Principal Global Investors (Europe) Limited

Directors' Report and Financial Statements

For the year ended 31 December 2019

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DIRECTORS AND OTHER INFORMATION

Directors
T Stumpff
P McConomy (Resigned 30 June 2019)
C Henderson * (Resigned 30 April 2019)
A Dion * (Resigned 30 April 2019)
M Hanrahan * (Resigned 30 April 2019)
K West *
A Thornton (Appointed 3 October 2019)

Secretary
Principal Corporate Secretarial Services Limited
1 Wood Street
London
EC2V 7JB

Auditors
Ernst & Young LLP
25 Churchill Place
London
E14 5EY

Bankers
Bank of America Merrill Lynch
2 King Edward Street
London
EC1A 1HQ

Registered Office
1 Wood Street
London
EC2V 7JB

Company Number
03819986

*Denote non-executive directors.

Strategic Report

The Directors present their strategic report for the year ended 31 December 2019.

Business Review

The Company's principal activity during the year continued to be the provision of sales and marketing services for fund management activities. The company is regulated by the Financial Conduct Authority ('FCA'). The Pillar 3 disclosures required by the FCA are attached as an unaudited appendix to these Financial Statements.

Principal Global Investors (Europe) Limited continues to introduce products managed by the company and its global affiliates to the European marketplace.

The investment staff of the company undertook the management of equity, property securities, fixed income and active currencies during the year for a variety of separately managed accounts and co-mingled funds. In addition to portfolio management, investment staff undertook security and economic analysis and securities trading.

On 23 June 2016 the UK electorate voted to leave the European Union, this was followed on 29 March 2017 with the British Government giving notice under Article 50 of the Lisbon Treaty that the UK would leave the European Union on 29 March 2019.

For several years the Company operated a branch-based model for its Dutch and German operations, taking advantage of passporting arrangements for regulated activities within the European Union.

In anticipation of a potential hard Brexit, or the possibility that any agreement would not be forthcoming until close to the agreed leave date, the Company took the decision to open a MifID compliant entity in Dublin, where Principal Financial Group, Inc. "the Group" already had a regulated Fund Management Company: Principal Global Investors (Ireland) Ltd.

A full application, following initial discussions, was made to the Central Bank of Ireland in 2018, and in advance of formal approval, resourced were engaged and an office secured. Formal approval for Principal Global Investors (EU) was received in early 2019.

On 1 April 2019 the business, contracts and staff who had previously operated in Germany and the Netherlands under Principal Global Investors (Europe) Limited, were formally transferred to Principal Global Investors (EU) Ltd.

The UK left the European Union on 31 January 2020.

During the year, £5m (2018: nil) were paid to the parent company, Principal Global Financial Services (Europe) II Limited.

The following is a summary of the 2019 results in comparison to prior year:

	2019	2018	Change
	£	£	%
Turnover	23,805,143	36,240,466	(34)
Operating profit	2,449,690	5,801,170	(58)
Total comprehensive income	1,754,519	4,180,381	(58)
Shareholder's equity	17,825,471	19,714,267	(10)
Average number of employees	64	71	(10)

Turnover, operating profit and total comprehensive income declined by 34%, 58% and 58% respectively primarily due to a decline in costs incurred by the Company resulting in a decline in profit split received from Principal Global Investors Holding Company, LLC "PGI LLC". Shareholder's equity decrease was driven by £5m dividend paid being netted off by issued share premium and lower profits.

The average number of employees decreased by 10% during the year due to continued business restructuring in Europe.

Section 172(1) statement

The Directors in line with their duties under s172 of the Companies Act 2006, have acted in a way that they considered, in good faith, to be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so had regard, amongst other matters, to the:

- likely consequence of any decisions in the long-term;
- interests of the Company's employees;
- need to foster the Company's business relationships with suppliers, customers and others;
- impact of the Company's operations on the community and environment;
- desirability of the Company maintaining a reputation of high standards of business conduct, and
- need to act fairly as between members of the Company.

During the year the Directors considered the views of affected stakeholders and the consequences of its decisions in the long term. The Board understands that building strong relationships with its stakeholders will aid the Company in delivering is long term strategy. The key stakeholders for the Company are its employees, clients, suppliers and community and environment. Although stakeholders are considered in addition to broader factors such regulatory and environmental impact, the Board acknowledges that this does not guarantee a desired outcome for all stakeholders.

<u>Stakeholder engagement</u>

The method in which the Board engaged with all its stakeholders will vary depending on the nature of issue. In some instances, the Board is able to engage directly with stakeholders and in others indirectly through the regular reporting the Board receives in advance of each Board meeting or through Principal group initiatives. In 2019 a Board Paper template and guidance note was created to enhance reporting and include greater focus on areas such as alignment with the Company strategy, risk framework and stakeholder considerations. These all ensures the Board has sufficient oversight of relevant factors including stakeholder engagement during its decision making process to comply with their duties under section 172 of the Companies Act 2006. See page 5 for a Case Study of How the Board Engaged with stakeholders in 2019.

Employees and engagement

The Company realises that the single most important element in determining the success or failure of the business is its people. It aims to attract, develop, retain and motivate high-performing individuals and to drive the most efficient utilisation of its people and teams across the Company.

In 2019 the Company became a member of the Diversity Project a cross-company initiative championing a more inclusive culture within the Savings and Investment profession. The CEO and Director of the Company is a member of the advisory board which provides strategic direction for the project. He provides regular updates to the Company along with key stakeholders encouraging greater engagement with the initiative.

The Company aims to create an environment which allows employees to flourish and achieve their full potential for the benefit of themselves and the organisation. The Company places considerable value on the involvement and engagement of its employees and has continued to keep them informed on the strategy of the Company, matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings such as town halls, CEO drop in sessions and email communications. The employee opinion survey is used to track employee views and the results of which help shape how the Company is run. The Company also offers optional wellbeing online courses and actively promoted initiatives such as metal health awareness.

Clients

The Board views the interests of the clients/investors as central to its operations – one of Principal's core values is to put the customer at the centre of everything we do. The Company's philosophy is to deliver investment performance by understanding investors' objectives and the potential market opportunities, thinking creatively to devise the most appropriate strategies, investing wisely, with speed and rigour and proactively managing the portfolios it creates. The Company interacts regularly with its clients, providing regular portfolio updates, insights on market dynamics and potential new opportunities. In addition, client mandates are reviewed by the Board on a quarterly basis and all transactions are considered in the light of client requirements.

Suppliers and engagement

The Board monitors the relationship and engagement with suppliers primarily through reporting received at Board meetings. All material contracts are subject to rigorous review at Principal Group level and any key risks are highlighted to the Board. In 2019 the Company commenced a review of all outsourcing arrangements to ensure the selection and monitoring processes were fit for purpose and the Board receives regular reporting on the progress of the review.

The Company is commitment to high standards of business conduct and agrees payment terms at the start of business with each supplier and pay creditors promptly and in accordance with contractual and other legal obligations. The Company adheres to the Principal group Anti-Slavery and Human Trafficking Policy and expects all its suppliers to comply with the Principal Group Supplier Code of Conduct which sets out key obligations.

Community and Environment

The Company is committed to making a positive contribution to the environmental, social and economic communities in which our stakeholders participate. The Company engaged with the Principal Group level Environmental, Social and Governance ("ESG") working group in light of greater interest by investors, regulators and society for Companies to build ESG considerations into their long-term strategy. The results of the review were expected in the next year. The Company supported the Charity, Wrap Up London with a number of employees taking part in a volunteer day.

