

ANNEX II

Template pre-contractual disclosure for the financial products referred to in Article 8, paragraphs 1, 2 and 2a, of Regulation (EU) 2019/2088 and Article 6, first paragraph, of Regulation (EU) 2020/852

Sustainable investment

means an investment in an economic activity that contributes to an environmental or social objective, provided that the investment does not significantly harm any environmental or social objective and that the investee companies follow good governance practices.

The EU

Taxonomy is a classification system laid down in Regulation (EU) 2020/852, establishing a list of **environmentally sustainable economic activities**. That Regulation does not lay down a list of socially sustainable economic activities. Sustainable investments with an environmental objective might be aligned with the Taxonomy or not.



Product name: Preferred Securities Fund

Legal entity identifier: 549300QIHU45DUO1RL56

Environmental and/or social characteristics

Does this financial product have a sustainable investment objective?

Yes

No

It will make a minimum of **sustainable investments with an environmental objective**: ____%

It promotes Environmental/ Social (E/S) characteristics and while it does not have as its objective a sustainable investment, it will have a minimum proportion of ____% of sustainable investments

in economic activities that qualify as environmentally sustainable under the EU Taxonomy

with an environmental objective in economic activities that qualify as environmentally sustainable under the EU Taxonomy

in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

with an environmental objective in economic activities that do not qualify as environmentally sustainable under the EU Taxonomy

with a social objective

It will make a minimum of **sustainable investments with a social objective**: ____%

It promotes E/S characteristics, but **will not make any sustainable investments**

What environmental and/or social characteristics are promoted by this financial product?

The environmental characteristics considered by the Fund include, but are not limited to, greenhouse gas (GHG) emissions reduction, and transitioning to renewable sources of power. The social characteristics considered by the Fund include, but are not limited to, health and safety and product safety.

No reference benchmark has been designated for the purposes of attaining the above characteristics promoted by the Fund.

Sustainability indicators

measure how the environmental or social characteristics promoted by the financial product are attained.

- **What sustainability indicators are used to measure the attainment of each of the environmental or social characteristics promoted by this financial product?**

The Adviser uses the following indicators to measure the attainment of each of the characteristics promoted by the Fund:

For assessing an investee company's practice on GHG emissions, the Adviser checks indicators on GHG emissions, carbon footprint, GHG intensity of investee companies and exposure levels for companies active in the fossil fuel sector.

For assessing an investee company's practice on transitioning to renewable sources of power and climate change policies, the Adviser checks indicators on their share of non-renewable energy consumption and production.

For assessing an investee company's practice on product safety, the Adviser checks indicators on violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises.

For assessing an investee company's practice on health and safety, the Adviser checks indicators on violations of UN Global Compact principles and Organisation for Economic Cooperation and Development (OECD) Guidelines for Multinational Enterprises, and lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles.

- **What are the objectives of the sustainable investments that the financial product partially intends to make and how does the sustainable investment contribute to such objectives?**

Not applicable as the Fund does not intend to make sustainable investments.

- **How do the sustainable investments that the financial product partially intends to make, not cause significant harm to any environmental or social sustainable investment objective?**

Not applicable as the Fund does not intend to make sustainable investments.

— *How have the indicators for adverse impacts on sustainability factors been taken into account?*

Not applicable as the Fund does not intend to make sustainable investments.

— *How are the sustainable investments aligned with the OECD Guidelines for Multinational Enterprises and the UN Guiding Principles on Business and Human Rights? Details:*

Not applicable as the Fund does not intend to make sustainable investments.

The EU Taxonomy sets out a “do not significant harm” principle by which Taxonomy-aligned investments should not significantly harm EU Taxonomy objectives and is accompanied by specific EU criteria.

The “do no significant harm” principle applies only to those investments underlying the financial product that take into account the EU criteria for environmentally sustainable economic activities. The investments underlying the remaining portion of this financial product do not take into account the EU criteria for environmentally sustainable economic activities.



Principal adverse impacts

are the most significant negative impacts of investment decisions on sustainability factors relating to environmental, social and employee matters, respect for human rights, anti-corruption and anti-bribery matters.

Any other sustainable investments must also not significantly harm any environmental or social objectives.



Does this financial product consider principal adverse impacts on sustainability factors?

- Yes,** the Adviser considers principal adverse impacts on sustainability factors by combining internal analysis of fund holdings and third-party data against all mandatory indicators in Table 1 of SFDR Annex 1 and selected optional indicators in Table 2 and 3 of SFDR Annex 1.

The principal adverse impacts on sustainability factors are considered as part of the Adviser's proprietary ESG scoring methodology and as such, the indicators are reviewed at regular intervals or when newly reported information becomes available.

