Principal Management Corporation — manager of the portfolio — has been registered with the SEC as an investment adviser under the Investment Advisers Act of 1940 since 1968. As advisor to Principal Funds, Principal Management Corporation oversees Principal Life Insurance Company’s proprietary due diligence process for identifying, selecting and monitoring investment managers. Principal Funds offers a full range of investment options covering all core style boxes and several niche options. The Funds are sub-advised by a variety of investment managers representing some of the nation’s leading asset managers and investment boutiques.

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

**Portfolio philosophy**

Asset classes perform differently in varying economic conditions, and no one investment strategy performs in all inflationary environments. The Principal Diversified Real Asset Portfolio (the Portfolio) is a multi-strategy, multi-sub-advisor investment option constructed using a “best-in-class” manager approach1 to target broad inflationary and market concerns.

Real assets are recognized to serve three important functions that may benefit portfolios in any inflationary environment:

- **Hedging inflation.** With values that tend to rise with consumer prices, real assets historically have helped prevent the loss of purchasing power.

- **Diversification.** As alternatives with historically low correlation to traditional stocks and bonds, real assets help spread risk when added to a broader portfolio.

- **Enhancing return potential.** Offering attractive historical return profiles, real assets have the potential to enhance total overall portfolio return in various market environments.

1The sub-advisors for this Fund were selected using the due diligence process of Principal Life that provides a rigorous and disciplined framework for identifying, hiring and retaining premier investment managers within each asset class and investment style. It is characterized by the comprehensive and continuous review of all investment managers based on specific investment guidelines.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
The Portfolio is made up of nine investment “sleeves” managed by different sub-advisors. Day-to-day management of the Portfolio’s allocations and the sub-advisor hiring and monitoring functions are performed by Principal Management Corporation.

**Portfolio management process**

Principal Management Corporation is responsible for the day-to-day management process (Figure 1) 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 portfolios 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 components that may provide added yield with market-like risk, increased diversification and price appreciation

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

![Figure 1: Portfolio Management Process](image)

**Portfolio advisory team**

**Jake S. Anonson, CFA, CAIA** joined the Principal Financial Group in 2012. He worked at Miles Capital from 2010 – 2012. Prior to that, Mr. Anonson worked at Principal Financial Group. Mr. Anonson is a Senior Portfolio Strategist for Principal and a member of the Principal Funds Investment Committee. He is responsible for conducting research, assessing risk and making relative value recommendations relating to the equity component of the Principal Portfolio Construction Strategies℠ (Global Diversified Income Fund, Diversified Real Asset Fund and Global Multi-Strategy Fund). Mr. Anonson earned a BA and BS from the University of Northern Iowa and a MBA from Iowa State University. Mr. Anonson has earned the right to use the Chartered Financial Analyst designation.

Not FDIC or NCUA insured

May lose value • Not a deposit • No bank or credit union guarantee

Not insured by any Federal government agency

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Portfolio advisory team (continued)

Jessica S. Bush, CFA joined the Principal Financial Group in 2006. Ms. Bush is an Investment Strategist for Principal and a member of the Principal Funds Investment Committee. She is responsible for the manager selection, oversight and asset allocation decisions for the Principal Portfolio Construction Strategies℠ (Global Diversified Income Fund, Diversified Real Asset Fund and Global Multi-Strategy Fund). Previously Ms. Bush was a Sr. Research Analyst responsible for analyzing, interpreting and coordinating investment performance data and evaluation of the investment managers under the due diligence program that monitors investment managers used by the Principal Funds. Ms. Bush earned a B.A. in Business Administration from the University of Michigan. She has earned the right to use the Chartered Financial Analyst designation.

Marcus W. Dummer, CAIA, CIMA joined the Principal Financial Group in 2003. Mr. Dummer is a Senior Portfolio Strategist for Principal and a member of the Principal Funds Investment Committee. He is responsible for conducting research, assessing risk and making relative value recommendations relating to the fixed-income component of the Principal Portfolio Construction Strategies℠ (Global Diversified Income Fund, Diversified Real Asset Fund and Global Multi-Strategy Fund). Mr. Dummer earned a Bachelor’s degree in Finance and an M.B.A. from the University of Utah.

James W. Fennessey, CFA joined the Principal Financial Group in 2000. He is Vice President and the Head of the Manager Research Team that is responsible for analyzing, interpreting and coordinating investment performance data and evaluation of the investment managers under the due diligence program that monitors investment managers used by the Principal Funds. He is a member of the Principal Funds Investment Committee. Mr. Fennessey earned a B.S. in Business Administration, with an emphasis in Finance, and a minor in Economics from Truman State University. He has earned the right to use the Chartered Financial Analyst designation.

