Manager Profile

Principal Global Diversified Income Portfolio

Sub-advised by Stone Harbor Investment Partners, Principal Global Equities, Principal Global Fixed Income, Principal Real Estate Investors, Spectrum Asset Management, DDJ Capital Management, Post Advisory Group, Reaves Asset Management, Colonial First State Asset Management, Logan Circle Partners, and Analytic Investors

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: The Principal Global Diversified Income portfolio (the portfolio) is a multi-strategy, multi-manager investment option constructed to provide three primary benefits:

- Provide a high level of income or yield.
- Increase portfolio diversification by combining non-core fixed-income asset classes.
- Enhance appreciation potential through equity allocations.

The portfolio is made up of nine different asset classes managed by 10 different sub-advisors, plus an equity volatility reduction overlay strategy.[2] Day-to-day management of the portfolio 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 sleeves 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 strategies that may provide added diversification and price appreciation benefits.

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

[2]Analytic Investors, LLC is the sub-advisor to the equity volatility reduction overlay (EVRO) strategy. This strategy involves writing options and buying or selling option spreads that may represent up to 100% of the portfolio's allocation to its global REITs, global infrastructure, and global value equities sleeves. The sub-advisor may reduce or suspend the strategy at any time as market conditions warrant.

Portfolio Management Process

Select Investable Income-Oriented Strategies

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Develop Capital Market Forecasts

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Construct Efficient Portfolio

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Portfolio Construction and Design

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Manager Search Process

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Monitor Fund

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Rules-Based Rebalancing

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 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.

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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.

Founded in 2006, Stone Harbor Investment Partners LP ("Stone Harbor") is an employee-owned, global institutional fixed-income investment manager specializing in credit and asset allocation strategies. The firm manages institutional clients' assets across a range of investment products including emerging-markets debt, high yield, bank loans, multi-sector allocation, and investment-grade strategies. The firm's investment strategies are based on fundamental insights, derived from a combination of proprietary research and the in-depth knowledge and specialized experience of the firm's team. Based in New York, Stone Harbor employs more than 100 people across its headquarters and offices in London and Singapore.

Investment Philosophy and Process

Philosophy: Stone Harbor believes that a disciplined credit and relative value approach will best capture what the team views as a secular trend toward the expansion and development of the emerging debt markets.

Stone Harbor has an active style of investment management characterized by fundamental credit analysis. The firm's investment process emphasizes country selection based on intensive economic and political analysis, as well as a rigorous analytical approach to currency, sector, and security selection.

Stone Harbor's investment philosophy can be summarized as follows:

- Stone Harbor believes that investing in a diversified portfolio of improving emerging-markets debt instruments will result in strong long-term performance.
- Stone Harbor's investment management team combines fundamental and political analysis to determine credit spread, currency, interest rate, and yield curve exposure for each country.
- Stone Harbor monitors risk versus benchmark using various quantitative measures.
- Stone Harbor believes that the key to successfully generating excess returns is through a disciplined process of rigorous credit analysis combined with a significant ongoing investment in people and technology.

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Process: Stone Harbor follows a disciplined process to invest in emerging-markets debt securities.

Investment Policy Committee: Stone Harbor's Investment Policy Committee meets monthly to discuss broad economic and financial trends and to set global investment policy. The group is comprised of the firm's chief global economist, emerging-markets economist, and portfolio managers across all fixed-income asset classes (including, but not limited to, investment-grade credit, mortgage- and asset-backed securities, U.S. Treasuries and agencies, high yield, emerging markets debt, and non-U.S. sovereign and corporate debt). The information shared across markets helps identify base economic scenarios and alternative risk scenarios. The end result is a global perspective of relative value that helps create an investment framework and identify areas of specific opportunity. Generally, the investment outlook extends over a 12-month period.

Country and Currency Analysis: Stone Harbor believes that country and currency selection are the most important decisions in managing emerging-markets debt portfolios, typically accounting for more than 50 percent of excess returns over an investment cycle of three to five years.[3] Portfolios are generally diversified across a large number of countries to mitigate the effects of event risk in any single country. The investment management team performs extensive economic, political, currency, and credit analyses on the investable universe of emerging-market countries that lead to an assessment of each country's ability and willingness to service its external debt obligations. Stone Harbor believes that sovereign credit risk can be analyzed in a manner analogous to analyzing corporate credit risk; the firm focuses on a country's ability to service debt, meet a debt-servicing shortfall, and grow internally to become a better credit.

[3]Past performance does not guarantee future results.

Emerging market debt risks include currency fluctuations, economic/political instability and illiquidity.

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Stone Harbor's Emerging-Markets Debt Investment Process

Investment Policy

- Medium and long-term global investment outlook.

Emerging Markets Fundamental Analysis

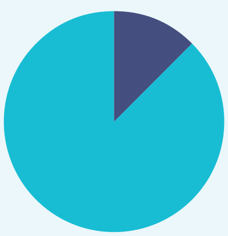
Sovereign
Corporate

- Disciplined assessment of sovereign fundamentals.
- Disciplined assessment of industry and corporate fundamentals.

Sovereign Valuation

- Determine attractiveness of spreads, currencies, and rates.

Corporate Valuation



- Assess likely return distributions for potential corporate investments.
- Determine an optimal allocation to corporate debt sector.

Security Selection

- Identify securities we expect to generate excess returns.

Portfolio Review

- Reconcile fundamental valuation with overall investment outlook.

Stone Harbor's investment process does not guarantee performance results.

Principal Global Equities is a specialized investment management group within Principal Global Investors. They are fundamental, earnings-focused equity investors who embrace the principles of behavioral finance and leverage powerful analytical platforms to provide clients with investment solutions spanning equity markets worldwide.

Investment Philosophy and Process

Philosophy: The equity investment philosophy of Principal Global Investors is based on the beliefs that 1) stock selection is the most reliable and repeatable source of consistent performance and 2) integration of traditional and quantitative fundamental research is superior to either in isolation.

The firm seeks to identify the most compelling investment opportunities within a clearly defined focus universe. It believes superior stocks are characterized by companies consistently demonstrating three key characteristics:

1. **Positive and Sustainable Fundamental Change.** Principal Global Investors seeks companies offering improving and sustainable business fundamentals, with a particular emphasis on accelerating earnings trends.
2. **Rising Investor Expectations.** The objective of Principal Global Investors is to be early—but not alone—in identifying positive fundamental change and improving investor sentiment.
3. **Attractive Relative Valuations.** The firm's research shows that performance potential of positive fundamental change is greatest when accompanied by discounted valuations relative to peers.

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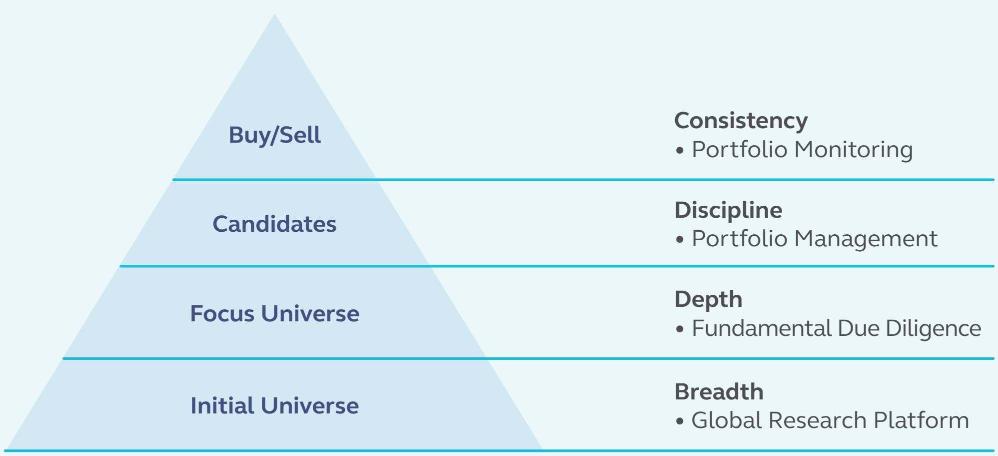
Process: To maximize global information advantages, Principal Global Investors employs a uniform and globally integrated process combining fundamental research analytics, systematic disciplines, and risk management tools.

