

Second-Party Opinion Principal Sustainable Financing Framework



Evaluation Summary

Sustainalytics is of the opinion that the Principal Sustainable Financing Framework is credible and impactful and aligns with the Green Bond Principles 2021, Social Bond Principles 2021, Sustainability Bond Guidelines 2021, Green Loan Principles 2021, and Social Loan Principles 2021. This assessment is based on the following:



USE OF PROCEEDS The eligible categories for the use of proceeds – Green Buildings, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Clean Transportation, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, Financial Inclusion: Inclusive Products and Services, Access to Essential Services: Health and Education, Affordable Housing, and Socio-Economic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles. Sustainalytics considers that the financing provided in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG Goals 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14 and 15.



PROJECT EVALUATION / SELECTION Principal’s eligible projects will be identified by its Investment, Enterprise ESG, and Corporate Treasury teams and evaluated and selected by a dedicated Sustainability Bond Council. Sustainalytics considers the project selection process in line with market practice.



MANAGEMENT OF PROCEEDS Net proceeds will be monitored by Principal’s Investments and Sustainability teams via a Sustainable Finance Register. The Company intends to allocate proceeds within 18 months of each issuance under the Framework. Pending full allocation, the proceeds will be invested according to Principal’s normal liquidity activities. This is in line with market practice



REPORTING Principal intends to report on the allocation of proceeds on its website annually, until full allocation. Allocation reporting will be validated by a third-party and include the balance amount of allocated and unallocated net proceeds, as well as the description of selected projects. The Company is also committed to reporting on relevant impact metrics. Sustainalytics views Principal’s allocation and impact reporting as aligned with market practice.

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Introduction

Founded in 1879, Principal Financial Group Inc. (“Principal” or the “Company”) is a global financial investment management and insurance company, offering financial solutions to individuals and institutional investors. Based on Principal’s 2021 Company Profile, it has approximately USD 807 billion assets under management, serving over 34 million customers with more than 17,000 employees globally.

Principal has developed the Principal Sustainable Financing Framework (the “Framework”) under which the Company, or its subsidiaries,¹ intend to issue green, social, and sustainable bonds, term loans, preferred stock, subordinated notes, and funding agreements (each referred to as a “Sustainable Financing Instrument”) and use the proceeds to finance and/or refinance, in whole or in part, existing and/or future projects (“Eligible Assets”) that demonstrate environmental benefits and support social upliftment. The Framework defines eligibility criteria in eleven areas:

1. Green Buildings
2. Renewable Energy
3. Energy Efficiency
4. Sustainable Water and Wastewater Management
5. Clean Transportation
6. Pollution Prevention and Control
7. Environmentally Sustainable Management of Living Natural Resources and Land Use
8. Financial Inclusion: Inclusive Products and Services
9. Access to Essential Services: Health and Education
10. Affordable Housing
11. Socio-Economic Advancement and Empowerment

Principal engaged Sustainalytics to review the Principal Sustainable Financing Framework, dated June 2021, and provide a Second-Party Opinion on the Framework’s environmental and social credentials and its alignment with the Green Bond Principles 2021 (GBP), Social Bond Principles 2021 (SBP), Sustainability Bond Guidelines 2021 (SBG)², Green Loan Principles 2021 (GLP)³, and Social Loan Principles 2021 (SLP)⁴. This Framework has been published in a separate document.⁵

Scope of work and limitations of Sustainalytics’ Second-Party Opinion

Sustainalytics’ Second-Party Opinion reflects Sustainalytics’ independent⁶ opinion on the alignment of the reviewed Framework with the current market standards and the extent to which the eligible project categories are credible and impactful.

As part of the Second-Party Opinion, Sustainalytics assessed the following:

- The Framework’s alignment with the GBP, SBP and SBG, as administered by ICMA, and the GLP and SLP, as administered by LMA, APLMA, and LSTA;
- The credibility and anticipated positive impacts of the use of proceeds; and
- The alignment of the issuer’s sustainability strategy and performance and sustainability risk management in relation to the use of proceeds.

For the use of proceeds assessment, Sustainalytics relied on its internal taxonomy, version 1.7, which is informed by market practice and Sustainalytics’ expertise as an ESG research provider.

As part of this engagement, Sustainalytics held conversations with various members of Principal’s management team to understand the sustainability impact of their business processes and planned use of

¹ This includes Principal Life Insurance Company.

² The Green Bond Principles, Social Bond Principles, and Sustainability Bond Guidelines are administered by the International Capital Market Association and are available at <https://www.icmagroup.org/green-social-and-sustainability-bonds/sustainability-bond-guidelines-sbg/>

³ The Green Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/green-loan-principles/>

⁴ The Social Loan Principles are administered by the Loan Market Association, Asia Pacific Loan Market Association and Loan Syndications & Trading Association and are available at: <https://www.lsta.org/content/social-loan-principles-slp/>

⁵ The Principal Sustainable Financing Framework is available on Principal’s website at: www.principal.com/sustainability

⁶ When operating multiple lines of business that serve a variety of client types, objective research is a cornerstone of Sustainalytics and ensuring analyst independence is paramount to producing objective, actionable research. Sustainalytics has therefore put in place a robust conflict management framework that specifically addresses the need for analyst independence, consistency of process, structural separation of commercial and research (and engagement) teams, data protection and systems separation. Last but not the least, analyst compensation is not directly tied to specific commercial outcomes. One of Sustainalytics’ hallmarks is integrity, another is transparency.

proceeds, as well as management of proceeds and reporting aspects of the Framework. Principal representatives have confirmed (1) they understand it is the sole responsibility of Principal to ensure that the information provided is complete, accurate or up to date; (2) that they have provided Sustainalytics with all relevant information and (3) that any provided material information has been duly disclosed in a timely manner. Sustainalytics also reviewed relevant public documents and non-public information.

This document contains Sustainalytics' opinion of the Framework and should be read in conjunction with that Framework.

Any update of the present Second-Party Opinion will be conducted according to the agreed engagement conditions between Sustainalytics and Principal.

Sustainalytics' Second-Party Opinion, while reflecting on the alignment of the Framework with market standards, is no guarantee of alignment nor warrants any alignment with future versions of relevant market standards. Furthermore, Sustainalytics' Second-Party Opinion addresses the anticipated impacts of eligible projects expected to be financed with bond and loan proceeds but does not measure the actual impact. The measurement and reporting of the impact achieved through projects financed under the Framework is the responsibility of the Framework owner.

In addition, the Second-Party Opinion opines on the potential allocation of proceeds but does not guarantee the realized allocation of the bond and loan proceeds towards eligible activities.

No information provided by Sustainalytics under the present Second-Party Opinion shall be considered as being a statement, representation, warrant or argument, either in favor or against, the truthfulness, reliability or completeness of any facts or statements and related surrounding circumstances that Principal has made available to Sustainalytics for the purpose of this Second-Party Opinion.

Sustainalytics' Opinion

Section 1: Sustainalytics' Opinion on the Principal Sustainable Financing Framework

Sustainalytics is of the opinion that the Principal Sustainable Financing Framework is credible, impactful and aligns with the four core components of the GBP, SBP, GLP, and SLP. Sustainalytics highlights the following elements of Principal's Sustainability Bond Framework:

- Use of Proceeds:
 - The eligible categories – Green Buildings, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Clean Transportation, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, Financial Inclusion: Inclusive Products and Services, Access to Essential Services: Health and Education, Affordable Housing, and Socio-Economic Advancement and Empowerment – are aligned with those recognized by the GBP, SBP, GLP and SLP.
 - Sustainalytics recognizes that the GBP, SBP, GLP and SLP require project-based lending and financing, and that there is generally less transparency with non-project-based lending. While Principal's Framework includes project-based lending, it also provides for general corporate financing. By placing a minimum quantitative threshold of 90% of revenue that such company must derive from eligible criteria under the Framework, Sustainalytics believes that Principal has ensured that proceeds from the green, social and/or sustainability bonds issued will be directed to environmental and/or social activities that generate positive impact.
 - Within the Green Buildings category, eligible investments may include new or existing commercial or residential buildings that meet one of the following criteria: (i) buildings that have placed or are expected to place within the top 15% of their city in terms of greenhouse gas ("GHG") emissions, or (ii) buildings that have received or are expected to receive reputable green building certifications. This category also contemplates investments in refurbishments or upgrades of existing commercial or residential buildings that are expected to achieve a minimum of 25% energy savings.