Kelly A. Grossman, FSA joined the Principal Financial Group in 1991. She is Senior Product Manager at Principal and a member of the Principal Funds Investment Committee. Prior to that, she was a Managing Director within the Capital Markets and Structured Products Group at Principal Global Investors. Ms. Grossman earned a B.A. in mathematics and computer science from the University of Northern Iowa. She is a fellow of the Society of Actuaries and a member of the American Academy of Actuaries.

Benjamin E. Rotenberg, CFA joined the Principal Financial Group in 2014. Prior to that, he served as a Managing Director with Cliffwater LLC. Mr. Rotenberg is a Senior Portfolio Strategist for Principal and a member of the Principal Funds Investment Committee. In this role, he is responsible for risk assessment within the alternative strategies as well as supporting the portfolio decision making process for the Principal Portfolio Construction Strategies℠ (Global Diversified Income Fund, Diversified Real Asset Fund and Global Multi-Strategy Fund). He earned a Bachelor’s degree in International Relations and Russian from Pomona College. Mr. Rotenberg has earned the right to use the Chartered Financial Analyst designation.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Risks associated with the Diversified Real Asset 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 Diversified Real Asset include the following:*

**Equity investment options** involve greater risk, including heightened volatility, than fixed-income investment options. **Fixed-income investment options** (inclusive of U.S. Treasury Inflation-Protected Securities) 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. **Floating rate debt instruments** are subject to credit risk, interest rate risk and impaired collateral risk, which means that the value of the collateral used to secure a loan held by the Fund could decline over the course of the loan. **Credit risk** refers to an issuer’s ability to make interest and principal payments when due. **Investments concentrated in natural resources industries including agriculture and timber** 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. **Investing in derivatives** entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. **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) may 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. **Global 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. **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. **Commodity-Related Investment Risk:** The value of commodities investments will generally be affected by overall market movements and factors specific to a particular industry or commodity, which may include weather, embargoes, tariffs, and economic health, political, international regulatory and other developments. Exposure to the commodities markets may subject the fund to greater volatility than investments in traditional securities. **Commodity Index-Linked Notes Risk:** The value of commodities may be affected by overall market movements and other factors affecting the value of a particular industry or commodity. These notes expose the fund to movements in commodity prices. They are also subject to credit, counterparty, and interest rate risk. Commodity index-linked notes are often leveraged. At the maturity of the note, the fund may receive more or less principal than it originally invested. The fund may also receive interest payments on the note that are less than the stated coupon interest payments.
BlackRock is a premier provider of global investment management, risk management and advisory services. The firm manages assets across equity, fixed income, real estate, liquidity and alternative investments. Clients include corporate, public and union pension plans, insurance companies, mutual funds, endowments, foundations, charities, corporations, official institutions and individuals worldwide.

Through BlackRock Solutions®, the firm offers risk management and advisory services that combine capital markets expertise with propriety-developed systems and technology.

BlackRock serves clients in North and South America, Europe, Asia, Australia, Africa and the Middle East. Headquartered in New York, the firm maintains offices in 30 countries around the world.

Investment Philosophy and Process

**Philosophy**

BlackRock’s disciplined fixed income investment process seeks to add value through:

- Controlling average effective duration* and yield relative to a benchmark index
- Security selection
- Relative value sector/sub-sector rotation between nominal U.S. Treasuries, mortgage-backed securities (MBS) and corporate bonds
- Rigorous quantitative security and portfolio valuations
- The judgment of experienced portfolio managers

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

**Process**

BlackRock’s investment process (Figure 2 on page 6) utilizes a team approach in managing fixed income portfolios.

*Average effective duration is a time measure of a bond portfolio’s interest-rate sensitivity, based on the weighted average of the time periods over which the cash flows of all of the portfolio’s bond holdings accrue to the portfolio. Time periods are weighted by multiplying the present value of each bond’s cash flow divided by that bond’s price. (A bond’s cash flows consist of coupon payments and repayment of capital).

Asset allocation/diversification does not guarantee a profit or protect against a loss.
The Fixed Income Portfolio Management Group includes Portfolio Teams and Investment Teams. Portfolio Teams are responsible for top-down asset allocation and portfolio construction within specific strategies, and for ensuring portfolios are in compliance with guidelines and constraints. Investment Teams are responsible for research, bottom-up idea generation, ongoing surveillance on all positions, and trade execution, financing and settlement. Research analysts are part of the Investment Teams and are responsible for credit and macroeconomic research.

The portfolio is broadly diversified in primarily inflation-protected securities, including U.S. Treasury Inflation Protected Securities (TIPS), U.S. and non-U.S. government bonds, agencies, corporate bonds, MBS, commercial mortgage-backed securities and asset-backed securities. The portfolio may also utilize derivative instruments, non-investment-grade securities or other sectors of the fixed income universe.