The firm's proprietary stock ranking framework—the Global Research Platform (GRP)—serves as a cornerstone of a disciplined stock selection approach by providing breadth and objectivity within the research process. The GRP systematically covers a universe of more than 10,000 companies, large and small, in both developed and emerging markets. The models underlying the GRP framework

Principal Global Equities Investment Process



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combine hundreds of complex stock evaluation tools and proprietary factors that are customized to ensure alignment with the group's investment philosophy.

As an information management framework, the GRP is used to isolate a manageable focus universe of stocks by providing analysts with rankings of each company's fundamental characteristics relative to regional sector peers. This helps to make efficient use of analysts' time as they focus their due diligence efforts on a condensed list of top-ranked companies that the firm believes have the most performance potential and are aligned with its investment philosophy.

The fundamental research analyst team provides the depth of research coverage driving the firm's stock selection discipline over time. Organized primarily by economic sector and industry specialization, analysts are responsible for conducting fundamental analysis in their areas of specialty. They provide essential insights into industry trends and company-specific considerations. Their forward-looking professional judgment includes qualitative considerations such as intangibles, event-driven opportunities, management credibility, the quality and transparency of company financial reporting, and data integrity.

The focus universe centers on the top-ranked stocks, primarily those in the upper 20 percent among their regional sector peers. Analysts are responsible for reviewing the specific characteristics underlying the GRP ranking for each company to determine the most promising subset that warrants further due diligence and analysis; preference is for those demonstrating the key characteristics the firm seeks. Generally, an analyst's fundamental evaluation includes a review of financial statements, regulatory filings, news flow, independent research sources, and select sell-side research. Analysts also engage company management and industry contacts to develop a complete assessment of key business drivers, corporate operating performance, and competitive position. Also, analysts carefully evaluate sell-side estimate revisions and rating changes to determine the consensus base-case, and they probe key areas of dispute in order to identify opportunities for positive earnings surprise.

Based on the rigorous multi-stage process of company due diligence, the analysts identify and recommend a subset of well-ranked companies that warrant the highest degree of consideration by the portfolio managers. Analysts communicate their stock recommendations directly to the portfolio managers, who have final authority on all buy/sell decisions.

All portfolios are well-diversified, with active positions deliberately limited relative to the benchmark. The firm's disciplined approach is intended to provide consistency and isolate stock selection as the primary driver of relative performance over time.

Principal℠

High-Yield Strategy

Principal Global Fixed Income is a specialized investment management group within Principal Global Investors. As global credit specialists, they are focused on providing total-return, yield-oriented, and customized investment strategies for clients worldwide.

Investment Philosophy and Process

Philosophy: Principal Global Fixed Income's high yield strategy seeks to maintain a higher yield profile over a full market cycle (typically defined as three to five years), but may experience periods in which the yields lie above or below the benchmark depending upon market conditions and Principal Global Fixed Income's economic forecast. The proposed portfolio is diversified across approximately 100-200 issuers, with security selection and liquidity key components of the investment process.

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Process: The team's security selection process integrates qualitative and quantitative fundamental factors to help identify the best risk-adjusted return opportunities. An important component of the security selection process is relative value assessment, which is achieved through the fundamental, technical, and valuation (FTV) framework. The FTV scoring model assigns scores to companies' or issuers' fundamental, technical, and valuation factors. This assessment allows the team to rank issuers according to their attractiveness—or, in other words, according to those which have the highest total return potential.

Portfolio construction requires the qualitative assessment of portfolio managers to convert the FTV analysis, at the industry and security levels, into industry allocations and security weightings that they believe best express their ideas and that they believe will outperform their respective sectors. They continuously monitor their choices (industry, issuers, and issues) to ensure their original investment theses remain valid. The risk-management process fortifies the portfolio through well-defined exit strategies to minimize issuer risk and liquidity designed to facilitate quick repositioning of the portfolio. Finally, performance analysis is used to monitor and measure alpha generators. Performance analysis allows the team to communicate to all analysts the effect of their recommendations in the portfolio.

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Mortgage-Backed Security Strategy

Principal Global Fixed Income is a specialized investment management group within Principal Global Investors. As global credit specialists, they are focused on providing total-return, yield-oriented, and customized investment strategies for clients worldwide.

Investment Philosophy and Process

Philosophy: Principal Global Fixed Income relies on the Fundamentals, Technicals, and Valuation (FTV) Framework that they employ across their portfolios. Rigorous fundamental research, a global perspective, and disciplined risk management drives every aspect of the investment process.

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Process: Critical inputs to the opportunistic MBS security selection process are the MBS Relative Value Model Pack and the proprietary specified mortgage pool database. The MBS Relative Value Model Pack is the centerpiece of agency MBS research for security selection. All portfolio management decisions are made within the context of a quantitative risk/reward framework. These are used with the objective of limiting downside risk and dynamically managing portfolios to align with both changing risk environments and evolving economic developments.

Macro and Risk Perspective

This top-down macro analysis focuses on macro risk drivers and technical aspects of the market that may drive volatility and valuations. It provides a framework for evaluating all fixed-income opportunities and also establishes a Dynamic Risk Score, which is an assessment of prospective risk pricing that ranges from one to ten. The Dynamic Risk Score translates into risk limits at the portfolio, sector, and security levels.

Sector Allocation

Portfolio managers are responsible for sector allocation decisions, which they base on macro and risk analysis and the recommendations they receive from our sector teams. Each sector team is responsible for formalizing FTV factors that rank the attractiveness of their sector relative to other fixed-income sectors. The framework is applied at each stage throughout the investment process to provide the overarching structure that guides Principal Global Fixed Income's independent internal research and portfolio-construction decisions. It also serves as a common language for portfolio managers, analysts, and traders to facilitate communication about portfolio decisions.

Security Selection

The security selection process integrates both qualitative and quantitative fundamental analysis to help identify the best risk-adjusted return opportunities within a diversified portfolio. The analysis focuses on extensive financial analysis, both historical and projected, to assess financial strength and liquidity.

Portfolio Construction and Monitoring

The portfolio managers use their qualitative judgment to convert the FTV analysis into sector allocations and security weightings that they believe will outperform their respective sectors and their component of the overall benchmark. Portfolios are analyzed on a daily basis and formal performance attribution analysis is conducted to help ensure security-specific performance contribution is as expected.

Principal Real Estate Investors is the dedicated real estate investment group within 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.

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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.

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 REITs 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.

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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.

Commercial Mortgage-Backed Securities (CMBS) Philosophy: Principal Real Estate Investors believes that investment due diligence and individual security selection are critical to providing superior risk-adjusted returns. To this end, Principal Real Estate Investors performs a thorough, independent, fundamental analysis utilizing experienced analysts, advanced modeling techniques, and a wide variety of information sources.