- Sustainalytics notes positively that Principal intends to seek third-party assessments to qualify a building under the “15%” criterion.
 - The Framework specifies minimum standards of LEED Gold, BREEAM Excellent and BOMA Best Gold as well as the Energy Star label or other equivalent certification schemes. Sustainalytics views the schemes specified in the Framework to be credible and the levels selected to be indicative of positive impact and aligned with market practice. See Appendix 1 for further description of the referenced green building standards.
 - Sustainalytics views the minimum threshold improvement of 25% in energy efficiency to be in line with market practice.
- The Renewable Energy category relates to investments in the generation, transmission, and distribution of wind, solar, geothermal, hydropower, tidal power and biomass energy. Principal has specified the following additional eligibility criteria under this category:
 - Geothermal facilities with direct emissions less than 100g CO₂/kWh, hydropower facilities with a power density greater than 5W/m²; and
 - biomass projects are limited to those using waste as feedstock and are subject to emissions below 100g CO₂/kWh.
 - Sustainalytics views the establishment of direct emission thresholds as strengthening the Framework and considers this category to be aligned with market practice.
- Principal’s expenditures under the Energy Efficiency category may include investments in (i) projects that reduce electrical losses in bulk energy delivery or enable better integration of renewables such as energy storage and smart grids; and (ii) monitoring and optimization equipment such as smart meters, load control systems, sensors and building control systems. Sustainalytics views investments under this category to be in line with market practice, noting positively that the Framework-level exclusionary criterion excludes energy generation from fossil fuels.
- Within the Sustainable Water and Wastewater Management category, Principal may invest in technologies and projects that improve water quality, water efficiency, or climate change resilience such as wastewater management, storm water management. Additionally, the Company contemplates investments in projects that aim to reduce water consumption as well as improvements to municipal sewer and wastewater systems.⁷ Sustainalytics considers these activities to be aligned with market practice.
- Clean Transportation expenditures relate to investments in vehicles and infrastructure for zero direct emission mobility, including electric charging stages, bike racks, as well as infrastructure, rolling stock, and vehicles for electrified public transport and freight.
 - Sustainalytics notes that infrastructure, rolling stock and vehicles where the primary purposes is fossil fuel transportation is excluded under the Framework, Sustainalytics views this additional criterion to be aligned with market practice for green transportation.
- Within the Pollution Prevention and Control category, Principal intends to finance technologies and projects that are aimed at collecting, sorting, treating, recycling, or re-using construction waste and post-consumer waste products. Under this category, the Company may also finance waste treatment and environmental remediation activities such as land treatment and brownfield cleanup, soil washing, chemical oxidation, and bioremediation. Sustainalytics views these investments as aligned with market practice and notes positively that these activities will not be directed to fossil fuel or other extractive industries.
- The Environmentally Sustainable Management of Living Natural Resources and Land Use category contemplates investments in certified operations, climate-smart farm inputs (including biological crop protection or drip-irrigation) and the preservation or restoration of natural landscapes.
 - The Framework specifies the following certification schemes as eligible for agriculture and fisheries assets: USDA Organic, EU Organic, Marine Stewardship Council (“MSC”), Rainforest Alliance. In addition, forestry assets will be eligible if they meet the following third-party certifications: Forest Stewardship Council (“FSC”), the Programme for the

⁷ Principal has confirmed that the treatment of wastewater from fossil fuel operations are excluded from this category.

Endorsement of Forest Certification (“PEFC”), and the Sustainable Forestry initiative (“SFI”), which is affiliated with PEFC. Sustainalytics views these certifications to be credible and robust. Please refer to Appendix 2 and 3 for a detailed overview of these schemes.

- Under the Financial Inclusion: Inclusive Products and Services category, Principal intends to finance activities aimed at improving the financial well-being of target populations which includes small and medium enterprises (“SMEs”) (as defined by the OECD criteria)⁸ and underserved populations.⁹ This may include tools and programs that (i) provide access to financial literacy education for the target population; (ii) increase access to financial planning tools for women and minority-owned SMEs;¹⁰ and (iii) create open access to financial education by launching community learning centers that target women and minority-owned businesses. Sustainalytics views positively the targeted population within this category and recognizes that these investments could lead to positive social benefits.
- The Company’s investments in the Access to Essential Services: Health and Education category are targeted at enhancing access to essential services for underserved populations,¹¹ including investments in healthcare facilities and infrastructure for the provision of educational services.
 - Within the Healthcare sub-category, Principal’s financing initiatives will be directed towards (i) non-profit or public emergency healthcare facilities which aim to serve patients regardless of ability to pay; and (ii) voluntary health organizations.
 - As it relates to emergency healthcare provision, Sustainalytics recognizes Principal’s intent to enhance access to healthcare in the U.S., and notes that the Framework defines that eligible organizations will “provide free-of-cost or subsidized service to target populations”, ensuring access regardless of ability to pay, and considers these investments to be in line with market practice.
 - The voluntary health organizations¹² contemplated by the Framework are non-profit organizations involved in raising funds for health- and disease-related research and health education.
 - Investments in education include infrastructure for the provision of child, youth or adult education and vocational training services. Sustainalytics views these activities to be in line with market practice given the clearly defined target population.
- Within the Affordable Housing category, Principal contemplates investments that meet national or regional affordable housing definitions in the applicable jurisdiction, including households whose income is below 80% of the Area Median Income (“AMI”) in the U.S. As part of this category the Framework allows for investments in non-profit social housing providers that provide rental homes at below-market rents to low-income earners who meet the aforementioned threshold. Sustainalytics considers this threshold to be in line with market practice.
- Through the Socioeconomic Advancement and Empowerment category, the Company intends to support SMEs (as defined by OECD criteria),¹³ properties or projects that are at least 51% owned, managed or controlled by women, minorities, vulnerable or marginalized populations. Sustainalytics believes that Principal’s lending to such businesses promotes equality and advancement in business leadership.
- The Framework excludes financing related to the following activities: fossil-fuel energy, nuclear energy, alcohol, tobacco, weapons and arms trade, gambling, and adult entertainment. Sustainalytics considers these exclusionary criteria as strengthening the Framework.

⁸ The Organization for Economic Co-operation and Development (“OECD”) defines small and medium enterprises (“SMEs”) as non-subsidary, independent firms which employ fewer than a given number of employees. For the United States this refers to firms with fewer than 500 employees.

⁹ Underserved Populations include women, minorities, and U.S. households whose income is below 80% of the area median income (AMI). This definition is aligned with the U.S. Department of Housing and Urban Development (“HUD”).

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¹² As defined by the North American Industry Classification System. More information at: <https://www.naics.com/naics-code-description/?code=813212>

¹³ *Ibid.*

- **Project Evaluation and Selection:**
 - Principal's eligible projects ("Eligible Assets") will be identified by the Company's Investment, Enterprise ESG, and Corporate Treasury teams and submitted to a dedicated Sustainability Bond Council (the "Council") for evaluation. The Council is made up of members from the Office of Principal's Chief Investment Officer, as well as the Capital Markets, and Corporate Sustainability teams.
 - The Council is ultimately responsible for selecting assets that will qualify as Eligible Assets in accordance with the eligibility criteria defined in the Framework.
 - Based on the formalized process for project selection and the establishment of a dedicated committee, Sustainalytics considers this process to be in line with market practice.
- **Management of Proceeds:**
 - Principal will track the allocation of net proceeds to Eligible Assets, in accordance with the Framework, using a Sustainable Finance Register. The register will be monitored by Principal's Investments and Sustainability teams and reviewed quarterly by the Council.
 - The Company intends to fully allocate proceeds within 18 months after issuance of Sustainable Financing Instruments. Pending allocation, unallocated proceeds will be managed in accordance with Principal's normal liquidity activities.
 - Sustainalytics considers this process to be in line with market practice.
- **Reporting:**
 - The Company commits to publishing a Sustainable Financing Report on its website, which will include amounts allocated to each eligible category, the remaining balance of unallocated net proceeds, the share of financing and re-financing, and where feasible, asset-level description details. The report will be updated annually until full allocation, and thereafter as needed to disclose material developments. In addition, Principal intends to engage an independent third-party for post issuance verification of each allocation report.
 - Impact reporting will include quantitative environmental and social performance indicators such as annual energy savings (in megawatt hours (MWh) and/ or gigawatt hours (GWh)), tons of waste reduced, and the number of individuals served.
 - Based on impact and allocation reporting, Sustainalytics views Principal's reporting as being in line with market practice and notes positively the use of third-party verification of the allocation.

Alignment with Sustainability Bond Guidelines 2021

Sustainalytics has determined that the Principal Sustainable Financing Framework aligns with the four core components of the GBP, SBP, GLP and SLP. For detailed information please refer to Appendix 4: Sustainability Bond/ Sustainability Bond Programme External Review Form.