BlackRock believes that experienced professionals using a disciplined investment process and sophisticated analytical tools can consistently add value to portfolios. Within this framework, BlackRock has assembled a team of professionals with expertise throughout the global capital markets — and, over the years, has continued to make significant investments in technology and analytics. Portfolio managers use proprietarily-developed analytics to identify relative value opportunities and construct portfolios diversified by sector, sub-sector and security.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Brookfield

Brookfield Investment Management Inc. (the firm) is a global investment manager focused on specialized equity and fixed income securities. The firm is a subsidiary of Brookfield Asset Management, a global alternative asset manager with more than 100 years of ownership and operating experience in real estate, infrastructure, power and private equity. Brookfield Investment Management encompasses all of the public securities investment capabilities of Brookfield Asset Management.

Brookfield Investment Management’s equities capabilities were founded in 2000 by current Brookfield Investment Management Chief Executive Officer and Co-Chief Chief Investment Officer, Mr. Kim G. Redding. Initially operating as a specialized investment manager of real estate securities, the equities platform grew in less than a decade to make Brookfield Investment Management a leading investment manager of real estate and infrastructure securities on a global scale.

Investment Philosophy and Process

Philosophy

Brookfield Investment Management believes the long-term nature of infrastructure cash flows and the abundance of hard assets are best suited to bottom-up, fundamental analysis. The foundation of the firm’s team-based investment approach is having high quality, centrally located investment professionals dedicated to meeting client investment objectives and helping to provide excellent client service. The firm’s dedicated research and portfolio management team is supplemented by the broader infrastructure investment platform of Brookfield Asset Management and AMP Capital Investors.

Brookfield Investment Management believes the long-term outlook for global infrastructure securities is attractive and that this view is enhanced by the valuations currently available across the asset class. Investor interest in infrastructure has increased dramatically in recent years due to a combination of global population growth, much-needed spending on infrastructure and a deficiency in government budgets. The firm believes the inherent nature of infrastructure — incorporating predictable and stable long-term cash flows — offers an attractive risk/return profile and the potential for strong investment returns.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Brookfield Investment Management’s fundamental, bottom-up, value-based stock selection methodology is complemented by a top-down overlay. The firm’s disciplined investment approach focuses on free cash flow generation with an emphasis on primary research (including asset inspections, site visits, management meetings, financial modeling and sensitivity analysis). Investment decisions are based on total-return expectations.

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

**Process**

Brookfield Investment Management believes that excess returns are generated as a result of superior research efforts, dedicated focus on the infrastructure asset class and a value-based investment process. The firm’s research-intensive investment process (Figure 3) allows for the construction of relatively concentrated portfolios of approximately 30 to 50 securities. Portfolios generally have allocations to each of the four main sectors: transportation, energy, communications and water. Diversification across global regions — including exposure to higher-growth emerging markets — also is incorporated into portfolio construction.

<table>
<thead>
<tr>
<th>Figure 3: Brookfield Global Infrastructure Securities Investment Process</th>
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<tbody>
<tr>
<td><strong>Investment Universe</strong></td>
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<tr>
<td>Proprietary Analytical Framework (“Skyway”)</td>
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<tr>
<td>Key Screening Factors</td>
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<td>• Asset level analysis</td>
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Asset allocation/diversification does not guarantee a profit or protect against a loss.
The firm’s investment process includes four main components:

1. **Initial screening/quantitative analysis**
   The universe of potential investments — approximately 260 companies — is analyzed through the firm’s proprietary quantitative screening model, Skyway. Skyway consists of quantitative and qualitative factors which result in a ranking of the investment universe.

   The model framework encompasses three types of analysis: 1) asset level, 2) company level and 3) valuation. Skyway also is used as a risk management tool as the companies are segmented into four categories: Core Value, Core Growth, Opportunistic Value and Special Situations. The firm’s portfolios generally are heavily weighted in the two core categories, typically accounting for approximately 70% to 90% of the total exposure.

   Through the quantitative screening model, the investment universe is narrowed to fewer than 100 potential investments, which are further analyzed.

