

# Principal Financial Group Inc.

**Type of Engagement:** Annual Review

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## Introduction

In 2021, Principal Financial Group Inc. (“Principal”) issued a sustainability bond aimed at financing or refinancing, in whole or in part, existing and future projects that support a wide range of environmental and social initiatives stipulated in the Principal Sustainable Financing Framework (the “Framework”).<sup>1</sup> Sustainalytics provided a Second-Party Opinion on the Framework in June 2021. In August 2022, Principal engaged Sustainalytics to review the projects funded through the issued 2021 sustainability bonds and provide an assessment as to whether the projects met the Use of Proceeds criteria and the Reporting commitments outlined in the Framework.

## Evaluation Criteria

Sustainalytics evaluated the projects funded with proceeds from the 2021 issuance, based on whether the projects:

1. Met the Use of Proceeds and Eligibility Criteria outlined in the Framework; and
2. Reported on at least one of the Key Performance Indicators (KPIs) for each Use of Proceeds criteria outlined in the Framework.

Table 1 lists the Use of Proceeds, Eligibility Criteria and associated KPIs.

**Table 1: Use of Proceeds, Eligibility Criteria and associated KPIs**

Use of Proceeds	Eligibility Criteria	KPIs
<b>Green Buildings</b>	<p>Investments in and financings of new or existing commercial or residential buildings that have:</p> <ul style="list-style-type: none"> <li>• Achieved or expect to achieve, based on third-party assessment, GHG intensity in the top 15% of their city, or</li> <li>• Received, or expect to receive based on its design, construction and operational plans, certification according to third party verified green building standards, such as:               <ul style="list-style-type: none"> <li>– LEED Gold or Platinum standard</li> <li>– BREEAM Excellent or above</li> <li>– other equivalent certification schemes, such as BOMA Best Gold, Energy Star</li> </ul> </li> </ul> <p>Investments in and financings for the refurbishment or upgrade of existing commercial or residential buildings that are expected to result in a minimum of 25% energy savings.</p>	<ul style="list-style-type: none"> <li>• Area of certified green buildings in square feet and by certification level</li> <li>• Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> equivalent</li> </ul>

<sup>1</sup> The Principal Sustainable Financing Framework is available on Principal’s website at: [www.principal.com/sustainability](http://www.principal.com/sustainability)

<b>Renewable Energy</b>	<p>Investments and financings dedicated to generation, transmission, and distribution of energy from renewable sources, including:</p> <ul style="list-style-type: none"> <li>• Wind</li> <li>• Solar</li> <li>• Geothermal with direct emissions &lt;math&gt;&lt;100\text{gCO}_2/\text{kWh}&lt;/math&gt;</li> <li>• Hydropower with power density &gt; 5W/m<sup>2</sup></li> <li>• Tidal power</li> <li>• Waste biomass &lt;math&gt;&lt;100\text{gCO}_2/\text{kWh}&lt;/math&gt;</li> </ul>	<ul style="list-style-type: none"> <li>• Megawatts generated</li> <li>• Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> equivalent</li> </ul>
<b>Energy Efficiency</b>	<p>Investments and financings in technologies, products, or systems that improve energy efficiency, including:</p> <ul style="list-style-type: none"> <li>• Projects that reduce losses in the delivery of bulk energy services or enhance integration of intermittent renewables such as energy storage, smart grids, battery technology, demand response</li> <li>• Projects that enable monitoring and optimization of the amount and timing of energy consumption such as smart meters, load control systems, sensors or building information systems</li> </ul>	<ul style="list-style-type: none"> <li>• Annual energy savings in MWh/GWh</li> <li>• Types and number of energy reduction projects</li> <li>• Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> equivalent</li> </ul>
<b>Sustainable Water and Wastewater Management</b>	<p>Investments and financings that improve water quality, water efficiency, or climate change resilience, including:</p> <ul style="list-style-type: none"> <li>• Improvements in commercial or residential building water and wastewater management, storm water management, irrigation systems</li> <li>• Projects that reduce water consumption or improve the efficiency of resources and result in a substantial reduction in water leakage, as well as, emissions efficiency improvements</li> <li>• Improvements to municipal sewer and wastewater systems</li> </ul>	<ul style="list-style-type: none"> <li>• Volume of water saved/treated/reused in m<sup>3</sup></li> </ul>
<b>Clean Transportation</b>	<p>Investments and financings in low-carbon transport assets including:</p> <ul style="list-style-type: none"> <li>• Zero direct emission vehicles and associated infrastructure (including electric charging stations, cycle racks/ storage)</li> <li>• Infrastructure, rolling stock and vehicles for electrified public transport and freight, except where the primary purpose is fossil fuel transport</li> </ul>	<ul style="list-style-type: none"> <li>• Annual GHG emissions reduced/avoided in tonnes of CO<sub>2</sub> equivalent</li> <li>• Transportation infrastructure developed or improved</li> </ul>

