SPECTRUM
Asset Management

Spectrum Asset Management, Inc.
Environmental, Social and Governance Policy Statement

ESG Investment Strategy

As a dedicated investment manager of preferred and capital securities, Spectrum Asset Management integrates relevant environmental, social and governance (ESG) factors into its investment decision-making processes across all portfolio strategies. Spectrum's parent company, Principal Asset Management, became a signatory to the United Nations Principles for Responsible Investment in 2010. The Principal Global Investors Funds Preferred Securities Fund (UCITS), sub-advised by Spectrum, is classified as an Article 8 fund under Sustainable Finance Disclosure Regulation (Regulation (EU) 2019/2088 or "SFDR") on sustainability related disclosures in the financial services sector.

Spectrum believes sound governance positively affects a company's responsiveness to relevant ESG issues such as physical and transition exposures to climate change, greenhouse gas (GHG) emissions, product safety, money laundering and cyber security. We view low to medium ESG risks as manageable, whereas more severe ESG issues can negatively influence our forward-looking view of a credit.

Spectrum carefully assesses ESG risks and opportunities to better inform our broader analysis of an issuer. Spectrum will neither make a recommendation to invest in, nor hold, securities of issuers which do not meet acceptable environmental and social standards. Our investment strategy is periodically reviewed and updated, especially as the ESG and regulatory landscape evolves.

ESG Factors

Spectrum examines many ESG factors. For governance we assess if a company's Enterprise Risk Management (ERM) systems are up-to-date, comprehensive, well understood by all staff and effectively enforced. Governance is also highly sensitive to regulatory and compliance issues, especially for financial companies. Social considerations are bracketed into stakeholder responsibilities — *e.g.,* customer safety, employee diversity & inclusion — and cyber security, which is a growing global challenge for both sovereigns and companies. Moreover, one of the most significant environmental issues is climate change which is more directly related to industries such as energy, utilities, and transportation. Loans and investments to these environmentally sensitive sectors are typically second order exposures for financial companies. Governance factors are more heavily emphasized in our ESG analysis.

Factors considered include, but are not limited to:

Environmental

- Pollution, recycling and waste management, renewable and other "clean" energy sources, prudent land and water use, climate change (*e.g.,* due to the burning of fossil fuels), nuclear energy risk, resource depletion and biodiversity

Social

- Consumer product safety, company/investor/community relationships, human rights, labor standards, equal employment opportunities, cyber risk, health risk

Governance

- Operational risk controls, compliance and regulatory management, financial disclosure and accounting standards, board independence and diversity, executive compensation, shareholder rights, cyber security

Greenhouse Gas Emissions

The Greenhouse Gas Protocol (GHG Protocol), established in 1998 through a partnership between the World Resources Institute and the World Business Council for Sustainable Development, has set "comprehensive global standardized frameworks to measure and manage GHG emissions from private and public sector operations, value chains and mitigation actions." The standard provides guidance for Scopes 1, 2 and 3 categories of GHG emissions for corporate and accounting purposes.

In reviewing environmental factors for each of our issuers we are guided by the following GHG Protocol "scope" definitions:

Scope 1
Direct GHG emissions from sources that are owned or controlled by the company. For example, emissions from combustion in owned or controlled boilers, furnaces, vehicles, planes, etc., and emissions from chemical production in owned or controlled process equipment.

Scope 2
Indirect GHG emissions from the generation of purchased electricity consumed by the company. Purchased electricity is defined as electricity that is purchased or otherwise brought into the organizational boundary of the company.

Scope 3
Indirect emissions from sources not owned or controlled by the company, *i.e.,* value chain emissions from upstream and downstream activities associated with the operations of the reporting company.

Bank and Insurance Companies

Scope 1 and Scope 2 GHG emissions of banks and insurers, which comprise a majority of Spectrum's investible universe of preferred and capital securities issuance, are not as significant as those of non-financial issuers, namely utilities and energy (integrated and midstream) companies. Financial institutions are large lenders and insurance underwriters of and investors in GHG (fossil fuel) intensive industries, the data of which could be classified as Scope 3 emissions. Accuracy and the quality of these data are among the primary challenges.

Utilities and Energy Companies

An integral part of our environmental assessment of utilities and energy companies is based on company disclosures and external sources such as Bloomberg and MSCI data as well as engagement. We review energy intensity figures to better compare major multi-state electric utilities with smaller scale utilities. For example, a larger firm with higher absolute emissions may have a more efficient profile relative to its size (*e.g.,* assets or sales), compared with a smaller company. Spectrum also takes a forward-looking view of US and Western European utility names with credible decarbonization strategies and other responsible environmental initiatives. In our ongoing engagement with issuers, we assess if interim targets are being met and that the company is progressing toward overall emissions reduction goals, which for many utilities include net zero emissions by 2050. Importantly, Spectrum carefully considers GHG reduction goals when determining a company's success in meeting environmental challenges.