Case Studies: How the Board engaged with stakeholders

Implementation of Senior Managers and Certification Regime ("SM&CR")

In light of the FCA announcement to extend the SM&CR which replaced the Approved Persons Regime to include all authorised firms with effect from 9 December 2019. A working group was established in early 2019 which included one Director of the Company as well as representatives from most business areas. The working group provided updates and presented a number of recommendations to the Board. This included considerations following engagement with key stakeholders within the Company such as employees deemed to fall within the scope of the new requirements as Senior Managers and Certified Persons and proposed changes to employment contracts. The impacted employees were consulted on their specific responsibilities and addendums to their employment contracts. Conduct Staff and stakeholders within the wider Principal Group responsible for providing information to Senior Managers and Certified Persons to ensure they had sufficient oversight of their areas of responsibilities received regular communications advising them of the requirements, their responsibilities and updates to the Staff Handbook. The Board approved training for each group aligned with their roles and responsibilities under the new regime. The implementation was completed ahead of the 9 December 2019 deadline as part of the Boards commitment to high standards of business conduct and in compliance with the regulatory requirement.

BREXIT and Transfer of Branch and Representation Office to Sister Company

Following the UK's decision to leave the European Union (the "EU") the Board was required to consider a number of BREXIT strategies that would be for the long term benefit of the Company and its clients. A working group including one Director of the Company was established to identify suitable recommendations for the Board to consider. A recommendation included the transfer of the Company's existing branch and representation office to its sister company in Ireland which was still part of the EU. During the decision making process the Board considered the impact on a number of stakeholders including employees, clients and suppliers. Employees whose employment contracts were likely to be impacted were consulted and the impact on clients was taken into account with them being given the option to continue to contract with the Company or the Sister Company. As part of the review process the Board considered potential changes in the levels of service to ensure that clients were not disadvantaged. The Board also reviewed and considered the impact on suppliers and any contractual changes required in outsourcing arrangements. All key stakeholders in addition to other factors such as regulatory requirements and the long term impact on the Company were considered prior to the Board approving the decision.

Principal risks and uncertainties

The Company has established a Risk Committee that meets quarterly and which evaluates the company's risk appetite. The principal risks and uncertainties facing the Company are broadly grouped as market and reputational risk, which are defined below.

Market risk

A general downturn in equity, fixed income and currency markets could lead to poor investment performance resulting in a decline in business and reduction in fee revenues.

Reputational risk

Negative publicity resulting from business practices could lead to reduction in business or costly litigation.

By order of the board

Timothy Stumpff
Timothy Stumpff (Apr 30, 2020)

Tim Stumpff

30 April 2020

Directors' Report

The directors present their report and financial statements for the year ended 31 December 2019.

Directors of the Company

The directors who served during the year to the date of this report are shown on page 1.

There have been no changes since the year end.

Principal activity

The Company's principal activity continued to be in sales and marketing activities for the provision of fund management and institutional investment management activities.

Dividends

In 2019, £5m of dividends were paid by Principal Global Investors (Europe) to its immediate parent: Principal Global Financial Services (Europe) II Limited (2018: nil). For the financial year 2019, no further dividend is proposed.

Future Developments

The Company intends to continue to engage in sales and marketing activities for the provision of fund management services.

Employees

The average number of persons employed during the year by the Company was 64 (2018: 71).

Financial instruments

The Company finances its activities with a combination cash and short-term deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also purchased investments during the year which have been designated as available for sale.

Engagement with suppliers, customers and others in a business relationship with the Company

The disclosure required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as amended by the Companies (Miscellaneous Reporting) Regulations 2018) Schedule 7.11B(1) has been included within the section 172 statement in Strategic Report on pages 3 to 5.

Events since the balance sheet date

The events affecting the Company since the balance sheet date are shown in note 20.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out within the Strategic Report. The financial position of the Company and its liquidity position are reflected on the balance sheet (Page 15).

COVID-19 Uncertainty

The novel coronavirus ("COVID-19") outbreak since early 2020 has brought additional uncertainties in the Company's operating environment. It has had impacts on the operation of businesses in some industries and the overall market economic environment. Management's analysis of the impact is discussed in more detail in Note 2.2 of the audited financial statements.

Directors' statement as to disclosure of information to Auditors

The directors who were members of the board at the time of approving the director's report are listed on page 1. Having made enquiries of fellow directors and of the Company's auditors, each of these directors confirms that:

- To the best of each director's knowledge and belief, there is no information relevant to the preparation of their report of which the Company's auditors are unaware; and
- Each director has taken all the steps a director might reasonably be expected to have taken to be aware of relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the board

Timothy Stumpff
Timothy Stumpff (Apr 30, 2020)

Tim Stumpff

30 April 2020

Statement of Directors' Responsibilities

The directors are responsible for preparing the Director's Report, Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 'Reduced Disclosure Framework' ('FRS 101'). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent Auditor's Report

To the members of Principal Global Investors (Europe) Limited

Opinion

We have audited the financial statements of Principal Global Investors (Europe) Limited for the year ended 31 December 2019 which comprise the Statement of Comprehensive Income, the Statement of Changes in Equity, the Balance Sheet and the related notes 1 to 20, including a summary of significant accounting policies The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards including FRS 101 "Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – Effects of COVID-19

We draw attention to Note 2.2 and Note 20 of the financial statements, which describes the economic disruption the Company is facing as a result of COVID-19, which is impacting financial markets and personnel available for work and or being able to access offices. Our opinion is not modified in respect of this matter.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Independent Auditor's Report
To the members of Principal Global Investors (Europe) Limited

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept or returns adequate for our audit have not been received from branches not visited by us; or

- the financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Independent Auditor's Report
To the members of Principal Global Investors (Europe) Limited

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give

a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Ernst & Young LLP

Ashley Coups (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
30 April 2020

Statement of Comprehensive Income
For the year ended 31 December 2019

	Note	2019	2018
		£	£
Turnover	3	23,805,143	36,240,466
Administrative expenses	4	(21,355,453)	(30,439,296)
Operating profit		**2,449,690**	**5,801,170**
Bank and other interest receivable		-	14
Interest payable and similar charges		(138,470)	(30,127)
Profit on ordinary activities before taxation		**2,311,220**	**5,771,057**
Taxation on profit on ordinary activities	7	(753,615)	(1,094,451)
Retained profit for the year		1,557,605	4,676,606
Other comprehensive income for the year			
Unrealised gains from revaluation of financial instruments		264,505	(677,929)
Deferred tax on available for sale reserves		(44,793)	115,149
Balance at end of year		**1,777,317**	**4,113,826**

All amounts are in respect of continuing activities.

The accompanying notes 1 to 20 form an integral part to the financial statements.

Statement of Changes in Equity

For the year ended 31 December 2019

	Share capital	Share Premium	Shared Based Payment Reserve	FVTOCI Reserve	Retained Earnings and Other Reserves	Total Equity
	£	£	£	£	£	£
At 1 January 2018	**2,724,002**	**-**	**4,564,699**	**643,394**	**6,942,807**	**14,874,902**
Profit for the financial year	-	-	-	-	4,676,606	4,676,606
Share-based payment transactions	-	-	658,984	-	-	658,984
Deferred tax on FVTOCI* reserves	-	-	-	115,149	-	115,149
Deferred tax on SBP reserves	-	-	66,555	-	-	66,555
Unrealised losses from revaluation	-	-	-	(339,036)	-	(339,036)
Losses recycled to OCI	-	-	-	(338,893)	-	(338,893)
Dividends paid	-	-	-	-	-	-
At 31 December 2018	**2,724,002**	**-**	**5,290,238**	**80,614**	**11,619,413**	**19,714,267**
Issued share capital	2	-	-	-	-	2
Share premium		373,043	-	-	-	373,043
Profit for the financial year	-	-	-	-	1,557,605	1,557,605
Effect of adoption of IFRS 16	-	-	-	-	346,652	346,652
Share-based payment transactions	-	-	630,652	-	6,336	636,988
Deferred tax on FVTOCI* reserves	-	-	-	(44,793)	-	(44,793)
Deferred tax on SBP reserves	-	-	(22,798)	-	-	(22,798)
Unrealised gains from revaluation	-	-	-	2,810	-	2,810
Transferred to income and expense on sale of FVTOCI* investments	-	-	-	261,695	-	261,695
Dividends paid	-	-	-	-	(5,000,000)	(5,000,000)
At 31 December 2019	**2,724,004**	**373,043**	**5,898,092**	**300,326**	**8,530,006**	**17,825,471**

The accompanying notes 1 to 20 form an integral part to the financial statements.

