

Helping you navigate mutual fund financing

Guidelines for suitability, fees and compensation



When it comes to financing a nonqualified deferred compensation plan from Principal®, employers have several options to fit different organizational needs. One option is Principal Advantage® – Nonqualified – a platform of mutual funds specifically designed for your deferred comp clients. This platform consists of:

- Four share classes of Principal Funds, Inc.
- Four corresponding tiers of the Mutual Fund Network that include funds from other well-known mutual fund companies.

With so many investment options available, understanding the ins and outs of each is important, as well as how the selection of share class affects your clients and your compensation. To help you stay on top of everything, suitability guidelines for the Principal Advantage – Nonqualified platform have been established by Principal Securities, Inc.

Please note: How these suitability guidelines are applied depends on whether you're a registered representative of Principal Securities or another broker/dealer.

Suitability guidelines

Registered representatives selling Principal Advantage – Nonqualified will be required to follow suitability guidelines established by Principal Securities for Principal Funds share class selection, as well as Mutual Fund Network tier selection. Outside broker/dealers will be able to offer the Principal Advantage – Nonqualified program after signing the Principal Advantage Program Selling Agreement. While we'll make available the guidelines Principal Securities has established

for its registered representatives, outside broker/dealers will be responsible for determining which Principal Funds share class is appropriate for each of their clients. We'll require written authorization from the outside broker/dealer's compliance department if the Principal Securities guidelines aren't followed.

Share class suitability is determined by case size and whether compensation is to be paid. Principal Funds are available in these four share classes:

- **R3 Share Class** – To be used in deferred comp cases with annual asset purchases of less than \$500,000 and existing plan assets to be transferred of less than \$5 million.
- **R4 Share Class** – To be used in cases with annual asset purchases of over \$500,000 or existing plan assets to be transferred of over \$5 million. This share class would also be used when the total assets are expected to be over \$5 million by the end of the third year of the plan.
- **R5 Share Class** – To be used when the advisor wants to take less compensation in order to offer lower expense funds to clients. See the financial professional compensation section for more information.
- **Institutional Share Class** – To be used when no intermediary is involved, or if the selling broker/dealer is not Principal Securities and determines the institutional share class to be suitable. (Note that the expense structure of the institutional share class doesn't allow for intermediary compensation.)

The Mutual Fund Network is available in four tiers, which are named after the share classes (R3, R4, R5 and Low Revenue). Generally, the Mutual Fund Network tier will correspond with the Principal Funds

share class being used. While outside broker/dealers are responsible for determining share class suitability, the above guidelines must be followed by all broker/dealers for the Mutual Fund Network tier suitability. The combination of Principal Funds and the Mutual Fund Network tier will comprise the “package.” For example, the R4 Principal Funds share class and R4 Mutual Fund Network tier will be known as the R4 package.

Additional Principal Funds share classes may be available if the plan sponsor has qualified plan(s) with Principal and wants to use the same share classes offered in its qualified plan(s) to finance its nonqualified plan. These share classes are only available for use in that situation. A financial professional can choose to offer a better performing “package,” i.e., less expensive funds, for less compensation. For example, a case that would qualify to use the R3 package can use the R4 package. However, going in the reverse direction isn’t allowed for Registered Representatives of Principal Securities. However, representatives with outside broker/dealers may go in the reverse direction, but they must obtain written authorization from their compliance department to do so.

Plan fees

Principal Funds in the R3, R4 and R5 share classes are available through the Principal Advantage – Nonqualified platform with no billed fees to the client.

The Mutual Fund Network has asset-based fees based on the package selected. For Mutual Fund Network funds used with the R3 package, a 20 basis points (bps) annual fee applies. For the R4 and R5 packages, the Mutual Fund Network fund fee is 10 bps. These fees are billed quarterly and are based upon the average daily balance of the Mutual Fund Network funds. For the institutional share class of Principal Funds and Mutual Fund Network options in the Low Revenue Tier, a 10 bps annual fee applies. Plan and participant fees also apply across all mutual fund packages.

Financial professional compensation

Financial professional compensation is dependent on the package selected. For the R3 package, compensation is **100 bps** on Principal Funds plan assets in the first year of the plan with Principal, and then **25 bps** after that. For the R4 package, compensation is a flat **25 bps** on Principal Funds plan assets. For these two packages, a referral fee of **25 bps** is paid to financial professionals on assets invested in the Mutual Fund Network. The R5 package can pay up to **10 bps** on assets invested in Principal Funds or Mutual Fund Network funds. This package can be selected when an advisor wants to offer the lowest cost options available, but still have some compensation built in. When the Low Revenue package is selected, no compensation will be paid on Principal Funds or Mutual Fund Network funds. Compensation is based upon the average daily balance of the assets during the period.

 [Learn more](#) | Contact your nonqualified servicing representative at 800-999-4031.



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