Section 2: Sustainability Performance of Principal

Contribution of Framework to Principal's sustainability strategy

Principal demonstrates a commitment to sustainability through a defined Environmental, Social and Governance (ESG) strategy with the following three core pillars and corresponding targets:

- *People* – outlines the dedication to providing employee skill development and training opportunities;
- *Practices* – establishes a Scope 1 and 2 emissions reduction goal of 40% from 2019 baseline by 2035, and 100% by 2050; and
- *Products and Services* – integrates ESG initiatives into the Company's fiduciary responsibility.¹⁴

Sustainalytics highlights the following social and environmental activities of Principal that align with the categories under the Framework:

- Launch of the Principal Foundation's Financial Security Collaborative to explore how the insurance sector can improve the financial security of underserved and low- or moderate- income workers.¹⁵

¹⁴ Principal, "Our ESG Strategy", at: <https://www.principal.com/sustainability/esg-strategy>

¹⁵ Principal, "2019 Corporate Social Responsibility Report", at: <https://www.principal.com/sustainability/esg-data-center>

- USD 60 million in annual investments into digital tools that allow for greater access to financial products, guidance, and advice, that meaningfully advance principles of sustainable consumption and production.¹⁶
- Green building portfolio investments, comprising of 47 LEED certified and 41 ENERGY STAR certified buildings.¹⁷ Overall, properties within the Principal Real Estate Investor portfolio have reduced their energy consumption by 15.2% since 2008.¹⁸ 84% of Principal's office portfolio is certified under either BOMA 360, IREM, LEED and/or ENERGY STAR.
- Over USD 24 million in COVID-19 related support to customers, businesses, and local communities in 2020.¹⁹
- Integrated third-party custom ESG screening of assets under management for ESG risk factors and ratings, industry trends, and controversy tracking; includes USD 3.4 billion in equities and USD 4.3 billion in fixed income assets.²⁰

Principal's socioeconomic empowerment priorities are also highlighted through the goals of the Principal Foundation (the "Foundation"), a not-for-profit aimed at creating a more financially inclusive future through the provision of financial resources and skills training to underserved populations. To this end, in 2020, the Foundation provided 31,666 individuals with job and skill development training, 3,215 individuals with employment placements, and 3,283 individuals with access to banking and financial service opportunities. In addition, the Foundation operates the YouthCan Initiative which is targeted at addressing the financial challenges facing youth; provided financial literacy kits via the United Way, and also provided 3,356 microloans to women SME owners in 19 countries in 2020.

Sustainalytics is of the opinion that Principal's Sustainable Financing Framework is aligned with its overall sustainability strategy and initiatives, and that the Framework will further Principal's goals on its key social and environmental priorities.

Well-positioned to address common environmental and social risks associated with the projects

While Principal's use of proceeds will finance green and/or social projects that are anticipated to have overall positive impacts, Sustainalytics recognizes that there are environmental and social risks which could be associated with the financing provided. Some key environmental and social risks may include occupational health and safety, land use and biodiversity issues associated with large-scale infrastructure development, effluents, and waste generated in construction. Although Principal has a limited role in the development of specific eligible projects which the Company is financing, Sustainalytics believes that Principal is well positioned to manage and address environmental and social risks accompanying the projects through the following measures:

- A Corporate Code of Business Conduct and Ethics (the "Code") that applies to every director, officer, and employee of all entities operating under the Company throughout the world. The Code is grounded in the Company's Core Values of: (i) Customer Focus, (ii) People Development, (iii) Financial Strength, and (iv) Operational Excellence.
- An ESG Task Force that reports annually to the Board of Directors helps guide business decisions and ensures alignment with internal goals and third-party standards, including those of the UN Global Compact which the Company signed onto as a Participant in 2021. The task force meets monthly to focus on topics related to GRI reporting, policy engagement, KPI and goal setting, and the Company's purpose strategy.²¹
- An Adverse Impacts Policy for Principal Global Investors sets forth a process for the Company to identify and prioritize primary adverse sustainability impacts, approaching the topic from the perspective of the harm that Principal's investment positions may cause, and informing on the appropriate steps to mitigate it.²²

¹⁶ *Ibid*

¹⁷ Principal, "2020 Corporate Social Responsibility Report", at: <https://www.principal.com/sustainability/>

¹⁸ Principal, "2019 sustainability highlights", at: <https://www.principal.com/about-us/corporate-citizenship/corporate-social-responsibility>

¹⁹ Principal, "2020 Corporate Social Responsibility Report", at: <https://www.principal.com/sustainability/>

²⁰ *Ibid*.

²¹ Principal, "2020 Corporate Social Responsibility Report", at: <https://www.principal.com/sustainability/>

²² Principal Global Investors, "Principal Adverse Impacts – Investment Due Diligence Policy", at:

<https://www.principalglobal.com/documentdownload/143853>

- A Sustainability Risk Policy for Principal Global Investors that integrates sustainability considerations into the investment decision making processes of the Company in accordance with the Sustainable Finance Disclosure Regulation (EU) No. 2019/2088.²³
- Responsible Investment Policies in place which are prepared in alignment with the United Nations Principles for Responsible Investment (UNPRI), which Principal has been a signatory to since 2010.²⁴ The Company's adoption of these principles allows for customized application across all managed asset classes, providing specific consideration for the risks and opportunities associated with equities, fixed income, and real estate investments.²⁵

Based on these policies and standards, Sustainalytics is of the opinion that Principal has implemented adequate measures and is well-positioned to manage and mitigate environmental and social risks commonly associated with the eligible categories.

Section 3: Impact of Use of Proceeds

All eleven use of proceeds categories are aligned with those recognized by GBP, SBP, GLP and/or SLP. Sustainalytics has focused on three below where the impact is specifically relevant in the local context.

Importance of green buildings and energy efficiency improvements in the U.S.

According to the World Green Building Council, the building sector contributes significantly to global energy consumption and greenhouse gas emissions, accounting for 38% of total energy-related CO₂ emissions.²⁶ In the U.S. alone, residential and commercial buildings account for 39% of total energy consumption.²⁷ In order to achieve a net-zero carbon building stock by 2050, which is necessary for the achievement of the Paris Climate Agreement goal of limiting global warming to well below 2°C, the International Energy Agency (IEA) suggests CO₂ emissions would need to decline by 50% globally by the year 2030. Despite this overarching global target, the Global Alliance for Buildings and Construction reports that emissions from the building and construction sector globally have continued to rise, moving the sector away from achieving global climate targets.²⁸

Although a higher proportion of buildings in 2020 were constructed using sustainable certification standards than ever before, the ratio of investments in energy efficiency to total building investments is still relatively small.^{29,30} It is estimated that through greater investment in green buildings the sector can achieve a 50% reduction in total CO₂ emissions by 2050.³¹

In this context, Sustainalytics views Principal's investments in green buildings that have received third-party sustainability certifications as well as energy efficiency improvements as having the potential to reduce greenhouse gas emissions associated with its overall operations and footprint.

Importance of investments in renewable energy

The IEA estimates that annual global energy demand will increase by 9% from 2019 to 2030, despite the recent decrease in demand as a result of COVID-19 related economic contractions.³² As the world's population continues to increase to an estimated 8.5 billion by 2030,³³ energy use is expected to rise in tandem. According to the International Renewable Energy Agency (IRENA), 171 gigawatts of renewable energy generation capacity were added to globally in 2018, driven primarily by wind and solar projects.³⁴

²³ Principal Global Investors, "Sustainability Risks Policy", at: <https://www.principalglobal.com/documentdownload/144045>

²⁴ Principal Global Asset Allocation, "PGAA Responsible Investment (ESG) Policy", at: <https://www.principalglobal.com/documentdownload/146058>

²⁵ Principal Global Investors, "Responsible Investment Policy Statement", at: <https://www.principalglobal.com/documentdownload/26903>.