CMBS Process: The CMBS investment process combines top-down technical analysis and a bottom-up fundamental approach to arrive at a consistent and informed investment decision.

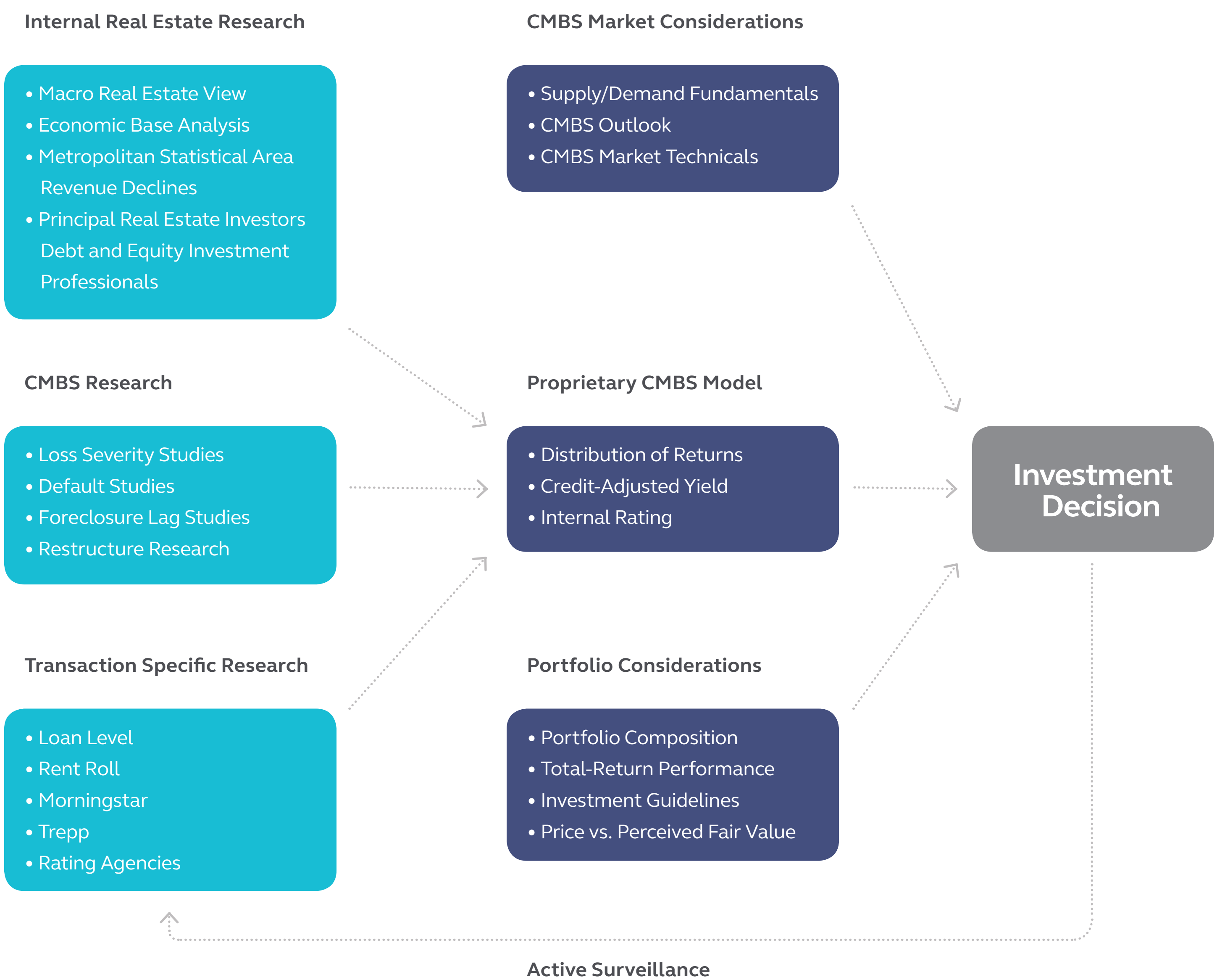
Principal Real Estate Investors utilizes an internally developed, proprietary CMBS model to aid in investment analysis. The model incorporates expertise from the firm's commercial mortgage underwriting, equity asset management, and research groups with respect to their current and projected opinion of the property cash flows, commercial real estate markets, and future macroeconomic conditions.

The firm's CMBS investment process provides two main competitive advantages:

1. **Commercial Real Estate Underwriting Focus.** At issuance, the dedicated CMBS team of Principal Real Estate Investors re-underwrites 60 to 70 percent (by loan balance) of a loan pool and has analyzed and modeled every new issue that has come to market since 1998. The firm periodically updates this analysis through its surveillance process and/or as warranted in conjunction with evaluation of secondary market purchases.

2. **Use of Proprietary Investment Modeling.** After the sample of underlying commercial real estate loans are re-underwritten, the CMBS team uses a proprietary CMBS model to determine how this fundamental analysis affects the bonds in the applicable CMBS bond structure. The model projects the performance of the underlying loans over 2,000 different scenarios. These scenarios incorporate varying degrees of stress and economic performance and reflect widely varying real estate market cycles. The result of this modeling provides a way to identify favorable risk-adjusted securities within a given CMBS deal and across different deals.

The CMBS Investment Process of Principal Real Estate Investors



Through extensive analysis, the CMBS team internally rates credit risk, assesses cash flow volatility, identifies relative value from a risk-adjusted perspective (which drives investment allocation decisions), and actively manages risk through market cycles by combining its dynamic CMBS model with the extensive commercial real estate experience of Principal Real Estate Investors. In addition, the firm's dedicated team of CMBS analysts performs ongoing surveillance of the existing CMBS portfolios under management. This surveillance process includes frequent reviews of the model assumptions and samples of underlying loans, incorporating analysis of rent rolls and property operating statements and consultation with Principal Real Estate Investors debt/equity investment professionals.

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SPECTRUM

Spectrum Asset Management (Spectrum) — an affiliate of Principal Global Investors — offers specialized expertise in the management of preferred securities. The firm was founded in 1987 and is based in Stamford, Connecticut. Spectrum's clients include insurance companies, corporations, pension funds, retirement plans, mutual funds, charitable trusts, and financial institutions in the U.S. and abroad.

Investment Philosophy and Process

Philosophy: Spectrum Asset Management's specialized approach in the management of preferred securities provides a prudent alternative for clients who seek diversification opportunities and attractive total rates of return relative to traditional fixed-income securities such as corporate, asset-backed, and government securities. Its approach is well-suited to clients seeking lower volatility and a higher-quality alternative to high-yield corporate bonds. Spectrum's investment strategy focuses on the active management of preferred securities in order to generate a high level of current income and effectively trade the inefficiencies found in the preferred securities markets. Spectrum's success is the result of its fundamental, bottom-up credit approach as to company selection, expertise and experience in the security structure and selection, and top-down approach as to trading-market and industry sector selection.

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

Process: Spectrum's investment process emphasizes a rigorous credit approach to identifying superior investment alternatives.

Primary emphasis is placed on high-grade hybrid preferred securities offering superior risk-adjusted yield premiums. Macroeconomic analysis is conducted to identify those economic sectors that are the most attractive in the near- and long-term future. Spectrum's research efforts are supplemented by direct access to rating agency services/industry analysts at major investment banks and the extensive credit research capabilities of Principal Global Investors.

