of the investable universe is an important hallmark of the strategy – the purity leads to a specific set of characteristics that are distinct from other asset classes.

The investment process is driven by a discounted cash flow methodology that values a company's long-term stream of cash flows as determined by MAM's proprietary forecasts. These cash flows are discounted to a present value utilizing a modified CAPM approach that adjusts the discount rate according to multiple risks. This process (summarized in the chart below) marries the relatively long-lived nature of infrastructure assets with an objective, unbiased process that seeks to determine when the future cash flows are priced, whether expensive or inexpensive.

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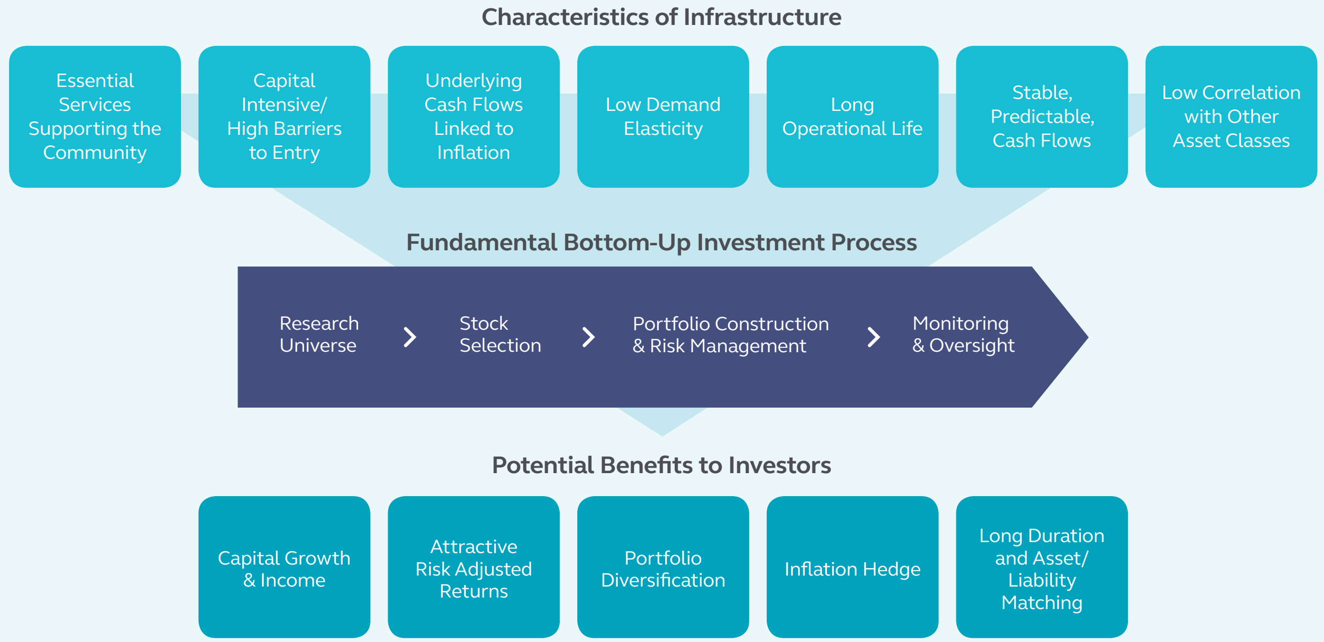
Macquarie's Investment Process




The size and depth of experience of Macquarie's listed infrastructure team is unique within the industry.

Investment analysts are responsible for detailed fundamental, proprietary research. They develop and maintain standard proprietary company valuation models and ultimately determine a recommendation for each stock under their coverage.

The investment team analyzes the stock's infrastructure characteristics with respect to:

- demand elasticity;
- strategic positioning (competitive dynamics);
- pricing structure; and
- regulatory framework.

A quantitative assessment of individual securities is also made on the basis of their underlying fundamentals such as:

- business mix;
- return profile, including long-term return on equity — to help ensure equity holders benefit from the business;
- capital structure — to help ensure it is appropriate and sustainable; and
- assessment and projection of the significant items of operating and capital expenditure — to help ensure understanding of the calls on the company's financial resources.

Stock recommendations are peer reviewed during the daily investment team meeting. Multiple aspects of the investment case are debated to help ensure that the associated investment drivers and relevant stock specific risks have been addressed.

Ultimately a decision is made by the portfolio management team as to whether to include the stock in the model portfolio. The portfolio is diversified across countries, infrastructure sectors, stocks, regulatory regimes and thematics to ensure that it is not unduly concentrated, or has unintended exposures as a result of the bottom-up fundamental stock selection approach. The portfolio is subject to detailed risk management oversight and all positions are under constant scrutiny as the team seeks to capture the best opportunities available in the global listed infrastructure investment universe.

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PICTET
1805

Founded in Geneva in 1805, the Pictet Group is one of Europe's leading independent wealth and asset managers.

Pictet Asset Management (Pictet AM) refers to the institutional business division of the Pictet Group. The firm provides specialist investment management to leading institutions globally. Pictet's clients include some of the world's largest pension funds, mutual funds, sovereign wealth funds and financial institutions.

