Manager Profile

Principal Global Multi-Strategy Portfolio


Investment Philosophy and Process

Portfolio Philosophy: The Principal Global Multi-Strategy portfolio (the portfolio) seeks to achieve long-term capital appreciation with an emphasis on positive total returns and relatively low volatility. The portfolio uses a multi-sub-advisor structure and a combination of alternative strategies in its efforts toward this goal.

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. Our dedicated in-house hedge fund due diligence team is responsible for monitoring and oversight of the portfolio. Dual monitoring of the underlying sub-advisors provides an additional layer of risk management.

The portfolio invests in a broad range of instruments including (but not limited to) equities, bonds, currencies, convertible securities, and derivatives such as futures, options, swaps, and forwards. The portfolio is considered non-diversified, which means it can invest a higher percentage of assets in securities of individual issuers than a diversified fund can. The portfolio may concentrate its investments (invest more than 25 percent of its net assets) in securities in any industry.

The portfolio may actively trade securities in an attempt to achieve its investment objective.

Principal Portfolio Strategies 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.

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.

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

**Equity Long/Short strategies** include U.S. equity, global equity, and specialty strategies for which the portfolio managers buy securities they believe to be undervalued and sell short securities they believe to be overvalued, thereby managing a portion of the market risk in their portfolios.

**Credit Long/Short strategies** employ investment processes designed to isolate opportunities in corporate fixed-income securities, which may include both senior and subordinated claims as well as bank debt and other outstanding obligations, structuring positions with little or no broad credit market exposure.

**Global Macro strategies** include all markets and managed futures strategies that seek returns by dynamically changing exposures to asset classes, commodities, currencies, or other risk factors through trend following, fundamental research, or both.

**Fixed-Income Arbitrage** profits from the discrepancy in valuation between related fixed-income securities. Portfolio managers use fundamental and technical analysis to identify potential convergence trades in short-term deviations from fair value and generally hedge against interest rate, currency, and credit risk.

**Event Driven strategies**—comprised of credit/distressed, merger arbitrage, and relative value strategies—attempt to profit from events or big news stories in the marketplace (e.g., buying a target company and selling short the acquiring company to capture the return premium after the announcement); these strategies may incur a level of market risk.

**Market Neutral** encompasses three strategies—convertible arbitrage, fixed income arbitrage, and equity arbitrage—with the goal of achieving positive returns by hedging against all stock or bond market risk (i.e., they take equal long and short positions in order to increase the return from security selections, rather than market movements).

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**Principal Portfolio Strategies Portfolio Management Team**

**Jake S. Anonson, CFA, CAIA,** 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 exam. He has also earned the Chartered Alternative Investment Analyst designation.

**Jessica Bush, CFA,** 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®, 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, 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, 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.
Risks Associated with the Principal Global Multi-Strategy 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 Global Multi-Strategy portfolio include the following:

The portfolio utilizes alternative investment strategies such as arbitrage, leverage, derivatives, and shorting securities in addition to traditional investments. Long/short investing does not guarantee reduced risks associated with equity markets, capitalization, sector swings, or other risk factors. Long/short investing may also have higher turnover rates, which can result in additional tax consequences. Short selling involves certain risks, including investment loss and added costs associated with covering short positions. Arbitrage is the simultaneous purchase and sale of an asset in order to profit from a difference in the price; it is a trade that profits by exploiting the price difference of identical or similar financial instruments, on different markets or in different forms. Investing outside the U.S. involves added risks, such as currency fluctuations, political or social instability, differences in accounting standards, periods of illiquidity, and price volatility. These risks are magnified in emerging markets. Investment risk may be magnified with the use of these alternative strategies. In addition, securities such as bonds, equities, international and emerging market securities, and currencies are used to implement the investment strategy. These investments are subject to risks associated with market and interest rate movements. Foreign currency exchange rates may fluctuate significantly over short periods of time. Currency exchange rates can also be affected unpredictably by intervention (or the failure to intervene) by U.S. or foreign governments or central banks, or by currency controls or political developments. The portfolio is considered non-diversified, which may make it more susceptible to price volatility. Due to the nature of the investment process, investors should not expect significant outperformance during market rallies. Investors should realize that when trading futures, commodities, options, derivatives, and other financial instruments, one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital. Leverage may increase volatility of an investment option's net asset value by essentially magnifying the gains or losses of the investment option's portfolio holdings. Additional risks are included in the prospectus. It is possible to lose money when investing in the investment option.
Asset allocation and diversification do not ensure a profit or protect against a loss.

Investment Philosophy and Process

**Philosophy:** AQR believes that a systematic and disciplined process is essential to achieve long-term success in investment and risk management. AQR’s fundamental, research-driven approach applies quantitative tools to help make investment decisions, structure and rebalance portfolios, and trade securities. AQR believes its investment strategies are based on solid, forward-looking economic principles, not simply built to fit the past, and contain as much common sense as analytical support.