*Fair value through other comprehensive Income (FVTOCI)

Balance Sheet
As at 31 December 2019

	Note	2019	2018
		£	£
Fixed assets			
Tangible assets	8	66,285	92,650
Investment in subsidiary undertakings	9	16,449	16,449
Right-of-use assets	10	2,573,378	-
		2,656,112	**109,098**
Current assets			
Investments securities: FVTOCI	11	1,601,179	1,565,419
Trade and other receivables	12	4,891,068	4,559,644
Cash and cash equivalents		20,675,368	23,817,623
		27,167,615	**29,942,685**
Creditors: amounts falling due within one year	13	(7,869,568)	(8,747,952)
Net current assets		**19,298,047**	**21,194,733**
Total assets less current liabilities		**21,954,159**	**21,303,832**
Creditors: amounts falling due after one year	13	(4,128,688)	(1,589,565)
Net assets		**17,825,471**	**19,714,267**
Capital and reserves			
Called up share capital		2,724,004	2,724,002
Share premium		373,043	-
Retained earnings		8,530,006	11,619,413
Share based payments reserve	16	5,898,092	5,290,238
FVTOCI reserve		300,326	80,614
Shareholders' funds		**17,825,471**	**19,714,267**

The accompanying notes 1 to 20 form an integral part to the financial statements.

The financial statements were approved and authorised for issue by the Board and signed on its behalf by:

Timothy Stumpff
Timothy Stumpff (Apr 30, 2020)

Tim Stumpff

30 April 2020

Notes to the Financial Statements

1. Statement of compliance with FRS 101

These financial statements were prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and in accordance with applicable accounting standards.

The Company's financial statements are presented in Sterling and all values are rounded to the nearest pound except when otherwise indicated.

The Company has taken advantage of the exemption under s400 of the Companies Act 2006 not to prepare group accounts as it is a wholly owned subsidiary of Principal Financial Group, Inc. ("PFG").

The Company's immediate parent undertaking is Principal Global Financial Services Europe II Limited (PGFSE II). The company's ultimate parent undertaking and controlling party is Principal Financial Group, Inc., which is incorporated in USA. Copies of its group accounts, which include the company, are available from 711 High Street, Des Moines, Iowa 50392-0120 USA.

The principal accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

2.1 Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Acts 2006. The financial statements have been prepared under the historical cost convention.

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in FRS 101 which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The Company is a qualifying entity for the purposes of FRS 101. Note 19 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles (US GAAP) may be obtained.

The Company has availed of a number of exemptions from the requirements of IFRS in the preparation of these financial statements, in accordance with FRS 101. In accordance with FRS 101 the company has availed an exemption from:

- The requirements under IAS 7 "Statement of Cash Flows" (FRS 101, paragraph 8h);
- The requirements of paragraph 17, IAS 24 "Related Party Disclosures" and the requirement under IAS 24 to disclose transactions between wholly owned members of a group (FRS 101, paragraph 8j);
- The requirements of IFRS 7 "Financial Instruments: Disclosure" (FRS 101, paragraph 8d);
- The requirements of IFRS 13 "Fair Value Measurement" (FRS 101, paragraph 8e);
- The requirement to disclose standards in issue which have yet to become effective.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company accounting policies. Management believes that the estimates utilised in preparing its financial statements are reasonable and prudent. Actual results could differ from these estimates.

Notes to the Financial Statements

Adoption of new and revised standards

New and amended standards and interpretations

The Company applied IFRS 16 for the first time. The nature and effect of the changes as a result of the adoption of the adoption of the standard is described below.

On adoption of IFRS 16, the Company has calculated the right-of-use asset as if the standard had always been applied but based on the incremental borrowing rate at 1 January 2019. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the appropriate discount rate at the adoption date.

Comparative information has not been restated as the company has applied IFRS 16 retrospectively with the cumulative effect of initially applying the standard recorded as an adjustment to the retained earnings brought forward balance at 1 January 2019.

2.2 Judgements and key sources of estimation uncertainty

The Company's financial statements are influenced by accounting policies, assumptions, estimates and management's judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Company determines estimates and assumptions that affect the reported amounts of assets and liabilities for the next financial period. All estimates and assumptions required in conformity with FRS 101 are best estimates undertaken in accordance with the applicable standard.

Estimates and judgements are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. The application of accounting policies and management's judgements for certain items are especially critical for the company's results and financial situation due to their materiality.

The following are key judgments made by the Directors:

Going concern

On January 30, 2020, the World Health Organization declared the outbreak of coronavirus ("COVID-19") to be a public health emergency of international concern. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities and other geographic regions have taken preventative or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes.

Effective 17 March 2020, the Company's staff and members, as a precautionary measure worked from home adhering to the guidance provided by the UK government. The impact of COVID-19 has led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue. The full extent to which the COVID-19 pandemic may impact the Company's results, operations or liquidity is uncertain. Management continues to monitor the impact that the COVID-19 pandemic has on the Company, the asset management industry and the economies in which the Company operates. Management has performed a COVID-19 impact analysis as part of their going concern assessment using information available to the date of issue of these financial statements.

The Company is part of a broader global service model that delivers asset management services to a global client base. A profit split model based on world-wide revenue is used for transfer pricing. The Company receives a marked-up reimbursement of certain expenses and then the

Notes to the Financial Statements

remaining profit is allocated between the regions based on the investment management services provided. Management does not expect COVID-19 to have a material impact on the Company's future operations, ability to continue providing investment management services, ability to collect on affiliated receivables, or future profitability.

It is not possible to quantify the overall impact of COVID-19 as financial markets continue to react to developments and management have a number of actions that they are able to take to protect profitability and solvency.

Having performed this analysis management believes regulatory capital requirements continue to be met and have sufficient liquidity to meet its liabilities for the for the next 12 months and that the preparation of the financial statements on a going concern basis remains appropriate as the Company expects to be able to meet its obligations as and when they fall due for the foreseeable future.

The following are the company's key sources of estimation uncertainty.

Fair value of investments

When the fair value of the investments recorded in the statement of financial position cannot be derived from active market, their fair value is determined using a variety of valuation techniques that can include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible estimation is required in establishing fair values.

Investments in a subsidiary

Investments held in subsidiary undertakings are classified as such and included, at cost less provision for impairment, within non-current asset investments.

Determining whether the asset is impaired requires a comparison between the amount the asset is carried at and its recoverable amount which is the higher of fair value less costs of disposal and value in use.

Taxation

Management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits.

Leases

IFRS 16 guidance requires lessee recognition of lease assets and lease liabilities on the balance sheet. The concept of an operating lease, where the lease assets and liabilities are off balance sheet, is eliminated under the new guidance. For lessors, the guidance modifies lease classification criteria and accounting for certain types of leases. Other key aspects of the guidance relate to the removal of the current real estate-specific guidance and new presentation and disclosure requirements.

Lessees and lessors are required to recognise and measure leases using a modified retrospective approach, which includes certain optional practical expedients that may be elected. Transition method has been elected came into effect 1st January 2019, which allows entities to initially apply the new standard at the adoption date and recognise a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption.

Notes to the Financial Statements

The Company assesses at contract inception whether a control is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a lessee

(i) Right-of-use assets

The Company recognised right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

(ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (include in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the dilapidation provision estimated to be paid at the end of the lease term. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a changed in the lease term, a change in the lease payments (e.g. changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

2.3 Significant accounting policies

Share-based payments

The cost of equity settled transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense over the vesting period, which ends on the date on which the relevant employees become fully entitled to the award.