## Investment Philosophy and Process

**Philosophy:** Pictet has a specific sector and theme funds investment process that is shared by all the theme funds ran by Pictet Asset Management.

The firm believes that a theme approach to investing enables one to potentially benefit from long term socio-economic "secular" developments that are only modestly impacted by the shape and duration of economic cycles. Additionally, Pictet believes longer-term investment horizons provide a framework for greater levels of investment conviction as these are based on analysis of fundamental pathways rather than on timing shorter-term market movements. Pictet believes such an approach helps reduce portfolio turnover and thereby trading costs (commissions, trading spreads, market impact, and any potential taxes such as stamp duty).

The following three assertions constitute Pictet's core investment beliefs:

- **Longer-term horizons:** The equity market tends to misprice secular developments resulting as portfolio managers tend to focus on a rolling three-year investment horizon.
- **Benchmark agnostic portfolio construction:** Traditional index market-cap based index portfolios are biased toward past winners. Pictet constructs portfolios exploiting the more predictive characteristics of secular developments that, for example, are in contrast to many strategies that rely on backwards-looking market capitalisation based portfolio weights. The firm's view is that allocations should be the aggregate of bottom-up investment decisions based on the company and industry fundamental analysis irrespective of sector, region or market cap. The resulting benchmark-agnostic portfolio seeks to not only provide for better opportunities for diversification but also to enhance the potential scope for superior risk-adjusted returns.
- **Themes are defined by the intersection of megatrends:** Megatrends are the synthetic aggregations of pathways that help simplify the complexity of the environment. They allow Pictet to represent their assumed knowledge of probable futures and developmental factors that are likely to impact growth in the longer-term. Megatrends have large and broad impact and extend over at least a 10 to 15 year time horizon. Thematic investment thus specializes in identifying and constructing portfolios based around companies whose growth drivers are linked to themes as defined by the intersection of megatrends.

Pictet establishes investment universes by defining themes that exploit the predictive characteristics of longer-term socio-economic developments. The investment team uses as a starting point, the megatrends as defined and monitored by the Copenhagen Institute for Futures Studies. The firm then seeks attractive pathways that are captured by the intersection of such megatrends. This helps to ensure that Pictet's approach captures and they are able to monitor the secular developments associated with a given theme.

To qualify as a theme, the investment universe of companies needs to differ significantly from existing market cap weighted indices. Further, Pictet seeks investment universes where the overlaps are below 20%, that are clearly associated with megatrends and allow for scalability.

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

## Pictet-Agriculture Investment Process

**Strategic Definition of Investment Themes** >

**c.700**
Companies
$1.2th Market Cap
**Identification of Investment Universe** >

**c.290**
Companies
$850bn Market Cap
**Creation and Maintenance of Investable Universe** >

**c.130**
Stocks
**Management of Investment Portfolio** >

**c.50-80**
Stocks
**Pictet-Agriculture**

**Semi-Annual Advisory Board Meeting**

- Review of recent fund performance.
- Update of industry growth trends.
- Topical discussions related to the themes.

**Database Screening**

- Identification of companies with relevant theme-related activities.
- Qualitative screening of world equity database of 40,000 companies.
- One formal review of the investment universe each year.

**Quantitative Screening**

Screen of the investment universe for net sales, EBIT, EBITDA to determine the percent enterprise value of the overall group related to the theme and thus creating the investable universe of stocks.

**Portfolio Construction and Stock Selection**

- Screen & calibrate investable universe for purity, trading liquidity and share price vol. to determine initial portfolio weights.
- Score all stocks with initial weight > 0.
- Screen top quartile, then score stocks with initial weight ≤ 0.

**Process:** Pictet manages two sleeves of the Diversified Real Asset Portfolio. While the investment philosophy is the same for both, there is a separate investment process for each sleeve, Agriculture, and Timber.

## Agricultural Investment Process

**Step 1: Strategic Asset Allocation**

a) Strategic Definition of the Investment Theme

Pictet's research extends to companies active in the entire agriculture value chain, with focus on companies who produce farm inputs (machinery, chemicals and seeds), farm professionalization (ownership or management of farmland, production of meat and fish etc.), and supply chain services (logistics, processing, waste reduction, etc.).

The objective is to define the fund's long-term strategic orientation. At this stage, inputs from the members of the advisory board are sought. This allows the investment managers to better identify future trends affecting the agricultural industry. It helps to define the key themes that will characterize the fund's investment concept and the agricultural companies that reflect the fund's investment theme. The firm's research leads them to believe that more value will go upstream in the food chain, especially to the most resource efficient parts of the chain.

b) Identification of the Investable Universe

From an initial universe of over 700 companies active in the agriculture-related segments, Pictet derives the investible universe by eliminating all stocks of the investment universe that do not have meaningful exposure to the theme of helping to improve the efficiency of the agricultural chain (quantitative screening).

The firm calculates the percentage of earnings before interest and tax (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), and net sales that are related to the investment theme. Pictet then eliminates all companies whose exposure (the so called purity score) is below the fund specific threshold level of at least 50%. Pictet then balances diversification of the investible universe with its reflectiveness of the theme.