Many hedge funds pursue similar, often well-known and widely understood strategies to generate investment returns. AQR has found that a significant portion of hedge fund returns can be explained as compensation for assuming the heightened risks inherent in these strategies—essentially, a set of hedge fund risk premiums. While these largely uncorrelated potential return streams may result in gains for portfolios, they require a significant amount of skill to capture, assume a greater risk of loss, are difficult to isolate, and historically have been provided by managers at high fees.

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

**Process:** The AQR DELTA Strategy seeks to efficiently and systematically capture a diversified set of hedge fund-like risk premiums. The firm uses a bottom-up, clearly-defined investment process to build a portfolio with more than 2,000 individual positions.
The AQR DELTA Strategy provides exposure to nine broad hedge fund-like strategies and dynamically allocates capital according to the conditional attractiveness of each underlying strategy. The result is a high risk-adjusted expected return stream with low correlation to traditional asset classes. Specifically, DELTA’s goals are to:

1. Deliver efficient exposure to a well-diversified portfolio of hedge fund-like risk premiums;
2. Provide low correlation to traditional asset class returns, and;
3. Achieve attractive risk-adjusted returns over a market cycle.

As a multi-strategy offering, the AQR DELTA Strategy includes a variety of individually implemented underlying strategies, including long/short equity, equity market neutral, global macro, emerging markets, convertible arbitrage, managed futures, dedicated short bias, and event driven.

As a research-driven firm, AQR feels that its most valuable assets are its people, as AQR’s approach to capturing hedge fund-like risk premiums requires broad skill and expertise. It also requires a sophisticated multi-strategy infrastructure, first to define the range of available strategies and then to select the specific securities to be held in each strategy. Successful implementation also necessitates a global trading platform, low-cost trading systems, and robust risk management to effectively invest the portfolio and manage shorting, leverage, and derivatives.

<table>
<thead>
<tr>
<th>Arbitrage Strategies</th>
<th>Equity-Oriented Strategies</th>
<th>Macro Strategies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capture relative mispricing between two related assets.</td>
<td>Take advantage of market inefficiencies that cause specific stocks to be under- or over-priced.</td>
<td>Profit from dislocations in global equity, bond and currency markets, including those driven by investors’ behavioral biases.</td>
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</table>

Emerging market strategies utilized in the portfolio (green) are comprised of a blend of equity-oriented and macro strategies. Fixed-income, relative value strategies utilized in the portfolio (orange) are comprised of a blend of arbitrage and macro strategies.
Wellington Management Company, LLP (Wellington Management) is a global investment manager based in Boston, Massachusetts. Wellington Management’s expertise is investments—from global equities and fixed income to currencies and commodities. Wellington Management is described as a community of teams that create solutions designed to respond to specific client needs. Today, the firm is one of the largest private, independent investment management companies, with offices all around the world.

Investment Philosophy and Process

**Philosophy:** The Hedged Alpha Opportunities Strategy combines a long-only equity approach with a blended hedge in order to seek to mitigate downside risk and lessen volatility. The long-only equity approach combines multiple, independent alpha* strategies that are non-benchmark-oriented with the goal of maintaining equity exposure to benefit in up markets, while the blended hedge is designed to help dampen downside volatility in adverse market environments.

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**Process:** Wellington Management’s process implements the long-only equity and blended hedge strategies.

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*Alpha is a risk-adjusted measure of the “excess return” on an investment relative to a benchmark index. It is a common measure of assessing the performance of a manager of an actively managed portfolio.*
**Long-Only Equity Approach**

The long-only equity approach aims to provide capital appreciation by intelligently combining multiple independent sources of excess return from Wellington Management’s broad array of approaches using proprietary risk management techniques. The approach combines several complementary equity investment approaches, each managed separately in a different style. The approach is structured so that the portfolio should have exposures comparable to the broader market over time. The portfolio generally will have exposure to both U.S. and international equities. Foreign currency exposure may be hedged using currency forward contracts.

The process for selecting the complementary underlying approaches incorporates an analysis of the investment universe, market-cap orientation, projected alpha, investment style, and potential overlap. In combining strategies, the investment team utilizes a number of proprietary analytical tools including markets environments analysis, extreme events analysis, stress testing, and simulation analysis. The expectation is that the strategy will consist of a diversified group of long-only equity strategies, with multiple sources of alpha, maintaining a market orientation over the long term.

Within the equity approach, each of the underlying portfolio managers is responsible for his or her own separate strategy. The portfolio managers have complete discretion and responsibility for security selection and portfolio construction decisions within their respective strategies and may have overlapping securities and industries.

**Blended Hedge**

The blended hedge is used with the intention of reducing risk of loss due to a sharp decline in the value of the general equities market. The blended hedge is intended to provide more favorable risk-adjusted reward characteristics over the long term than simply selling index futures. The blended hedge includes two elements:

1. A mix of index futures* are sold on a portion of the notional account value. While hedges on the S&P 500 will be used most often, the managers may also use other indices.

2. A tail risk hedge is employed on the remaining portion of the notional account value. The implementation of the tail risk hedge involves purchasing “at-the-money” or near “at-the-money” put options on the hedged assets. In order to help lessen the cost of this strategy, the tail risk hedge also involves the sale of deeper “out-of-the-money” put and call options.