²⁶ Global Alliance for Buildings and Construction, "2020 Global Status Report for Buildings and Construction", (2020), at: https://globalabc.org/sites/default/files/inline-files/Buildings%20GSR_Executive_Summary%20FINAL_0.pdf

²⁷ U.S. Energy Information Administration FAQ, (2021), at: <https://www.eia.gov/tools/faqs/faq.php?id=86&t=1>

²⁸ Global Alliance for Buildings and Construction, "2020 Global Status Report for Buildings and Construction", (2020), at: https://globalabc.org/sites/default/files/inline-files/Buildings%20GSR_Executive_Summary%20FINAL_0.pdf

²⁹ Global Alliance for Buildings and Construction, "2020 Global Status Report for Buildings and Construction", (2020), at: https://globalabc.org/sites/default/files/inline-files/Buildings%20GSR_Executive_Summary%20FINAL_0.pdf

³⁰ For every USD 1 spent on energy efficiency in buildings, USD 37 are spent on conventional construction approaches. Global Alliance for Buildings and Construction, "2020 Global Status Report for Buildings and Construction", (2020), at: https://globalabc.org/sites/default/files/inline-files/Buildings%20GSR_Executive_Summary%20FINAL_0.pdf

³¹ World Green Building Council, "About Green Building", at: <https://www.worldgbc.org/benefits-green-buildings>

³² The International Energy Agency (IEA), "World Energy Outlook 2020", at: <https://www.iea.org/reports/world-energy-outlook-2020>

³³ United Nations, "Population 2030", (2015) at: <https://www.un.org/en/development/desa/population/publications/pdf/trends/Population2030.pdf>

³⁴ International Renewable Energy Agency (IRENA), "Sector adds 171 GW of generating capacity in 2018", (2018) at: <https://www.irena.org/newsroom/pressreleases/2019/Apr/Renewable-Energy-Now-Accounts-for-a-Third-of-Global-Power-Capacity>

In spite of this growth, renewables represent only one third of electricity generation worldwide.³⁵ In the U.S., 17.1% of electricity was generated from renewables in 2018, which is only slightly more than the proportion generated from coal.^{36,37} Projections show a likely increase in US renewables to approximately 24% of total capacity by 2030, however this figure is still below the current proportion of renewables seen in the global energy system today.³⁸ As such, significantly more investments in renewable energy will be required to meet the Paris Agreement goal of 65% of energy arising from renewables by 2050 and the climate target of limiting temperature increases to well below 2°C (and ideally to 1.5°C).³⁹

Sustainalytics is of the opinion that investments to be made under the Framework within the renewable energy category will contribute to decarbonizing the electricity sector in the U.S. and globally, thereby supporting global climate goals.

Importance of socioeconomic advancement and empowerment through financial inclusion

Access to financial services is a key component of economic development due to its high correlation with increasing access to other basic services such as housing, healthcare, and education.⁴⁰ Financial inclusion enables poverty reduction and fosters opportunities for economic growth, allowing individuals to accumulate savings, access financial education resources, and take advantage of financial opportunities.⁴¹

Even though the benefits of financial inclusion are clear, 25% of U.S. households were considered unbanked or underbanked in the United States in 2017.⁴² Approximately 5.4% of U.S. households have no bank account, and therefore rely on alternative financial services such as payday loans which may expose them to predatory situations and demonstrates the need for expanded socioeconomic coverage by the financial sector.⁴³

SMEs in the U.S. are a key driver of economic growth and development but remain underserved by financial institutions. Between 1993 and 2016, 60% of new jobs were created by SMEs, and in 2018 47.5% of the country’s workforce were employed by the 30.2 million small businesses operating across the country.^{44,45} Despite their economic importance, SMEs face considerable barriers to financial services, often due to their lack of credit history and inexperience in producing sophisticated financial statements necessary for many loans.⁴⁶ In light of the COVID-19 pandemic, it has become increasingly important to provide support to SMEs given that these smaller businesses recover slower from economic shocks than larger firms.⁴⁷

Based on the above, Sustainalytics is of the opinion that Principal’s activities under the Framework related to financial inclusion, including the implementation of financial planning tools of low-income individuals and small business owners, will contribute to reducing the inequalities and barriers faced by underserved and disadvantaged populations.

Alignment with/contribution to SDGs

The Sustainable Development Goals (SDGs) were set in September 2015 by the United Nations General Assembly and form an agenda for achieving sustainable development by the year 2030. The Financing Instruments issued under the Principal Sustainable Financing Framework are expected to advance the following SDGs and targets:

Use of Proceeds Category	SDG	SDG target
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³⁵ *Ibid*
³⁶ Center for Climate and Energy Solutions, “Renewable Energy”, at: [https://www.c2es.org/content/renewable-energy/#:~:text=Renewable%20energy%20is%20the%20fastest,wind%20power%20\(6.6%20percent\)](https://www.c2es.org/content/renewable-energy/#:~:text=Renewable%20energy%20is%20the%20fastest,wind%20power%20(6.6%20percent))
³⁷ Pew Research Center, “Renewable energy is growing fast in the U.S., but fossil fuels still dominate”, (2020), at: <https://www.pewresearch.org/fact-tank/2020/01/15/renewable-energy-is-growing-fast-in-the-u-s-but-fossil-fuels-still-dominate/>
³⁸ *Ibid*
³⁹ International Renewable Energy Agency, “Renewable energy: a key climate solution”, (2017) at: https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2017/Nov/IRENA_A_key_climate_solution_2017.pdf?la=en&hash=A9561C1518629886361D12EFA11A051E004C5C98
⁴⁰ United Nations Secretary-General’s Special Advocate for Inclusive Finance for Development, Financial Inclusion, at: <https://www.unsgsa.org/financial-inclusion>
⁴¹ World Bank, “The Global Findex Database 2017”, (2017), at: <https://globalfindex.worldbank.org/>
⁴² CNBC, “On the Money”, at: <https://www.cnbc.com/2019/03/08/25percent-of-us-households-are-either-unbanked-or-underbanked.html>
⁴³ CNBC, “On the Money”, at: <https://www.cnbc.com/2019/03/08/25percent-of-us-households-are-either-unbanked-or-underbanked.html>
⁴⁴ US Small Business Administration, Frequently Asked Questions About Small Business, at: <https://www.sba.gov/sites/default/files/advocacy/SB-FAQ-2017-WEB.pdf>
⁴⁵ SBA, “Small Businesses Drive Job Growth in the U.S.”, at: <https://www.sba.gov/advocacy/small-businesses-drive-job-growth-us>
⁴⁶ OECD, “Enhancing SME access to diversified financial instruments”, (2018), at: <https://www.oecd.org/cfe/smes/ministerial/documents/2018-SME-Ministerial-Conference-Plenary-Session-2.pdf>
⁴⁷ McKinsey, “Small Business Recovery after the COVID-19 Crisis”, <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/us-small-business-recovery-after-the-covid-19-crisis#>

Green Buildings	9. Industry Innovation and Infrastructure	9.4 By 2030, upgrade infrastructure and retrofit industries to make them sustainable, with increased resource-use efficiency and greater adoption of clean and environmentally sound technologies and industrial processes, with all countries taking action in accordance with their respective capabilities
Renewable Energy	7. Affordable and clean energy	7.2 By 2030, increase substantially the share of renewable energy in the global energy mix
Energy Efficiency	7. Affordable and clean energy	7.3 By 2030, double the global rate of improvement in energy efficiency
Sustainable Water and Wastewater Management	6. Clean Water and Sanitation	6.4 By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity
Clean Transportation	11. Sustainable Cities and Communities	11.2 By 2030, provide access to safe, affordable, accessible and sustainable transport systems for all, improving road safety, notably by expanding public transport, with special attention to the needs of those in vulnerable situations, women, children, persons with disabilities and older persons
Pollution Prevention and Control	12. Responsible Consumption and Production	12.5 By 2030, substantially reduce waste generation through prevention, reduction, recycling and reuse.
Environmentally Sustainable Management of Living Natural Resources and Land Use	14. Life Below Water	14.2 By 2020, sustainably manage and protect marine and coastal ecosystems to avoid significant adverse impacts, including by strengthening their resilience, and take action for their restoration in order to achieve healthy and productive oceans
	15. Life on Land	15.a Mobilize and significantly increase financial resources from all sources to conserve and sustainably use biodiversity and ecosystems
Financial Inclusion: Inclusive Products and Services	8. Decent work and economic growth	8.10 Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance and financial services for all
	10. Reduced Inequalities	10.2 By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status

Access to Essential Services: Health and Education	3. Good Health and Well-being 4. Quality Education	3.8 Achieve universal health coverage, including financial risk protection, access to quality essential health-care services and access to safe, effective, quality and affordable essential medicines and vaccines for all 4.1 By 2030, ensure that all girls and boys complete free, equitable and quality primary and secondary education leading to relevant and effective learning outcomes
Affordable Housing	11. Sustainable Cities and Communities	11.1 By 2030, ensure access for all to adequate, safe and affordable housing and basic services and upgrade slums
Socio-Economic Advancement and Empowerment	5. Gender Equality 8. Decent work and economic growth	5.a Undertake reforms to give women equal rights to economic resources, as well as access to ownership and control over land and other forms of property, financial services, inheritance and natural resources, in accordance with national laws 8.3 Promote development-oriented policies that support productive activities, decent job creation, entrepreneurship, creativity and innovation, and encourage the formalization and growth of micro-, small- and medium sized enterprises, including through access to financial services.

Conclusion

Principal has developed the Principal Sustainable Financing Framework under which it may issue Sustainable Financing Instruments and use the proceeds to finance projects that support a wide range of environmental and social initiatives described in this report. Sustainalytics considers that the projects funded by this framework are expected to provide positive environmental and social impacts.