Consideration of principal adverse impacts on sustainability factors will be confirmed as part of the periodic reporting to be disclosed in the annual report of the Fund.

- No**

What investment strategy does this financial product follow?

The Fund seeks to achieve its overall objective by investing primarily in a portfolio of US dollar denominated preferred securities and debt securities. Within this, the Fund may invest, in particular, in convertible bonds and contingent convertible securities (CoCos).. At the time of the Fund's investment, the majority of these securities will be rated as investment grade quality and may be listed or unlisted.

The Fund seeks to add value primarily through security selection, including credit analysis. Its investment process involves in depth proprietary research, and strategic and disciplined portfolio construction.

In order to address the environmental characteristic promoted, the Adviser applies binding screening criteria to the selection of underlying assets as part of its investment decision making process. This selection criteria may not be disapplied or overridden by the Adviser.

The Adviser employs an approach based on assigning a tiered ESG risk level, as further described below, to each holding considered within the Fund. This assessment is subsequently incorporated in the fundamental analysis integral to investment decision making. Companies assigned with a high risk level could support a change in the underlying credit recommendation. Companies with a medium risk level can have material ESG challenges, but the Adviser believes these are typically manageable. Companies assigned a low risk level have effective ESG policies and relatively minor issues.

The Adviser's proprietary analysis to identify this tiered risk level for each company incorporates a review of a company's ESG risk-mitigation policies, ESG performance data and goal disclosures, supported by management discussions. This is supported with further third party data and opinions, such as Bloomberg and MSCI. However, the Adviser will consider, but does not rely on, rating agency and other third-party research opinions to solely make its determination.

- What are the binding elements of the investment strategy used to select the investments to attain each of the environmental or social characteristics promoted by this financial product?***

The following are considered the binding elements of the Fund's investment strategy:

Average rating -The average MSCI ESG rating of the Fund (based on the percentage of net assets of the Fund and the corresponding MSCI ESG rating of the parent company/issuer) will be BBB or better.

The investment strategy guides investment decisions based on factors such as investment objectives and risk tolerance.

Minimum rating - No more than 20% of the net assets of the Fund will be invested in securities issued by companies with an MSCI ESG rating of BB or lower at any time.

N.B. In the absence of an MSCI ESG rating, the Adviser shall apply an estimated comparable rating, based on research inputs including MSCI. External ESG ratings will not be applied to cash, cash equivalents, and US Treasuries.

A set of fixed exclusion criteria is in place to exclude companies from consideration for investment where their revenue is significantly derived from involvement in producing thermal coal, tobacco or firearms or where there is involvement in the gambling or adult entertainment sectors, as defined by the GICS Industry Sector classification. The Adviser will also exclude companies that are direct producers of or are associated with controversial chemicals (such as herbicides and pesticides deemed as health hazards), minerals (such as those which have been proven to be carcinogenic) and products (such as opioids and other addictive substances) as defined by the Adviser's proprietary standards.

The Fund will also exclude holdings where an investee company's involvement in controversial weapons is identified as defined by the ISS Controversial Weapons Research methodology.

This screening and exclusion policy will apply across all securities holdings as described in the investment policy and does not specifically align itself to external guidelines or principles.

- ***What is the committed minimum rate to reduce the scope of the investments considered prior to the application of that investment strategy?***

Not applicable as there is no committed minimum rate to reduce the scope of investments.

Good governance practices include sound management structures, employee relations, remuneration of staff and tax compliance.

- ***What is the policy to assess good governance practices of the investee companies?***

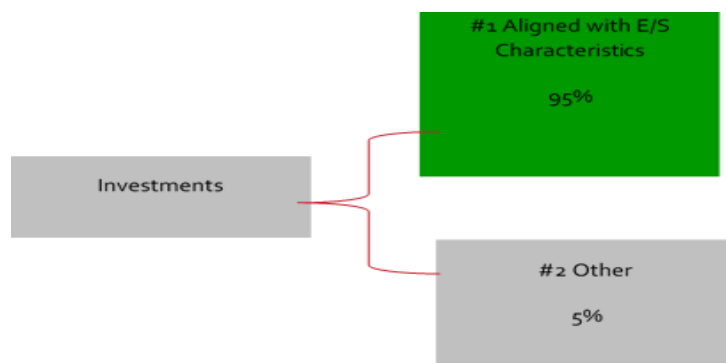
The Adviser identifies governance considerations as integral to the investment philosophy and process and has the expectation that management is acting responsibly and ethically. Factors included in the Adviser's analysis of corporate governance include management oversight and accountability, risk management, financial disclosure and accounting standards, board quality, ethics and business conduct, political contributions, shareholder rights and a commitment to compliance and cybersecurity. This analysis is supported by resources including company financials and other disclosures, meetings with company management, third-party research, and industry conferences. The Adviser also engages with investee companies on an ongoing basis to ensure stewardship and progress towards addressing environmental and social concerns.