<b>Pollution Prevention &amp; Control</b>	<p>Investments and financings that reduce and manage emissions and waste generated, including:</p> <ul style="list-style-type: none"> <li>Technologies and projects for collection, sorting, treatment, recycling or re-use of construction waste</li> <li>Technologies and projects to salvage, use, reuse, and recycle postconsumer waste products</li> <li>Waste treatment and environmental remediation projects, including land treatment and brownfield clean-up, soil washing, chemical oxidation, bioremediation. Activities will not be directed to fossil fuel or other extractives industries</li> </ul>	<ul style="list-style-type: none"> <li>Tons of waste reduced</li> <li>Number of people provided with improved waste treatment or disposal services</li> <li>Amount of CO<sub>2</sub>e reduced</li> </ul>
<b>Environmentally sustainable Management of Living Natural Resources and Land use</b>	<p>Investments and financings that enhance ecosystem protection or restoration, including:</p> <ul style="list-style-type: none"> <li>Agriculture and fisheries assets with recognized third-party sustainability certifications such as USDA Organic, EU Organic, Marine Stewardship Council (MSC) or Rainforest Alliance</li> <li>Forestry assets with recognized third-party sustainability certifications such as Forest Stewardship Council (FSC) or Programme for the Endorsement of Forest Certification (PEFC), and the Sustainable Forestry Initiative (SFI) which is affiliated with PEFC</li> <li>Climate smart farm inputs such as biological crop protection or drip-irrigation</li> <li>Preservation or restoration of natural landscapes</li> </ul>	<ul style="list-style-type: none"> <li>Total surface financed (hectares), with reference to specific certification schemes where relevant</li> <li>Environmentally sensitive areas protected (acres)</li> </ul>
<b>Financial Inclusion</b>	<p>Expenditures by Principal, where those expenditures support enhanced access to products and services which support the financial well-being of target populations. Target populations include small to medium enterprises (SMEs)<sup>2</sup>, their employees, and underserved populations<sup>3</sup>. Potential expenditures include those related to the development and implementation of programs, tools, and technologies that:</p> <ul style="list-style-type: none"> <li>Provide access to financial literacy education that increases the understanding of financial products and planning tools</li> <li>Increase access to financial planning tools and products for women and minority owned small to-medium enterprises (SMEs).</li> <li>Create open access to financial education by launching community learning centers near primary office facilities that target women and minority owned businesses.</li> </ul>	<ul style="list-style-type: none"> <li>Number of individuals provided financial education</li> <li>Number and types of financial education programs run</li> <li>Number of community learning centers established and number of people served</li> <li>Number and type of financial tools developed</li> <li>Demographic indicators where applicable</li> </ul>

<sup>2</sup> As defined by OECD criteria

<sup>3</sup> Underserved Populations include women, minorities and U.S. households whose income is below 80% of the area median income (AMI)

<b>Access to Essential Services</b>	Investments and financings that enhance access to public, free, or subsidized essential services for underserved populations, <sup>4</sup> including: <ul style="list-style-type: none"> <li>• Healthcare <ul style="list-style-type: none"> <li>- Non-profit or public sector emergency healthcare facilities that provide free-of-cost or subsidized service to target populations</li> <li>- Voluntary health organizations as defined by the North American Industry Classification System (NAICS)</li> </ul> </li> <li>• Education <ul style="list-style-type: none"> <li>- Infrastructure for the provision of child, youth or adult education and vocational training services</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Number of people reached through new digital platforms</li> <li>• Amount increased in retirement savings as a result of program</li> <li>• Number of programs funded, location, and type</li> </ul>
<b>Affordable Housing</b>	Investments and financings meeting national/regional affordable housing definitions in the applicable jurisdiction, including: <ul style="list-style-type: none"> <li>• Investments that expand or maintain the availability of housing for U.S. households whose income is below 80% of the area median income (AMI)</li> <li>• Investments in non-profit social housing providers that provide rental homes at below-market rents to low-income earners, including teachers, nurses, council workers, the elderly and infirm</li> </ul>	<ul style="list-style-type: none"> <li>• Rental costs compared to the national/regional rent index</li> <li>• Number of affordable housing units built or refurbished</li> <li>• Demographic indicators where applicable</li> </ul>
<b>Socio-Economic Advancement and empowerment</b>	Investments and financings to support SMEs <sup>5</sup> , properties or projects that are at least 51% owned, managed, or controlled by women, minorities, vulnerable or marginalized populations	<ul style="list-style-type: none"> <li>• Jobs created and/or retained</li> <li>• Number of businesses supported</li> </ul>

## Issuing Entity's Responsibility

Principal is responsible for providing accurate information and documentation relating to the details of the projects that have been funded, including description of projects, amounts allocated, and project impact.