Social Impact

Utilities are on the path of "greener" transition. From a social perspective, we recognize the importance of the transition while balancing reliability and affordability. We review factors such as grid reliability, ensuring consistent service to customers. For example, investing in transmission to support renewables and replacing old infrastructure would help to mitigate service disruptions. We also review customer affordability – which is an essential concern for regulators – particularly in the context of a challenging macro environment with rising interest rates, persistent inflation and higher energy costs.

ESG Process

Spectrum uses a proprietary negative screening process across all industries, which aims to avoid the worst performing companies. Our screening model also includes Spectrum's Exclusion Policy (see Appendix A) which prohibits investment in companies whose direct activities do not meet acceptable environmental and social standards, thereby not part of our investible universe. It is important to note that we currently accept higher thresholds of coal to produce electric power, but we expect utilities in which we invest to reduce their reliance on coal over time. We engage utilities to confirm that credible coal reduction strategies are in place.

We assess management's record of stewardship of relevant ESG issues, and any potential material impact on the company's risk profile. Our model also includes an ESG evaluation of, but not limited to, management oversight and accountability, risk management, cyber security, labor practices, climate change, and human rights. Research inputs aiding our ESG analysis comprise company ESG policy disclosures including goals and performance metrics and direct engagement with company senior personnel. We also review ESG research and data from Bloomberg and MSCI, as well as rating agency, sell-side, and other third-party commentary. The credit team's ESG views help to inform our overall credit analysis and opinions, and are communicated to Spectrum's investment committee, compliance/risk management, and senior management.

Our ESG risk scoring approach is based on a scale from 1 to 5 (best to worst), measuring the degree of severity of environmental, social and governance issues identified. Aggregate scores of 1 to 3 reflect risks that have a relatively minor impact on an issuer. An ESG score of 3 to less than 4 recognizes ESG materiality, though manageable, in our opinion. A score of 4 to 5 typically overrides acceptable credit metrics, and thus does not make our screen. Our composite ESG scores are weighed in favor of governance which is a good predictor of company stewardship of environmental and social issues.

ESG Engagement

Engagement is an ESG research input where Spectrum assesses management's progress in addressing ESG challenges, as well as exhibiting sound governance practices. Transparency is integral. The engagement process starts by identifying issuers which have material ESG issues. As with credit research, Spectrum sets up one-on-one meetings with key company personnel to cover topics including emissions targets, exposure to climate change and energy transition risks, cyber security controls, employee and customer safeguards and effective enterprise risk management systems. ESG questions are framed in terms of legacy issues, recent developments, plans and targets. Important takeaways are documented from each meeting including the accuracy of data and whether the discussions confirm that the issuer is properly managing its sustainability risks.

Strongest to Weakest Issuer Examples

Bank of Nova Scotia (BNS), one of the Big 6 Canadian banks, performs well on ESG metrics —especially governance, which is a key factor in a bank's creditworthiness. Although the Canadian economy has a large mining and petroleum industry, partly financed by local banks, BNS has stopped the funding of Arctic oil and gas, standalone thermal coal mining and coal-fueled power generation projects. BNS strives to assist customers in an orderly transition to a greener economy. BNS also has quantitative deadlines for GHG emissions reduction related to lending and has climate change risk assessments embedded in its underwriting and monitoring processes. In the social area, BNS has various efforts underway, including charitable support, social bonds, procurement from First Nations and minority groups, and enhanced training to better serve First Nations customers, as well as targets to boost employee diversity. Cyber risks are a focus and appear to be well controlled. Governance is a key factor for banks which are heavily regulated and can suffer severe legal and competitive costs from missteps, and BNS has had few issues. This is particularly noteworthy given the bank's footprint in Mexico, the Caribbean and South America, as well as Canada, as effective controls are more challenging spread across multiple jurisdictions with unique rules and challenges. BNS is also strongly positioned relative to board independence and gender mix. Management's exemplary ESG stewardship supports our stable view of BNS.

Southern Co (SO) has faced nuclear project execution challenges following years of delays and cost overruns and physical climate and transition exposures. SO maintains a goal of Net Zero Scope 1 GHG emissions by 2050 across electric and gas operations and targeted reductions of 50% by 2030 vs. 2007 levels. However, several coal plants remain operational, while lesser emitting natural gas remains a major component of the generation mix for the foreseeable future. As a major U.S. utility providing electricity and gas to millions of customers, SO must continue to balance evolving company, state, and federal GHG environmental goals, while maintaining safe/reliable/affordable service (social). Also, SO's management of employee health and safety remains critical with low incidence of reported injuries in recent years, though COVID transmission at the nuclear project played a role in delays. SO continues to recruit and train a diverse workforce. Nuclear project completion, coal retirements and renewables development, as well as strong ongoing regulatory relationships, are important to SO's sustainability efforts. Southern Company should be able to manage its challenges.