2. **Analysis and detailed due diligence**
   Each investment opportunity requires extensive due diligence and is scrutinized to determine the drivers of cash flows, risks and overall quality of the investment. The majority of the firm’s time is focused on this aspect of due diligence, and the majority of the value is added at this stage. The three broad categories consist of:
   1. Fundamental analysis
   2. On-site due diligence
   3. Accessing the broader infrastructure of Brookfield Asset Management’s investment platform

3. **Sector and geographic overlay (investment themes and sector biases)**
   Investment decisions are driven by the bottom-up fundamental analysis. Simultaneously, Brookfield Investment Management’s macro views regarding specific infrastructure sectors and regions also influence portfolio construction. Key macro themes that influence portfolio construction include:
   - Economic growth projections in various regions
   - Inflation expectations
   - Credit environment
   - Outlook for developed versus emerging markets
   - Bias for yield versus growth
   - Degree of defensive positioning

4. **Portfolio construction and monitoring**
   Portfolio construction is conducted by the portfolio managers and is formally reviewed weekly. However, portfolio managers make changes more frequently when required. A committee of the firm’s senior executives formally reviews the portfolio construction and performance of the infrastructure team monthly, but is informally involved more frequently.

   Asset allocation/diversification does not guarantee a profit or protect against a loss.
Founded in 1856, Credit Suisse Group has a long tradition of meeting the complex financial needs of a wide range of clients. The history of Credit Suisse Asset Management, LLC dates back to 1935, when Credit Suisse Asset Management (New York) was founded as BEA (Basic Economic Appraisals) Associates. All institutional investment management divisions within the Credit Suisse Group were re-branded in 1997 under one entity: Credit Suisse Asset Management.

As one of the world’s leading banks, Credit Suisse provides its clients with private banking, investment banking and asset management services worldwide.

The firm’s asset management business offers products across a broad spectrum of investment classes — including alternative investments such as commodities, hedge funds, real estate and credit, as well as multi-asset-class strategies (which includes equities and fixed income products). Credit Suisse’s asset management business manages portfolios, mutual funds and other investment vehicles for a broad spectrum of clients ranging from governments, institutions and corporations to private individuals. The Credit Suisse asset management business is operated as a globally integrated network to deliver the bank’s best investment ideas and capabilities to clients around the world.

**Investment Philosophy and Process**

**Philosophy**

The investment team believes in an enhanced index approach to managing indexed commodities. The firm believes the most compelling reason to own commodities is that the asset class has exhibited positive gains that are uncorrelated to stocks and bonds; the firm also believes that enhanced indexing is the best way to offer this diversification. Through this philosophy, the team seeks to add incremental alpha from the commodity and cash components of the portfolio, using a risk-controlled process that seeks to maintain the diversification qualities of the benchmark. For this reason, the team does not add significant duration or credit risk from the cash portion, as this would add back correlation to the bond market.

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

**Process**

Credit Suisse’s commodities investment process (Figure 4 on page 11) is designed to take benchmark-relative risk within the commodity portion of the portfolio, while taking minimal risk from the cash portion of the strategy.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
The Credit Suisse Enhanced Total Commodity Return Strategy offers an enhanced index approach to managing commodities. This strategy is designed to outperform the index by trading based on relationships that have occurred in a historical context for one commodity future, versus the same underlying contract of a different maturity. Quantitative and qualitative research is employed to identify optimal periods to time the rolling of the underlying contracts. The goal is to achieve a higher return relative to the roll yield generated within the benchmark index. The passive spot index exposure and the active roll management are achieved through the use of commodity-structured notes.

The commodities team at Credit Suisse Asset Management, LLC has over 18 years’ experience in the commodities asset class and has continually built and strengthened its capability to add value and enhance returns.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Jennison Associates (Jennison) was founded in July 1969 as a Registered Investment Adviser primarily for domestic large-cap growth equity accounts and began managing assets in that year. The firm has since expanded its investment capabilities to include a range of equity strategies — small-cap, mid-cap growth, multi-cap, large-cap value, blend and long/short — as well as balanced and fixed income management. Jennison uses fundamental team-based research to manage portfolios for institutional, sub-advisory and private clients through separately managed and commingled vehicles, including mutual funds.

In 1985, Jennison became a wholly owned subsidiary of The Prudential Insurance Company of America. In 2000, Jennison was given oversight for Prudential’s public active equity asset management capabilities. Prudential demutualized in December 2001 and became a public company. Jennison is now an indirect subsidiary of Prudential Financial, Inc.

Investment Philosophy and Process

Philosophy

Jennison’s culture is singularly focused on performance. Since its founding in 1969, the firm has had one goal: Seeking superior investment returns for its clients. Throughout its history, Jennison has taken careful steps toward this end — through its investment philosophy, hiring and retaining talented professionals and building its business in a controlled fashion. The firm is committed to seeking long-term investment success and prizes its long-term client relationships.

Jennison has always adhered to a clear and consistent investment philosophy. The firm believes that internal fundamental research, bottom-up stock selection and a highly interactive investment process are integral to superior investment performance.

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

Process

Internal fundamental research is the cornerstone of Jennison’s investment process (Figure 5).