Attractive issues reflect credit ratings that are steady or improving and offer an appropriate premium yield, given the ratings and credit trends relative to other preferred securities and corporate senior debt. Features such as call protection, subordination, or option-adjusted spreads are assessed to ensure sufficient yield premium to justify their inclusion in the portfolio. Portfolio construction results in a well-diversified selection of utility, financial, and industrial securities.

When appropriate, the portfolio may be hedged to manage interest-rate risk to a targeted duration. Spectrum's hedges, when implemented, frequently utilize liquid Chicago Board of Trade-listed U.S. Treasury options and futures.

The portfolio typically holds 200 to 250 separate issues. Annual turnover generally ranges between 20 percent and 40 percent. Exposure to a single issuer is limited to 5 percent of the portfolio.

Spectrum's proprietary research is supplemented by direct access to rating agency services, industry analysts at major investment banks, and the extensive research resources of Principal Global Investors. Research conducted by Principal Global Investors' core group of fixed-income credit analysts makes a unique contribution to Spectrum's preferred securities research by providing in-depth coverage of over 800 major bond issues. Their analysis of issuers is made available to the preferred securities research team via the internally developed, real-time bond information tracking system at Principal Global Investors.

Credit Selection

- "Bottom-Up" fundamentals-based and defensive approach to credit selection.
- Mosaic research process using many sources.
- Macro view of global, sovereign, and industry dynamics.
- Macro trends, credit profile, and market capitalization determine final issuer concentration.

Portfolio Construction

- "Bottom-Up" approach to issuer selection, security selection, and portfolio design.
- Emphasis on issuer, geographic, industry, market sector diversification, and security structure characteristics.
- Relative value with respect to senior debt and other preferred securities of same issuer.
- Relative value with respect to preferred securities of comparable companies in same industry.

Trading

- "Top-Down" approach as to market sector - $25 par market v. $1,000 par market.
- Granular approach as to individual security selection in the context of credit selection and portfolio construction.
- Seek to take advantage of inefficiencies in $25 par retail market.
- Seek to take advantage of inefficiencies between $25 par retail market and $1,000 par institutional market.

Compliance

- Pre- and post-trade review and testing of all trades and trade allocations.
  - Portfolio guidelines.
  - Internal credit guidelines.
- Ongoing monitoring and review of trading for best execution.

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DDJ Capital Management, LLC (DDJ) is a Massachusetts-based limited liability company that was founded in 1996 to specialize in high yield and distressed and special situations investing (see "Definitions and Risks" on page 24). DDJ manages assets for institutional and high-net-worth clients in separately managed accounts and commingled funds. DDJ is 100 percent privately owned by its founders and key employees.

Investment Philosophy and Process

Philosophy: The DDJ U.S. opportunistic high yield investment philosophy is based upon the belief that by actively managing a relatively concentrated portfolio (60-80 issuers) of high-yield bonds and leveraged loans, with a bias toward small- and mid-cap issuers (firms ranging from $20 million-$250 million in size), the firm may potentially improve the portfolio's risk/return profile (increase the level of return per unit of risk taken) relative to the overall high-yield market. (Leveraged loans are loans extended to companies or individuals that already have considerable amounts of debt.) It is DDJ's belief that, in general, the lower-rated segments of the high-yield and leveraged loan markets (rated B and below) offer compelling risk-adjusted investment opportunities. DDJ believes these segments often are misunderstood and/or overlooked by many investors and therefore are markedly inefficient areas of the credit market.

Bottom-up fundamental analysis is the cornerstone of DDJ's investment philosophy. DDJ's philosophy involves deriving the firm's best-effort real-time intrinsic valuation of a company. DDJ attempts to calculate this value by thoroughly analyzing the company's current financial condition and future prospects, targeting only those fixed-income investments in the company's capital structure that DDJ believes offer a significant margin of safety and potentially strong returns, taking into account the level of risk assumed.

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

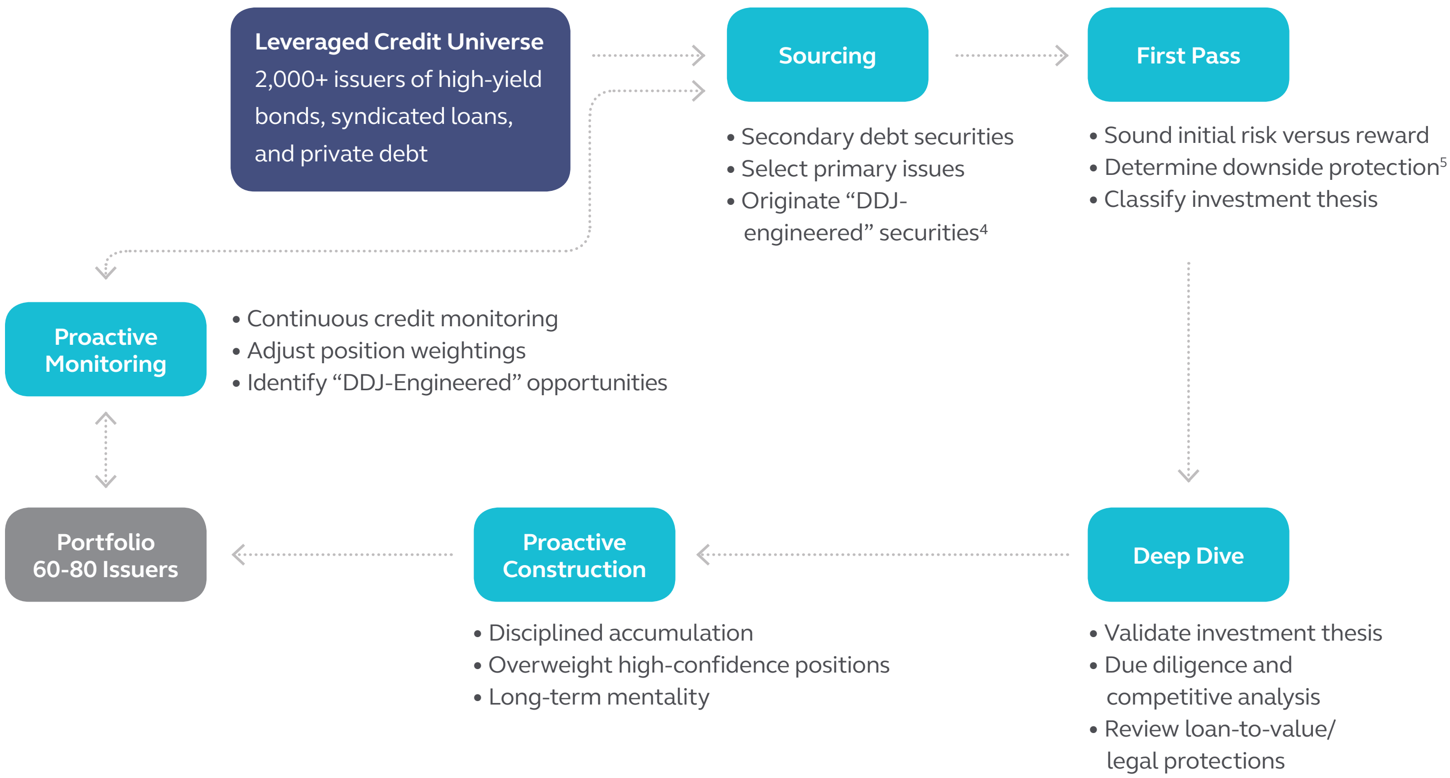
Process: To implement its investment process, DDJ selects from a high-yield investment universe that contains approximately 2,000 issues in the broad and domestic (U.S. and Canada) high-yield corporate debt market as well as certain private investments with high-yield characteristics. The target universe of securities for a particular client is subject to specific guidelines and restrictions, but generally includes fixed rate, floating rate, deferred interest, or pay-in-kind debt securities, bank debt, interests in other credit facilities or other loans or claims, convertible debt, preferred issues, securities issued in connection with mezzanine financing, and warrants and stock either purchased as a unit of, or in connection with a high-yield issue, or received as a result of a restructuring or reorganization (see "Definitions and Risks" on page 17). DDJ typically avoids securities issued by companies domiciled outside of the U.S. and Canada (e.g., emerging markets and Europe) as the firm believes such countries generally do not have sufficiently developed and effective insolvency laws.