All securities futures trading involves risks and no trading strategy can eliminate it. Futures may result in unlimited losses, there may be a loss of liquidity, and the price of the futures contract may not maintain their customary or anticipated relationship to the price of the underlying security or index.

**Definitions**

**Futures Contracts**—Or “futures”—are financial contracts obligating the buyer to purchase an underlying asset or the seller to sell an underlying asset at a predetermined future date and price.

**Notional Account Value**—The notional value on a financial instrument is the nominal amount that is used to calculate payments made on that instrument. This amount generally does not change hands.

**Index Futures**—Futures contracts where the underlying asset is a stock index.

**Put Option**—A financial contract giving the owner the right, but not the obligation, to sell a specified amount of an underlying asset at a set price (strike price) within a specified time.

**Call Option**—A financial contract giving the owner the right, but not the obligation, to buy a specified amount of an underlying asset at a set price (strike price) within a specified time.

**Out-of-the-Money**—A call option is out of the money when its strike price is higher than the market price for the underlying asset. A put option is out of the money when the option’s strike price is below the market price of the underlying asset.

**At the Money**—A situation where an option’s strike price is identical to the price of the underlying asset.

**Currency Forward Contracts**—A forward contract in the forex market that locks in the price at which an investor can buy or sell a currency on a future date.
LA Capital Management (LA Capital) is an employee-owned firm that utilizes a quantitative approach for security selection and portfolio management. Portfolios are tailored to meet the unique return and risk objectives of each assignment. The investment team members developed the investment process at Wilshire Asset Management, where they worked together for 16 years beginning in 1986. In March 2002, the team purchased the business from Wilshire Associates to set up an independent investment boutique.

LA Capital’s Investment Process

Los Angeles Capital’s Dynamic Alpha* Stock Selection Model®

<table>
<thead>
<tr>
<th>Factor Inputs</th>
<th>Identify factors that drive equity returns. Compile data on 8,000 stocks from multiple high quality sources, all stocks in the MSCI ACWI Index.</th>
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</thead>
<tbody>
<tr>
<td>Price Risk</td>
<td>Apply performance attribution techniques to identify recent returns to risk. Using recent factor returns forecast current price of risk for each factor.</td>
</tr>
<tr>
<td>Develop Alphas</td>
<td>For each stock calculate an alpha. Multiply price of risk for each factor by the security’s exposure to each factor and sum.</td>
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</tbody>
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Dynamic Portfolio Management

<table>
<thead>
<tr>
<th>Construct Portfolio</th>
<th>Develop investment and robust risk estimates. Optimize the portfolio to obtain highest return/lowest risk subject to client constraints.</th>
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<tbody>
<tr>
<td>Execute Trades</td>
<td>Compare optimal portfolio to current portfolio to identify trade candidates. Use “wave optimization” process to incrementally move toward optimal portfolio.</td>
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*Alpha is a risk-adjusted measure of the “excess return” on an investment relative to a benchmark index. It is a common measure of assessing the performance of a manager of an actively managed portfolio.

Asset allocation and diversification do not ensure a profit or protect against a loss.
The firm's Dynamic Alpha Stock Selection Model calculates expected returns for a universe of all-capitalization securities based on a security's exposure and the model's expected return for each factor. On a weekly basis, the model is updated to capture new fundamental data as well as price and dividend information.

On a weekly basis, the investment team identifies the target portfolio that maximizes the portfolio's expected return while maintaining a risk profile similar to the custom benchmark (40% S&P 1500 Index and 60% T-bills). The portfolio is diversified across industries, common risk factors, and securities. Portfolio risks and implementation costs are tightly controlled and minimized through a proprietary optimization process. The investment team monitors portfolio returns and risks on a daily basis. The firm's Portfolio Review Committee formally reviews the portfolio for compliance with investment objectives and guidelines on a monthly basis.

LA Capital's investment team is highly dedicated to the research process, with more than half of the firm's resources dedicated to various areas of research—including Factor Research, Model Development, Risk Management, and Information Technology—which combine to form an integrated global research platform. The goal of the investment research process is to enhance returns, control risk, and reduce trading costs. Accordingly, the investment team focuses on four areas of research:

1. Identification of new risk factors which explain security returns.
2. Improved statistical techniques to more accurately price risk factors.
3. Enhancements to the risk management and portfolio construction process.
4. Low-cost trading strategies.

Each research project is evaluated for its ability to add value to the investment process. The firm believes the distinguishing feature of the research process is its ability to identify and adapt to changing market conditions.
Investment Philosophy and Process

Philosophy: The Ascend Liquid Alternatives Strategy invests in the most liquid subset of equities in the flagship Ascend Partners strategy. Long positions are selected in the same manner as in the flagship strategy, which utilizes quantitative screens as well as an extensive bottom-up, fundamental research process. Long positions typically have a quality and value bias. Short positions are selected using a quantitative factor model, through which they seek to hedge out overall market risk and generate alpha. The investment team is organized by industry, led by senior portfolio managers who are primarily responsible for idea generation and managing the portfolio’s investments in that sector. Mr. Fairbairn is the CIO, and in addition to managing his own portfolio is ultimately responsible for portfolio construction. The strategy targets a higher and more persistent exposure relative to the flagship, with 90 percent gross long and 50 percent short exposure for a net long bias of 40 percent.