## Independence and Quality Control

Sustainalytics, a leading provider of ESG and corporate governance research and ratings to investors, conducted the verification of Principal's sustainability bond use of proceeds. The work undertaken as part of this engagement included collection of documentation from Principal employees and review of documentation to confirm the conformance with the Framework.

Sustainalytics has relied on the information and the facts presented by Principal with respect to the financed projects. Sustainalytics is not responsible, nor shall it be held liable if any of the opinions, findings, or conclusions it has set forth herein are not correct due to incorrect or incomplete data provided by Principal.

Sustainalytics made all efforts to ensure the highest quality and rigor during its assessment process and enlisted its Sustainability Bonds Review Committee to provide oversight over the assessment of the review.

<sup>4</sup> Underserved Populations include women, minorities and U.S. households whose income is below 80% of the area median income (AMI)

<sup>5</sup> SMEs as defined by OECD criteria

## Conclusion

Based on the limited assurance procedures conducted,<sup>6</sup> nothing has come to Sustainalytics' attention that causes us to believe that, in all material respects, the reviewed bond projects, funded through proceeds of Principal's sustainability bond, are not in conformance with the Use of Proceeds and Reporting criteria outlined in the Framework. Principal has disclosed to Sustainalytics that the proceeds of the sustainability bond were fully allocated as of November 2021.

## Detailed Findings

**Table 2: Detailed Findings**

<b>Eligibility Criteria</b>	<b>Procedure Performed</b>	<b>Factual Findings</b>	<b>Error or Exceptions Identified</b>
<b>Use of Proceeds Criteria</b>	Verification of the projects funded by the sustainability bond issued in 2021 to determine if the projects aligned with the Use of Proceeds criteria outlined in the Framework and above in Table 1.	All projects reviewed complied with the Use of Proceeds criteria.	None
<b>Reporting Criteria</b>	Verification of the projects funded by the sustainability bond issued in 2021 to determine if impact of the projects was reported in line with the KPIs outlined in the Framework and above in Table 1. For a list of KPIs reported, please refer to Appendix 1.	All projects reviewed reported on at least one KPI per Use of Proceeds criteria.	None

<sup>6</sup> Sustainalytics limited assurance process includes reviewing the documentation relating to the details of the projects that have been funded, including description of projects, estimated and realized costs of projects, and project impact, which were provided by the Issuer. The Issuer is responsible for providing accurate information. Sustainalytics has not conducted on-site visits to projects.

## Appendix

### Appendix 1: Allocation and Impact Reporting by Category

Use of Proceeds Category	Environmental Impact Reported by Eligibility Criteria <sup>7</sup>	Net Bond Proceeds Allocation (USD)	Allocation Percentage
<b>Green Buildings</b>	A total of 6 certified green buildings <ul style="list-style-type: none"> <li>• 4 LEED Platinum</li> <li>• 2 LEED Gold</li> </ul>	455,159,248.81	75.86%
<b>Renewable Energy</b>	3 solar and 2 wind energy projects generating a combined total of 312 GWh of renewable energy	71,256,774.22	11.88%
<b>Energy Efficiency</b>	10 energy efficiency projects at a university campus collectively targeting 35% reductions in energy use intensity from a 2019 baseline, carbon neutrality by 2030 and 100% renewable power by 2035. Projects include: <ul style="list-style-type: none"> <li>• lighting retrofits</li> <li>• smart metering</li> <li>• water-use strategy development</li> <li>• ICC roof and solar panel replacement</li> <li>• reverse osmosis water treatment system installation</li> <li>• geothermal energy feasibility study</li> <li>• steam to heating hot water conversion feasibility study</li> <li>• electrical equipment upgrades</li> <li>• modernization of building management system</li> <li>• building energy system optimization</li> </ul>	43,194,450.00	7.20%
<b>Affordable Housing</b>	Funding new construction and substantial renovation for a total of 74 properties. All properties targeting households in the US earning <60% of area median income	30,389,526.98	5.06%
<b>Total allocated (USD)</b>			<b>600,000,000.00</b>
<b>Total fund raised (USD)</b>			<b>600,000,000.00</b>
<b>Total allocated for refinancing<sup>8</sup> (USD)</b>			<b>559,530,867.38</b>
<b>Total allocated for financing (USD)</b>			<b>40,469,132.62</b>

<sup>7</sup> Impact data for each category is from FY 2021, unless otherwise noted in the Principal Sustainable Financing report (published on the Principal website).

<sup>8</sup> Allocated funds are limited to projects originally financed within a two-year period prior to the bond issuance.

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