The members of DDJ's research team are organized as sector specialists, each covering two to four sectors. DDJ believes this structure enables its analysts to develop a deep understanding of the industries they cover, as well as a network of relationships they can leverage in researching companies. The analyst's goal is to identify the most compelling risk-adjusted investment opportunities in a target company's capital structure, focusing on companies offering sufficient transparency of cash flows and avoiding companies in secular decline. Once a potential investment opportunity is identified, the analyst prepares a "first pass" analysis outlining the company's business model, financial condition, and the investment thesis. If a senior investment professional, such as the portfolio manager or assistant portfolio manager, agrees with the analyst's recommendation, a more in-depth "second pass" analysis is undertaken in order to create an overall financial assessment of the investment opportunity.

The second pass, or "deep dive," includes more extensive due diligence on the business and the securities being considered for investment. DDJ's analysts frequently meet with target company management—as well as competitors,

DDJ's Investment Process

Continuous Research and Monitoring



customers, suppliers, and other third parties that are familiar with the company or industry—in order to acquire a more thorough understanding of the relevant aspects of the underlying business and corresponding investment opportunity. Historically, DDJ has found that the management teams of middle market companies (companies with normalized earnings before interest, taxes, depreciation, and amortization in the range of $20 million-$250 million annually) are more readily accessible than those of larger companies, which enables DDJ's research analysts to identify attractive investment opportunities that larger investment managers may be less likely to identify.

Furthermore, DDJ's attorneys work directly with the research analysts to fully assess any risks that may exist in a particular loan document or bond indenture, with a particular emphasis on downside scenarios such as bankruptcy. The knowledge and insight provided by DDJ's in-house attorneys emphasize an important analytical perspective that focuses on assessing the downside risk of an investment (as compared to the potential return it offers).

Investment recommendations that survive the phases of DDJ's screening process are generally subject to follow-up due diligence in order to reconfirm DDJ's investment thesis regarding the target company's potential future profitability. Once follow-up due diligence is complete, the portfolio manager—in consultation with the assistant portfolio manager and the analyst responsible for monitoring and recommending the investment—makes a final decision on whether to proceed with the investment. Ultimate decision-making authority rests with the portfolio manager.

DDJ strictly adheres to making objective, unemotional credit decisions and does not deviate from this approach by reflexively selling if the market turns against an issue. In such situations, the research analyst will re-evaluate the investment thesis and determine if it is an opportunity to add to the position, or sell if the credit situation has changed.

[4]A "DDJ-engineered" security is a security for which DDJ plays an active role in negotiating and structuring the terms of the investment.

[5]DDJ believes downside protection can be achieved by purchasing debt securities of companies at deep discounts to intrinsic value (thereby giving significant cushion from a loan-to-value perspective), fully understanding all of the relevant aspects of a particular bond indenture or loan document (with a particular focus on bankruptcy scenarios), and managing liquidity in the portfolio by limiting the number and size of positions considered to be less liquid in nature to those which are anticipated to generate a significant return premium.

Definitions and Risks

Bank Debt — Money owed to banks, rather than to other types of lenders.

Convertible Debt — A bond that can be converted into a predetermined amount of the company's equity at certain times during its life, usually at the discretion of the bondholder. Issuers of convertible securities may not be as financially strong as those issuing securities with higher credit ratings and are more vulnerable to changes in the economy.

Credit Facilities — Loans made in a business or corporate finance context. Specific types of credit facilities are: revolving credit, term loans, committed facilities, letters of credit, and most retail credit accounts. These securities may be subject to a number of risks, including risk of default.

Deferred-Interest Security — Debt securities that pay no interest until a date specified in the future. These securities may be subject to a number of risks, including market risk and default risk.

Distressed Investing — Investing in companies that are under financial distress and may be perceived to be near default on their debt obligations.

Fixed-Rate Securities — Debt securities having fixed interest rates and fixed maturities.

Floating-Rate Securities — Debt securities that have interest rates that change on a periodic basis. Floating-rate debt generally is considered to have speculative characteristics that involve default risk of principal and interest, collateral impairment, borrower industry concentration, and limited liquidity.

High-Yield Bond — A bond that rating agencies have rated as below-investment-grade at the time of purchase and that carries higher risk of default.

Leveraged Loans — Loans extended to companies (or individuals) that already have considerable amounts of debt. Lenders consider leveraged loans to carry a higher risk of default than loans made to firms having lower amounts of existing debt.

Mezzanine Financing — High-yield debt issued in connection with a leveraged buyout. Investing in mezzanine debt involves risks that range from the more general risks of fixed-income investments to those specific to the characteristics of mezzanine debt. There is a risk of issuer default, and this risk is compounded by the fact that companies borrowing mezzanine debt are more apt to have a leveraged balance sheet. Mezzanine debt claims are subordinate to senior debt. Lack of liquidity is another risk factor associated with mezzanine debt.

Pay-In-Kind Securities — Debt securities in which coupon payments come in the form of more bonds, rather than cash. These can be particularly risky as the value of the securities used as payment is based upon current market conditions and could potentially be zero.

Preferred Issues — Stocks that have certain rights which are senior to common stock. Risks associated with preferred securities differ from risks inherent with other investments. In particular, in the event of bankruptcy, a company's preferred securities are senior to common stock but subordinated to all other types of corporate debt.

Reorganization — A process designed to revive a financially troubled or bankrupt firm.

Restructuring — A significant modification made to the debt, operations or structure of a company.

Special Situation Investing — Particular circumstances involving a security that would compel investors to trade the security based on the special situation, rather than the underlying fundamentals of the security or some other investment rationale. Special situation investing is highly speculative and risky.

Warrant — A security entitling the holder to buy a proportionate amount of stock at some specified future date at a specified price.

Post Advisory Group, LLC (Post) is a global investment manager specializing in high-yield fixed-income securities with a multi-strategy, value-oriented investment approach. The firm's team of highly experienced investment professionals applies Post's investment philosophy—which emphasizes intensive credit research and detailed analysis of covenant terms and capital structure—in a consistent, conservative manner with the goal of maximizing returns and minimizing risk. Post combines world-class investment expertise, detailed fundamental analysis, and risk management capabilities in its efforts to provide the firm's client base with the investment objectives of consistent and attractive risk-adjusted returns.

Investment Philosophy and Process

Philosophy: Post's goal, consistent from the firm's inception, is to outperform the high-yield market over a market cycle while maintaining below-average volatility. Post believes superior performance can be achieved through the consistent identification of three specific attributes: (1) Value identification; (2) Downside protection; and (3) Risk management. Any security that meets the risk/reward criteria is a candidate for inclusion in the portfolio.