Figure 5: Jennison’s Investment Process

Internal fundamental research is the cornerstone of Jennison’s investment process.

The Natural Resources investment team first examines the relative strength of a commodity group to determine if it has favorable supply/demand characteristics. A bottom-up approach to stock selection is then used to uncover companies from energy and mining sub-sectors to build the portfolio.

Global Natural Resources Equity Portfolio

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Fundamental research conducted by firm analysts is the source of investment ideas. Jennison’s experienced analysts specialize in specific market sectors and build an in-depth understanding of companies through meetings with senior management, customers, suppliers and competitors. Scrutiny of financial statements provides the foundation for a fundamental outlook and earnings model. A network of industry contacts and custom analyses developed by outside specialists supplement proprietary research and earnings projections.

The firm’s interactive process leverages the knowledge and skills of the entire investment team. Although portfolio managers ultimately make investment decisions for the portfolios they manage, they work closely with research analysts and other portfolio managers in a dynamic and continuous process of updating and debating investment ideas and company-specific convictions. This process prizes intellectual rigor and leverages the knowledge and skills of the entire investment team.

Jennison’s team approach recognizes that individual accountability combined with close collaboration among professionals is the foundation of success. The firm’s structure reinforces the importance of individual and collective contributions to portfolio performance.

The quality of Jennison’s investment approach is tied to the caliber of its investment professionals. Because the firm believes the knowledge and judgment developed through years of experience are critical to superior investment, Jennison hires experienced analysts and portfolio managers with records of success. The firm’s process thrives on the collaborative efforts of its professionals. Jennison is able to attract and retain top-caliber investment talent because its investment teams are relatively small, highly experienced and exclusively focused on investing for clients.

The stability and excellence of Jennison’s culture, organizational structure and client base give it competitive advantages as well — as does its ability to recruit and retain top research, portfolio management and trading talent. The firm also takes pride in its reputation for excellence in client service and believes that regular client communication is essential.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Founded in Geneva in 1805, the Pictet Group is one of Europe’s leading independent wealth and asset managers.

Pictet Asset Management (Pictet AM) refers to the institutional business division of the Pictet Group. The firm provides specialist investment management to leading institutions globally. Pictet’s clients include some of the world’s largest pension funds, mutual funds, sovereign wealth funds and financial institutions.

Investment Philosophy and Process

Philosophy

Pictet has a specific sector and theme funds investment process that is shared by all the theme funds ran by Pictet Asset Management.

The firm believes that a theme approach to investing enables one to potentially benefit from long term socio-economic “secular” developments that are only modestly impacted by the shape and duration of economic cycles. Additionally, Pictet believes longer-term investment horizons provide a framework for greater levels of investment conviction as these are based on analysis of fundamental pathways rather than on timing shorter-term market movements. Pictet believes such an approach helps reduce portfolio turnover and thereby trading costs (commissions, trading spreads, market impact and any potential taxes such as stamp duty).

The following three assertions constitute Pictet’s core investment beliefs:

• **Longer-term horizons.** The equity market tends to misprice secular developments resulting as portfolio managers tend to focus on a rolling three-year investment horizon.

• **Benchmark agnostic portfolio construction.** Traditional index market-cap based index portfolios are biased toward past winners. Pictet constructs portfolios exploiting the more predictive characteristics of secular developments that, for example, are in contrast to many strategies that rely on backwards-looking market capitalisation based portfolio weights. The firm’s view is that allocations should be the aggregate of bottom-up investment decisions based on the company and industry fundamental analysis irrespective of sector, region or market cap. The resulting benchmark-agnostic portfolio seeks to not only provide for better opportunities for diversification but also to enhance the potential scope for superior risk-adjusted returns.

• **Themes are defined by the intersection of megatrends.** Megatrends are the synthetic aggregations of pathways that help simplify the complexity of the environment. They allow Pictet to represent their assumed knowledge of probable futures and developmental factors that are likely to impact growth in the longer-term. Megatrends have large and broad impact and extend over at least a 10 to 15 year time horizon. Thematic investment thus specializes in identifying and constructing portfolios based around companies whose growth drivers are linked to themes as defined by the intersection of megatrends.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Pictet establishes investment universes by defining themes that exploit the predictive characteristics of longer-term socio-economic developments. The investment team uses as a starting point, the megatrends as defined and monitored by the Copenhagen Institute for Futures Studies. The firm then seeks attractive pathways that are captured by the intersection of such megatrends. This helps to ensure that Pictet’s approach captures and they are able to monitor the secular developments associated with a given theme.

To qualify as a theme, the investment universe of companies needs to differ significantly from existing market cap weighted indices. Further, Pictet seeks investment universes where the overlaps are below 20%, that are clearly associated with megatrends and allow for scalability.

