

Manager profile

Principal LargeCap Growth I Portfolio

Co-sub-advised by T. Rowe Price and Brown Advisory



Founded in 1937, T. Rowe Price is a global investment management firm committed to providing investment management excellence, world-class service, and guidance to institutional and individual investors worldwide. T. Rowe Price provides a broad array of proprietary mutual funds, sub-advisory investment services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. Headquartered in Baltimore, Maryland, T. Rowe Price has offices in Buenos Aires, Dubai, Hong Kong, London, Toronto, Sydney, Luxembourg, Singapore, Denmark, Amsterdam, Tokyo, and Zurich.

T. Rowe Price's investment management services span the full range of U.S. and non-U.S. equity, fixed-income, and multi-asset class investment styles. Their disciplined, risk-aware investment approach focuses on diversification, style consistency, and fundamental research. The T. Rowe Price investment approach strives to achieve superior performance but is always mindful of the risks incurred relative to the potential rewards.

> Investment philosophy and process

Philosophy: T. Rowe Price seeks to provide superior long-term returns relative to the Russell 1000® Growth Index. The firm seeks to identify high-quality large-cap growth companies that it believes can generate real, sustainable double-digit earnings growth.

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

Process: T. Rowe Price follows a clearly defined investment process (Figure 1) emphasizing fundamental research and active, bottom-up stock selection.

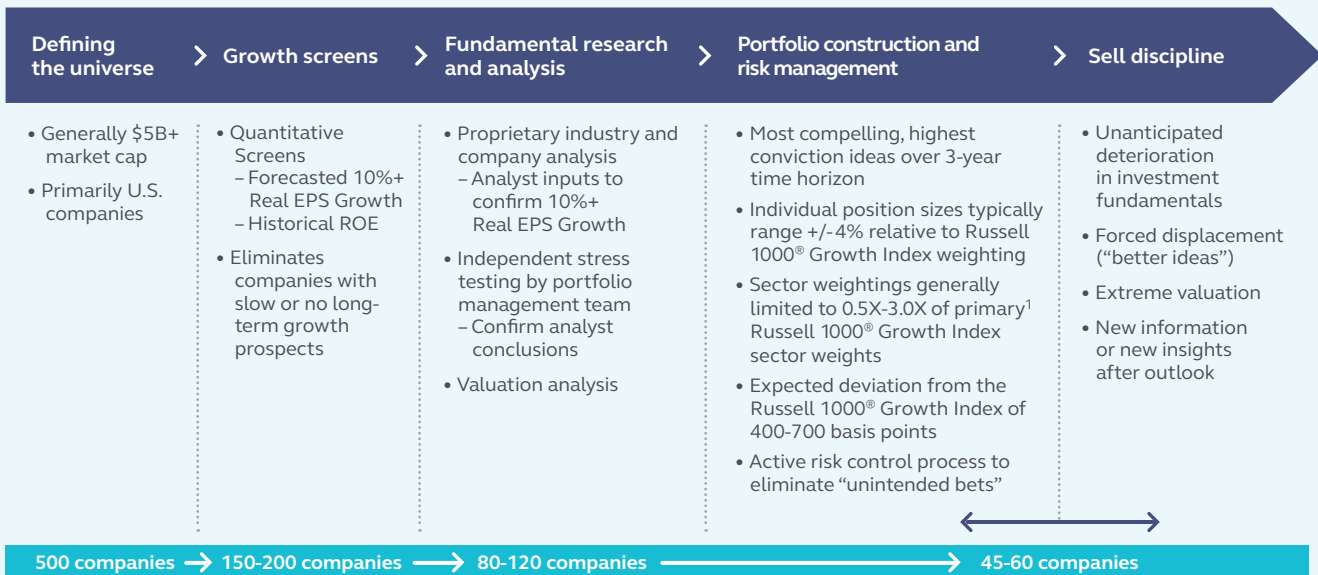
Screen for growth: The portfolio management team members perform high-level screening on a universe of approximately 500 companies with market capitalizations greater than \$5 billion. They screen on a number of characteristics, including earnings growth and return on invested capital. Their purpose is simply to narrow the investable universe down to about 150-200 companies.