Post continually monitors the ever-changing marketplace, and it does influence the metrics used for analysis. However, the marketplace has not caused Post to change its core time-tested investment philosophy and process. Post's focus on bottom-up, fundamental analysis has remained consistent since inception.

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

Process: Post's disciplined investment process is structured with the goal of producing a well-diversified portfolio.

Credit research plays a significant role in each step of the investment process. Post compares different securities across diverse industries to look for "gems in the rough," and each investment opportunity is screened using Post's proprietary bottom-up credit evaluation process.

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

Post's Investment Process

5-Step Investment Process

1. **Idea Generation.** Investment ideas are generated and evaluated by the investment professionals responsible for credit research. Post's analysts are always looking for new ideas or new perspectives on old ideas. The investment professionals are in contact with a wide range of industry specific experts. Ideas come from many different sources, including research on credits currently in a Post-managed portfolio, industry sources, attendance at trade and business conventions, trade magazines, industry publications and newspapers, and high yield dealers.

2. **Value Scoring Model.** Initial credit analysis is built around Post's proprietary Value Scoring Model that is used to screen securities. The Value Scoring Model is a 100-point system that includes these quantitative and qualitative factors: (1) Industry position (stability/predictability, barriers to entry, competition, pricing power and regulatory environment); (2) Company position (assets, profitability, cash flow trends, credit statistics, company scale, ownership/management, and event risk); and (3) Security position (seniority in capital structure, covenant protection and corporate structure). The Value Scoring Model has been enhanced and refined for over 30 years.

3. **Fundamental Credit Analysis.** Once an investment opportunity is deemed attractive, Post's experienced investment team performs thorough due diligence, entailing an evaluation of asset values and an analysis of capital structure. In addition, the due diligence process may include verifying public information through contacts with competitors, industry contacts, institutional investors and the company's senior and middle management and on-site visits. Post also looks for catalysts that may improve investment performance—including upside earnings surprises, IPOs (for private companies), ratings upgrades, sale of company, etc.—and also considers historical financial information and detailed legal-centric analysis on each potential credit.

4. **Portfolio Construction.** The portfolio managers then determine which securities to purchase, the size of each position and the purchase strategy (slowly, gradually or quickly) dependent on market conditions. The trader is then instructed to purchase (or sell) a security and executes the trade within the strategy's particular guidelines. Post's internal guidelines are to generally limit any one industry to 15 percent of a portfolio. Typically, portfolios have approximately 125 securities with a target weighting of around 1 percent.

5. **Risk Management and Ongoing Monitoring.** The monitoring process continues even after the purchase decision has been made. Post continually monitors its portfolio investments. Post's analysts routinely follow procedures to ensure that they have the most up-to-date information about the investments that are held in the portfolios. As part of these procedures, they review news releases relating to the specific company, key competitors in the industry, and institutional research and government filings (10Qs, 10Ks, and 8Ks). In addition, Post talks directly to senior and middle management, customers, suppliers, and other industry experts. Post believes this process helps them obtain a thorough understanding of the fundamentals for that particular investment and how it stands relative to its industry. Post continually manages risk through the firm's disciplined investment process, which focuses on downside protection, keeping the portfolio's average duration shorter than the index and minimizing exposure to any one industry or any one company.

International lower-rated securities include additional risks. Please review Additional Information on page 23.

Reaves Asset Management

Reaves Asset Management (Reaves), an SEC Registered Investment Adviser, has been managing institutional portfolios since 1978. Reaves' portfolios target a disciplined balance of earnings growth and income in a wide variety of critical, non-discretionary infrastructure industries. The firm is located in Jersey City, New Jersey.

Investment Philosophy and Process

Philosophy: Reaves seeks to provide conservation of capital, current income, and long-term growth of capital through bottom-up fundamental investing. Reaves specializes in dividend-paying infrastructure industries such as energy and telecommunication, water, electric and gas utilities (and companies that serve these sectors). Additionally, the investment team strives to fully understand the regulatory regimes that affect all of these sectors and extract investment insights from the firm's experience with these regulatory bodies.

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

Process: The investment process is designed to take advantage of Reaves' analytical team's long tenure of research experience in the firm's sectors of expertise.

In order for the analysts to develop security selection recommendations, proprietary financial models are built to assess business viability and robustness under differing business scenarios. The results of these models allow for forecasting of various metrics, including earnings and dividend sustainability and growth. Analysts also consider commodity pricing and both interest rate and regulatory environments.

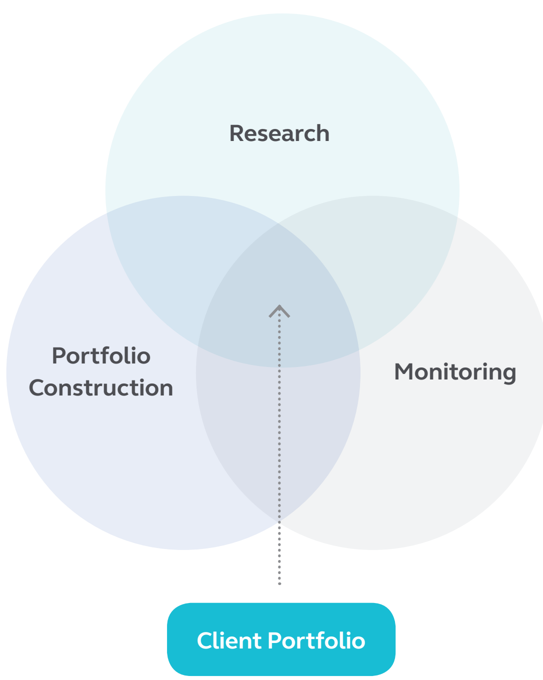
Reaves' portfolio management team utilizes the output of the research process both to build client portfolios and as a tool in the ongoing security monitoring process. The goal of the continuous monitoring process is to ensure alignment of client interest and the balancing of upside potential with downside protection within portfolios.

Reaves believes its strongest resources are its experienced personnel and its proprietary research. This belief started when the firm was founded in 1961 and has served Reaves' clients well for over 50 years.

Reaves' Investment Process

Fundamental, bottom-up proprietary research.

Portfolio Management Team jointly decides security selection.



Portfolios continuously monitored with the goal of balancing upside potential with downside protection.

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

First State Investments (First State)—the consolidated asset management division of the Commonwealth Bank of Australia[6]—is a global asset manager with experience across a range of asset classes and specialist investment sectors. The firm has been committed to delivering quality investment strategies for more than 140 years.

Investment Philosophy and Process

Philosophy: The investment philosophy of First State's infrastructure team contains three central tenets:

1. As conservative investors of clients' assets, the team recognizes that capital preservation is critical to achieving long-term capital growth. With this in mind, the team focuses on fundamental value and conducts thorough due diligence in an effort to minimize downside. The team also places strong emphasis on proprietary research and direct contact with companies and regulators.