The Framework outlines a process by which proceeds will be tracked, allocated, and managed, and commitments have been made for reporting on the allocation and impact of the use of proceeds. Furthermore, Sustainalytics believes that the Framework is aligned with the overall sustainability strategy of the company and that the use of proceeds categories will contribute to the advancement of the UN Sustainable Development Goals 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, and 15. Additionally, Sustainalytics is of the opinion that Principal has adequate measures to identify, manage and mitigate environmental and social risks commonly associated with the eligible projects funded by the use of proceeds.

Based on the above, Sustainalytics is confident that Principal is well-positioned to issue Sustainable Financing Instruments, and that the Principal Sustainable Financing Framework is robust, transparent, and in alignment with the core components of the Green Bond Principles 2021, Social Bond Principles 2021, Sustainability Bond Guidelines 2021, and Green Loan Principles 2021.

Appendices

Appendix 1: Green Building Certification Schemes





	LEED ⁴⁸	Energy Star ⁴⁹	BOMA BEST ⁵⁰	BREEAM ⁵¹
Background	Leadership in Energy and Environmental Design (LEED) is a US Certification System for residential and commercial buildings used worldwide. LEED was developed by the non-profit U.S. Green Building Council (USGBC) and covers the design, construction, maintenance and operation of buildings.	ENERGY STAR is a U.S Environmental Protection Agency voluntary program that provides independently certified energy ratings for products, homes, buildings, and industrial plants. Certification is given on an annual basis, so a building must maintain its high performance to be certified year to year.	BOMA BEST, administered by the Building Owners and Managers Association (BOMA) of Canada, is a certification program for existing buildings. The assessment considers performance and operation of buildings in a wide range of performance and operations categories.	BREEAM (Building Research Establishment Environmental Assessment Method) was first published by the Building Research Establishment (BRE) in 1990. Based in the UK, this scheme can be used for new, refurbished and extension of existing buildings.
Certification levels	<ul style="list-style-type: none"> • Certified • Silver • Gold • Platinum 	<ul style="list-style-type: none"> • 1-100 score, 75 is minimum for certification 	<ul style="list-style-type: none"> • Certified • Bronze • Silver • Gold • Platinum 	<ul style="list-style-type: none"> • Pass • Good • Very Good • Excellent • Outstanding
Areas of assessment	<ul style="list-style-type: none"> • Energy and atmosphere • Sustainable Sites • Location and Transportation • Materials and resources • Water efficiency • Indoor environmental quality • Innovation in Design • Regional Priority 	<ul style="list-style-type: none"> • Energy use 	<ul style="list-style-type: none"> • Energy • Water • Air • Comfort • Health and Wellness • Custodial • Purchasing • Waste • Site • Stakeholder Engagement 	<ul style="list-style-type: none"> • Management • Energy • Land Use and Ecology • Pollution • Transport • Materials • Water • Waste • Health and Wellbeing • Innovation
Requirements	Minimum requirements independent of level of certification; point-based scoring system weighted by category to determine certification level. The rating system is adjusted to apply to specific sectors, such as: New Construction, Major Renovation,	1-100 score based on energy use, as calculated through the Portfolio Manager tool. Raw score is adjusted based on location, operating conditions, and other factors. The numerical score indicates performance better than at least 75 percent of similar buildings nationwide.	Minimum requirements independent of level of certification; score based on checklist to determine certification level. The minimum best practices and category scoring is adjusted for seven different asset classes: office, enclosed shopping centres, light industrial, open air retail,	Minimum requirements depending on the level of certification; scoring system weighted by category, producing a percentage-based overall score. The majority of BREEAM issues are flexible, meaning that the client can choose which to comply with to build their performance score.

⁴⁸ USGBC, LEED, at: <https://new.usgbc.org/leed>.

⁴⁹ ENERGY STAR, at: <https://www.energystar.gov/>.

⁵⁰ BOMA BEST, at: <http://bomacanada.ca/bomabest/>.

⁵¹ BREEAM, at: www.breeam.com.

	Core and Shell Development, Schools-/Retail-/Healthcare New Construction and Major Renovations, and Existing Buildings: Operation and Maintenance.		universal, MURB, and health care.	BREAAAM has two stages/ audit reports: a 'BREAAAM Design Stage' and a 'Post Construction Stage', with different assessment criteria.
Qualitative Considerations	Widely accepted within the industry, both in North America and internationally, and considered a guarantee of strong performance.	Accounts only for energy use, not other measures of environmental performance. Is a key component of other green building certification systems.	Most commonly used certification for existing buildings in Canada, and considered less administratively burdensome for existing buildings.	Used in more than 70 countries: Good adaptation to the local normative context. Predominant environmental focus, lower levels are less strict than LEED.
Performance display				

Appendix 2: Overview of Referenced Agricultural and Fisheries Certifications





	USDA Organic ⁵²	EU Organic ⁵³	Rainforest Alliance ⁵⁴	Marine Stewardship Council ⁵⁵
Background	The USDA Organic label is a US certification system overseen, administered and enforced by the National Organic Program of the United States Department of Agriculture. The US Organic label is regulated by the US Organic Foods Production Act of 1990 and involves input from the National Organic Standards Board (a Federal Advisory Committee made up of 15 members of the public) and the public.	The EU Organic Farming is a European wide label organized under the European Commission's Council Regulation (EC) no 834/2007. The regulation covers the organic production and labelling of organic products including live or unprocessed agricultural projects, processed agricultural products for use of food, feed, and vegetative propagating material and seeds for cultivation.	The Rainforest Alliance Seal is a global certification system for Agriculture, Forestry and Tourism. The Rainforest Alliance certification indicates compliance with the organization's standards for environmental, social and economic sustainability. Rainforest Alliance merged with UTZ in January 2018.	Marine Stewardship Council (MSC) is a non-profit organization founded in 1996, that issues eco-label certifications for fisheries which are sustainable and well-managed.
Clear positive impact	Promoting sustainable farming practices that improve water quality, conserve energy, increase biodiversity and contribute to soil health.	Promotion of a sustainable management system that respects nature's systems, contributes to biological diversity, uses energy responsibly, respects high animal welfare standards.	Promoting sustainable practices in agriculture, forestry and tourism.	Promoting sustainable fisheries practices.
Minimum standards	The USDA Organic seal sets strict production and labeling requirements: <ul style="list-style-type: none"> • produced without genetic engineering, ionizing radiation or sewage sludge • produced using allowed substances based on a comprehensive list of authorized synthetic and non-synthetic substances overseen by a USDA NOP authorized agent 	The EU Organic Farming system prohibits the use of GMOs (minimum 95% GMO free), the use of ionizing radiation and sets core requirements for plant production, production rules for seaweed, livestock production rules, production rules for aquaculture animals.	Rainforest Alliance establishes a minimum threshold for impact through critical criteria and requires farmers to go beyond by demonstrating improved sustainability on 14 continuous improvement criteria.	A minimum score must be met across each of the performance indicators. As a condition to certification, low-scoring indicators must be accompanied by action plans for improvement.
Scope of certification or programme	The USDA Organic system addresses key risks such as substance use through the regulation of synthetic and non-synthetic substances to preserve soil quality and in line with federal guidelines on animal raising practices, pest and weed control and the use of additives.	The EU Organic Farming system addresses key risks such as substance use (e.g. pesticides, soluble fertilizers, soil conditioners or plant protection products), the maintenance and enhancement of soil life, natural soil fertility, soil stability and biodiversity, preventing and combating soil damage (compaction, erosion).	Rainforest Alliance addresses key risks such as human rights, child labour, pesticide use and biodiversity use through its criteria.	The MSC standard consists of a fisheries standard and a chain of custody standard. The Fishery Standard assesses three core principles: sustainable fish stocks, minimising environmental impact, and effective fisheries management; collectively these account for the major environmental and social impacts.

⁵² U.S. Department of Agriculture, USDA Organic: <https://www.usda.gov/topics/organic>

⁵³ European Commission, Organics at a glance: https://ec.europa.eu/info/food-farming-fisheries/farming/organic-farming/organics-glance_en

⁵⁴ Rainforest Alliance: <https://www.rainforest-alliance.org/>

⁵⁵ Marine Stewardship Council, "The MSC Fisheries Standard", at: <https://www.msc.org/standards-and-certification/fisheries-standard>.