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

Process: Ascend’s equity long/short strategy primarily invests in U.S.-listed equities with over $5 billion in market capitalization. The strategy also may invest in international equities, which are typically limited to less than 25 percent of overall portfolio exposure and are primarily composed of Canadian and European-listed securities. Long positions are selected utilizing quantitative screens as well as an extensive bottom-up, fundamental research process. Long investments typically include quality companies with reasonable valuations that display some of the following characteristics:

- Improving revenue and earnings growth.
- Strong cash flows.
- Access to capital.
- Competitive advantage.
- High barriers to entry.
- Strong management.
- Innovative or revolutionary products.
- Short or intermediate-term catalysts.

Short positions are selected using a quantitative process designed to hedge overall market risk and add alpha. Attractive short candidates typically display opposing characteristics to the portfolio’s current long positions, such as:

- Deteriorating financial condition.
- Decelerating earnings.
- Balance sheet irregularities and aggressive accounting practices.

For long investments, sector-focused research analysts perform thorough due diligence. This involves speaking with company management and having discussions with company suppliers, customers, and competitors. This process provides the analysts with multiple opportunities to validate their data and model results, thoroughly understand each company’s business, market, and industry, identify potential catalysts, and develop an investment thesis.

For quantitatively driven ideas and investments, information is collected from publicly available financial reports and is aggregated in a proprietary quantitative database. The model utilizes four categories of fundamentally
based factors: earnings, sentiment, accounting, and valuation. There are a total of eight roughly equally weighted factors within these categories including earnings revisions, short interest ratio, and earnings accruals (reconciling cash flows against net income).

The short portfolio is constructed by taking positions in the lowest-ranked companies identified by the quantitative model. The CIO can override the quantitative model based on qualitative fundamental views, which includes situations in which stocks may be subject to binary outcomes such as merger and acquisition activity or legal action. Short positions are constrained in size and typically range from 10 to 50 basis points of net asset values to help avoid material tracking error relative to broader markets, are limited to 200 total positions, and are scaled to achieve 50 percent total gross short exposure.

Ascend’s investment professionals are organized by industry, each of which is led by a senior portfolio manager primarily responsible for idea generation and managing the Fund’s investments in the sector, although larger long positions are also vetted by the CIO.

Mr. Fairbairn also runs a generalist portfolio, meaning it includes a sample of the best ideas from the various sector portfolios as well as some ideas that are specific to Mr. Fairbairn’s research, and is ultimately responsible for overall portfolio construction.

As a result, the total portfolio is effectively managed in sub-portfolios, with the sector heads managing investments within their respective areas of expertise. Finally, the CIO has final say on all positions in the portfolio, and can reduce exposures across the board (in all of the sector sub-portfolios).

Mr. Fairbairn’s top-down macro views can impact individual position sizing, sector allocations, and gross long and short exposures. Long positions are given price targets before being added to the portfolio. Positions are typically sold when the security reaches its target price (up or down), the investment thesis plays out, actual events fail to confirm the investment thesis, or there is a significant change in fundamentals.
Loomis Sayles, a limited partnership, is a wholly-owned subsidiary of Natixis Global Asset Management (NGAM), which is the U.S.-based subsidiary of Natixis (based in Paris). NGAM is headquartered in Boston and has several investment management affiliates and distribution/service units in cities across the U.S.

Since 1926, Loomis Sayles has been committed to active portfolio management. The investment strategies offered at Loomis Sayles focus on a bottom-up approach to issue selection, with a top-down macroeconomic awareness. The firm’s belief in active management has been supported by a powerful combination of proprietary research, experienced investment professionals, and advanced risk management.

Loomis Sayles offers a diversified series of actively managed fixed income, equity, and alternative strategies providing clients with access to both traditional and highly specialized asset classes. The firm’s products include separate account management, retail and institutional mutual funds, collective investment trust funds, and private-placement vehicles. Deep research and portfolio management resources enable Loomis Sayles to customize portfolios to meet unique client objectives.

Investment Philosophy and Process

Philosophy: Within this portfolio, Loomis Sayles seeks to combine the advantages of a traditional bond portfolio and an alternative investment to create an all-weather strategy for risk-wary investors. The strategy is designed to benefit from Loomis Sayles’ research opinions in credit, interest rate management, and currencies. The team strives to focus on the excess return that can be generated from these research ideas, both positive and negative, and build a portfolio that is intended to deliver attractive total returns over time but with lower volatility.

This is an absolute return-oriented strategy that is unconstrained by market benchmarks, maintaining flexibility to access the global fixed-income and derivatives markets in many ways to achieve its performance goal.

With the goal of maintaining an acceptable level of risk, the portfolio may use non-traditional investment techniques to dampen volatility and hedge against global events that influence fixed-income markets. Through the use of derivatives, the portfolio has the ability to go long or short to implement desired exposures to help moderate volatility and generate alpha*. This flexibility enables the team to respond tactically to shifting economic environments and market events.