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

**Process**

Pictet manages two sleeves of the Diversified Real Asset Portfolio. While the investment philosophy is the same for both, there is a separate investment process for each sleeve, Agriculture and Timber.

**Agricultural Investment Process**

![Figure 6: Pictet-Agriculture Investment Process]

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Step 1: Strategic asset allocation

a) Strategic definition of the investment theme
Pictet’s research extends to companies active in the entire agriculture value chain, with focus on companies who produce farm inputs (machinery, chemicals and seeds), farm professionalization (ownership or management of farmland, production of meat and fish etc.) and supply chain services (logistics, processing, waste reduction etc.)

The objective is to define the fund’s long-term strategic orientation. At this stage, inputs from the members of the advisory board are sought. This allows the investment managers to better identify future trends affecting the agricultural industry. It helps to define the key themes that will characterize the fund’s investment concept and the agricultural companies that reflect the fund’s investment theme. The firm’s research leads them to believe that more value will go upstream in the food chain, especially to the most resource efficient parts of the chain.

b) Identification of the investable universe
From an initial universe of over 700 companies active in the agriculture-related segments, Pictet derives the investible universe by eliminating all stocks of the investment universe that do not have meaningful exposure to the theme of helping to improve the efficiency of the agricultural chain (quantitative screening).

The firm calculates the percentage of earnings before interest and tax (EBIT), earnings before interest, taxes, depreciation and amortization (EBITDA), and net sales that are related to the investment theme. Pictet then eliminates all companies whose exposure (the so called purity score) is below the fund specific threshold level of at least 50%. Pictet then balances diversification of the investible universe with its reflectiveness of the theme.

This step leaves Pictet with an investible universe of some 290 companies, which constitutes their investible universe. The firm reviews the investible universe twice a year.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Step 2: Bottom-up stock selection

a) Idea generation
Prolific idea generation is the firm’s driving force. By working in an environment that supports innovation and encourages originality, Pictet’s investment teams have the freedom to find and explore opportunities. Investment ideas are generated by detecting changes and trends in companies, industries and markets. By identifying them at an early stage, Pictet strives to pinpoint those companies whose prospects are likely to improve or deteriorate as a result. The firm’s success results from their ability to tap into what they believe to be the sources of information, evaluate that information intelligently, and use that knowledge quickly and decisively.

b) Research
The fund’s investment universe is characterized by a wide range of risk/return profiles. Approximately 75% of their universe is under-researched mid and small-cap companies. Pictet believes successful stock-picking is vital to avoid the losers and not miss the winners.

c) Company analysis
Pictet applies a bottom-up approach using a disciplined analysis that is aimed at identifying the most attractively valued and highest-quality shares in our universe. Only an active and disciplined investment style can consistently identify and benefit from pricing anomalies. During this step, greater emphasis is placed on primary research and direct contact with company management.

Between the two members of the investment management team, 200 company contacts per year are conducted either at the Pictet offices, during industry conferences, on-site meetings or through conference calls with management teams.

Pictet’s company factor is determined by three factors:

Management
Pictet assesses the management of a company with a scoring model. The firm wants to assure themselves that management has a coherent strategy and is positioned to take advantage of positive industry developments. By doing this, Pictet focuses on understanding the ability of the company to create future value. They assess expected future returns and compare it to the cost of capital.

Business franchise
Pictet also assesses the business franchise using a scoring template. They analyse the company’s competitive advantage (product differentiation, pricing power, customer loyalty) vis-à-vis competitors, and financial metrics through organic growth and margin trends.

Valuation
Pictet wants to know what their assessment says about what the company’s equity is worth. They employ three complementary methodologies to identify the most mispriced companies. They use different methods because they believe neither growth nor value characteristics alone are sufficient to analyze all companies at all times.
The first method uses HOLT* or discounted cash flow (DCF) methodology. Since the net present value of any company is the sum of its discounted future cash flows, today’s share price carries assumptions about both the future growth in cash flow and the risk-adjusted cost of capital. Pictet uses detailed cash flow return on investment analysis.

The second method is the “relative value,” using valuation multiple approaches relative to peers. For this purpose, conventional price to earnings, price to sales ratios, enterprise value (EV)/EBITDA are powerful tools if applied correctly.

Pictet compares a company’s price to earnings ratio (P/E) and EV/EBITDA with its 10-year and 5-year historical average in order to determine an under or over-valuation relative to history average.

Finally, the firm uses a momentum score which is a linear combination of the ranked returns and trading volumes of the company. The momentum score also includes institutional brokers’ estimate system (IBES) earnings revisions for FY1 and FY2. The ranking includes all companies of the investible universe.