## Pictet's Definition of Agriculture

**Investable**

**Farm Inputs**
- Farm Machinery
- Seeds and Farm Technology
- Agricultural Chemicals

**Farm Professionalization**
- Crop Farming & Plantations
- Animal Protein
- Animal Feed

**Supply Chain Services**
- Integrated Agribusiness
- Commodity Food Processing & Ingredients
- Distribution & Food Safety

**Not Investable**
- Branded Food Manufacturers, Food Retailers, Gasoline Blenders, Household, and Personal Care Companies
- Consumers

Source: Pictet Asset Management

This step leaves Pictet with an investible universe of some 290 companies, which constitutes their investible universe. The firm reviews the investible universe twice a year.

### Step 2: Bottom-Up Stock Selection

a) Idea Generation

Prolific idea generation is the firm's driving force. By working in an environment that supports innovation and encourages originality, Pictet's investment teams have the freedom to find and explore opportunities. Investment ideas are generated by detecting changes and trends in companies, industries and markets. By identifying them at an early stage, Pictet strives to pinpoint those companies whose prospects are likely to improve or deteriorate as a result. The firm's success results from their ability to tap into what they believe to be the sources of information, evaluate that information intelligently, and use that knowledge quickly and decisively.

b) Research

The fund's investment universe is characterized by a wide range of risk/return profiles. Approximately 75% of their universe is under-researched mid and small-cap companies. Pictet believes successful stock-picking is vital to avoid the losers and not miss the winners.

c) Company Analysis

Pictet applies a bottom-up approach using a disciplined analysis that is aimed at identifying the most attractively valued and highest-quality shares in our universe. Only an active and disciplined investment style can consistently identify and benefit from pricing anomalies. During this step, greater emphasis is placed on primary research and direct contact with company management.

Between the two members of the investment management team, 200 company contacts per year are conducted either at the Pictet offices, during industry conferences, on-site meetings or through conference calls with management teams.

Pictet's company factor is determined by three factors:

**Management**

Pictet assesses the management of a company with a scoring model. The firm wants to assure themselves that management has a coherent strategy and is positioned to take advantage of positive industry developments. By doing this, Pictet focuses on understanding the ability of the company to create future value. They assess expected future returns and compare it to the cost of capital.

**Business Franchise**

Pictet also assesses the business franchise using a scoring template. They analyse the company's competitive advantage (product differentiation, pricing power, customer loyalty) vis-à-vis competitors, and financial metrics through organic growth and margin trends.

**Valuation**

Pictet wants to know what their assessment says about what the company's equity is worth. They employ three complementary methodologies to identify the most mispriced companies. They use different methods because they believe neither growth nor value characteristics alone are sufficient to analyze all companies at all times.

The first method uses HOLT* or discounted cash flow (DCF) methodology. Since the net present value of any company is the sum of its discounted future cash flows, today's share price carries assumptions about both the future growth in cash flow and the risk-adjusted cost of capital. Pictet uses detailed cash flow return on investment analysis.

*HOLT's methodology examines accounting information, converts it to cash and then values that cash, allowing a survey of the entire corporate capital structure and to identify key drivers of value others may miss.

The second method is the "relative value," using valuation multiple approaches relative to peers. For this purpose, conventional price to earnings, price to sales ratios, enterprise value (EV)/EBITDA are powerful tools if applied correctly.

Pictet compares a company's price to earnings ratio (P/E) and EV/EBITDA with its 10-year and five-year historical average in order to determine an under or over-valuation relative to history average.

Finally, the firm uses a momentum score which is a linear combination of the ranked returns and trading volumes of the company. The momentum score also includes institutional brokers' estimate system (IBES) earnings revisions for FY1 and FY2. The ranking includes all companies of the investible universe.

## Industry Factor

The industry factor reflects short term factors that affect Pictet's investments. It is to be used to adapt the portfolio to different segments of the cycle of the industry as well as different cycles in the stock market which tend to push the stock price below the fundamental value defined in their valuation work.

**Step 3: Portfolio Construction**

Portfolio construction is designed to translate Pictet's best ideas into a portfolio in a risk-managed way. The firm builds an active portfolio from bottom-up stock selection. Unlike many managers, Pictet does not begin with a regional or country allocation. They believe it is very difficult to predict the relative performance of these factors and prefer instead to concentrate on analysing and finding promising companies.