The expense is recognised with a corresponding credit to reserves. Fair value is determined using an appropriate pricing model.

The Company has taken advantage of the transitional provisions of FRS 20 ("Share-based payments") in respect of equity settled awards so as to apply FRS 20 only to those equity settled awards granted after 7 November 2002.

Revenue Recognition

Revenue is recognised in line with performance of the contract and is measured at the fair value of the consideration received, excluding any discounts, rebates and VAT and within the contractual arrangements with clients.

Notes to the Financial Statements

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks and in hand and short term deposits with an original maturity of three months or less.

Trade debtors and creditors

Trade debtors and creditors which generally have 30-day terms are recognised and carried at the original invoices amount less any expected credit provision.

Tangible assets

All fixed assets are initially recorded at cost.

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost or valuation, less estimated residual value based on prices prevailing at the date of acquisition or revaluation, of each asset evenly over its expected useful life, as follows:

Office equipment	-	3 years
Fixtures and fittings	-	10 years
Leasehold improvements	-	10 years or life of the lease if less
Telephone, systems and equipment	-	3 - 5 years

Fair Value Through Other Comprehensive Income (equity instruments)

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income "OCI" when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis. Gains and losses on these financial assets are never recycled to profit or loss. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Taxation and Deferred taxation

A provision is made for corporation tax at the current rates on the excess of taxable income over allowable expenses.

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more or right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements, which are capable of reversal in one or more subsequent periods. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling on the date of the transaction. Differences arising from rate movements between the due date and the actual payment date are taken to the profit and loss account.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date and differences arising are taken to the profit and loss account.

Notes to the Financial Statements

Operating lease commitments

Rentals payable under operating leases are charged in the profit and loss account on a straight-line basis over the lease term. Benefits received as a lease incentive are recognised as a reduction in expense on a straight line basis over the lease term.

Group pension plan

The group operates a defined contribution pension scheme. Contributions are charged in the profit and loss account as they become payable in accordance with the rules of the scheme.

3. Turnover

The breakdown of turnover, stated net of value added tax is shown below.

Turnover breakdown	2019	2018
	£	£
Transfer Pricing Reimbursement	19,237,132	29,727,985
Fees receivable from investment mandates	4,568,011	6,512,481
	23,805,143	36,240,466

Geographical analysis	2019	2018
	£	£
USA	19,237,132	29,727,985
Europe	4,568,011	6,512,481
	23,805,143	36,240,466

4. Operating profit

Is stated after charging or crediting:

	2019	2018
	£	£
Depreciation of fixed assets	35,923	146,149
Audit services	37,250	36,000
Foreign exchange losses / (gains)	568,578	(238,073)
Operating lease rentals:		
Land and buildings	-	540,816
Office equipment	24,018	24,425
	665,769	509,316

Notes to the Financial Statements

5. Staff costs

	2019	2018
	£	£
Wages and salaries	8,224,722	11,330,657
Social security costs	1,524,232	1,690,535
Pension	533,049	635,944
	10,282,003	13,657,136

The average number of employees during the year was as follows:

	2019	2018
	£	£
Fund management	15	20
Administration/compliance	49	51
	64	71

Restricted stock units

Staff are eligible for awards of restricted stock units which are treated as an equity award and are paid in shares. There is no maximum contractual term on these awards. Dividend equivalents are credited on restricted stock units outstanding as of the record date. These dividend equivalents are only paid on the shares that are released.

The expense is recognised in the year in which they are issued with a corresponding credit to equity. Included within wages and salaries are expenses for payments of £636,988 (2018: £658,984).

6. Directors' remuneration

	2019	2018
	£	£
Directors' remuneration	959,192	779,460
Company contributions paid to money purchase pension scheme	18,479	26,395
Amounts receivable under long term incentive plans	216,700	68,035
	2019 Number	2018 Number
Members of money purchase pension scheme	2	2

Notes to the Financial Statements

The number of directors who received benefits under the stock incentive plan during the year was 2 (2018:1). The aggregate expense of these awards for the year was £216,700 (2018: £68,035). The awards would have been included in remuneration on vesting.

The amounts in respect of the highest paid director are as follows:

	2019	2018
	£	£
Remuneration	822,711	391,764
Company contributions paid to money purchase pension scheme	9,240	26,395

T Stumpff is an executive director whose salaries and bonuses were paid by Principal Life Insurance Company and recharged as Principal Global Investors (Europe) Limited's "PGIE" expenses which have been included above up to 31 August 2019, after which, he was localised and became an employee of PGIE.

P McConomy was a director whose salary and bonus were paid by PGIE which have been included above up to 30 June 2019, after which, he resigned as a director of the board.

Five of the directors are remunerated for their services to the group as a whole and no amount is deemed to be specifically for services to the Company. A Dion, M Hanrahan and C Henderson's salaries are paid by Principal Life Insurance Company. K West's salary is paid by Principal Global Investors (Australia) Service Company Pty Limited. A Thornton's salary is paid by Principal Real Estate Europe Limited.

Principal Global Investors (Europe) Limited, Principal Life Insurance Company and Principal Global Investors (Australia) Service Company Pty Limited are all wholly owned subsidiaries their ultimate parent: Principal Financial Group, Inc.

Notes to the Financial Statements

7. Tax on profit on ordinary activities

(a) Analysis of charge in year

	2019	2018
	£	£
Current tax:		
Current tax on profits of the year	472,147	968,191
Adjustments to prior year corporation tax	(27,721)	(10,446)
Foreign tax suffered	298,321	141,059
Total current tax	742,747	1,098,804
Deferred tax:		
Current year	20,259	(4,865)
Adjustment in respect of previous periods	(9,391)	-
Effect of changes in tax rates	-	512
Total deferred tax	10,868	(4,353)
Tax per income statement	753,615	1,094,451
Equity items		
Deferred tax current year charge	22,798	66,555
	22,798	66,555
Other comprehensive income items		
Deferred tax current year charge/(credit)	44,793	(115,149)
Deferred tax - prior year	-	(100)
	44,793	(115,249)

b) Factors affecting income tax charge for the year

The tax assessed for the year is higher (2018: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

	2019	2018
	£	£
Net profit before taxation	2,311,220	5,771,057
Corporation tax at 19% (2018: 19%)	439,132	1,096,501

Notes to the Financial Statements

Effects of:

Adjustments in respect of prior years on current tax	(27,721)	(10,446)
Adjustments in respect of prior years on deferred tax	(9,391)	-
Expenses not deductible	(4,534)	20,788
Chargeable gains	41,589	(15,835)
Tax rate changes	3,021	512
Effects on overseas tax rates	283,968	40,181
Share options	27,551	(37,250)
Income tax expense	753,615	1,094,451

Under FRS101, deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The headline rate of UK corporation tax reduced from 20% to 19% on 1 April 2017, and further to 17% from 1 April 2020.

On 11 March 2020 it was announced (and substantively enacted on 17 March 2020) that the UK corporation tax rate would remain at 19% and not reduce to 17% (the previously enacted rate) from 1 April 2020. The deferred tax balances included within the accounts have been calculated with reference to the rate of 17%, as required under FRS 101. However, following the substantive enactment of the rate of 19%, it is anticipated that the reversal of temporary differences will occur at this rate and that the maximum impact on the quantum of the net deferred tax asset recognised will be £8,681.