**Industry Factor**

The industry factor reflects short term factors that affect Pictet’s investments. It is to be used to adapt the portfolio to different segments of the cycle of the industry as well as different cycles in the stock market which tend to push the stock price below the fundamental value defined in their valuation work.

**Step 3: Portfolio construction**

Portfolio construction is designed to translate Pictet’s best ideas into a portfolio in a risk-managed way. The firm builds an active portfolio from bottom-up stock selection. Unlike many managers, Pictet does not begin with a regional or country allocation. They believe it is very difficult to predict the relative performance of these factors and prefer instead to concentrate on analysing and finding promising companies.

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*HOLT’s methodology examines accounting information, converts it to cash and then values that cash, allowing a survey of the entire corporate capital structure and to identify key drivers of value others may miss.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
**Step 1: Strategic asset allocation**

a) **Strategic definition of the investment theme**

Pictet’s objective is to define the fund’s long-term strategic orientation. At this stage, inputs from the members of the firm’s Advisory Board are sought, and allow the investment managers to better identify future trends affecting the agricultural industry and to define the key themes that will characterize the fund’s investment concept and the timber companies that reflect the fund’s investment theme.

b) **Identification of the investable universe**

From an initial universe of over 220 companies active in the timber-related segments, Pictet derives the investible universe by eliminating all stocks that do not have meaningful exposure to the theme.

The firm calculates the percentage of EBIT, EBITDA and net sales related to the investment theme. Pictet then eliminates all companies whose exposure is below the fund-specific threshold level of at least 20%. Pictet balances diversification of the investible universe with its reflectiveness of the theme.

This step leaves Pictet with an investible universe of some 160 companies, with a combined market capitalization above $500 billion. The firm reviews the investible universe twice a year.

**Step 2: Calculation of timber value**

Pictet calculates for each company its “timber value” using their proprietary database. This metric is there to determine the long-term access of companies to wood fibre, to know how well a company would benefit from any wood price inflation.

The firm’s favoured metric is the value of the private timberlands divided by the enterprise value. With this metric, Pictet knows how much of the value of a company is related to its timberlands, given them the benefit of wood growth and land value appreciation over time. For some pulp companies, Pictet also uses the percentage of self-sufficiency in wood procurement. For some wood product companies, the firm also calculates the value of long-term leases.

**Step 3: Bottom-up stock selection**

a) **Idea generation**

Prolific idea generation is Pictet’s driving force. By working in an environment that supports innovation and encourages originality, Pictet’s investment team has the freedom to find and explore opportunities. Investment ideas are generated by detecting changes and trends in companies, industries and markets. By identifying them at an early stage, the firm strives to pinpoint those companies whose prospects are likely to improve or deteriorate as a result. Pictet’s success results from their ability to tap into what they believe to be the sources of information, evaluate that information intelligently and use that knowledge quickly and decisively.

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Asset allocation/diversification does not guarantee a profit or protect against a loss.
b) Research
The investment universe is characterised by a wide range of risk/return profiles. Approximately 75% of Pictet’s universe is under-researched mid and small-cap companies. Successful stock-picking is therefore vital to avoid the losers and not miss the winners.

c) Company analysis
Pictet applies a bottom-up approach using a disciplined analysis that is aimed at identifying the most attractively valued and highest-quality shares in the investment universe. Only an active and disciplined investment style can consistently identify and benefit from pricing anomalies. During this step, greater emphasis is placed on primary research and direct contact with company management.

Between the two members of the investment management team, at least 100 company contacts per annum are conducted either at the Pictet offices, during industry conferences, on-site meetings or through conference calls with management teams.

As mentioned above, and similar to the agriculture investment process section, Pictet’s company factor is determined by management, business franchise and valuation. Industry factor is also taken into consideration.

Step 4: Portfolio construction
Portfolio construction is designed to translate Pictet’s best ideas into a portfolio in a risk-managed way. Pictet builds an active portfolio from bottom-up stock selection. Unlike many managers, Pictet does not begin with a decision about a region or country. The firm believes it is very difficult to predict the relative performance of these factors and prefer instead to concentrate on analyzing and finding promising companies.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
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**

**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.

**Figure 9: The REIT’s 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

Asset allocation/diversification does not guarantee a profit or protect against a loss.
**Process**

The first phase in the real estate investment process (Figure 9 on page 21) 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 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.

*Asset allocation/diversification does not guarantee a profit or protect against a loss.*
Symphony Asset Management LLC (Symphony) is a diversified alternative investment manager headquartered in San Francisco, California with offices in New York, New York. An SEC-registered Investment Adviser since inception in 1994, Symphony is structured to meet the needs of institutional and retail clients. The firm manages assets across an integrated platform of long-only strategies, hedge funds and structured products investing in senior bank loans, high-yield bonds, convertible bonds and equities.