				The Chain of Custody standard addresses certified purchasing, product identification, separation, traceability and records, and good management.
Verification of standards and risk mitigation	The USDA seal has a twofold enforcement mechanism, one by Organic Certifiers and one by the USDA Agricultural Marketing Services. The two bodies undergo audits to ensure compliance with criteria and continuous improvement at least once a year or unannounced.	Certified entities undergo audits to ensure compliance with criteria and continuous improvement at least once a year, or more often based on a risk assessment.	Certified entities undergo third party verification to ensure compliance with criteria and continuous improvement.	Third-party conformity assessment bodies (CABs), certified by Accreditation Service International (ASI) carry out assessments in line with the MSC standard and ISO 17065. Certification is valid for up to five years.
Third party expertise and multi-stakeholder process	The USDA Organic seal is organized by the National Organic Program which develops the rules and regulations for the production, handling, labeling and enforcement of all USDA organic products. This process receives input from the national Organic Standards Board (a Federal Advisory Committee made of 15 members of the public) and the general public.	The EU Organic Farming is a government-based standard resulting from public consultations and third-party deliberations in line with the European Commission's typical legislative approach.	Standard setting is aligned with the ISEAL Standard Setting Code.	Aligned with the UN Code of Conduct for Responsible Fishing, and further informed by the Global Sustainable Seafood Initiative (GSSI), World Trade Organization (WTO), and International Social and Environmental Accreditation and Labelling (ISEAL)
Performance Display				
Third-party verified	80 certifying agents are USDA accredited and authorized to certify operations under the USDA organic standards. 48 of the 80 certifying authorities are US based and 32 are in foreign countries. Most certifying agents are directly accredited by the USDA National Organic Program, with an additional 21 members being officially authorized through recognition agreements between US and other governments.	Every Member State must designate one or more private and/or public control authorities in charge for the organic production and labelling of organic products in the EU Member States.	<ul style="list-style-type: none"> • Africert • Conservacion y Desarrollo Certified S.A. • Imaflora • IMO India • CERES • IBD • Indocert • NaturaCert • Productos y Procesos Sostenables, A.C. • NEPCon 	<ul style="list-style-type: none"> • MSC assessment is carried out by accredited Conformity Assessment Bodies ("CABs"). CABs must meet the requirements set out in the MSC Certification Requirements.

<p>Qualitative considerations</p>	<p>Under the USDA Organic seal, the US federal legislation allows three levels of organic foods, namely: purely organic products made entirely with certified organic ingredients and labeled 100% organic, products with at least 95% organic ingredients. Both categories are allowed to be certified USDA Organic. A third category with at least 70% organic ingredients may be labeled as “made with organic ingredients”, but cannot display the USDA Organic seal.</p>	<p>The EU Organic Farming system is widely recognized across all 28 Member States. Currently, 11.9% million hectares are currently certified under the system, with the whole organic area representing 6.2% of the total utilized agricultural area in the European Union.</p>	<p>Global recognition across 76 countries around the world. There are 763 Rainforest Alliance certified products and more than 1,354,057 people who have conducted training, certification and verification under the Rainforest Alliance standard. Rigorous on the enforcement of minimum standards and strong governance over the implementation of social and environmental mitigation processes.</p>	<p>The MSC label is the most widely recognized sustainable fisheries label worldwide and is generally accepted to have positive impacts on marine environments.</p> <p>Proponents of the label cite the transparent science-based process for approval and its successful engagement with industry groups. Criticism from various observers include lack of focus on preventing by-catch, protecting marine mammals and endangered species, follow-up on conditions, crew safety, and live tracking of supply chains.</p>
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Appendix 3: Overview of Referenced Forestry Certifications

	FSC ⁵⁶	PEFC ⁵⁷	SFI ⁵⁸
Background	Founded in 1993 after the 1992 Earth Summit in Rio failed to produce any international agreements to fight against deforestation, FSC aims to promote sustainable forest management practice.	PEFC was founded in 1999 in response to the specific requirements of small- and family forest owners as an international umbrella organization providing independent assessment, endorsement and recognition of national forest certification systems.	In 2005, the PEFC recognized the SFI standard with an aim to advance sustainable forestry and responsible purchasing globally. The SFI program has on-product labels to help consumer interact with the forestry supply chain by supporting responsible forestry. The SFI standards pertain to - Forest Management Standard, Fiber Sourcing Standard and Chain-of-Custody Standard
Basic Principles	<ul style="list-style-type: none"> • Compliance with laws and FSC principles • Tenure and use rights and responsibilities • Indigenous peoples' rights • Community relations and workers' rights • Benefits from the forests • Environmental impact • Management plans • Monitoring and assessment • Special sites – high conservation value forests (HCVF) • Plantations 	<ul style="list-style-type: none"> • Maintenance and appropriate enhancement of forest resources and their contribution to the global carbon cycle • Maintenance and enhancement of forest ecosystem health and vitality • Maintenance and encouragement of productive functions of forests (wood and no-wood) • Maintenance, conservation and appropriate enhancement of biological diversity in forest ecosystems • Maintenance and appropriate enhancement of protective functions in forest management (notably soil and water) • Maintenance of socioeconomic functions and conditions • Compliance with legal requirements 	<ul style="list-style-type: none"> • To practice sustainable forestry that integrates land stewardship ethic and conservation of ecosystem services • To protect and maintain forest productivity and health • To protect water resources and biological diversity • To manage the visual impacts of forest operations, and to provide recreational opportunities for the public • To manage and protect integrity of forests and lands of special significance (ecologically, geologically or culturally important) • To use and promote sustainable forestry practices that are both scientifically credible and economically, environmentally and socially responsible • To avoid Controversial Sources including Illegal logging in Offshore Fiber Sourcing as well as sourcing from countries that do not have effective social laws. • To comply with applicable federal, provincial, state, and local forestry and related environmental laws, statutes, and regulations • To support advances in sustainable forest management through forestry research as well as improve the practice of sustainable forestry through training and education programs • To broaden the practice of sustainable forestry on public lands through community involvement as well as the understanding of the standard by documenting certification audits and making the findings publicly available. • To continually improve the practice of forest management

⁵⁶ Forest Stewardship Council, at: <https://www.fsc.org/en>.

⁵⁷ Programme for the Endorsement of Forest Certification, at: <https://www.pefc.org/>.

⁵⁸ Sustainable Forestry Initiative, at: <https://www.sfiprogram.org/>.

<p>Governance</p>	<p>The General Assembly, consisting of all FSC members, constitutes the highest decision-making body.</p> <p>At the General Assembly, motions are proposed by one member, seconded by two more, and deliberated and voted on by all members. Members are entitled to vote to amend the bylaws, initiate new policies, and clarify, amend or overturn a policy decision by the board.</p> <p>Members apply to join one of three chambers – environmental, social, or economic – that are further divided into northern and southern sub-chambers.</p> <p>Each chamber holds 33.3% of the weight in votes, and within each chamber the votes are weighted so that the North and South hold an equal portion of authority, to ensure influence is shared equitably between interest groups and countries with different levels of economic development.</p> <p>The votes of all individual members in each sub-chamber represent 10% of the total vote of the sub-chamber, while the votes of organizational members make up the other 90%.</p> <p>The members vote for the board of directors, which is accountable to the members. There is an international board elected by all members and a US board, elected by the US-based members.</p>	<p>PEFC’s governance structure is formed by the General Assembly (GA) which is the highest authority and decision-making body. It is made up of all PEFC members, including national and international stakeholders.</p> <p>Members vote on key decisions including endorsements, international standards, new members, statutes and budgets. All national members have between one and seven votes, depending on membership fees, while international stakeholder members have one vote each.</p> <p>The Board of Directors supports the work of the GA and together the GA and the Board make the formal approval of final draft standards. Standards are developed by working groups.</p> <p>In general, PEFC’s governance structure is more representative of industry and government stakeholders than of social or environmental groups, which gives industry and governments more influence in the decision-making process. However, the organization does include stakeholders from all sectors.</p>	<p>The SFI program is operated by SFI Inc., a fully independent non-profit charitable 501(c)(3) organization.</p> <p>SFI Inc. is governed by an 18-member board of directors made up of three chambers with equal membership: environmental, social and economic. This multi-stakeholder board of directors is the sole governing body over all aspects of the SFI program, including the SFI 2010-2014 Standard, chain-of-custody, labeling and claims, marketing and promotion.</p> <p>The SFI has an External Review Panel, comprising environmental, conservation and forestry experts. This panel annually reviews the program’s progress and releases a report publicly.</p> <p>There are thirty-seven SFI Implementation Committees across North America that operate at the regional, state and provincial level to help promote the SFI Standard through targeted local actions. They involve public agencies, universities, local forestry associations, landowners, loggers, partnerships with conservation groups, and other community based organizations</p>
<p>Scope</p>	<p>FSC is a global, multi-stakeholder owned system. All FSC standards and policies are set by a consultative process. There is an FSC Global standard and for certain countries FSC National standards. Economic, social, and environmental interests have equal weight in the standard setting process. FSC follows the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p>	<p>Multi-stakeholder participation is required in the governance of national schemes as well as in the standard-setting process. Standards and normative documents are reviewed periodically at intervals that do not exceed five years. The PEFC Standard Setting standard is based on ISO/IEC Code for good practice for standardization (Guide 59)⁵⁹ and the ISEAL Code of Good Practice for Setting Social and Environmental Standards.</p>	<p>SFI Standards promote sustainable forest management in North America and responsible procurement of forest products around the world.</p> <p>The SFI Forest Management Standard particularly applies to organizations in the United States and Canada and the Fiber Sourcing Standard as well as the Chain-of-Custody standard apply to any organization globally.</p>

⁵⁹ ISO, “ISO/IEC Guide 59:2019”, (2019), at: <https://www.iso.org/standard/23390.html>.