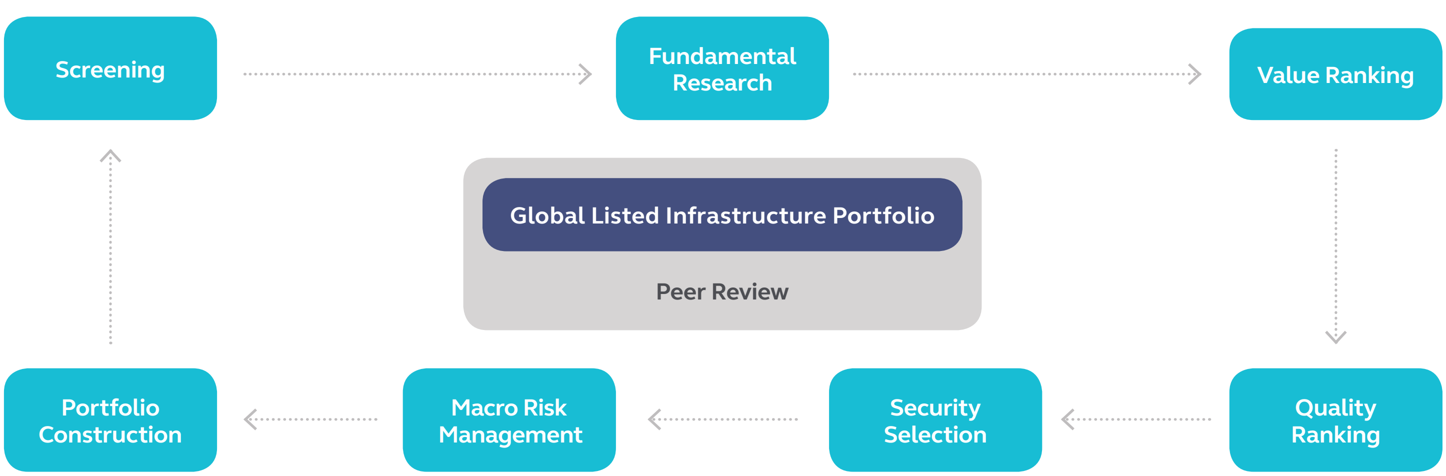
2. The team strives to invest in quality companies. As a starting point, the group focuses on real infrastructure assets with barriers to entry and pricing power. First State believes that for infrastructure firms to deliver their full potential, they require the following attributes: management alignment, independent boards, appropriate gearing, transparent regulation, and cultures which are working to sustain their license to operate.

3. The team believes that investing in long-dated assets requires a long-term perspective. Team members spend as much time understanding the history of a company as they do forecasting its future. When short-term market sentiment overrides long-term fundamentals, the team believes it's in their clients' interests to capture mispricing through active management.

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

Process: The portfolio's investment process is based on active, bottom-up security selection that aims to exploit market inefficiencies.

First State's Investment Process



[6] These investments are not bank deposits and investment risk remains at all times.

1. **Screening.** The investment team's initial universe consists of the broad global GICS sectors[7] that include securities with an interest in infrastructure assets. The screening process involves preliminary company analysis and screens out:

   - All securities with a market capitalization of less than US$500 million or with a very low free-float market capitalization.[8]

   - Securities that do not have infrastructure characteristics, or which own assets in high-risk locations.

2. **Fundamental Research.** The screened stocks then undergo fundamental analysis. This enables the team to gain an in-depth understanding of a company, the industry in which it operates and the company's position within that industry.

3. **Value Ranking Model.** Stocks are ranked on consistent valuation measures. Though the primary valuation tool is a discounted cash flow valuation, a range of other valuation measures also are used.

4. **Quality Ranking Model.** During this step, companies are ranked by quality. The infrastructure team has selected 25 quality criteria that it believes influence stock returns in general and infrastructure securities in particular.

5. **Security Selection.** The value and quality rankings of each security are combined by giving an equal weighting to every security's value and quality rankings. Securities are ordered by their combined value/quality score from highest to lowest.

6. **Macroeconomic Risk Management.** Before the stocks are constructed into a portfolio, various geopolitical and macroeconomic scenarios are debated. Their potential impact on the companies is considered in order to manage potential risks to the overall portfolio.

7. **Portfolio Construction.** The portfolio managers construct the portfolio based primarily on the security rankings assigned in Step 5 of the process. While the portfolio is constructed from bottom-up security ratings, regional and sector risks are monitored by the portfolio managers as a risk management overlay. This monitoring process is performed via a portfolio matrix that illustrates weights by both country and sector in an effort to ensure appropriate portfolio diversification along both country and sector lines.

[7]GICS (Global Industry Classification Standard) is used as a basis for S&P and MSCI financial market indexes; each company is assigned to a sub-industry, and to a corresponding industry, industry group and sector, according to the definition of its principal business activity.

[8]Instead of using all of the shares outstanding like the full-market capitalization method, the free-float method excludes locked-in shares such as those held by promoters and governments.

Logan Circle Partners

Logan Circle Partners, L.P. (“Logan Circle”) is an asset management firm providing primarily separate account, fixed-income investment management services to institutional clients. The firm was founded on April 2007 by Mr. Jude T. Driscoll, Chief Executive Officer (“CEO”) and Chief Investment Officer (“CIO”). Prior to founding Logan Circle, Mr. Driscoll was the President and CEO of Delaware Investments, where he was responsible for overseeing all firm activities. On April 16, 2010, Logan Circle was acquired by Fortress Investment Group LLC (“Fortress”), a publicly traded company (NYSE: FIG) and a leading global investment management firm, as its traditional asset management arm. Fortress offers a range of alternative investment strategies for institutional and private investors around the world. Fortress has in excess of 1,100 employees working across four business lines: private equity funds, credit funds, hedge funds, and traditional asset management. Logan Circle retained its name and Mr. Driscoll continues as the firm’s CEO and CIO.

Investment Philosophy and Process

Philosophy: Logan Circle believes that the key to unlocking value within the fixed-income marketplace revolves around understanding asset quality and valuation. Whether in the sovereign market or the corporate market, understanding the underlying fundamentals of each potential investment is paramount to their team’s process and will help Logan Circle frame how they view a position within a potential portfolio. Secondly, they seek to understand how the volatility or potential volatility of a particular idea fits within their macro view of the market, their willingness to take risk, and their determination of whether that idea is appropriate for our blended portfolio.

This leads to a stated investment policy:

- Provide proprietary in-depth, fundamental research.
- Generate returns from country, credit, and currency exposure.
- Focus on high and stable real rates.
- Apply a global relative-value framework.
- Construct portfolios with attractive risk/reward characteristics could result in a loss or gain.

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

Process: Logan Circle utilizes a five-step investment process for security selection.

1. **Idea Generation.** The selection discipline for identifying securities begins with our idea-generation process. Ideas can be generated by any of the fixed-income investment professionals on staff, whether they work in research, trading, or portfolio management. Traders are dedicated to specific sectors of the market and focus on supply/demand factors, historical value trends, new issue opportunities, and dealer relationships to generate ideas. Research analysts generate ideas through company-specific research, industry analysis, and overall credit trends. Portfolio managers tend to generate ideas from broader perspectives on sector relative value, market risk factors, and overall investment outlook.

2. **Research.** Risk-appropriate and investable ideas undergo a review by their research team, which incorporates quantitative, fundamental, and qualitative analysis.