8. Tangible fixed assets

	Leasehold	Office Equipment	Fixtures and Fittings	Total
	£	£	£	£
Cost:				
At 31 December 2018	1,099,793	192,317	300,561	1,592,671
Additions	-	20,459	1,967	22,426
Disposals	-	(12,868)	-	(12,868)
At 31 December 2019	1,099,793	199,908	302,528	1,602,229
Depreciation:				
At 31 December 2018	1,068,291	131,172	300,561	1,500,024
Disposals				
Provided during the year	4,785	31,086	49	35,920
At 31 December 2019	1,073,076	162,258	300,610	1,535,944

Notes to the Financial Statements

Net Book Value:				
At 31 December 2019	26,717	37,650	1,918	66,285
At 31 December 2018	31,502	61,146	-	92,650

9. Investments in subsidiary undertakings

During the year, no further capital contribution was made to Principal Global Investors (Switzerland) GmbH, a wholly owned subsidiary incorporated in Switzerland (2018: CHF20,000). On 31 December 2019, the Company reviewed the carrying value of its investments and there was no indication of impairment (2018: none).

Name of Entity	Place of Incorporation	Principal Activity	Registered Office	% of Shares Held	Class of Shares Held
Principal Global Investors (Switzerland) GmbH	Switzerland	Investment sales and distribution	Dreikonigstrasse 31a, CH-8802 Zurich 8022, Switzerland	100%	Equity

10. Leases

The Company has one lease contract for its occupancy at 1 Wood Street, London. The existing lease term expires in January 2026.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	Total
	£
Cost:	
At 1 January 2019	2,999,433
Additions	-
At 31 December 2019	2,999,433
Depreciation:	
At 1 January 2019	-
Charged during the year	426,055
At 31 December 2019	426,055
Net Book Value:	
At 1 January 2019	2,999,433
At 31 December 2019	2,573,378

Notes to the Financial Statements

Due to the introduction of IFRS 16 Leases no prior year comparison has been presented as the Company has applied the standard retrospectively.

Set out below are the carrying amounts of lease liabilities (included financial lease liability) and the movements during the year:

	£
At 1 January 2019	2,999,433
Additions	-
Accretion of interest	99,161
Payments	(270,429)
At 31 December 2019	2,828,165

The following are the amounts recognised in the profit or loss:

	2019
	£
Depreciation expense of right-of-use asset	426,055
Interest expense on lease liabilities	99,161
Total amounts recognised in profit or loss	525,216

The Company had total cash outflows for leases in 2019 of £270,429 (2018: £540,816).

11. Investments

	2019	2018
	£	£
Equity securities (level 1)	1,601,179	1,565,419
At 1 January	1,565,419	3,074,091
Additions	1,200,408	471,210
Disposals	(1,164,648)	(1,301,954)
Losses recognised in other comprehensive income	-	(677,929)
At 31 December	1,601,179	1,565,419

All investments have been designated as fair value through other comprehensive income instruments.

Notes to the Financial Statements

12. Trade and other receivables

	2019	2018
	£	£
Amounts owed by intercompany debtors	1,834,435	2,324,351
Other debtors	2,011,449	1,340,892
VAT recoverable	90,365	125,564
Prepayments	273,410	254,176
Corporation tax recoverable	247,318	-
Deferred tax asset	434,091	514,661
	4,891,068	4,559,644

13. Creditors

	2019	2018
	£	£
Amounts falling due within one year:		
Other taxes and social security	1,072,147	1,176,476
Accruals	6,052,603	7,317,542
Lease liabilities	454,046	-
Amounts owed to intercompany creditors	39,888	84,249
Corporation tax payable	250,884	169,684
	7,869,568	8,747,952

	2019	2018
	£	£
Amounts falling due after one year:		
Deferred compensation	1,754,569	1,589,565
Lease liabilities	2,374,119	-
	4,128,688	1,589,565

Included in the accruals are amounts for a compensation scheme that was established during 2012 for deferred incentive compensation. The award has graded vesting over a three-year period where one third of the award will vest at each anniversary date. Vesting is accelerated in certain circumstances including a participant's approved retirement. The award is payable in cash.

Notes to the Financial Statements

14. Deferred tax

	2019	2018
	£	£
At 1 January	514,661	461,614
Adjustment in respect of prior years	(2,111)	100
Charge to income statement	(10,868)	4,353
Charge to other comprehensive income	(44,793)	115,149
Charge in equity	(22,798)	(66,555)
At 31 December	434,091	514,661

The Net Deferred Tax Asset consists of:

	2019	2018
	£	£
Capital allowances	27,329	31,456
Share schemes	199,487	243,394
Temporary differences	269,009	256,964
FVOCI	(61,734)	(17,153)
Undiscounted Net Deferred Tax Asset	434,091	514,661

15. Authorised, issued and called up share capital

	Authorised		Issued and fully paid	
	2019	2018	2019	2018
	£	£	£	£
Ordinary shares of £1 each	10,000,000	10,000,000	2,724,004	2,724,002

During the year, £2 of share capital was issued to PGIE's immediate parent, PGFSE II. £373,043 was also contributed by PGFSE II and treated as share premium in PGIE.

16. Share-based payments

Share-based payments are granted to employees of the Company by Principal Financial Group, Inc. the ultimate parent undertaking. Under FRS 20 ("Share-based payments"), such awards are treated as an expense of the Company with a corresponding credit to equity.

Notes to the Financial Statements

Employees are awarded Principal Financial Group, Inc. stock under the Stock Incentive Plan. Under the terms of the Stock Incentive Plan, grants may be nonqualified stock options, incentive stock, restricted stock, restricted stock units, stock appreciation rights, performance shares, performance units, or other stock based awards. Non-qualified stock options, restricted stock units and performance share awards have been allocated to employees.

The compensation cost that was charged in the profit and loss account and credited to reserves for the Stock Incentive Plan was as follows:

	2019	2018
	£	£
Compensation cost	636,988	658,984
	636,988	658,984

Non-qualified stock options

Nonqualified stock options were granted to certain employees under the 2014 Stock Incentive Plan, the Amended and Restated 2010 Stock Incentive Plan and the Stock Incentive Plan.

Options outstanding were granted at an exercise price equal to the fair market value of our common stock on the date of grant, and expire ten years after the grant date. These options have graded vesting over a three-year period, except in the case of approved retirement.

The fair value of stock options is estimated using the Black-Scholes option pricing model. We previously determined expected volatility based on, among other factors, historical volatility using daily price observations. Beginning with nonqualified stock options granted in 2013, we determine expected volatility based on a combination of historical volatility using daily price observations and implied volatility from traded options on our common stock. We believe that incorporating both historical and implied volatility into our expected volatility assumption calculation better reflects market expectations. The expected term represents the period of time that options granted are expected to be outstanding. We determine expected term using historical exercise and employee termination data. The risk-free rate for periods within the expected term of the option is based on the U.S. Treasury risk-free interest rate in effect at the time of grant. The dividend yield is based on historical dividend distributions compared to the closing price of our common shares on the grant date.

The following is a summary of the status of the employee stock options and weighted average exercise prices (WAEP) for the year ended 31 December:

	2019	2019	2018	2018
Outstanding	**Number**	**WAEP**	**Number**	**WAEP**
As at 1 January	4,070		5,370	
Exercised	-		(1,300)	
Transferred	(4,070)		-	
Expired	-		-	
At 31 December	-	£27.68	4,070	£27.88

Notes to the Financial Statements

	2019	2019	2018	2018
Exercisable	**Number**	**WAEP**	**Number**	**WAEP**
At 31 December	-	£27.68	4,070	£27.88

The weighted average remaining contractual life is 0.1 years (2018: 1 year).

Performance Share Awards

We granted performance share awards to certain employees under the 2014 Stock Incentive Plan and the Amended and Restated 2010 Stock Incentive Plan. The performance share awards are treated as an equity award and are paid in shares. Whether the performance shares are earned depends upon the participant's continued employment through the performance period (except in the case of an approved retirement) and our performance against three-year goals set at the beginning of the performance period. Performance goals based on various factors, including return on equity, operating income and book value per share, must be achieved for any of the performance shares to be earned. If the performance requirements are not met, the performance shares will be

forfeited, no compensation cost is recognised, and any previously recognized compensation cost is reversed. There is no maximum contractual term on these awards. Dividend equivalents are credited on performance shares outstanding as of the record date. These dividend equivalents are only paid on the shares released.