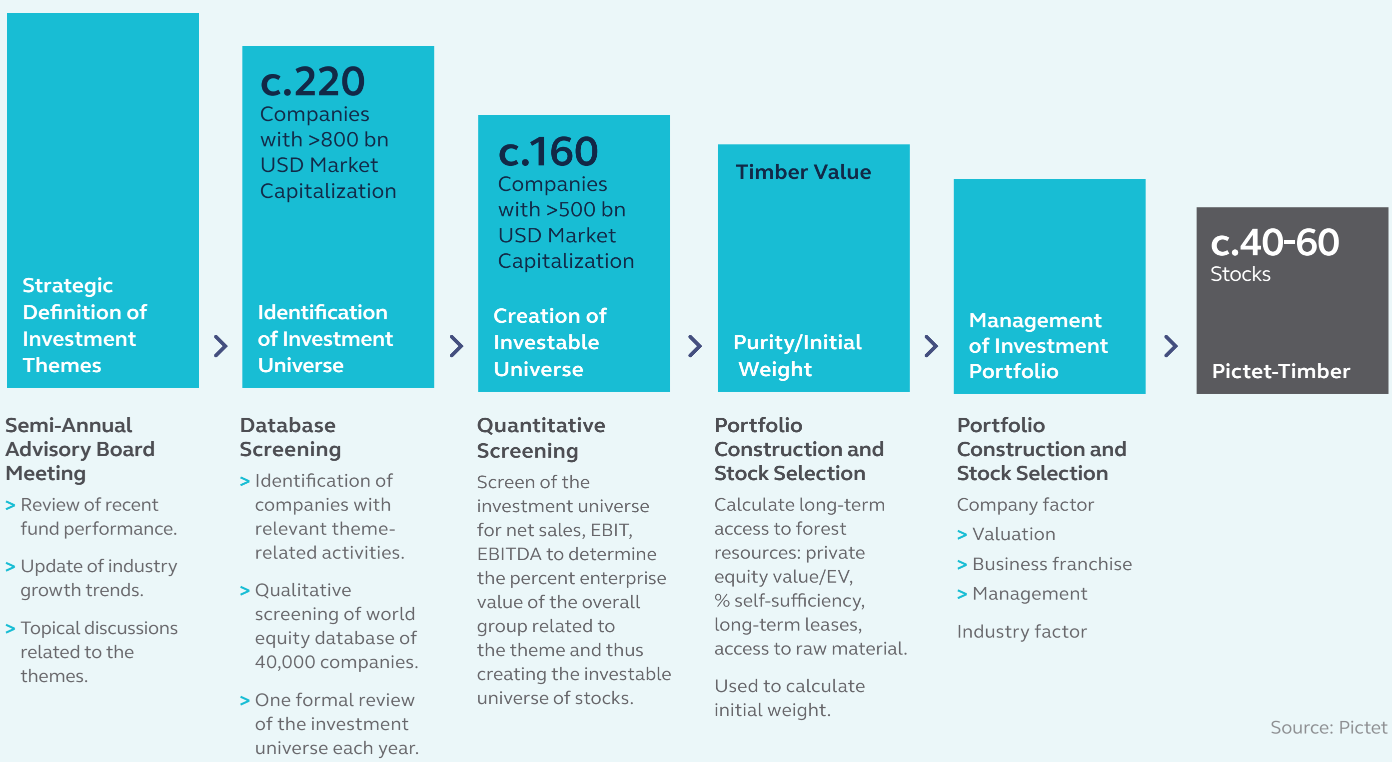
## TIMBER Investment Process

**Step 1: Strategic Asset Allocation**

a) Strategic Definition of the Investment Theme

Pictet's objective is to define the fund's long-term strategic orientation. At this stage, inputs from the members of the firms Advisory Board are sought, and allow the investment managers to better identify future trends affecting the agricultural industry and to define the key themes that will characterize the fund's investment concept and the timber companies that reflect the fund's investment theme.

## Pictet-Timber Investment Process




Source: Pictet

b) Identification of the Investable Universe

From an initial universe of over 220 companies active in the timber-related segments, Pictet derives the investible universe by eliminating all stocks that do not have meaningful exposure to the theme.

The firm calculates the percentage of EBIT, EBITDA and net sales related to the investment theme. Pictet then eliminates all companies whose exposure is below the fund specific threshold level of at least 20%. Pictet balances diversification of the investible universe with its reflectiveness of the theme.

This step leaves Pictet with an investible universe of some 160 companies, with a combined market capitalization above $500 billion. The firm reviews the investible universe twice a year.

**Step 2: Calculation of Timber Value**

Pictet calculates for each company its "timber value" using their proprietary database. This metric is there to determine the long term access of companies to wood fibre, to know how well a company would benefit from any wood price inflation.

The firm's favoured metric is the value of the private timberlands divided by the enterprise value. With this metric Pictet knows how much of the value of a company is related to its timberlands, given them the benefit of wood growth and land value appreciation over time. For some pulp companies, Pictet also uses the percentage of self-sufficiency in wood procurement. For some wood product companies, the firm also calculates the value of long term leases.

**Step 3: Bottom-Up Stock Selection**

a) Idea Generation

Prolific idea generation is Pictet's driving force. By working in an environment that supports innovation and encourages originality, Pictet's investment team has the freedom to find and explore opportunities. Investment ideas are generated by detecting changes and trends in companies, industries and markets. By identifying them at an early stage, the firm strives to pinpoint those companies whose prospects are likely to improve or deteriorate as a result. Pictet's success results from their ability to tap into what they believe to be the sources of information, evaluate that information intelligently and use that knowledge quickly and decisively.

b) Research

The investment universe is characterised by a wide range of risk/return profiles. Approximately 75% of Pictet's universe is under-researched mid and small-cap companies. Successful stock-picking is therefore vital to avoid the losers and not miss the winners.

c) Company Analysis

Pictet applies a bottom-up approach using a disciplined analysis that is aimed at identifying the most attractively valued and highest-quality shares in the investment universe. Only an active and disciplined investment style can consistently identify and benefit from pricing anomalies. During this step, greater emphasis is placed on primary research and direct contact with company management.