<p>Chain-of-Custody</p>	<ul style="list-style-type: none"> • The Chain-of-Custody (CoC) standard is evaluated by a third-party body that is accredited by FSC and compliant with international standards. • CoC standard includes procedures for tracking wood origin. • CoC standard includes specifications for the physical separation of certified and non-certified wood, and for the percentage of mixed content (certified and non-certified) of products. • CoC certificates state the geographical location of the producer and the standards against which the process was evaluated. Certificates also state the starting and finishing point of the CoC. 	<ul style="list-style-type: none"> • Quality or environmental management systems (ISO 9001:2008 or ISO 14001:2004 respectively) may be used to implement the minimum requirements for chain-of-custody management systems required by PEFC. • Only accredited certification bodies can undertake certification. • CoC requirements include specifications for physical separation of wood and percentage-based methods for products with mixed content. • The CoC standard includes specifications for tracking and collecting and maintaining documentation about the origin of the materials. • The CoC standard includes specifications for the physical separation of certified and non-certified wood. • The CoC standard includes specifications about procedures for dealing with complains related to participant's chain of custody. 	<ul style="list-style-type: none"> • Any entity harvesting, transporting, handling or processing forest based products can use CoC certification to track and communicate forest fiber content using one of the following optional approaches for chain of custody: physical separation, average percentage or volume credit method. • These entities shall obtain an independent, third-party certification by an SFI certification body to the requirements set out in this standard if they choose to utilize an SFI CoC label or claim. • Quality or environmental management systems (ISO 9001: 2008) or environmental management system (ISO 14001:2004) can be used to meet minimum requirements for the management system. • This standard shall be used together with the requirements specifying the origin, which is to be verified by the CoC. Usage of labels and claims based on the implementation of this standard shall follow ISO 14020:2000 (Environmental labels and declarations)
<p>Non-certified wood sources</p>	<p>FSC's Controlled Wood Standard establishes requirements to participants to establish supply-chain control systems, and documentation to avoid sourcing materials from controversial sources, including:</p> <ol style="list-style-type: none"> Illegally harvested wood, including wood that is harvested without legal authorization, from protected areas, without payment of appropriate taxes and fees, using fraudulent papers and mechanisms, in violation of CITES requirements, and others, Wood harvested in violation of traditional and civil rights, Wood harvested in forests where high conservation values are threatened by management activities, 	<p>The PEFC's Due Diligence System requires participants to establish systems to minimize the risk of sourcing raw materials from:</p> <ol style="list-style-type: none"> forest management activities that do not comply with local, national or international laws related to: operations and harvesting, including land use conversion, <ul style="list-style-type: none"> management of areas with designated high environmental and cultural values, protected and endangered species, including CITES species, health and labor issues, 	<p>SFI requires program participants to:</p> <ol style="list-style-type: none"> Comply with applicable federal, provincial, state, and local forestry and related environmental laws, statutes, and regulations such as - The Clean Water Act, The Endangered Species Act, The Species at Risk Act, The Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) etc. Avoid controversial sources including Illegal Logging and Fiber Sourced from Areas that do not have Effective Social Laws pertaining to: workers' health and safety, fair labor practices, indigenous peoples' rights, anti-discrimination and anti-harassment measures, prevailing wages and workers' right to organize. Document information that includes knowledge about direct suppliers' application of the principles of sustainable forestry.

	<p>d. Wood harvested in forests being converted from forests and other wooded ecosystems to plantations or non-forest uses,</p> <p>e. Wood from management units in which genetically modified trees are planted.</p>	<ul style="list-style-type: none"> ○ indigenous peoples' property, tenure and use rights, ○ payment of royalties and taxes. <p>c. genetically modified organisms,</p> <p>d. forest conversion, including conversion of primary forests to forest plantations.</p>	
<p>Accreditation/ verification</p>	<p>FSC-accredited Certification Bodies (CB) conduct an initial assessment, upon successful completion companies are granted a 5-year certificate. Companies must undergo an annual audit every year and a reassessment audit every 5 years. Certification Bodies undergo annual audits from Accreditation Services International (ASI) to ensure conformance with ISO standard requirements.</p>	<p>Accreditation is carried out by an accreditation body (AB). Like a certification body checks a company meets the PEFC standard, the accreditation body checks that a certification body meets specific PEFC and ISO requirements. Through the accreditation process PEFC has assurance that certification bodies are independent and impartial, that they follow PEFC certification procedures.</p> <p>PEFC does not have their own accreditation body. Like with the majority of ISO based certifications, PEFC relies on national ABs under the umbrella of the International Accreditation Forum (IAF). National ABs need to be a member of the IAF, which means they must follow IAF's rules and regulations.</p>	<p>All SFI certifications require independent, third-party audits and are performed by internationally accredited certification bodies.</p> <p>Accredited certification bodies are required to:</p> <ul style="list-style-type: none"> ● maintain audit processes consistent with the requirements of ISO 17021:2006 conformity assessment – requirements for bodies providing audit and certification of management systems; and ● conduct audits in accordance with the principles of auditing contained in the ISO 19011:2002 Guidelines for Quality and/or Environmental Management Systems Auditing.
<p>Conclusion</p>	<p>Sustainalytics views both FSC and PEFC, as well as the PEFC-affiliated scheme SFI, as being robust, credible standards that are based on comprehensive principles and criteria that are aligned with ISO. Both schemes have received praise for their contribution to sustainable forest management practices⁶⁰ and both have also faced criticism from civil society actors.^{61,62} In certain instances, these standards go above and beyond national regulation and are capable of providing a high level of assurance that sustainable forest management practices are in place. However, in other cases, the standards are equal or similar to national legislation and provide little additional assurance. Ultimately, the level of assurance that can be provided by either scheme is contingent upon several factors including the certification bodies conducting audits, national regulations and local context.</p>		

⁶⁰ FESPA, "FSC, PEFC and ISO 38200", (2018), at: <https://www.fespa.com/en/news-media/blog/fsc-pefc-and-iso-38200>

⁶¹ Yale Environment 360, "Greenwashed Timber: How Sustainable Forest Certification Has Failed", (2018), at: <https://e360.yale.edu/features/greenwashed-timber-how-sustainable-forest-certification-has-failed>

⁶² EIA, "PEFC: A Fig Leaf for Stolen Timber", (2017), at: <https://eia-global.org/blog-posts/PEFC-fig-leaf-for-stolen-timber>

Appendix 4: Sustainability Bond / Sustainability Bond Programme - External Review Form

Section 1. Basic Information

Issuer name:	Principal Financial Group, Inc.
Sustainability Bond ISIN or Issuer Sustainability Bond Framework Name, if applicable:	Principal Sustainable Financing Framework
Review provider's name:	Sustainalytics
Completion date of this form:	May 4, 2021
Publication date of review publication:	

Section 2. Review overview

SCOPE OF REVIEW

The following may be used or adapted, where appropriate, to summarise the scope of the review.

The review assessed the following elements and confirmed their alignment with the GBP and SBP:

- | | |
|--|--|
| <input checked="" type="checkbox"/> Use of Proceeds | <input checked="" type="checkbox"/> Process for Project Evaluation and Selection |
| <input checked="" type="checkbox"/> Management of Proceeds | <input checked="" type="checkbox"/> Reporting |

ROLE(S) OF REVIEW PROVIDER

- | | |
|---|--|
| <input checked="" type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Note: In case of multiple reviews / different providers, please provide separate forms for each review.

EXECUTIVE SUMMARY OF REVIEW and/or LINK TO FULL REVIEW (*if applicable*)

Please refer to Evaluation Summary above.

Section 3. Detailed review

Reviewers are encouraged to provide the information below to the extent possible and use the comment section to explain the scope of their review.