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

Process: Loomis Sayles believes intensive bottom-up investment analysis combined with a clear macroeconomic and market perspective is the best way to deliver excellent performance. The portfolio is constructed by small, focused teams supported by extensive economic, market, sector, issuer, security, trading, and quantitative analysis.

The firm’s investment process is structured to support the portfolio's goal: Identifying investment opportunities by combining the firm's top-down views with bottom-up, issue-specific ideas. The process can be summarized in three steps:

1. Macroeconomic, interest rate, and currency forecasts are gathered from in-house experts. These forecasts help the portfolio managers understand relative value across the global bond markets and which markets are “cheap.” With those two assessments, they can make decisions on how they want to position the portfolio across markets and in terms of risk-taking.

2. The portfolio managers look to their research teams, traders, and portfolio management colleagues to help determine what they believe to be the best way to implement those top-down views. After they combine the top-down and bottom-up ideas, they can determine their expected alpha drivers that fall into three categories: credit, curve, and currency.

3. The product team constructs the portfolio, integrating a multi-tiered approach to risk management throughout the security selection and allocation process.

*Alpha is a risk-adjusted measure of the “excess return” on an investment relative to a benchmark index. It is a common measure of assessing the performance of a manager of an actively managed portfolio.
The portfolio managers have the flexibility to take advantage of potential opportunities, long and short, in the corporate, sovereign, asset-backed, currency, and interest rate markets.

For over eight decades, Loomis Sayles has not lost sight of what the firm believes to be its key strength: security selection driven by independent research. Fundamental research underlies the investment process of each of the firm’s products, and Loomis Sayles’ managers rely on the timely and unbiased opinions of the firm’s experienced analysts—the foundation of Loomis Sayles’ research efforts.

At the product level, cohesive teams of portfolio managers and dedicated analysts implement investment ideas. This relationship—a partnership of equals—is based on mutual respect and the ability to disagree and resolve issues. Their ongoing interaction creates a healthy rapport to challenge ideas, and their access to robust technological and market data resources facilitates fundamental analysis and valuation.

Loomis Sayles also supports its investment professionals by fostering an entrepreneurial atmosphere and an infrastructure that truly allows it to be so. Centralized desks of experienced professional traders and well-structured operations groups alleviate portfolio managers’ administrative obligations. Leading-edge systems for portfolio management, portfolio analysis, risk management, research, trading, and compliance enhance investment professionals’ access to information and improve execution. Loomis Sayles strives to foster an energetic environment where the team structure facilitates focusing on security analysis and selection.
Established in 2002, and headquartered in London, Finisterre Capital (Finisterre) is an emerging markets credit specialist dedicated to delivering risk-controlled, total-return investment strategies for institutional investors. Finisterre has employees in London, Connecticut, Malta, and Hong Kong. The firm’s five partners average 25 years’ experience.

Principal Global Investors owns 51 percent of Finisterre; Finisterre’s five partners own the remaining 49 percent of the firm.

Investment Philosophy and Process

Philosophy: Finisterre adopts a long-short credit investment methodology that seeks to capitalize on opportunities in the emerging-market corporate credit and liquid distressed market. It seeks to achieve a superior risk/return profile and protect investors’ capital in down markets.

Finisterre believes that:

• The inefficiencies inherent within emerging markets provide significant opportunities for investors.
• Emerging markets are commonly characterized by strong information asymmetries due to differences in political and economic systems as well as the diversity of the investor base.

Finisterre seeks to generate absolute returns by investing long/short in sovereign, corporate, and liquid stressed and distressed debt. Positions are monetized through active trading and credit events. The firm’s investment philosophy is to build a credit edge on each investment and keep it during the life of the investment. Finisterre’s investment philosophy and ability to develop and maintain a credit edge rest upon the specialized credit knowledge and emerging markets experience of its portfolio managers.

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

Process: Finisterre’s investment process is primarily a bottom-up, deep-value approach rooted in fundamental credit, asset valuation, and documentation analysis. While the firm’s strategy has a long bias over the cycle, long-short and relative value positions may be taken.

Finisterre accepts exposure to selected emerging market issuers when factors have been identified which the firm believes will drive substantial appreciation or depreciation of the particular exposure. The geographical focus of the investment strategy is derived from the dynamics of economic and political developments as well as the specific nature of local jurisdictions in the emerging markets.

Within the investment process, the portfolio management team uses a combination of macro, fundamental, and technical analysis to identify and evaluate credits for both long and short positioning. In constructing the portfolio, Finisterre strives to isolate credit risk by reducing unwanted risks, including interest rate, currency, sovereign, and sector risks. Additionally, portfolio-level derivatives may be used to dampen overall portfolio volatility. The positions are monetized through active trading and credit events such as re-ratings, refinancing, restructuring, disposals, and defaults.
A potential investment can be identified through a variety of sources: the firm's institutional memory of countries, sector, macro events (macro-meeting), micro events (micro-meeting), travels, ongoing dialogue with company management, local market contacts developed and, to a lesser extent, sell side analysts and traders. Depending on time sensitivity, a potential opportunity normally will be introduced to the other members of the team in the weekly credit meeting. Assuming the team thinks that the investment has merit, one of the analysts will take responsibility for the credit and begin the “deep dive” due diligence process to validate the thesis.