Between the two members of the investment management team, at least 100 company contacts per annum are conducted either at the Pictet offices, during industry conferences, on-site meetings or through conference calls with management teams.

As mentioned above, and similar to the agriculture investment process section, Pictet's company factor is determined by management, business franchise and valuation. Industry factor is also taken into consideration.

Step 4: Portfolio Construction

Portfolio construction is designed to translate Pictet's best ideas into a portfolio in a risk-managed way. Pictet builds an active portfolio from bottom-up stock selection. Unlike many managers, Pictet does not begin with a decision about a region or country. The firm believes it is very difficult to predict the relative performance of these factors and prefer instead to concentrate on analyzing and finding promising companies.

Principal℠

Principal Real Estate Investors is the dedicated real estate asset manager for Principal Global Investors. They build on a vertically integrated platform that incorporates all disciplines of commercial real estate. By providing access to opportunities across the spectrum of public and private equity and debt investments, clients are able to customize their real estate portfolios to their specific objectives, including sustainability and risk management guidelines.

## Investment Philosophy and Process

**Philosophy:** The real estate securities portfolios of Principal Real Estate Investors are grounded in the view that real estate securities markets are semi-efficient, presenting opportunities that skilled active managers can exploit through rigorous fundamental analysis. The research process — combined with the in-depth knowledge and market insight of the firm's dedicated sector specialists — is a key component of their efforts to consistently identify relatively mispriced securities in all market environments. The information obtained through research plays a critical role in the team's efforts to consistently generate excess returns through, primarily, bottom-up security selection.

The firm considers disciplined portfolio construction and the appropriate allocation of agreed-upon client risk budgets to be critical components in the team's efforts to exploit identified mispricing opportunities in an optimal fashion.

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

**Process:** The first phase in the real estate investment process is research of potential investment opportunities by the firm's analysts. Analysts are responsible for identifying attractive investments within their respective coverage universe through in-depth company research and securities valuation. The team conducts extensive fundamental research through management meetings, asset inspections and analysis of financial statements and regulatory filings. The firm's net asset value (NAV) estimates are a key component of the firm's valuation review. Other valuation techniques are used both as a check on the net asset value results and for studying stocks when company differences dictate the use of alternate research techniques. Analysts are responsible for providing continuous buy/sell/hold recommendations for all securities within their respective coverage universe.

The REIT's Investment Process of Principal Real Estate Investors

**Research**

- Fundamental-based approach.
- In-depth company studies.
- Proprietary back-tested model ranks stocks.

**Security Selection**

- Team collaboration to develop strategy.
- Team members make recommendations on assigned stocks.

**Portfolio Construction**

- Bottom-up process.
- Portfolio managers jointly determine positions and weightings.
- Risk review.

**Portfolio Monitoring**

- Analysis of security, sector, and style impact.
- Continuous attribution analysis.

In the second phase of the investment process, analyst recommendations are reviewed by the firm's local regional portfolio manager. The portfolio manager will determine investment actions worthy of recommendation to the global portfolio management team. Investment ideas typically are highlighted for the global portfolio manager during region-specific calls conducted weekly.

The third phase of the investment process—security selection and portfolio construction, including the determination of country and property-type active weights—occurs both during the team's weekly conference calls and as-needed via mid-week communication. These tasks are the responsibility of the head of global property securities, who uses a team-based approach in decision-making, relying on close consultation with the three regional portfolio managers. Security selection and sell actions are facilitated through the recommendations of regional portfolio managers. As part of the deliberation, the global portfolio management team is provided with written company research reports and valuation summaries. In determining the shape and composition of the portfolio, the global portfolio management team also considers the output of the firm's proprietary stock-ranking model, the comparative attractiveness of stocks in a global context and the potential impact any proposed action could have on portfolio risk.

The final phase of the investment process is execution of the trade. The global portfolio management team relies on the appropriate regional portfolio manager and the local trade desk to work together to achieve a high level of trade execution efficiency.

In terms of monitoring, Principal Real Estate Investors assesses the efficiency of its investment decisions throughout the research, stock selection and portfolio construction stages of the investment process. Each stage is structured to build upon the previous stage, with the ultimate goal of delivering superior investment performance to clients. Performance attribution reports are examined to determine if investment decisions are working as expected and to better understand the underlying factors driving performance leadership. If investment decisions are not working, Principal Real Estate Investors seeks to understand why and looks ahead to evaluate whether current conditions warrant portfolio changes. If investment decisions have been successful, Principal Real Estate Investors evaluates whether the opportunity has been fully realized and, again, whether current conditions warrant portfolio changes.

Principal[SM]

Principal Portfolio Strategies is a specialized investment management group within Principal Global Investors. Principal Portfolio Strategies engages exclusively in the creation of asset allocation solutions. Their goal is to deliver reliable, risk-adjusted investment outcomes that meet their client needs.

## Replication Strategies[3] Impact and Sleeves

**Impact:** The Principal-managed replication strategies are passively managed sleeves aligned with the options' current investment objectives and strategies, and will track the specific indices of the chosen asset classes or sectors. The replication strategies will remain in place until the manager search has been completed and a subadvisor is ultimately hired to oversee the sleeve(s).

