Diversified variable investment solutions

Meeting investors' objectives while protecting them from market volatility

OUR SOLUTIONS

We believe successful asset allocation solutions start with a detailed understanding of a client's investment objectives.

Whether a customized or off-the-shelf solution is called for, our longstanding reputation, expertise, and relationships across the globe help investors achieve their current and future investment objectives.

Our asset allocation solutions are delivered to investors through a series of distinct investment disciplines.

We offer three diversified solutions:

- Diversified index
- Volatility control
- Managed volatility

When developing investment strategies, we believe it's important to plan for market volatility. While market declines are generally followed by a recovery, it can take some time to make back what was lost during market swings. Retired investors, or those planning for retirement, are often most affected by market downturns due to lack of time. They may need alternative options that provide a combination of investment potential and income guarantees.

Risk-controlled investment options are one alternative industry solution and we offer them through our diversified variable investment solutions. These solutions provide clients an additional layer of protection in certain markets and offer access to competitive income guarantees.

The Principal Global Asset Allocation team offers three diversified solutions: diversified index, volatility control, and managed volatility. In partnering with our specialized investment teams, we seek to help investors meet their objectives while protecting them from volatility.

Diversified index investment options

Created and managed by the Principal Global Asset Allocation team, diversified index is a passive, risk-based solution that offers three options: diversified balanced, diversified growth, and diversified income.

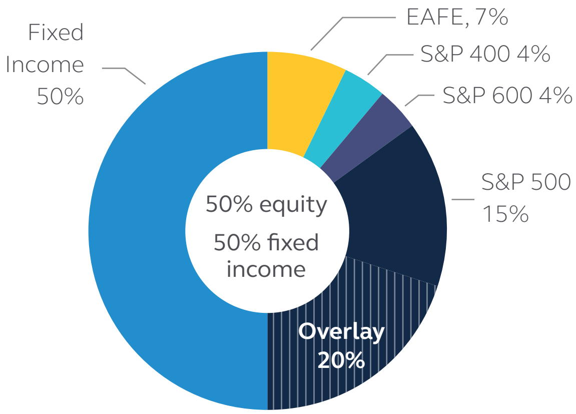
Volatility control diversified investment options

In partnership with the Principal Global Equities team, we created a transparent, cost-effective solution that offers investors additional market volatility protection. The team uses a predetermined rules-based approach to react to what's happening in the market. Reactions are data-driven since no one's trying to predict the market.

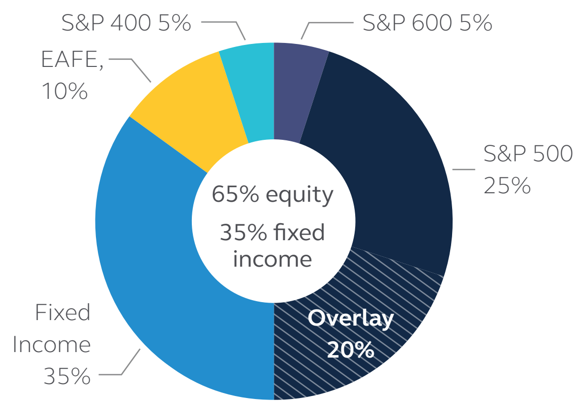
How our volatility control options work

The volatility control options are based on our traditional diversified growth and diversified balanced subaccounts. They use the same index fund-of-funds design but add an additional volatility overlay. The overlay is the portion of the portfolio that re-allocates based on market volatility and controls the overall equity position of the portfolio.

Diversified balanced volatility control



Diversified growth volatility control



THE KEY TO OUR VOLATILITY CONTROL STRATEGY IS THE USE OF AN OVERLAY THAT REACTS BASED ON MARKET VOLATILITY.

During periods of low volatility, the overlay is fully invested in S&P 500 equivalents. When volatility is high, the overlay systematically reduces its S&P 500 allocation by shifting to cash and/or shorting the market — which reduces the overall equity position of the fund.

A simply designed process

Principal Global Equities designed a simple process that evaluates volatility on a daily basis, and if necessary, rebalances the portfolio weekly based on that volatility.*

Here's how it's done:

1 Measure the daily S&P 500 closing price

Capture the closing prices for the previous 60 trading days for the S&P 500 Total Return Index.

2 Determine realized volatility

Exponential weighting is then used to calculate realized volatility. Of the 60 days evaluated, the most recent ten days carry the most weight. The volatility measurement is then annualized to determine what action will be taken.

3 Implementation

The annualized volatility level is what determines if action is taken with the overlay. Implementation is systematic and follows what we like to think of as "rules of engagement". Any changes to asset allocation are based on realized volatility in the market.

If volatility levels are:

<16%	16-22%	>22%
The overlay is 100% invested in equities.	The overlay begins moving assets out of equities and into cash.	The overlay puts investments in 100% cash and begins shorting the market.

* While the strategy seeks to reduce risks by looking at historic volatility this is a backward looking indicator and is no indication that the strategy will be successful in the future. Additionally, while Principal seeks to track and reduce the exposure to volatility there is no guarantee that the volatility measure Principal tracks will track actual price volatility in the overall equity markets.