For a name the firm has not researched previously, this extensive review will entail a detailed analysis of the company's operational and financial performance, competitive position, and prospects. Additionally, Finisterre carefully analyzes the capital structure to understand debt service capacity, the relative position of different claims on the value of the business, and the structure and documentation for the particular asset being considered for investment.

The investment team seeks to understand the target firm’s management by meeting with them whenever possible and speaking to the company’s consultants, analysts, and competitors. In many cases, they will travel to the country in question as part of the research process.

Once the analyst feels sufficiently informed about the company and its business and has conviction around the thesis, he/she will present the potential opportunity once again in the credit meeting. If the opportunity holds up to the scrutiny of the rest of the team, one of the portfolio managers will begin the process of understanding the detailed trading dynamics of the position: what the market dynamics are like, who is involved, and what kind of liquidity is available. They will proceed with the investment only when the portfolio manager is comfortable that the trade is executable in a size that makes sense in the context of the risk/return proposition of the credit and the overall portfolio.

For a more familiar credit or a more tactical trade, the investment selection process may be substantially shortened.

The strategy invests overwhelmingly in hard currency debt (i.e., U.S. dollar-denominated debt issued under English or New York law), with non-U.S. dollar denominated debt generally swapped back to dollars. This focus on external debt ensures bypassing local emerging markets’ jurisdiction with recourse to U.K. or New York courts in the event of dispute or default.
Investment Philosophy and Process

Philosophy: Sound Point’s credit opportunities strategy targets low- to mid-teens returns with a volatility budget of less than 5 percent while protecting capital in all markets. Although this strategy is a long/short mandate, the portfolio will generally display a long bias as positive carry is used to dampen volatility.

Sound Point concentrates on liquid investment across the credit markets, which are bucketed into these strategies:

- **Pairs Trades**: Capital structure arbitrage trades that capitalize on pricing inefficiencies or dislocations within the capital structure of a company or an industry.

- **Event-Driven Longs**: Events include mergers, bankruptcies, restructurings, management changes, and industry consolidations.

- **Alpha Shorts**: Credits that are significantly overvalued or that should become impaired.

- **Stressed and Distressed**: Primarily senior securities in companies that may ultimately or have already filed for bankruptcy protection. Sound Point has a bias toward more liquid capital structures. The mutual fund strategies participate in the more liquid distressed positions.

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

Process: Sound Point has a disciplined investment process that starts with utilizing the firm’s sourcing platform. Idea generation can come from a number of sources including lawyers, bankers, sell-side research, and buy-side relationships. Sound Point also uses event-driven screens, relative value screens, new issues, and an internal database to source new ideas. Sound Point estimates about 80 percent of the ideas come from the firm’s analysts. Sound Point believes having experienced analysts with deep industry knowledge is the primary engine for sourcing ideas.
Sound Point Investment Process

Once an investment is identified, the analyst will summarize the company’s financials and complete a short memo to discuss during the morning meeting.

If the team is positively inclined to move forward with the idea, the analysts will perform a more detailed financial statement review, conduct industry research, and review the credit documentation. The focus of this analysis is to determine the company’s operating free cash flow and the sustainability of the capital structure. The analysts will consider technical issues such as issue size, liquidity, and hedging options.

The next step is to conduct due diligence and channel checks with management, competitors, customers, vendors, and consultants. At this point, Sound Point is trying to determine if it has unique access and whether the risk is analyzable. The next step is a formal presentation to the portfolio managers at an investment meeting.

The idea either will be rejected or, if there is a positive consensus from the investment committee, will be added to the wish list. If the idea is added to the wish list, the next step is determining position size. Sound Point will review the return potential, downside risk, conviction level, technical considerations, portfolio concentration, exposures, and hedging options. Sound Point usually will make a modest initial investment and grow the position as conviction grows.

The last step is trade execution, which involves identifying a broker and active traders in the position and working the trade in a patient, cost-effective manner.

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

**Philosophy:** GCM’s philosophy is that attractive absolute and risk-adjusted returns can be best achieved by utilizing diversified investment strategies across a broad range of markets. The firm pursues this philosophy through three primary objectives:

1. To organically develop a diversified portfolio of quantitative investment strategies which pursue profit opportunities across a broad array of markets, timeframes, and trading styles.

2. To build a diversified portfolio of non-correlated discretionary investment strategies through identifying and attracting experienced portfolio managers with strong track records.

3. To deploy significant amounts of proprietary capital to fund a wide range of quantitative and discretionary alpha*-generating strategies.

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

**Process:** GCM is committed to a disciplined and repeatable investment process. GCM’s Investment Committee determines, among other things, matters relating to portfolio construction, changes to asset allocations, risk management, and the selection of new strategies in which to invest proprietary and client capital. The Investment Committee employs a quantitatively based portfolio construction process, utilizing proprietary portfolio allocation models to systematically guide allocation decisions within GCM’s multi-strategy hedge fund portfolios.

