

# Principal Global Real Estate Securities Portfolio

## Sub-advised by Principal Real Estate Investors



Principal Real Estate Investors is the dedicated real estate asset manager for Principal Global Investors. This 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 Global 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.

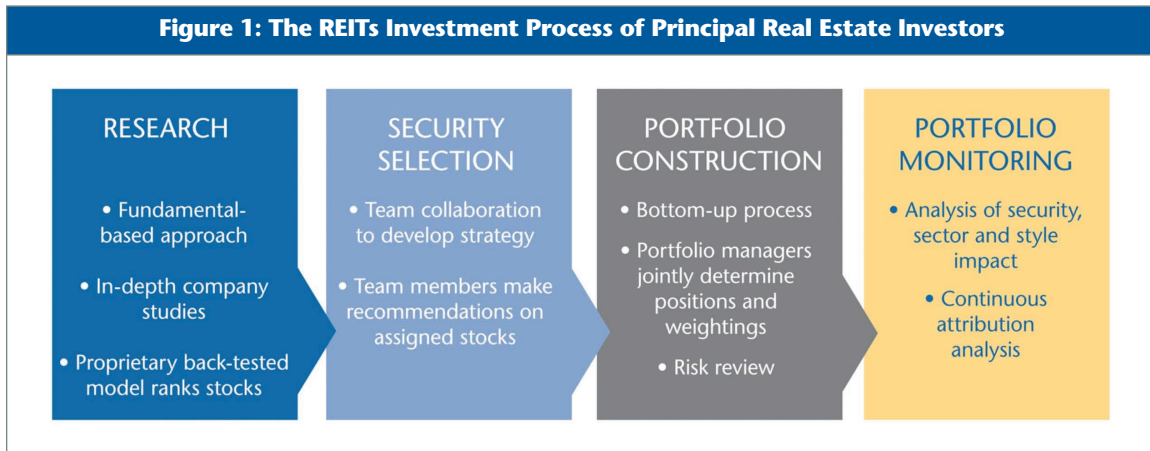
The firm considers disciplined portfolio construction and the appropriate allocation of agreed-upon client risk budgets to be critical components in the team's efforts to exploit identified mispricing opportunities in an optimal fashion.

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

**Not FDIC or NCUA insured**

May lose value • Not a deposit • No bank or credit union guarantee  
Not insured by any Federal government agency

## Process



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.

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.

### **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.

**Simon Hedger** has over 27 years of real estate experience, including extensive time spent in both the U.K. and Australia markets as an analyst and as a portfolio manager. He joined Principal Global Investors in 2003. Previously, Simon worked for Domaine real estate funds, managing the assets of its real estate syndicates. Prior to this, he was a senior equities analyst at Prudential Bache/BNP Equities. Simon's background also includes positions as fund manager for Paladin Commercial Trust and GEM Commercial Property Trust, as well as a variety of real estate-related roles with Prudential Assurance Company in both Australia and the U.K. Simon earned an MBA from the University of New England and is an associate member of the Royal Institute of Chartered Surveyors and the Australian Property Institute. Additionally, Simon is a U.K.-qualified chartered surveyor (ARICS).

**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](http://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](http://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.

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.

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.



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