What is the asset allocation planned for this financial product?

Asset allocation describes the share of investments in specific assets.

In accordance with the binding elements of the investment strategy, 95% of investments made will be aligned to the E/S characteristics, whilst the remaining 5% will be cash, cash equivalents and hedging instruments.



#1 Aligned with E/S characteristics includes the investments of the financial product used to attain the environmental or social characteristics promoted by the financial product.

#2 Other includes the remaining investments of the financial product which are neither aligned with the environmental or social characteristic, have no minimum environmental or social safeguards, nor are qualified as sustainable investments.

Taxonomy-aligned activities are expressed as a share of:

- **turnover** reflecting the share of revenue from green activities of investee companies
- **capital expenditure** (CapEx) showing the green investments made by investee companies, e.g. for a transition to a green economy.
- **operational expenditure** (OpEx) reflecting green operational activities of investee companies.

○ ***How does the use of derivatives attain the environmental or social characteristics promoted by the financial product?***

Not applicable as derivatives are not used to attain the environmental or social characteristics.


Enabling activities directly enable other activities to make a substantial contribution to an



To what minimum extent are sustainable investments with an environmental objective aligned with the EU Taxonomy?

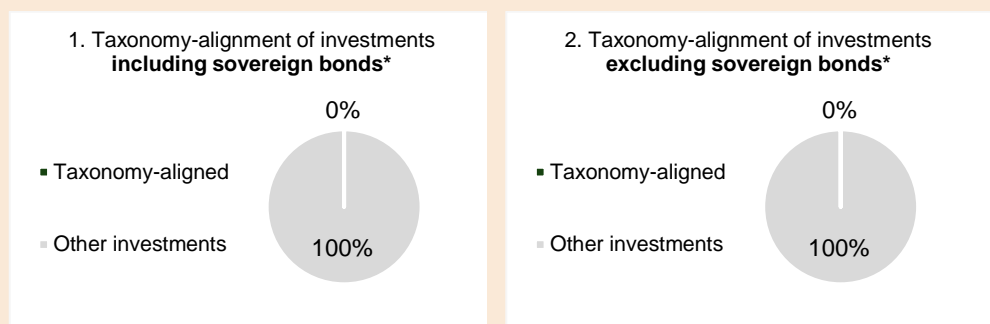
environmental objective.

Transitional activities are activities for which low-carbon alternatives are not yet available and among others have greenhouse gas emission levels corresponding to the best performance.

 are sustainable investments with an environmental objective that **do not take into account the criteria** for environmentally sustainable economic activities under the EU Taxonomy.

0%

The two graphs below show in green the minimum percentage of investments that are aligned with the EU Taxonomy. As there is no appropriate methodology to determine the Taxonomy-alignment of sovereign bonds*, the first graph shows the Taxonomy alignment in relation to all the investments of the financial product including sovereign bonds, while the second graph shows the Taxonomy alignment only in relation to the investments of the financial product other than sovereign bonds.



* For the purpose of these graphs, 'sovereign bonds' consist of all sovereign exposures

○ **What is the minimum share of investments in transitional and enabling activities?**

0%



What is the minimum share of sustainable investments with an environmental objective that are not aligned with the EU Taxonomy?

0%



What is the minimum share of socially sustainable investments?

0%



What investments are included under "#2 Other", what is their purpose and are there any minimum environmental or social safeguards?

The investments included under "#2 Other" are cash, cash equivalents and hedging instruments. Cash and cash equivalents do not affect the promoted environmental and / or social characteristics of the Fund which are not subject to environmental and/or social screening or any minimum environmental or social safeguards. The assessment of issuers and of counterparties for cash and hedging instruments focusses on the creditworthiness of these parties, which can be impacted by sustainability risks.



Is a specific index designated as a reference benchmark to determine whether this financial product is aligned with the environmental and/or social characteristics that it promotes?

Reference benchmarks are indexes to measure whether the financial product attains the environmental or social characteristics that they promote.

No. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.

- ***How is the reference benchmark continuously aligned with each of the environmental or social characteristics promoted by the financial product?***

Not applicable. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.

- ***How is the alignment of the investment strategy with the methodology of the index ensured on a continuous basis?***

Not applicable. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.

- ***How does the designated index differ from a relevant broad market index?***

Not applicable. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.

- ***Where can the methodology used for the calculation of the designated index be found?***

Not applicable. There is no specific index designated as a reference benchmark to determine whether the Fund is aligned with the environmental and/or social characteristics that it promotes.



Where can I find more product specific information online?

More product-specific information can be found on the website:

<https://www.principalam.com/eu/about-us/esg>