**Considerations include the following:**

- Risk-adjusted returns.
- Discrete and comprehensible sources of alpha.
- Scalability of the investment strategy.
- Depth and liquidity of markets traded.
- Identifiable market risks to the investment strategy.
- Experience and integrity of the team.
- Compatibility with GCM’s infrastructure.
- Correlation to existing GCM strategies.

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*Alpha is a risk-adjusted measure of the “excess return” on an investment relative to a benchmark index. It is a common measure of assessing the performance of a manager of an actively managed portfolio.*
Quantitative Research Process:
Research at GCM is conducted pursuant to a well-defined process premised upon both the academic rigors associated with the scientific method and real-world practical considerations. New ideas may be academic or market-driven in nature and can include concepts relating to trading inefficiencies, market discovery, microstructure and dynamics, liquidity, and risk management techniques. GCM researchers continuously investigate enhancements that can be made to existing models. Trading models are continually re-evaluated in the context of dynamic and evolving capital markets.

Graham Capital Management’s Quantitative Research Process

- **Idea**: New concept is suggested and discussed; project leader and team members are assigned.
- **Design**: Development of idea, selection of markets and data for testing, determine parameters.
- **Test**: Portfolio-level out-of-sample performance test.
- **Implement**: Review of research and due diligence and implementation for execution.
- **Invest**: Investment Committee approval and allocation of capital.
- **Monitor & Review**: Ongoing review, analysis, and enhancement of performance and risk characteristics.

Tactical Trend Strategy:
The Graham Tactical Trend Strategy is a trend-based trading approach comprised of multiple sub-models that buy and sell based on a number of factors, including price, volatility, and trade duration. Unlike typical trend-following strategies, Tactical Trend scales into and out of positions over the course of a trend. Sophisticated risk management techniques are used to diversify risk across markets and sectors to optimize portfolio construction and enhance returns. This strategy trades a broad range of markets, including global interest rates, foreign exchange, global stock indices, and commodities.
Since its inception in 1991, York Capital Management (York) has sought to achieve attractive risk-adjusted returns across business and market cycles through a combination of focused research and investment selection, coupled with disciplined risk management.

Jamie Dinan, York’s founder and CEO, has developed York by assembling a cohesive team of talented professionals with complementary backgrounds and diverse skill sets. York’s employees are based in various locations around the world; the firm’s primary locations are New York, London, and Hong Kong. York’s investment professionals possess multi-disciplinary knowledge and relationships across industry sectors, geographies, business cycles, and equity and debt markets.

York uses its global platform to employ a multi-strategy, event-driven investment approach that emphasizes the fundamental analysis of industries and businesses.

> **Investment Philosophy and Process**

**Philosophy:** Broadly speaking, York pursues an active money-management style that strives to achieve positive investment results over time, irrespective of the returns generated by the overall equity markets. York’s investment philosophy is value and event-focused, specializing in the identification and analysis of securities that can benefit from extraordinary change. Its strategy is primarily opportunistic “event-driven” investing.

Generally, York’s event-driven investing is comprised of three different approaches: Distressed, Special Situations, and Arbitrage. (Note: Within the portfolio York manages for Global Multi-Strategy, only the Special Situations and Arbitrage approaches are used; the Distressed approach is not.)

What the approaches used have in common is the presence of an event that either has altered or is expected to alter the status quo of the company or companies in question. Through research, York evaluates whether (from the firm’s perspective) the marketplace is appropriately discounting the effect of that event on company valuations. If York believes the discounting isn’t appropriate, the firm determines whether there is a potential opportunity to profit from that discrepancy.

York invests a significant portion of its assets in securities subject to restructurings, takeovers, exchange offers, spin-offs, financial reorganizations, and other special situations. This approach historically has provided returns that are transaction-specific and therefore largely uncorrelated with movements in other markets. The firm seeks to maintain a diverse portfolio of investment securities.

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

Event-Driven Investing

- Spin-Offs
- Break-ups
- Industry Consolidations
- Asset Sales & Divestitures

Arbitrage

- Merger Arbitrage—Hostile Transactions
- Merger Arbitrage—Multiple Acquirers
- Exchange Offers
- Tender Offers

**Process**: York’s investment approach combines fundamental, research-driven financial and business analysis with an experienced view of market and industry trends. The firm leverages its investment professionals to employ a rigorous, research-intensive due diligence process—with an emphasis on business fundamentals, information quality, and risk-return trade-off—in an effort to develop a well-informed view of each potential investment opportunity.

York strives to be well-positioned for interpreting the implications of corporate events, identifying undervalued assets and sourcing proprietary investments. The firm’s analytical due diligence process is structured to enable York to effectively pursue investments that offer asymmetrical returns (i.e., significant upside potential with limited downside risk). Throughout its history, York has developed: (1) a keen understanding of value, (2) the ability to make timely decisions based on imperfect information, and (3) an expertise in analyzing and completing transactions in the global markets.