Performance share awards disclosed represent initial target awards and do not reflect potential increases or decreases resulting from the final performance objectives to be determined at the end of the respective performance period. The actual number of shares to be awarded at the end of each performance period will range between 0% and 150% of the initial target awards.

The fair value of performance share awards is determined based on the closing stock price of our common shares on the grant date.

Restricted Stock Units

Restricted stock units are treated as an equity award and are paid in shares. There is no maximum contractual term on these awards. Dividend equivalents are credited on restricted stock units outstanding as of the record date. These dividend equivalents are only paid on the shares released.

Restricted stock units were issued to certain employees and agents pursuant to the 2014 Stock Incentive Plan, the Amended and Restated 2010 Stock Incentive Plan and Stock Incentive Plan. Under these plans, awards have graded or cliff vesting over a three-year service period. When service for PFG ceases (except in the case of an approved retirement), all vesting stops and unvested units are forfeited.

The fair value of restricted stock units is determined based on the closing stock price of our common shares on the grant date.

Notes to the Financial Statements

Shares awarded	2019 Number	2018 Number
At 1 January	46,036	52,189
Awarded	14,275	16,594
Vested	(16,526)	(16,359)
Cancelled	-	(635)
Transferred	(9,287)	(9,596)
	34,498	42,193
Adjustments*	-	3,843
At 31 December	34,498	46,036
Weighted average value	£44.67	£39.55

17. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS101 not to disclose transactions with entities within the Principal Financial Group.

18. Other financial commitments

At 31 December 2019 the Company had outstanding commitments for future minimum lease payments for land and buildings as set out below:

	2019 £	2018 £
Minimum lease payments:		
Land and buildings:		
Falling due within one year	540,844	90,136
Falling due with two to five years	2,163,264	360,544
Falling due within more than five years	405,612	-
Total lease payments	3,109,720	450,680
Discount	(281,555)	-
Total Lease Liabilities	2,828,165	450,680

19. Parent undertaking and controlling party

The Company's immediate parent undertaking is Principal Global Financial Services (Europe) II (PGFSE II). The company's ultimate parent undertaking and controlling party is Principal Financial Group, Inc., which is incorporated in USA. Copies of its group accounts, which include the Company, are available from 711 High Street, Des Moines, Iowa 50392-0120 USA.

Notes to the Financial Statements

20. Post balance sheet event

COVID-19 is considered to be a non-adjusting post balance sheet event and as such no adjustments have been made to the valuation of assets and liabilities as at 31 December 2019. Management does not expect COVID-19 to have a material impact on the Company's future operations as the Company receives a marked-up reimbursement of certain expenses and then the remaining profit is allocated between the regions based on the investment management services provided. For further discussion concerning the management assessment of COVID 19 impact on the Company refer to Note 2.2.

Appendix

UNAUDITED INFORMATION

Capital Requirements Directive: Pillar 3 Disclosure

Introduction

Principal Global Investors (Europe) Ltd ("PGIE" or the "Firm") is regulated by the Financial Conduct Authority ("FCA") in the UK. In accordance with the FCA's Prudential Sourcebook for Banks, Building Societies and Investment Firms ("BIPRU"), PGIE has made this Pillar III Disclosure.

PGIE is incorporated in the UK and categorised by the FCA as a BIPRU €50k firm. PGIE is an investment management firm that does not deal on its own account or underwrite issues of financial instruments. PGIE is not permitted to and does not hold client money or assets. PGIE is a solo regulated entity and is also required to report on a consolidated basis for prudential purposes.

PGIE may omit one or more of the disclosures required on the basis of materiality which is based on the criterion that its omission or misstatement could change or influence the assessment or decision of a user relying on that information. Certain disclosures may also be omitted if they are proprietary or confidential and the Firm will state the specific reasons for any such omission. Information is deemed to be confidential if it would undermine our competitive position or where we have obligations to customers or counterparties. Proprietary information includes that relating to products or systems which, if shared with competitors, would render our investments less valuable.

The Pillar III disclosure is published in the annual accounts. It will be updated on an annual basis following the Accounting Reference Date or if there are any significant changes throughout the year.

Governance and risk management

Governance

The PGIE Board of Directors has overall responsibility for risk management. The Board is responsible for setting PGIE's risk strategy, establishing its risk appetite and ensuring that all key risks are effectively and efficiently controlled. The Board places a high priority on a strong risk management culture and recognises that risk is inherent in the business and markets in which it specialises. Systems of internal control are designed to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations.

The Board has delegated oversight of risk management matters to the Risk Management Committee. On a quarterly basis PGIE's Board reviews the Risk Management Committee report which details the results of the Committee's risk assessments and the quarterly report of the Trading Committees - that determine and review trading policies and procedures and consider the results of compliance monitoring and other internal reviews.

Risk Appetite

PGIE's risk appetite is generally low. A Board approved Risk Appetite Statement is maintained which details our risk appetite towards specific risks. The current risk profile of the Firm against its approved risk appetite is reported and discussed at each Risk Management Committee and Board meeting.

Policies

PGIE has developed a Risk Framework which is used to identify and assess the risks that could damage PGIE's business, or adversely affect its activities, processes or systems; as well as managing and controlling these risks. It enables PGIE to:

- produce a comprehensive and accurate view of the risks to the business, at an appropriate level of materiality, and to inform the executive in the decision-making process;
- provide management information on material risks which lie outside of risk appetite and those which are volatile and therefore require close management and monitoring; and
- provide assurance that risks are being appropriately managed.

PGIE assesses all risks across each of the Business Risk, Financial Risk and Operational Risk headings as detailed in the Principal Global Investors risk taxonomy.

PGIE's Risk Register documents the detail of the risks to which the Firm is subject, and also those factors that have been identified as giving rise to reputational risk. The Register contains a relevant risk score in relation to each risk identified, apportions responsibility for the oversight of each risk and documents any in flight actions required to further mitigate the risk. It is reviewed on a quarterly basis and the results discussed at the following Risk Management Committee meeting, or sooner if they require immediate escalation.

Capital Resources Requirement and Adequacy Position

As a BIPRU €50k firm, PGIE's Pillar I capital requirement is determined as being the higher of:

i. The Base Capital Requirement of €50k;
ii. The Fixed Overhead Requirement ('FOR'); or
iii. Credit Risk Capital Requirement plus the Market Risk Capital Requirement.

The table below sets out PGIE's capital resources requirement and capital adequacy position as at 31st December 2019 in GBP'000. It can be seen that PGIE's Pillar I capital requirement is determined by its FOR and that PGIE is adequately capitalised to meet this requirement.

Capital Position	**31 December 2019**
Core tier one capital	
Permanent share capital	2,724
Share premium	373
Retained earnings	6,619
Other reserves, including share based payment reserves	6,400
Total tier one capital before deductions	16,116
Market risk capital requirement	892
Credit risk requirement	997
Fixed overhead requirement	5,195
Surplus of own funds	10,921

PGIE management has worked through and prepared the Internal Capital Adequacy Assessment Programme ('ICAAP') document to determine the Pillar II capital requirement. Based on this assessment, PGIE has determined that no additional capital above the Fixed Overhead Requirement is required.

Principal Global Investors (Europe) Ltd (PGIE) 2019 Remuneration Policy Statement

I. Introduction

Firms within the scope of the Financial Conduct Authority's (FCA) Remuneration Code are expected to ensure their remuneration policies, programming and practices are sound, promote effective risk management, do not encourage risk-taking that exceeds the firm's levels of tolerated risk, and are documented. This Remuneration Policy Statement has been prepared as a means of confirming PGIE complies with the provisions of the Code. The following sections describe PGIE's remuneration policies, programming and practices.

