Principal Real Estate Investors is the dedicated real estate asset manager for Principal Global Investors. The investment management group’s capabilities include commercial mortgage-backed securities, real estate equity securities and a broad range of private market real estate equity and debt alternatives.

Investment Philosophy and Process

The Principal Real Estate Securities portfolio is available as a mutual fund and as a separate account that invests wholly in Institutional class shares of the mutual fund.

Philosophy

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

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

The investment advisor’s investment philosophy and strategy may not perform as intended and could result in a loss or gain.
The first phase in the real estate investment process (Figure 1) 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.

As part of the security selection and portfolio construction processes, the portfolio management team is provided with written company research reports and valuation summaries. Independent of this fundamental research, a second, complementary form of research is produced for the portfolio management team during this phase of the process. A proprietary model called the Global Research Platform (GRP) generates objective rankings for each company using back-tested factor data designed to align with the attractive characteristics being sought via fundamental research.

In determining the shape and composition of the portfolio, the portfolio management team also considers the impact any proposed action might have on portfolio risk. Risk management plays an important role in the process as the team carefully studies a wide range of risk factors when reviewing the portfolio positioning.

The final phase of the real estate investment process is execution of the trade. The portfolio management team and local trade desk work together in an effort 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.

**Portfolio management team**

**Kelly Rush** is Chief Financial Officer, Global Real Estate Securities. He directs the domestic and global real estate investment trust (REIT) activity for Principal Real Estate Investors. Kelly, who has experience in both separate account and pooled fund management, has been managing real estate stock portfolios since 1997 and has been with the real estate investment area for the firm since 1987. He earned a B.A. in Finance and an MBA in Business Administration from the University of Iowa. Kelly has earned the right to use the Chartered Financial Analyst designation and is a member of the Iowa Society of Financial Analysts and the CFA Institute.

**Keith Bokota** has been with Principal Real Estate Investors since 2007. His previous responsibilities with the firm included serving as associate director-analyst of real estate securities with a focus on retail property companies, real estate service providers, and owners of net lease properties. Prior to joining the firm Keith was an analyst at Jones Lang LaSalle. He received a bachelor’s degree in finance and international business from Georgetown University. Keith has earned the right to use the Chartered Financial Analyst designation.

**Tony Kenkel** has been with Principal Real Estate Investors since 2005. Previously, he became a real estate consultant for Arthur Andersen in 2000, then joined GATX Corporation as a senior financial analyst in 2002. Tony received a B.A. in Finance from Drake University and an MBA from the University of Chicago Graduate School Of Business. He has earned the right to use the Chartered Financial Analyst and Financial Risk Manager designations.
Additional Information

Investors should carefully consider a mutual fund’s investment objectives, risks, charges, and expenses prior to investing. A prospectus, or summary prospectus if available, containing this and other information can be obtained by contacting a financial professional, visiting principal.com, or calling 1-800-547-7754. Read the prospectus carefully before investing.

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

Investment options are subject to investment risk. Shares or unit values will fluctuate and investments, when redeemed, may be worth more or less than their original cost.

This investment option is available through a separate account or Principal Funds, Inc. mutual fund. Separate accounts are made available through a group annuity contract with the Principal Life Insurance Company, Des Moines, IA 50392.

Real estate investment options are subject to some risks inherent in real estate and Real Estate Investment Trusts, such as risks associated with general and local economic conditions.

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

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Princor Financial Services Corporation, 800-547-7754, Member SIPC and/or independent broker/dealers. Securities sold by a Princor Registered Representative are offered through Princor®. Principal Funds Distributor, Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Investment options may not be available in all states or U.S. commonwealths. Separate accounts are available through a group annuity contract with Principal Life Insurance Company. See the group annuity contract for the full name of the separate account. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life separate accounts as permitted by the group annuity contracts providing access to the separate accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a separate account, you may not be able to immediately withdraw them.