Position sizing is determined after a risk/reward assessment has been determined. York generates investment ideas by monitoring corporate event-oriented news flows that relate to companies on a global basis. Since York’s investment process is event-driven, the firm generates most of its investment ideas from reading daily news reports and following announced or anticipated corporate actions. York’s investment professionals closely track financial events, follow certain industry newsletters, and attend conferences.
KLS Diversified Asset Management LP is a diversified fixed income investment management firm founded in 2007. The firm manages capital for pension funds, institutions, and retail investors across a number of assets and products, leveraging the significant trading, investing, and risk management experience of its founders and partners. The firm is based in New York City and is registered with the SEC and CFTC.

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

Process: Idea generation, opportunity set development, and portfolio construction result from constant analysis and dialogue, combining bottom-up research-driven fundamental analysis with top-down risk-controlled macroeconomic perspective. Capital is allocated without restriction to the best ideas and sub-strategies while maintaining diversification and appropriate liquidity, with constant attention to tail risk management.

Investment Philosophy and Process

Philosophy: KLS Diversified seeks to preserve investor capital while delivering high absolute returns with low volatility and low correlation to equity and bond markets. The strategy dynamically allocates and reallocates risk and capital across the three broad strategies where its managers maintain expertise—Credit, Structured Products, and Rates—and is active in multiple sub-strategies at any given time.

The KLS Rates team seeks to deliver enhanced returns in liquid rates markets through a diversified, global portfolio of macro and idiosyncratic investments uncorrelated to both traditional beta and alpha sources. A focus on qualitative and quantitative valuation metrics helps identify both macro and idiosyncratic investment opportunities. The group has a global mandate across G10 and traditional emerging and frontier markets.

The KLS Structured Products team employs detailed loan-level analysis and reflects an overarching macroeconomic view on housing markets, consumer sentiment, commercial real estate & lending markets, and interest rates. The group is active in multiple market sectors including RMBS, CMBS, mortgage derivatives, CLOs, ABS, and specialty structured finance.

The KLS Credit team conducts substantial fundamental bottom-up research focused on asset protection, security structure, management quality and liquidity across developed market corporate credit opportunities. The strategy seeks to take advantage of mispriced idiosyncratic risk with specific catalysts.

The firm’s Investment Committee, comprised of the founders and senior professionals, provides ongoing strategy refinement and risk management. Portfolio risk is measured via a broad set of statistics, shocks, and stress tests over multiple look-back periods and market cycles. Investment targets and guidelines aim to contain tail exposures, manage portfolio sizing, and provide transparency.
KLS’s Investment Process

**Interest Rates**

Strategy utilizes macro and specific issue-level fundamental and technical relative value analysis focused on:
- Economic research—US, G7, and non-G7
- Central bank analysis
- Yield curve correlations
- Vol surface opportunities
- Funding arbitrage

**Credit**

Strategy employs fundamental bottom-up research focused on:
- Asset protection/free cash flow
- Security structure
- Management quality
- Liquidity

Strategy actively seeks mispriced opportunities with specific catalysts. Positions typically fall into the following categories:
- Value
- Floating rate
- Short maturity
- Intra-capital structure
- Basis

**Structured Products**

Strategy employs detailed loan-level analysis and reflects and overarching macro economic view on housing markets, consumer sentiment, commercial real estate markets, and interest rates. The diversified portfolio seeks relative value opportunities focused on:
- Structural mispricings
- Collateral type
- Cash flow contributors
- Issuer/servicer risk
- Hedging of interest rate and spread risk using volatility indices and other fixed-income sectors

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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 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.

**Convertible bond securities** may be considered illiquid securities, which cannot be sold or disposed of in the ordinary course of business at approximately the prices at which they are valued. Difficulty in selling securities may also result in a loss or may be costly to an investment portfolio.

There is a risk of substantial loss associated with trading commodities, futures, options, derivatives and other financial instruments. Before trading, investors should carefully consider their financial position and risk tolerance to determine if the proposed trading style is appropriate. Investors should realize that when trading futures, commodities, options, derivatives and other financial instruments one could lose the full balance of their account. It is also possible to lose more than the initial deposit when trading derivatives or using leverage. All funds committed to such a trading strategy should be purely risk capital.

**Equity investment options** involve greater risk, including heightened volatility, than fixed-income investment options. **Fixed-income investment options** 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. **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. The risks associated with **derivative investments** include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than an investment option’s initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.

**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) will 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.

This investment option uses alternative strategies such as arbitrage, leverage, derivatives and shorting securities. Long/short investing does not guarantee lower risk associated with equity markets, capitalization, sector swings or other factors and may have higher turnover with additional tax consequences. Short selling risks include investment loss and added costs to cover short positions. International investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. Use of alternative strategies may magnify risk. Securities such as bonds, equities, international and emerging market securities, and currencies are subject to risks associated with market and interest rate movements. The investment option is non-diversified and may be more susceptible to price volatility if the investment option does not meet its objective. Investors should not expect significant outperformance during market rallies. Additional risks are included in the prospectus.