Perform fundamental research: T. Rowe Price's in-house fundamental analysts conduct rigorous, proprietary research on the remaining companies. Their goal is to find companies with the greatest probability of generating real double-digit earnings-per-share growth over a three-year time frame (i.e., 10 percent plus their forecast for inflation).

Not FDIC insured | May lose value | No bank guarantee

Figure 1:
T. Rowe Price's investment process

Our research-driven, bottom-up approach is the engine for our investment idea generation



Superior information and implementation can produce robust investment results.

¹Sectors representing 10 percent + of the Russell 1000® Growth Index.

In researching companies, the analysts focus on the fundamentals of the industry in which the company operates and the fundamental characteristics of the company itself.

- *Industry analysis* seeks to answer the questions, "Does this company compete in an industry that supports profitable growth?" and "Are the industry conditions improving or deteriorating?"
- *Company analysis* seeks to answer the question, "Is this company positioned and managed well enough to capitalize on the growth prospects of its industry?"

Construct the portfolio: Fundamental research yields a list of approximately 100 high-probability investment candidates. From this list, the members of the portfolio management team identify 45-60 companies they think can achieve a 20 percent price gain relative to a one-year price target.

T. Rowe Price employs a team approach to portfolio management. Investment teams typically include a senior investment professional who is the lead portfolio manager, at least one additional senior portfolio manager, and a varying number of analysts, traders, and junior portfolio managers. The expertise of the members of the large-cap growth portfolio management team helps to promote consistency in investment style and performance.



T. Rowe Price portfolio management team

Robert W. Sharps has been with T. Rowe Price since 1997. He earned a B.S. in Accounting from Towson University and an M.B.A. in Finance from the Wharton School, University of Pennsylvania. He has earned the right to use the Chartered Financial Analyst designation and the Certified Public Accountant accreditation.

David Rowlett has been with T. Rowe Price since 2008. He holds a B.B.A., cum laude, in Finance from the University of Georgia and an M.B.A. from the University of North Carolina at Chapel Hill. He has earned the right to use the Chartered Financial Analyst designation.

Brown Advisory (Brown) was founded in 1993 as an investment management arm of Alex. Brown & Sons, an investment bank founded in 1800. Brown became independently owned through an employee-led buyout in 1998. The firm has principal offices in Baltimore, with offices in Washington, Boston, and London. Approximately 70 percent of Brown is owned by employees and each full-time employee has an equity interest in the firm, aligning employees' interests with growth in client assets and serving as a powerful tool to attract and retain high-caliber professionals.

Brown (and its affiliates) strives to meet its investors' requirements through a broad array of investment styles and asset classes—including domestic equities, international equities, sustainable investing, fixed-income, private equity, real estate, and other alternative assets.