The goal of the replication strategies is to allow exposure to asset classes/ sectors that align with the investment options' targeted objectives in order to offer diversification benefits, decrease volatility, and/or potentially improve performance in a timely manner, prior to the engagement of a dedicated sub-advisor. In short, it allows greater flexibility because it separates the sub-advisor decision from the asset class decision.

There will be no change to the philosophy, process or strategy.

**Water Strategy:** Principal Portfolio Strategies believes that investments in water-related companies are well positioned to benefit from an expected increase in water infrastructure technology investment that should help improve the supply, collection, treatment, and recycling of clean, usable water. In addition to the unique nature of the asset class, Principal Portfolio Strategies also believes that investments in water-related companies offer low correlation and diversification benefits to other real asset classes in the portfolio, and should ultimately improve the overall risk-return profile of the Diversified Real Asset portfolio.

This strategy will replicate the S&P Global Water Index through the purchase of all 50 waters stocks in proportion to their weight in the index.

**Metals & Mining Strategy:** Principal Portfolio Strategies believes that investments in metals & mining companies are well positioned to benefit from the continued worldwide demand for these natural resources. Furthermore, the start-up costs and the time-intensive process to operate a mine are some of the factors that will limit new entrants into this marketplace. One benefit of a dedicated sleeve to metals & mining will allow the investment management team to more actively and efficiently increase or decrease their relative exposure to this asset class rather than if it was part of a more diversified natural resources allocation. Principal Portfolio Strategies also believes that investments in metals and mining companies offer low correlation and diversification benefits to other real asset classes in the portfolio, and should ultimately improve the overall risk-return profile of the Diversified Real Asset portfolio.

This strategy will replicate the Euromoney Global Mining Index through the purchase of all 149 stocks in proportion to their weight in the index.

[3] Replication strategies allow Principal® to provide investment advisory services, on a temporary basis, for a portion of the investment options by managing one or more portfolios that seek to track the performance of an index related to a particular sector or asset class.

Symphony Asset Management LLC (Symphony) is a diversified alternative investment manager headquartered in San Francisco, California with offices in New York, New York. An SEC-registered Investment Adviser since inception in 1994, Symphony is structured to meet the needs of institutional and retail clients. The firm manages assets across an integrated platform of long-only strategies, hedge funds and structured products investing in senior bank loans, high-yield bonds, convertible bonds and equities.

Symphony became a wholly owned subsidiary of Nuveen Investments, Inc. (Nuveen) in 2001. Symphony maintains autonomy over its investment process, personnel and client relationships. The firm benefits from Nuveen's scale and additional institutional oversight, such as assistance with legal support, compliance and employee benefits.

## Investment Philosophy and Process

**Philosophy:** Symphony's investment philosophy centers on deep fundamental research driven by a high level of industry expertise. Detailed credit valuation is coupled with an understanding of technical factors to uncover mispriced opportunities and also to understand downside risk.

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

**Process:** Symphony bases its investment process on fundamental, bottom-up credit analysis, leveraging the team's expertise, and extensive experience investing across the capital structure.

Each member of the fixed income team conducts substantial research to develop a keen insight into one or more sectors. Analysts assess sector dynamics, company business models and asset quality. Team members generate buy, sell and swap ideas by taking views and formulating opinions on sectors and companies. The investment team meets daily to compare outlooks on the market and review investment ideas in order to evaluate their potential opportunities and risks.