1. USE OF PROCEEDS

Overall comment on section (*if applicable*):

The eligible categories for the use of proceeds – Green Buildings, Renewable Energy, Energy Efficiency, Sustainable Water and Wastewater Management, Clean Transportation, Pollution Prevention and Control, Environmentally Sustainable Management of Living Natural Resources and Land Use, Financial Inclusion: Inclusive Products and Services, Access to Essential Services: Health and Education, Affordable Housing, and Socio-Economic Advancement and Empowerment – are aligned with those recognized by the Green Bond Principles, Social Bond Principles, Green Loan Principles and Social Loan Principles. Sustainalytics considers that the financing provided in the eligible categories will lead to positive environmental or social impacts and advance the UN Sustainable Development Goals, specifically SDG Goals 3, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14 and 15.

Use of proceeds categories as per GBP:

- | | |
|--|---|
| <input checked="" type="checkbox"/> Renewable energy | <input checked="" type="checkbox"/> Energy efficiency |
| <input checked="" type="checkbox"/> Pollution prevention and control | <input checked="" type="checkbox"/> Environmentally sustainable management of living natural resources and land use |
| <input type="checkbox"/> Terrestrial and aquatic biodiversity conservation | <input checked="" type="checkbox"/> Clean transportation |
| <input checked="" type="checkbox"/> Sustainable water and wastewater management | <input type="checkbox"/> Climate change adaptation |
| <input type="checkbox"/> Eco-efficient and/or circular economy adapted products, production technologies and processes | <input checked="" type="checkbox"/> Green buildings |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with GBP categories, or other eligible areas not yet stated in GBPs | <input type="checkbox"/> Other (please specify): |

If applicable please specify the environmental taxonomy, if other than GBPs:

Use of proceeds categories as per SBP:

- | | |
|---|--|
| <input type="checkbox"/> Affordable basic infrastructure | <input checked="" type="checkbox"/> Access to essential services |
| <input checked="" type="checkbox"/> Affordable housing | <input checked="" type="checkbox"/> Employment generation (through SME financing and microfinance) |
| <input type="checkbox"/> Food security | <input checked="" type="checkbox"/> Socioeconomic advancement and empowerment |
| <input type="checkbox"/> Unknown at issuance but currently expected to conform with SBP categories, or other eligible areas not yet stated in SBP | <input checked="" type="checkbox"/> Other (please specify): Financial Inclusion: Inclusive Products and Services |

If applicable please specify the social taxonomy, if other than SBP:

2. PROCESS FOR PROJECT EVALUATION AND SELECTION

Overall comment on section (if applicable):

Principal's eligible projects will be identified by its Investment, Enterprise ESG, and Corporate Treasury teams and evaluated and selected by a dedicated Sustainability Bond Council. Sustainalytics considers the project selection process in line with market practice.

Evaluation and selection

- | | |
|---|---|
| <input checked="" type="checkbox"/> Credentials on the issuer's social and green objectives | <input checked="" type="checkbox"/> Documented process to determine that projects fit within defined categories |
| <input checked="" type="checkbox"/> Defined and transparent criteria for projects eligible for Sustainability Bond proceeds | <input checked="" type="checkbox"/> Documented process to identify and manage potential ESG risks associated with the project |
| <input checked="" type="checkbox"/> Summary criteria for project evaluation and selection publicly available | <input type="checkbox"/> Other (please specify): |

Information on Responsibilities and Accountability

- | | |
|--|--|
| <input checked="" type="checkbox"/> Evaluation / Selection criteria subject to external advice or verification | <input type="checkbox"/> In-house assessment |
| <input type="checkbox"/> Other (please specify): | |

3. MANAGEMENT OF PROCEEDS

Overall comment on section (*if applicable*):

Net proceeds will be monitored by Principal's Investments and Sustainability teams via a Sustainable Finance Register. The Company intends to allocate proceeds within 18 months of an issuance under the Framework. Pending full allocation, the proceeds will be invested according to Principal's normal liquidity activities. This is in line with market practice

Tracking of proceeds:

- | |
|---|
| <input checked="" type="checkbox"/> Sustainability Bond proceeds segregated or tracked by the issuer in an appropriate manner |
| <input checked="" type="checkbox"/> Disclosure of intended types of temporary investment instruments for unallocated proceeds |
| <input type="checkbox"/> Other (please specify): |

Additional disclosure:

- | | |
|--|---|
| <input type="checkbox"/> Allocations to future investments only | <input checked="" type="checkbox"/> Allocations to both existing and future investments |
| <input checked="" type="checkbox"/> Allocation to individual disbursements | <input type="checkbox"/> Allocation to a portfolio of disbursements |

- Disclosure of portfolio balance of unallocated proceeds
 Other (please specify):

4. REPORTING

Overall comment on section (if applicable):

Principal intends to report on the allocation of proceeds on its website annually, until full allocation. Allocation reporting will be validated by a third-party and include the balance amount of allocated and unallocated net proceeds, as well as the description of selected projects. The Company is also committed to reporting on relevant impact metrics. Sustainalytics views Principal's allocation and impact reporting as aligned with market practice.

Use of proceeds reporting:

- Project-by-project
 On a project portfolio basis
 Linkage to individual bond(s)
 Other (please specify):

Information reported:

- Allocated amounts
 Sustainability Bond financed share of total investment
 Other (please specify):

Frequency:

- Annual
 Semi-annual
 Other (please specify):

Impact reporting:

- Project-by-project
 On a project portfolio basis
 Linkage to individual bond(s)
 Other (please specify):

Information reported (expected or ex-post):

- GHG Emissions / Savings
 Energy Savings
 Decrease in water use
 Number of beneficiaries
 Target populations
 Other ESG indicators (please specify): several quantitative and qualitative metrics as outlined in the Framework.

Frequency:

- Annual
 Semi-annual
 Other (please specify):

Means of Disclosure

- | | |
|---|--|
| <input type="checkbox"/> Information published in financial report | <input type="checkbox"/> Information published in sustainability report |
| <input type="checkbox"/> Information published in ad hoc documents | <input checked="" type="checkbox"/> Other (please specify): Company's website. |
| <input type="checkbox"/> Reporting reviewed (if yes, please specify which parts of the reporting are subject to external review): | |

Where appropriate, please specify name and date of publication in the useful links section.

USEFUL LINKS (e.g. to review provider methodology or credentials, to issuer's documentation, etc.)

SPECIFY OTHER EXTERNAL REVIEWS AVAILABLE, IF APPROPRIATE

Type(s) of Review provided:

- | | |
|--|--|
| <input type="checkbox"/> Consultancy (incl. 2 nd opinion) | <input type="checkbox"/> Certification |
| <input type="checkbox"/> Verification / Audit | <input type="checkbox"/> Rating |
| <input type="checkbox"/> Other (<i>please specify</i>): | |

Review provider(s):

Date of publication:

ABOUT ROLE(S) OF REVIEW PROVIDERS AS DEFINED BY THE GBP AND THE SBP

- i. Second-Party Opinion: An institution with sustainability expertise that is independent from the issuer may provide a Second-Party Opinion. The institution should be independent from the issuer's adviser for its Sustainability Bond framework, or appropriate procedures such as information barriers will have been implemented within the institution to ensure the independence of the Second-Party Opinion. It normally entails an assessment of the alignment with the Principles. In particular, it can include an assessment of the issuer's overarching objectives, strategy, policy, and/or processes relating to sustainability and an evaluation of the environmental and social features of the type of Projects intended for the Use of Proceeds.
- ii. Verification: An issuer can obtain independent verification against a designated set of criteria, typically pertaining to business processes and/or sustainability criteria. Verification may focus on alignment with internal or external standards or claims made by the issuer. Also, evaluation of the environmentally or socially sustainable features of underlying assets may be termed verification and may reference external criteria. Assurance or attestation regarding an issuer's internal tracking method for use of proceeds, allocation of funds from Sustainability Bond proceeds, statement of environmental or social impact or alignment of reporting with the Principles may also be termed verification.
- iii. Certification: An issuer can have its Sustainability Bond or associated Sustainability Bond framework or Use of Proceeds certified against a recognised external sustainability standard or label. A standard or label defines specific criteria, and alignment with such criteria is normally tested by qualified, accredited third parties, which may verify consistency with the certification criteria.
- iv. Green, Social and Sustainability Bond Scoring/Rating: An issuer can have its Sustainability Bond, associated Sustainability Bond framework or a key feature such as Use of Proceeds evaluated or assessed by qualified third parties, such as specialised research providers or rating agencies, according to an established scoring/rating methodology. The output may include a focus on environmental and/or social performance

data, process relative to the Principles, or another benchmark, such as a 2-degree climate change scenario. Such scoring/rating is distinct from credit ratings, which may nonetheless reflect material sustainability risks.

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