General Electric (GE) does not make our ESG screen of potential investment purchases as it has faced severe ESG risks, particularly related to governance. Historically weak enterprise-risk management resulted in major regulatory investigations and fines, accounting restatements and multi-billion-dollar charges, including those tied to weak actuarial controls in GE's legacy insurance business. Despite positive efforts by the board and an updated management team to improve performance, transparency, accountability and corporate culture, missteps by prior leadership could be difficult to correct. Furthermore, restructuring via the breakup of the business into separate companies, is a risk to certain stakeholders. Despite growing revenues from its renewable energy segment and Net Zero 2050 targets, GE remains exposed to environmental transition risks given its footprint in conventional power markets. From a social perspective, GE has reduced jobs significantly in recent years. Also, GE's common dividend was cut to a nominal level affecting a large shareholder base, which includes former employees and retirees.

ESG Integration in Credit Analysis

ESG assessments are integrated into Spectrum's credit recommendation process which includes traditional credit analysis comprising a top-down review of global, sovereign and industry risks and opportunities, followed by a bottom-up analysis of company fundamentals. Our key focus is on global bank and insurance companies in developed countries which account for most of our preferred and capital securities universe. Our research and analysis of non-financials follows the same process.

Spectrum's proprietary analytical model ranks credits based on quantitative (financial metrics), and qualitative (management) fundamental analyses including our scored ESG assessments. Rankings determine the relative strength of our credits within each industry. The credit team, with its comprehensive knowledge of each issuer in the portfolio, formally reviews ESG factors quarterly or on an interim basis, if material issues have occurred. Management's success in meeting ESG challenges is reflected in our credit recommendation to buy or sell a credit.

Spectrum's Commitment

Spectrum has a dedicated ESG team led by the Head of Research, which formally updates its views to Spectrum's investment committee, including compliance, on a weekly basis. The team also communicates its ESG opinions to Spectrum clients, per request, regarding their investment portfolios and is prepared to meet all regulatory reporting requirements as they evolve.

Spectrum's Head of Research is an integral part of the Principal Asset Management ESG Investment Council, which was established to be the connective hub of ESG information at Principal Asset

Management. The Council establishes ESG consistency across investment teams; shares best practices and provides support to all investment teams; assists investment teams in formulating strategy and reporting; sharpens ESG communication at the Principal Asset Management, investment team and strategy levels; and serves as the liaison between Principal Asset Management and Principal Financial Group. The Principal Asset Management ESG Investment Council is also responsible for producing and submitting a PRI progress report.

Spectrum is also included in Principal Asset Management's ESG Working Group, which utilizes cross-functional representation including senior leaders from its global asset management platform and oversight provided by Principal Asset Management's operating committee. ESG integration occurs across all asset classes, with the approach determined by each investment team's unique and differentiated investment process.

Regulatory Reporting

With its Green Deal initiative to become the first carbon-free continent by 2050, Europe has become a leader in ESG regulations, supported by EU Taxonomy Regulation (a classification system for sustainable economic activities), and Sustainable Finance Disclosure Regulation (SFDR) which requires transparency around sustainability claims made by financial market participants (FMPs). It aims to ensure the integration of sustainability risks, to strengthen disclosures for sustainable investment products and to prevent "greenwashing." Implemented in March 2021, SFDR Level I was applied at both the entity and product levels, whereby investment funds would be classified as Article 6 (no sustainable investment objective); Article 8 (promotes environmental or social characteristics); and Article 9 (sustainable investment objective). Level II of SFDR was introduced in January 2023 with more comprehensive disclosure requirements (*e.g.,* Principal Adverse Impact Indicators) for Article 8 and 9 funds. The Principal Global Investors Funds Preferred Securities Fund (UCITS), sub-advised by Spectrum, is classified as an Article 8 fund under SFDR.

U.S. regulators including the Department of Labor and the Securities and Exchange Commission (SEC) focus on ESG risks that will likely have a material impact on a company's business. Under the proposed rules, companies are expected to disclose climate-related risk information in financial statements, such as greenhouse gas emissions. Although the SEC's climate disclosure requirements and rules for corporates and investment managers are currently under congressional debate, "greenwashing" has become increasingly targeted by regulators.

Spectrum is prepared to meet existing and evolving ESG regulatory reporting requirements from Europe, the U.S. and other jurisdictions given our comprehensive data, analytical and compliance systems.

Joe Urciuoli
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Spectrum Asset Management, Inc

APPENDIX A
Spectrum ESG Exclusion Policy

Spectrum's policy excludes companies which receive significant revenues from the production of controversial products deemed to be health hazards such as herbicides and talc. Companies involved in controversial weapons, as defined and identified by the ISS Controversial Weapons Research methodology, are excluded from our list of potential investments.

Spectrum's exclusions include but are not limited to:

Controversial Weapons

- Land mines
- Biological
- Chemical
- Nuclear
- Cluster munitions

Controversial Chemicals/Minerals/Products

- Lead
- Mercury
- Talc
- PCBs
- Herbicides
- Pesticides
- Opioids
- Food additives

Thermal Coal Mining

Firearms

Tobacco