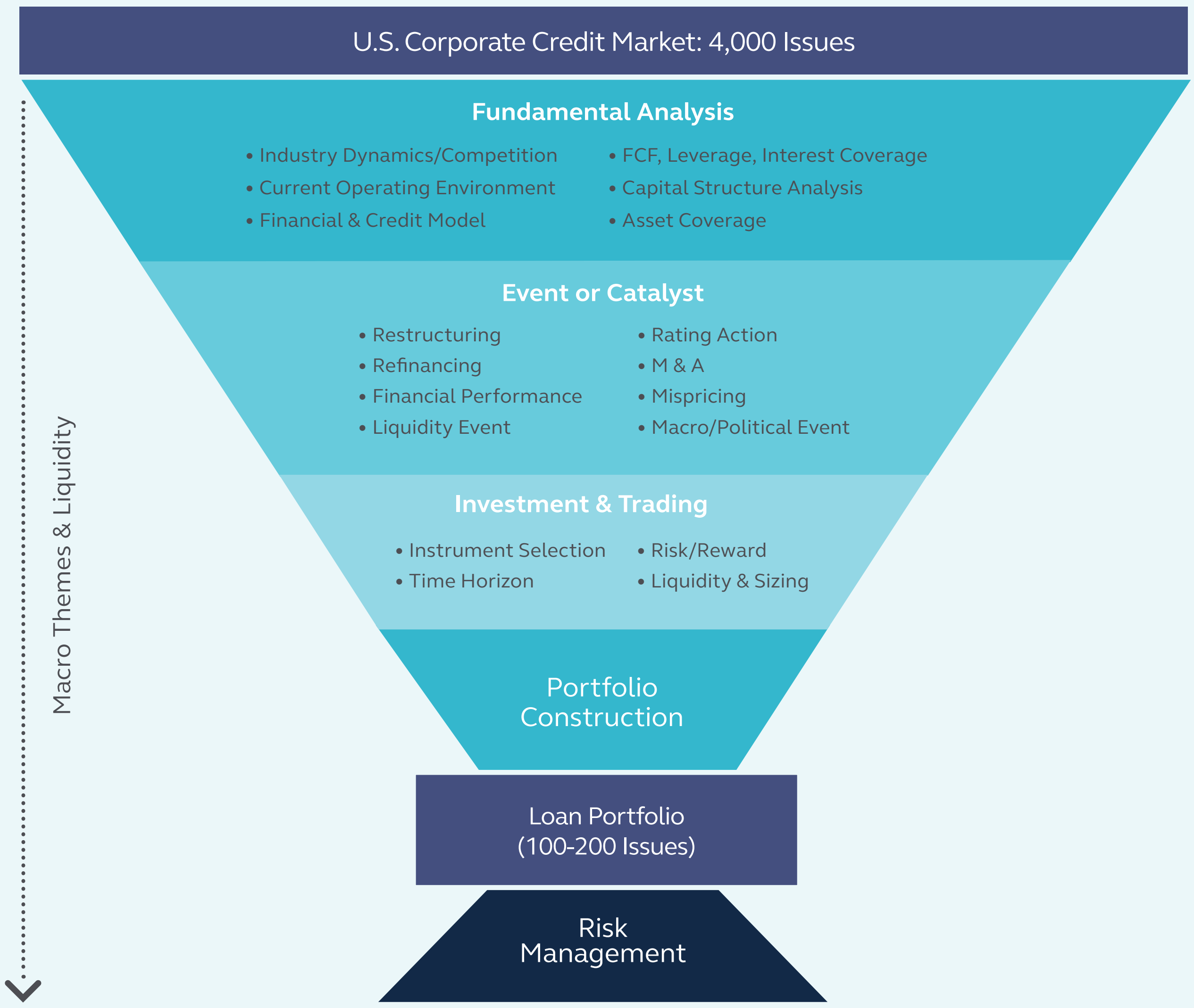
Inherent in Symphony's research process is the assessment of risk for each individual security. Symphony concentrates its efforts on sectors where there is sufficient transparency to assess the downside risk and where firms have assets to support meaningful recovery in case of default. In Symphony's focus on downside protection, the team favors opportunities where valuations can be quantified and risks assessed. Symphony is generally skeptical toward sectors with less transparency or measurable assets.

In Symphony's credit analysis process, analysts are required to evaluate both the upside and the downside to any credit. Downside analysis involves estimating the recovery value if the firm were to declare bankruptcy. As a result, the portfolio is likely to favor sectors with higher levels of hard assets and/or operating models which are likely to generate ongoing cash flow, even in bankruptcy.

The portfolio is built security by security, based on the perceived return potential of the individual investments and the diversification benefits of investing across a range of sectors, issuers, and security types. Symphony adjusts the weightings of sectors within the portfolio based on the fixed income team's outlook.


**Asset allocation and diversification do not ensure a profit or protect against a loss.**

Symphony's Investment Process




Use of the Investment Process tools and techniques specified is no guarantee of investment success or positive performance.

Tortoise Capital Advisors, L.L.C. (Tortoise) is an investment manager specializing in listed energy investments, including Master Limited Partnerships (MLPs). The firm was founded in 2002 and is headquartered in Leawood, Kansas (a suburb of Kansas City, Missouri).

## Investment Philosophy and Process

**Philosophy:** Tortoise typically invests in companies that transport, store, process, and distribute crude oil, refined petroleum products (gasoline, diesel and jet fuel) and natural gas. These companies effectively connect areas of energy supply with areas of demand. Midstream MLPs tend to generate a stable, high current yield, and consistent growth from long-lived critical assets operated by strong management teams.

Tortoise seeks to identify and invest in MLPs that generate stable, fee-based revenues with attractive growth prospects and controlled risk. The strategy follows a long-term philosophy with low turnover in its effort to achieve a portfolio characterized by high current yield, high growth, and low volatility.

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

**Process:** Tortoise's investment process includes the following three steps:

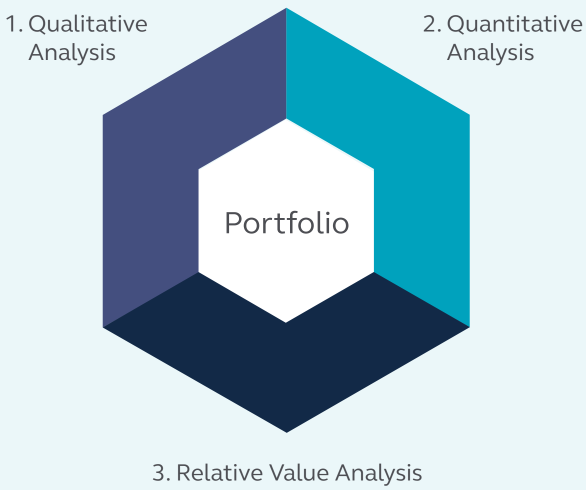
1. Emphasize higher-quality MLPs with good growth prospects and reasonable liquidity.
2. Select MLPs with strong management teams.
3. Employ a proprietary valuation model to construct portfolio weightings.