II. Human Resources Remuneration Team

Remuneration policies, programming, and practices are established and administered by the 'Centre of Excellence' (COE) human resources compensation area of PGIE's United States domiciled parent entity, Principal Financial Group (PFG). Policies, programming, and practices are reviewed annually to ensure their continued effectiveness and alignment to business strategy, industry practices, and clients' and shareholders' long-term interests. In addition, the COE team partners with the legal area of PFG to execute a review of incentive program documentation to ensure programming remains compliant with industry laws and regulations. A comprehensive legal review, involving internal and external counsel in all jurisdictions in which eligible employees are located, is conducted for new incentive programs, existing incentive programs that are being materially revised or existing incentive programs which have not had any material modifications after three consecutive years.

Human Resource Business Partners, Directors and Compensation Consultants work closely with senior leaders during the compensation decision making process to ensure integrity of individual decisions is upheld. Payments under any of Principal Global Investors' (PGI) incentive programs may be zero based on leader discretion. Specific situations where zero may be used is when the employee significantly underperformed during the performance year, is in the final stage of disciplinary process, made or participated in a critical operational or investment error, or behaved inconsistently with the Code of Ethics.

III. Risk Management Program

The PFG risk management program provides a risk assessment framework to ensure incentive programs appropriately support PFG's business strategy; do not encourage excessive risks, lead to perverse behaviours, or have other negative, unintended consequences (damage to reputation); do not lead to material losses; are compliant with all appropriate local legislation and regulation; are fair, balanced, and result in durable compensation practices. Risk assessments are conducted prior to an incentive program being implemented or materially revised. Risk assessments are also conducted on existing incentive programs which have not had any material modifications after three consecutive years. A risk assessment summary is provided to the Human Resources Committee (HRC) of the Board of Directors (BOD) of our parent, the PFG, on an annual basis. The summary outlines which incentive programs were reviewed, the reasoning for why they were reviewed, and if applicable, identifies new or enhanced controls that were implemented because of the review.

PGI's Chief Risk Officer ensures the objectives of the risk management program are met and any unmitigated incentive compensation risk is effectively managed. Additionally, an external consultant from Compensation Advisory Partners reviews incentive programs senior executives (senior vice presidents or senior executive directors and above of PFG) participate in for risk.

IV. Governance

Five committees govern compensation programming and practices. The following paragraphs describe the responsibility of each committee as it relates to remuneration.

A. HRC of the BOD of our parent, the PFG

- Responsibility: reviews and approves remuneration opportunities and awards for senior executives; reviews and approves annual salary budgets for all locations; reviews and advises on total compensation policies for all employees; reviews and advises on incentive compensation programming and payments; reviews and approves equity based programs and awards; reviews and approves severance arrangements and change of control provisions for senior executives; reviews and advises on risk management practices, policies and programs related to remuneration.

B. Principal Global Investors' Operating Committee

- Responsibility: reviews and approves annual cycle compensation actions.

C. Boutique Management Committees

- Responsibility: reviews and approves Boutique compensation programming and annual cycle compensation actions.

D. Distribution Committee

- Responsibility: reviews and approves compensation programming and compensation actions related to sales and client relations focused professionals.

E. Principal Global Investors Approvals Committee

- Responsibility: reviews and approves requests to add or to replace headcount; reviews and approves compensation components of employment offers and other off-cycle compensation actions (e.g. promotions).

In addition to the committees highlighted above, the PGI compliance function reports directly into the PFG compliance function and the PGI risk function has a matrix reporting line into the PFG risk function, both of which a direct line to the Audit Committee of the BOD of our parent, the PFG.

V. Benchmarking Practices

Remuneration programming and positioning are reviewed on an annual basis to ensure continued alignment with the external market and to ensure they remain competitive in comparison to other leading global asset management firms with which we compete for talent.

To accomplish this, senior leaders partner closely with the COE human resources compensation area to ensure job descriptions are documented for each role and compensation programming in place aligns with business strategy, is driving the desired behaviour, and is aligned with the long-term interests of clients and shareholders. In addition, internal compensation professionals' partner closely with McLagan (an Aon Hewitt company), a leading provider of compensation consulting and pay and performance data for asset management firms, to assist in the evaluation and design of programming, to establish annual salary budgets, and to obtain and understand the underlying market data used to benchmark roles. New hire offers and total compensation for existing employees are generally targeted to be between the McLagan 25th and 75th market data percentiles for each role. Local country market data is referenced for positions in a location.

VI. Performance Management Practices

The performance management process provides a robust framework to evaluate an employee's performance and contributions each year. Leaders are encouraged to have ongoing and frequent performance and development related coaching discussions with employees, obtain regular performance feedback, and attain input from employees through direct conversations to assist in assessing ongoing performance. Performance is reviewed and calibrated at the firm level and is also considered when salary and incentive actions are determined at the end of the performance year.

VII. Fixed Remuneration: Salary Budget and Salary Change Practices

The salary budget is established on an annual basis utilising external salary budget projection market data, with consideration given to market competitiveness of employees current positioning and affordability. Salary budget recommendations are formed by the COE human resources compensation area and reviewed and approved by senior executives within PGI and PFG and the HRC of the PFG BOD.

Leaders utilise salary increase guidelines provided by the COE human resources compensation area, which factor in an employee's performance and their pay positioning in relation to market data associated with their role, to formulate salary increase recommendations. Recommendations are reviewed and analysed by Human Resource Business Partners, Directors, and Compensation Consultants and discussed with leaders and senior management prior to being presented for approval by the PGI Operating Committee, applicable Boutique Management Committee, and/or HRC of the BOD of our parent, the PFG.

VIII. Variable Remuneration: Programs and Practices

Incentive and recognition programs offer mechanisms to effectively motivate and retain employees who meet specified performance objectives and whose achievements align with the firm's long-term success and the long-term interests of its clients and shareholders. The type of variable remuneration program varies by business segment, in alignment with business strategy and external market practices. The following paragraphs describe the variable remuneration programs and practices utilised.

A. PGI Profit Share Plan: The pool of dollars available to distribute to eligible employees is based on a percentage of pre-tax, pre-bonus profit. This approach to funding recognises investment professionals have an impact on both investment performance and boutique profitability. Investment professionals in Principal Global Fixed Income (portfolio managers, traders, analysts, etc.), Principal Global Equities (portfolio managers, analysts, etc.), Principal Global Real Estate Securities (portfolio managers, analysts, etc.), are eligible to participate in the profit share plan.

   As team members advance in their careers, consistent with industry practice, the variable component represents an increased proportion of target total compensation opportunity for eligible participants. Awards under the plan are made on a discretionary basis by boutique senior leadership with consideration given to, but not limited to, an individual's contribution to the success and profitability of their team and the broader boutique (revenue growth, expense management); execution of long-term strategic growth initiatives, investment performance results; client retention and acquisition efforts; collaborative efforts with teams across PGI and the broader Principal organisation; operational excellence (no errors, risk mitigation efforts); market total compensation levels relevant to an individual's position; the number of days an individual was a participant in the program. Awards may be zero as indicated in the human resources remuneration team section.

   Recommendations are reviewed and analysed by Human Resource Business Partners, Directors, and Compensation Consultants and discussed with boutique senior leadership prior to being presented for approval by the applicable Boutique Management Committee and HRC of the BOD of our parent, the PFG.