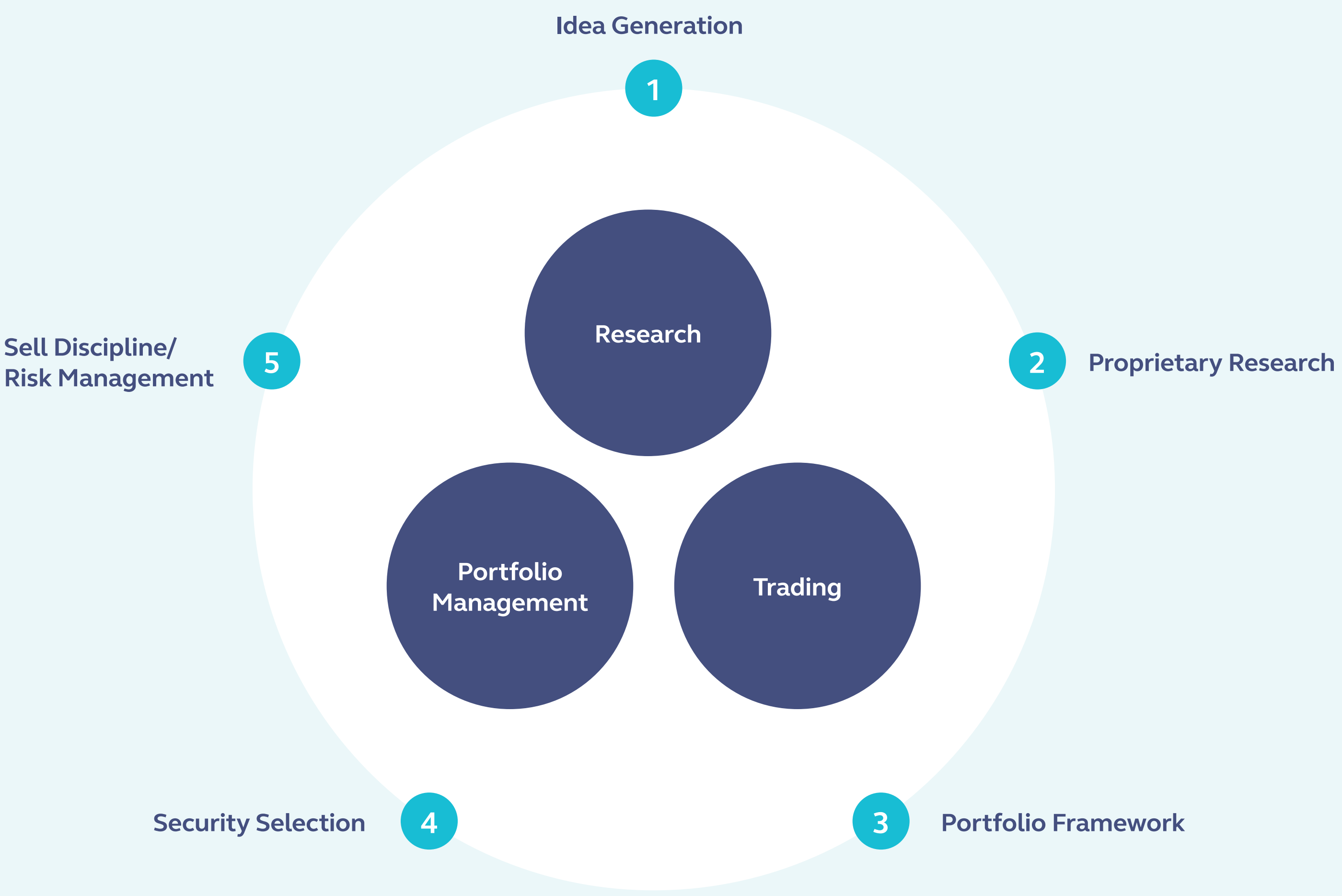
3. **Portfolio Construction and Security Selection.** The portfolio construction process for the emerging markets strategy blends a top-down country view and with a focused bottom-up security selection process. Country and currency weightings are used as part of risk overlay analyzing the exposure to each country versus the index and each country's yield versus the country's yield in the benchmark. A sovereign Z-score model is used to aid in identifying areas of volatility within the portfolio.

4. **Sell Discipline.** Securities may become candidates for sale when:

   - Research identifies a negative change in fundamentals.
   - Securities reach price targets.
   - Better opportunities arise (relative value).

5. **Risk Analysis.** We utilize our risk management systems to break down risk first from a currency risk perspective followed by country contribution to duration basis, country yield curve exposure, and credit exposure.

Logan Circle's Investment Process



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

Analytic Investors, LLC is a wholly-owned subsidiary of Analytic Investors Holdings, LLC which is owned by certain employees of Analytic Investors, LLC. Analytic Investors was founded in 1970 and is based in Los Angeles, CA. The employee-owned company specializes in providing benchmark-oriented, absolute return, and risk-oriented equity solutions. Analytic Investors has extensive experience in volatility reduction strategies, and we believe their multi-factor investment process will help realize PPS' objective of reducing the volatility of the equity component of the Fund.

Investment Philosophy and Process

Philosophy: Analytic Investors will sell (write) call options and collect the premium, which has the potential to reduce the volatility of the Fund. Analytic Investors' proprietary model allows them to compare options with different strike prices and maturities on various instruments with the goal of optimizing a portfolio for volatility reduction and expected return. In addition to writing calls, Analytic Investors will also be able to opportunistically write put options.

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

Process: The main goal of the strategy is to reduce the underlying volatility of a basket of equity securities by 15-25 percent over a full market cycle. While this strategy may result in income generation for the Fund, it is not a primary focus. The investment process begins with forecasted expected returns for call and put options in the investable universe (based on the underlying equity portfolio). For the proposed EVRO strategy, this would include call and put options on global broad based indices, sectors, and ETFs.

The valuation process begins with identifying characteristics for each option, such as strike price, time to expiration, risk-free rate, etc. A proprietary model is used to forecast volatility, which is used along with multiple other factors to calculate an option's expected return. An optimizer is used to find a portfolio of short call options and option spreads that has the highest expected return for a target portfolio delta and that is highly correlated to the underlying stock portfolio. For each strategy, no limitations on strike price or time to expiration are set. Rather, the proprietary model helps to continuously identify the best opportunities. Option spreads are constructed to neutralize the rate of change between the option's price and the underlying portfolio's price (the "delta") on rebalance, here as the short calls provide the delta (pricing risk) reduction to the portfolio. Analytic Investors continuously estimates the impact that stock price movements, interest rate changes, time, and the net cost of carry and volatility (the "greeks") have on the total option portfolio.

How the Strategy Seeks to Reduce Volatility

Expected Return

Multi Factor Volatility Model

Long-Run Component
Captures mean reversion

Short-Term Component
Adapts to changing volatility

Market Data

Time to Expiration

Strike Price

Option Price

Risk Free Rate

Dividend Rate

Underlying Rate

Generate expected returns for different prices and expirations.

Control Risk

Multi Factor Risk Model

Calculate Risk for Equities

Calculate Risk for Options

Minimize Risk
For combined equity and option portfolio

Portfolio Constraints

Option Specific Limits
Liquidity/T Cost/Volatility

Sector Specific Limits
Similar exposure as equities
Dispersion signal

Delta Managed
Based on client guidelines

Apply risk parameters.

Construction Portfolio

Maximum expected return after transaction costs within a specific risk-control environment.

Optimal weighting of selected options.

 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.

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

Fixed-income investment options are subject to interest rate risk; as interest rates rise their value will decline.

Lower-rated securities are subject to additional credit risk and default risks.

Risks of preferred securities differ from risks inherent in other investments. In particular, in a bankruptcy preferred securities are senior to common stock but subordinate to other corporate debt. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards.

Real estate investment options are subject to some risks inherent in real estate and real estate investment trusts (REITs), such as risks associated with general and local economic conditions. Investing in REITs involves special risks, including interest rate fluctuation, credit risks, and liquidity risks, including interest conditions on real estate values and occupancy rates.

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

International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

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.

Investing in derivatives entails specific risks relating to liquidity, leverage, and credit, which may reduce returns and/or increase volatility.

These investments are not bank deposits and investment risk remains at all times.

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.