Tortoise's security selection process focuses on assessing the overall attractiveness of the specific segment in which a company is involved, the company's competitive position within that segment, potential commodity price risk, supply and demand, regulatory considerations, the stability, and potential growth of the company's cash flows and the company's management track record.

While primary responsibility for monitoring, review, and analysis of individual securities is spread among various individual members of the investment management team, all portfolio management decisions and reviews are based on a team approach.

Tortoise relies primarily on internally-generated research to support its deep fundamental approach to investing. The firm has developed proprietary financial, risk and valuation models which it uses to analyze historical results, forecast future cash flows, assess risk, and assess relative value. In addition, the firm supplements its research through broker, company and third-party research.

### Tortoise's Midstream MLP Investment Process




**1. Proprietary Risk Models**

- Management strength rating.
- Stability of cash flows.
- Asset quality assessment.

**2. Proprietary Financial Models**

- Historical and projected operational and financial data.
- Organic project/acquisition profile.
- Liquidity analysis and credit sensitivities.
- Sensitivity analysis to various key drivers.

**3. Proprietary Valuation Models**

- Discounted cash flow model.
- Comparable company multiples.
- Relative value.
- Other considerations (i.e. unit coverage, subordination, parent/sponsor relationship, etc.).



**Asset allocation and diversification do not ensure a profit or protect against a loss.**

## Additional Information

**Carefully consider a fund's objectives, risks, charges, and expenses. Contact your financial professional or visit principal.com or principalfunds.com for a prospectus, or summary prospectus if available, containing this and other information. Please read it carefully before investing.**

**Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.**

Investing involves risk, including possible loss of principal.

Asset allocation and diversification do not ensure a profit or protect against a loss.

The Principal Diversified Real Asset Collective Investment Fund (CIT) is a collective investment trust maintained by Principal Global Investors Trust Company, (the Trust Company). The Trust Company has retained Principal Global Investors LLC, doing business as Principal Portfolio Strategies (the Adviser), to serve as investment adviser with respect to the CIT, subject to the Trust Company's supervision and review. The Adviser is an indirect wholly owned subsidiary of Principal Financial Group, Inc., and is under common control with the Trust Company.

The CIT is available only to certain qualified retirement plans and governmental 457(b) plans.

The CIT is not a mutual fund and is not registered with the Securities and Exchange Commission, the State of Oregon, or any other regulatory body. Units of the CIT are not deposits or obligations of, guaranteed by, or insured by the Trust Company or any affiliate, and are not insured by the FDIC or any other federal or state government agency. The value of the CIT will fluctuate so that when redeemed, units may be worth more or less than the original cost.

The declaration of trust, participation agreement, and disclosure documents contain important information about investment objectives, risks, fees and expenses associated with investment in the CIT and should be read carefully before investing.

The declaration of trust is available at principal.com. A copy of the participation agreement can be obtained from your plan administrator.

Principal provides these investment advisory services through a portfolio manager who functions as a co-employee of Principal and Principal Global Investors, LLC ("PGI") under an investment service agreement. Through the agreement, the portfolio manager has access to PGI's equity management processes, systems, staff, proprietary quantitative model, portfolio construction disciplines, experienced portfolio management, and quantitative research staff. This portfolio manager also has access to PGI's trading staff and trade execution capabilities along with PGI's order management system, pre- and post-trade compliance system, portfolio accounting system and performance attribution and risk management system.

Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. The U.S. government does not guarantee the principal or coupon payments of non-U.S. Treasury bonds. Investments in natural resource industries can be affected by disease, embargoes, international/political/economic developments, variations in the commodities markets/weather and other factors. Investing in derivatives entails specific risks regarding liquidity, leverage and credit that may reduce returns and/or increase volatility.

REIT securities are subject to risk factors associated with the real estate industry and tax factors of REIT registration.

Floating rate debt instruments are subject to credit risk, interest rate risk, and impaired collateral risk, which means that the value of the collateral used to secure a loan held by the fund could decline over the course of the loan. Credit risk refers to an issuer's ability to make interest and principal payments when due.

Infrastructure companies may be subject to a variety of factors that may adversely affect their business, including high interest costs, high leverage, regulation costs, economic slowdown, surplus capacity, increased competition, lack of fuel availability, and energy conservation policies.

International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards.

Certain components of the Fund's current yield are adjusted monthly based on changes in the rate of inflation. This can cause the yield to vary from one month to the next and may not be repeated.

Commodity futures contracts generally are volatile and not suitable for all investors.

A Master Limited Partnership (MLP) that invests in a particular industry (e.g., oil and gas) may be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income paid by an MLP to its investors.

Investment in foreign currency can result in losses and values may fluctuate based on foreign exchange rates, exchange restrictions, or other actions of governments or central banks.

Insurance products and plan administrative services provided through Principal Life Insurance Co. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities offered through Principal Securities, Inc., 800-547-7754, member SIPC and/or independent broker-dealers. Principal Life, Principal Funds Distributor, Inc. and Principal Securities are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options and contract riders may not be available in all states or U.S. commonwealths.