Payments may be in the form of cash or a combination of cash and deferred compensation. The incentive component is closely aligned with client investment goals and objectives, with the largest determinant being investment performance relative to appropriate client benchmarks and peer groups over one, three and if applicable, five-year time periods. Deferred compensation is delivered in the form of three-year cliff vest PFG restricted stock units (RSUs) and fund deferral units, also referred to as "co-investment", into strategies the team is responsible for; thus, aligning the long-term interests of team members with both PFG stakeholders and client objectives. Boutique senior leadership determine the co-investment fund(s) employees are aligned with. The amount delivered in the form of deferred compensation depends on the size of an individual's award as it relates to a tiered deferral scale. Awards below US$150,000 will be made in cash. Payment of awards equal to, or greater than USD$150,000 will be 60%-75% in cash and 25%-40% in deferred compensation; specific mix is based on where an individual's award amount falls in relation to the tiers of the deferral schedule which are established at the beginning of the performance period.

B. <u>PGI Incentive Plan and Principal Financial Group Incentive Pay Plan (PrinPay):</u> The amount of incentive available to distribute to eligible employees is based on the sum of each person's eligible earnings multiplied by their position's incentive target, scorecard result (comprised of measures and metrics specific to a business segment(s)) and individual performance score (achievement of established performance goals). Incentive targets are established based on trended market data. The scorecard result may be specific to a business segment or may be a weighted score of multiple business segments (e.g. PFG and PGI); applicability is dependent upon desired alignment and avoidance of conflicts of interest. The individual performance score may be 0, or 50-150 pending achievement of established performance goals and available funding. Professionals in Principal Global Asset Allocation (manager research specialists, etc.), Principal Passive Currency Management (traders, etc.), and back-office areas (marketing, information technology, etc.) are eligible to participate in the PGI Incentive Plan. Compliance and risk professionals participate in the PGI Incentive Plan, but their scorecard result is aligned with PFG to further mitigate potential conflicts of interest from arising.

As team members advance in their careers, consistent with industry practice, the variable component represents an increased proportion of target total compensation opportunity for eligible participants. Achievement against established performance goals and individual contributions focused on regulatory compliance, operational excellence, long-term strategic growth initiatives client retention, and client satisfaction are among factors contributing to the quantum of incentive compensation awarded. Awards may be zero as indicated in the human resources remuneration team section.

Recommendations are reviewed and analysed by Human Resource Business Partners, Directors, and Compensation Consultants and discussed with boutique senior leadership prior to being presented for approval by the applicable Boutique Management Committee, PGI Operating Committee and/or the HRC of the BOD of our parent, the PFG.

Payments for those in back-office areas are in cash. Payments for those in Principal Global Asset Allocation ("PGAA") and Principal Passive Currency Management ("PPCM") may be in the form of cash or a combination of cash and deferred compensation. The incentive component is closely aligned with client investment goals and objectives, with the largest determinant being investment performance relative to appropriate client benchmarks and peer groups over one, three and if applicable, five-year time periods. For PPCM and PGAA, deferred compensation is delivered in the form of three-year cliff vest PFG RSUs and fund deferral units, also referred to as "co-investment", into strategies the team is responsible for or provides support to; thus, aligning the long-term interests of team members with both PFG stakeholders and client objectives. Boutique senior leadership determine the co-investment fund(s) employees are aligned with. The amount delivered in the form of deferred compensation depends on the size of an individual's award as it relates to a tiered deferral scale. Awards below US$150,000 will be made in cash. Payment of awards equal to, or greater than USD$150,000 will be 60%-75% in cash and 25%-40% in deferred compensation; specific mix is based on where an individual's award amount falls in relation to the tiers of the deferral schedule which are established at the beginning of the performance period.

C. Institutional Sales and Relationship Management Compensation Plan: The amount of incentive is determined by an allocation of an annual discretionary bonus pool based on key performance criteria, which will include both quantitative/sales results as well as qualitative aspects of performance. The incentive is paid from a pool funded by percentage of revenue from new mandates sold in the current year. Pool funding rates as a percent of revenue may be differentiated based on type of sale and for certain investment strategies. The bonus is paid annually.

In addition to the cash compensation components above, top sales performers are also eligible for awards of PFG RSUs each year. The RSUs have a three-year cliff vesting schedule. A pool of RSUs is allocated to the sales team and individual awards are determined at management discretion based on sales performance. The Institutional Sales Compensation Plan is reviewed annually and any plan changes are approved by the PGI Distribution Compensation Committee.

D. Wealth Advisory Services Compensation Plan: The amount of incentive is determined by an allocation of an annual discretionary bonus pool based on key performance criteria, which will include both quantitative/sales results as well as qualitative aspects of performance. The incentive is paid from a pool funded based on two factors: 1. the sum of the target bonus amount for all participants and adjusted for business performance measures and 2. by percentage of revenue from new sales in the current year. The bonus is paid annually.

E. Corporate Long-Term Incentive Program (LTIP): The amount of incentive available to grant to eligible employees is based on the sum of each person's salary multiplied by their position's LTIP target. LTIP targets are established based on trended market data; range from 30-40%. Employees at more senior levels not eligible for a profit share plan may be eligible to participate in the LTIP. Eligibility is based on trended external market data. If external market data isn't available to establish eligibility, an internal comparison of similar scoped/skilled positions is completed. Eligibility of a position is determined and approved by the COE Human Resources compensation area and PGI Approvals Committee.

Achievement against established performance goals, retention, and individual contributions focused on regulatory compliance, operational excellence, client retention, and client satisfaction are among factors contributing to the quantum of long-term incentive compensation awarded. Awards may be zero as indicated in the Human Resources remuneration team section.

LTIP grant percent recommendations are reviewed and analysed by Human Resource Business Partners, Directors, and Compensation Consultants and discussed with senior leadership prior to being presented for approval by the PGI Operating Committee and HRC of the BOD of our parent, the PFG.

Grants under the LTIP are in the form of three-year cliff vest PFG RSUs. The overall measurement framework and the deferred component are well aligned with our desired focus on clients' objectives, alignment with PFG stakeholders and talent retention.

F. Special Recognition Long-term Award Program (SRLAP): Employees in positions not eligible for the LTIP may be granted a discretionary award from this program. Awards from this program are considered for employees who are high-performing or in a critically important role.

SRLAP grant amount recommendations are reviewed and analysed by Human Resource Business Partners, Directors, and Compensation Consultants and discussed with senior leadership prior to being presented for approval by the PGI Operating Committee and HRC of the BOD of our parent, the PFG.

Grants under the SRLAP program are in the form of three-year cliff vest PFG RSUs. The overall measurement framework and the deferred component are well aligned with our desired focus on clients' objectives, alignment with PFG stakeholders and talent retention.

IX. Hiring and Retention Bonus Practices

Depending on the role and the candidate's experience, a hiring bonus may be offered to attract a candidate where the candidate forfeits his/her bonus with the current employer due to resignation. The amount of the hiring bonus is likely to be approximately the same as the bonus being forfeited and would not normally exceed this amount. Typically, a hiring bonus will include claw back provisions should the individual leave before a specified future date. Hiring bonuses are subject to Human Resource Director and Compliance approval to ensure it complies with the provisions of the FCA Remuneration Code (if applicable). In addition, PGI Approvals Committee approval is required. Any equity offered as a hiring bonus requires PFG CEO approval (under authority granted by the Human Resources Committee).

Retention bonuses are subject to Human Resource Director and Compliance approval to ensure they comply with the provisions of the FCA Remuneration Code (if applicable). In addition, PGI Approvals Committee approval is required. Any equity offered as a retention bonus requires PFG CEO approval (under authority granted by the Human Resources Committee). It is unlikely this type of bonus would comply with the provision of the FCA Remuneration Code, therefore, it is not likely such a bonus would be approved.

X. Severance Practices

PGIE applies a set formula that applies to all staff regardless of role or seniority (pro-rated bonus is usually included). The formula is 4 weeks' salary per completed year of service capped at 13 years' service (52 weeks' pay).

XI. Pension Practices

All employees at PGIE, regardless of role or seniority, receive the same pension benefits, being 10% of basic salary contributed by the Company with no additional matching contributions.