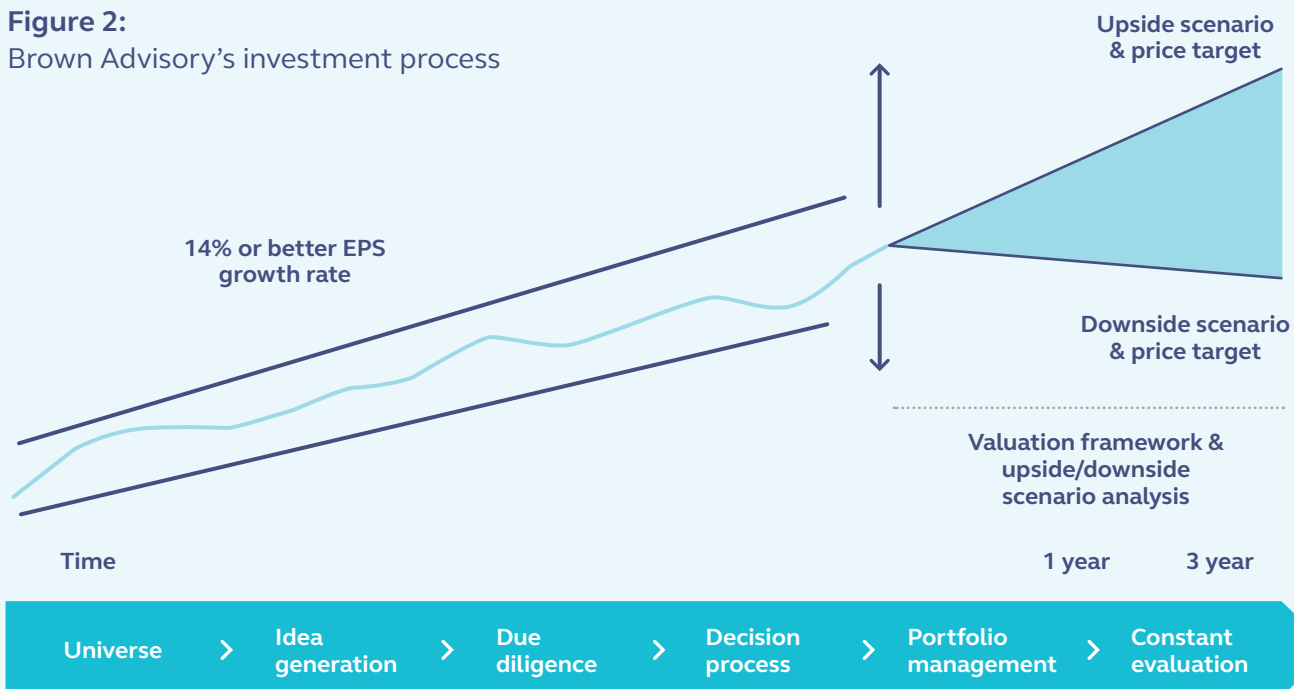
> Investment philosophy and process

Philosophy: Brown's investment strategy begins with fundamental research. The firm's research analysts search for companies with a minimum \$2 billion market cap that have an absolute growth rate of at least 14 percent, core competitive advantages and capable management. The analyst team members take a "private company approach," in that they seek to invest in firms that are industry leaders or hold a proprietary advantage over the competition. Each analyst closely covers approximately 30 stocks.

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Process: As a key part of Brown's investment process (Figure 2), the analysts develop an upside case and a downside case for each stock under consideration. This approach helps the team focus on stocks having more upside protection and avoid stocks that are "priced for perfection." Each research analyst manages sector portfolios by over- and underweighting stocks that they cover, a process that allows the firm to track analyst performance in recommending stocks.

Figure 2:
Brown Advisory's investment process



Taking into consideration input from the research analyst team, the portfolio manager makes the final decisions regarding stock selection for the portfolio. The end result is a portfolio of approximately 30 to 45 names, which is continuously monitored. While turnover is low (generally 30 percent to 50 percent), stocks are sold for any of three reasons. First, the underlying investment thesis is violated. In this scenario there has been poor execution, a change in strategy, or a change in management. Stocks are generally sold quickly in this situation. Second, valuation concerns exist. In this situation there is more downside than upside potential in the stock, most likely because the stock has appreciated. Third, alternative opportunities have been identified. An existing stock may be sold in order to take advantage of a new name that warrants inclusion in the portfolio.

The large-cap growth portfolio manager is supported by the firm's research analysts, who are shared by multiple portfolios at the firm, including large-cap growth.

Brown Advisory continually reinvests in its asset management businesses by hiring and retaining the most qualified professionals in the industry. Providing staff with technology and other resources to improve the research, investment, and risk management processes has been critical to the success of the firm's investment approach.



Brown Advisory portfolio manager

Kenneth M. Stuzin has been with Brown since 1996. He earned a B.A. and an M.B.A. from Columbia University. Mr. Stuzin has earned the right to use the Chartered Financial Analyst designation.

› About Principal Portfolio Strategies

Principal Portfolio Strategies¹ is a specialized boutique that engages exclusively in the creation of asset allocation solutions. Principal Portfolio Strategies has responsibility for portfolio management of the core portion for all of the core-satellite investment options. In managing the core portion, Principal Portfolio Strategies utilizes a team approach overseen by a portfolio manager. 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.

¹Principal 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.

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.

Russell 1000[®] Growth Index is a market-capitalization weighted index of those firms in the Russell 1000[®] with higher price-to-book ratios and higher forecasted.

Equity investment options involve greater risk, including higher volatility, than fixed-income investments.

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