Symphony became a wholly owned subsidiary of Nuveen Investments, Inc. (Nuveen) in 2001. Symphony maintains autonomy over its investment process, personnel and client relationships. The firm benefits from Nuveen’s scale and additional institutional oversight, such as assistance with legal support, compliance and employee benefits.

Investment Philosophy and Process

**Philosophy**

Symphony’s investment philosophy centers on deep fundamental research driven by a high level of industry expertise. Detailed credit valuation is coupled with an understanding of technical factors to uncover mispriced opportunities and also to understand downside risk.

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

**Process**

Symphony bases its investment process (Figure 10 on page 24) on fundamental, bottom-up credit analysis, leveraging the team’s expertise and extensive experience investing across the capital structure.

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Asset allocation/diversification does not guarantee a profit or protect against a loss.
Each member of the fixed income team conducts substantial research to develop a keen insight into one or more sectors. Analysts assess sector dynamics, company business models and asset quality. Team members generate buy, sell and swap ideas by taking views and formulating opinions on sectors and companies. The investment team meets daily to compare outlooks on the market and review investment ideas in order to evaluate their potential opportunities and risks.

Inherent in Symphony’s research process is the assessment of risk for each individual security. Symphony concentrates its efforts on sectors where there is sufficient transparency to assess the downside risk and where firms have assets to support meaningful recovery in case of default. In Symphony’s focus on downside protection, the team favors opportunities where valuations can be quantified and risks assessed. Symphony is generally skeptical toward sectors with less transparency or measurable assets.

In Symphony’s credit analysis process, analysts are required to evaluate both the upside and the downside to any credit. Downside analysis involves estimating the recovery value if the firm were to declare bankruptcy. As a result, the portfolio is likely to favor sectors with higher levels of hard assets and/or operating models which are likely to generate ongoing cash flow, even in bankruptcy.

The portfolio is built security by security, based on the perceived return potential of the individual investments and the diversification benefits of investing across a range of sectors, issuers and security types. Symphony adjusts the weightings of sectors within the portfolio based on the fixed income team’s outlook.

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Tortoise Capital Advisors, L.L.C. (Tortoise) is an investment manager specializing in listed energy investments, including Master Limited Partnerships (MLPs). The firm was founded in 2002 and is headquartered in Leawood, Kansas (a suburb of Kansas City, Missouri).

**Investment Philosophy and Process**

**Midstream MLP Philosophy**

Tortoise typically invests in companies that transport, store, process and distribute crude oil, refined petroleum products (gasoline, diesel and jet fuel) and natural gas. These companies effectively connect areas of energy supply with areas of demand. Midstream MLPs tend to generate a stable, high current yield and consistent growth from long-lived critical assets operated by strong management teams.

Tortoise seeks to identify and invest in MLPs that generate stable, fee-based revenues with attractive growth prospects and controlled risk. The strategy follows a long-term philosophy with low turnover in its effort to achieve a portfolio characterized by high current yield, high growth and low volatility.

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

**Midstream MLP Process**

Tortoise’s investment process (Figure 11 on page 26) includes the following three steps:

1. Emphasize higher-quality MLPs with good growth prospects and reasonable liquidity
2. Select MLPs with strong management teams
3. Employ a proprietary valuation model to construct portfolio weightings

Asset allocation/diversification does not guarantee a profit or protect against a loss.
Tortoise’s security selection process focuses on assessing the overall attractiveness of the specific segment in which a company is involved, the company’s competitive position within that segment, potential commodity price risk, supply and demand, regulatory considerations, the stability and potential growth of the company’s cash flows and the company’s management track record.

While primary responsibility for monitoring, review and analysis of individual securities is spread among various individual members of the investment management team, all portfolio management decisions and reviews are based on a team approach.

Tortoise relies primarily on internally-generated research to support its deep fundamental approach to investing. The firm has developed proprietary financial, risk and valuation models which it uses to analyze historical results, forecast future cash flows, assess risk and assess relative value. In addition, the firm supplements its research through broker, company and third-party research.

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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.

No investment strategy, such as diversification or asset allocation, can guarantee a profit or protect against loss in periods of declining value.

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. Floating rate debt instruments are subject to credit risk, interest rate risk, and impaired collateral risk, which means that the value of the collateral used to secure a loan held by the Collective Investment Funds could decline over the course of the loan. Credit risk refers to an issuer’s ability to make interest and principal payments when due. Investments concentrated in natural resources industries including agriculture and timber 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. Investing in derivatives entails specific risks relating to liquidity, leverage, and credit that may reduce returns and/or increase volatility. 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) may 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. 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.

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