Principal LDI Extended Duration Separate Account
Investment manager: Barrow, Hanley, Mewhinney & Strauss, LLC

Barrow, Hanley, Mewhinney & Strauss

The Principal LDI Extended Duration Separate Account is one of four investment options that together comprise the Principal LDI separate accounts. This suite of fixed income separate accounts was designed for the purpose of implementing liability-driven investing (LDI) strategies within defined benefit (DB) retirement plans. Each of the four Principal LDI separate accounts covers a distinct duration band; several can easily be combined to achieve any duration needed for a specific DB plan.

This profile discusses the investment philosophy and process followed by Barrow, Hanley, Mewhinney & Strauss, LLC (BHMS), the investment manager of the Principal LDI Extended Duration Separate Account.

Barrow, Hanley, Mewhinney & Strauss, LLC (BHMS), founded in Dallas in 1979, is one of the largest value-oriented investment managers in the U.S. BHMS provides U.S. and international equity, fixed income and balanced investment management services. In all strategies, the firm seeks to exploit market inefficiencies through adherence to a value-oriented investment process dedicated to the selection of securities on a bottom-up basis.
Investment Philosophy and Process

**Philosophy**

The Principal LDI Extended Duration Separate Account utilizes BHMS’ Extended Duration strategy that seeks to provide maximum long-term total return, consistent with prudent risk of principal, by investing primarily in U.S. Treasury STRIPS (principal and coupon). The strategy seeks to outperform the Barclays U.S. Treasury STRIPS 20+ Index (the “Index”) over complete market cycles. BHMS believes that by investing in undervalued securities, as determined by quantitative models, the strategy will generate above-average returns over the long term.

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

**Process**

BHMS’ three-step investment process begins with an analysis of the relative returns available in long duration U.S. government bonds, utilizing a third-party Relative Value Model. The model identifies specific opportunities by comparing the potential return of all long duration U.S. government bonds should their current yield to maturity (YTM) reach equilibrium to a fitted yield curve. BHMS also employs a Horizon Return Analysis that quantifies the potential return from “rolling” down the fitted yield curve. Once the investment opportunities are identified, BHMS assesses the yield differential between the U.S. Treasury STRIP coupon and principal. Finally, BHMS optimizes portfolios using quantitative tools, including scenario forecasting and “stress-testing,” to help determine the probability that a given portfolio structure will produce superior returns over a broad range of potential market environments.
BHMS does not attempt to time the direction of interest rates through active duration management strategies, as it is BHMS’ contention that to do so assumes an undue level of risk and volatility that is not consistently rewarded. The duration target is maintained within plus or minus one year from the Index.

**Portfolio management team**

**J. Scott McDonald, CFA** is a Manager Director of BMHS. He has been with the firm since 1995.

**John S. Williams, CFA** is a Manager Director of BMHS and serves as the fixed income Chief Investment Officer. He has been with the firm since 1983.

**Additional Information**

*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.**

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. government.

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 a fund’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.

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