Meet the team at Principal Global Equities

Team manages more than
$103.7 billion
in AUM

64
Dedicated equity investment professionals

Average of

20 years
investment experience[1]

14 years
firm tenure

As of March 31, 2021.

[1] Experience includes investment management activities of predecessor firms beginning with the investment department of Principal Life Insurance Company.

Meet the team at Spectrum Asset Management

Team manages more than

$27.3 billion

in AUM

22

dedicated investment professionals

Average of

26 years

investment experience

15 years

firm tenure

As of March 31, 2021.

Managed volatility diversified investment options

In partnership with the Spectrum Asset Management team, a wholly owned and independent affiliate of Principal Global Investors, we created a low-risk, cost-efficient approach to managing volatile markets. The solution is designed to monetize the volatility that markets face by preserving capital when markets are down and providing capital appreciation when markets are up.

How our managed volatility options work

The managed volatility options are based on our traditional diversified growth and diversified balanced subaccounts. They use the same index fund-of-funds design but add an additional volatility overlay that is managed on a constant rolling basis. The overlay is the portion of the portfolio that re-allocates based on market volatility and controls the overall equity position of the portfolio.

A professionally monitored, rules-based, disciplined process

The solution invests in exchange-traded options on S&P 500 Index products. It focuses on a net debit strategy, meaning that it invests in more puts than calls. The puts ensure the solution is protected during the tumultuous down markets while the calls seek to provide alpha during rising markets.

Here's how it works every month:

1 **Measure prior month's S&P 500 range**

Spectrum's proprietary quantitative model measures the weighted moving average of the prior month's range to determine the monthly price range.

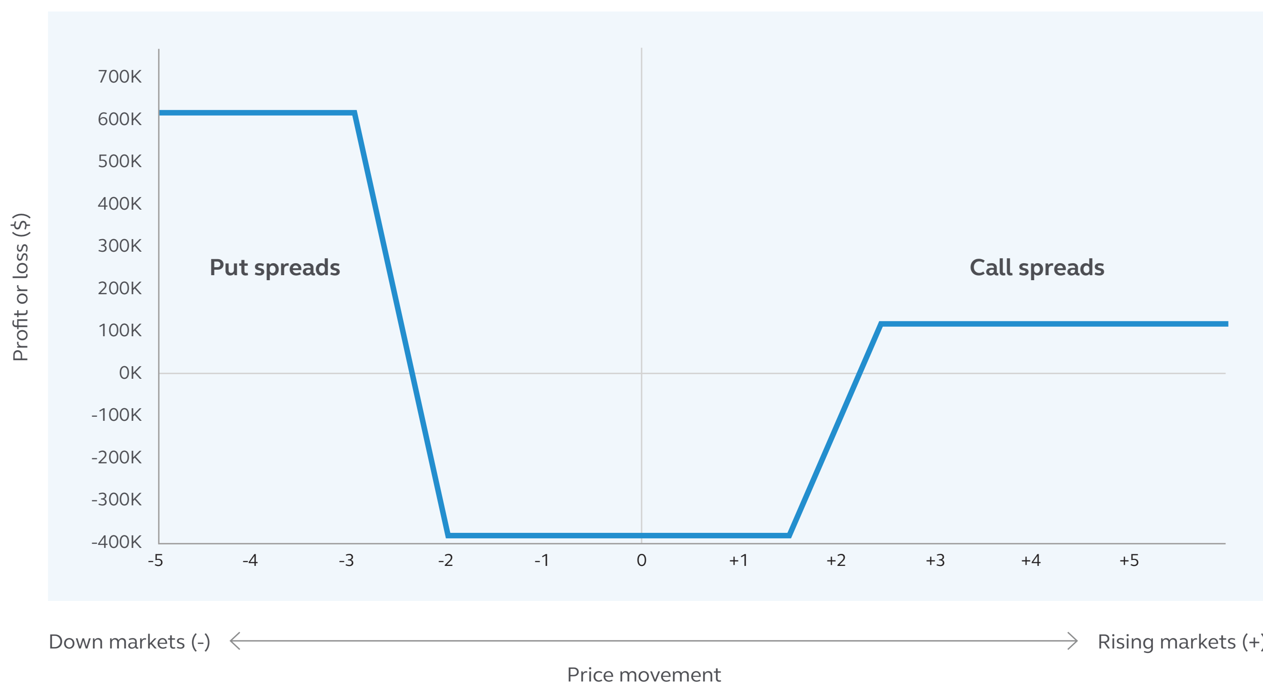
2 **Reset spread strategy targets**

The measured price range complemented with the dashboard of technical indicators are used to reset the monthly put and call option targets.

3 **Implementation**

The put and call options are put to work when the markets move in either direction. When the markets are down, the heavier allocations of the put options seek to protect the portfolio and while the markets are up, the call allocations seek to add alpha to a portfolio.

Sample positions based on S&P price levels



Learn more about our diversified variable investment solutions

Variable insurance trust options:

Diversified index

- Diversified balanced
- Diversified growth
- Diversified income

Volatility control

- Diversified balanced volatility control
- Diversified growth volatility control

Managed volatility

- Diversified balanced managed volatility
- Diversified growth managed volatility

If you think your clients would benefit from the extra protection provided by our diversified variable investment solutions, contact your Principal representative to learn more.

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