



## INFORMATION CIRCULAR: PRINCIPAL EXCHANGE-TRADED FUNDS

**TO:** Head Traders, Technical Contacts, Compliance Officers, Heads of ETF Trading,  
Structured Products Traders

**FROM:** BX / PHLX Listing Qualifications Department

**DATE:** October 19, 2017

EXCHANGE-TRADED FUND	SYMBOL	CUSIP #
Principal Contrarian Value Index ETF	PVAL	74255Y862
Principal Sustainable Momentum Index ETF	PMOM	74255Y854

### BACKGROUND INFORMATION ON THE FUND

Principal Exchange-Traded Funds (the "Trust") is a management investment company registered under the Investment Company Act of 1940, as amended (the "1940 Act"), consisting of several investment portfolios. This circular relates only to the Funds listed above (each, a "Fund" and together, the "Funds"). The shares of the Funds are referred to herein as "Shares." Principal Global Investors, LLC (the "Adviser") is the investment adviser to the Funds.

#### Principal Contrarian Value Index ETF

The Principal Contrarian Value Index ETF ("PVAL") seeks to provide investment results that closely correspond, before expenses, to the performance of the Nasdaq U.S. Contrarian Value Index (the "PVAL Index").

Under normal circumstances, PVAL invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies that compose the PVAL Index at the time of purchase. The PVAL Index uses a quantitative model designed to identify equity securities in the Nasdaq US Large Mid Cap Index (the "Parent Index") that appear to be undervalued by the market relative to their fundamental value, when taking multiple market environments into consideration. To be eligible for the PVAL Index, a security must be in the Parent Index, which is composed of equity securities of U.S. issuers with medium and large market capitalizations. Using the book yields of the securities in the Parent Index for the last 28 quarters, a market condition of "bear market" or "normal market" is determined.

After selection, the securities are weighted, with those in the higher ranking groups receiving relatively more weight. Because Financials often perform differently than other securities with respect to book yields, securities are selected for the PVAL Index separately from Financials and non-

Financials according to Industry Classification Benchmark ("ICB") so that each such ICB classification maintains its respective weight from the Parent Index.

The PVAL Index is rebalanced annually. The market condition (i.e., bear or normal) is monitored quarterly; if conditions indicate a reversal or potential reversal in market conditions from the prior quarter, there is a special rebalance. Additionally, throughout the year securities that become ineligible for the PVAL Index are removed and not replaced. PVAL will make corresponding changes to its portfolio shortly after Index changes are made public. As of September 30, 2017, the Underlying Index included 255 components, and the Parent Index included 962 components.

Nasdaq (the "Index Provider") developed the PVAL Index methodology with input from Principal Global Investors, LLC ("PGI"). The Index Provider sponsors and owns the PVAL Index, determines the composition and relative weightings of the securities in the PVAL Index, and publishes information regarding the market value of the PVAL Index. The Index Provider is not affiliated with PVAL or PGI.

PVAL employs a passive investment approach designed to attempt to track the performance of the PVAL Index. In seeking its objective, PVAL typically employs a "full replication" strategy which involves investing in all the securities that make up the PVAL Index, in the same approximate proportions as the PVAL Index. PVAL can, however, use a "sampling" methodology to purchase a subset of the securities in the PVAL Index in an effort to hold a portfolio of securities with generally the same risk and return characteristics of the PVAL Index. PVAL can also purchase securities not included in the PVAL Index that PGI believes will help PVAL track the PVAL Index.

PVAL will not concentrate its investments (invest more than 25% of its assets) in a particular industry except to the extent the PVAL Index is so concentrated. Given the present composition of the PVAL Index, PVAL expects that a notable portion of its assets will be invested in the financial services industry.

#### **Principal Sustainable Momentum Index ETF**

The Principal Sustainable Momentum Index ETF ("PMOM") seeks to provide investment results that closely correspond, before expenses, to the performance of the Nasdaq U.S. Sustainable Momentum Index (the "PMOM Index")

Under normal circumstances, PMOM invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities that compose the PMOM Index at the time of purchase. The PMOM Index uses a quantitative model designed to identify equity securities, including growth and value stocks, within the Parent Index that exhibit sustainable price momentum, based on historical stock prices over multiple periods and taking multiple market environments into consideration.

To be eligible for the PMOM Index, a security must be in the Parent Index, which is composed of equity securities of U.S. issuers with medium and large market capitalizations. Each security is assigned Sustainable Momentum (SUMO) Score based on intermediate factors (3, 4, 5, 6, 7, 8, 9, 10, 11 and 12 month risk-adjusted returns) and long-term factors (36, 48, and 60 month risk-adjusted returns), with volatility adjustments used to determine a composite score. Securities with SUMO scores that rank in the top 15% are included in the PMOM Index, in addition to securities already in the PMOM Index that rank in the top 35%. Once selected, the securities are weighted to give those in

the higher ranking groups relatively more weight, after making adjustments depending upon the market volatility regime.

The PMOM Index is rebalanced annually. Market volatility is monitored monthly; if the PMOM Index is determined to be in a high volatility regime, there is a special rebalance. Additionally, throughout the year securities that become ineligible for the PMOM Index are removed and not replaced. PMOM will make corresponding changes to its portfolio shortly after Index changes are made public. As of September 30, 2017, the Underlying Index included 119 components, and the Parent Index included 962 components.

The Index Provider developed the PMOM Index methodology with input from PGI. The Index Provider sponsors and owns the PMOM Index, determines the composition and relative weightings of the securities in the PMOM Index, and publishes information regarding the market value of the PMOM Index. The Index Provider is not affiliated with PMOM or PGI.

PMOM employs a passive investment approach designed to attempt to track the performance of the PMOM Index. In seeking its objective, PMOM typically employs a "full replication" strategy which involves investing in all the securities that make up the PMOM Index, in the same approximate proportions as the PMOM Index. PMOM can, however, use a "sampling" methodology to purchase a subset of the securities in the PMOM Index in an effort to hold a portfolio of securities with generally the same risk and return characteristics of the PMOM Index. PMOM can also purchase securities not included in the PMOM Index that PGI believes will help PMOM track the PMOM Index.

PMOM will not concentrate its investments (invest more than 25% of its assets) in a particular industry except to the extent the PMOM Index is so concentrated.

For more information regarding the Funds' investment strategy, please read the prospectus for the Fund.

As described more fully in the Trust's prospectus and Statement of Additional Information ("SAI"), the Funds issue and redeem Shares at net asset value ("NAV") only in large blocks of 50,000 Shares (each block of Shares called a "Creation Unit"). As a practical matter, only broker-dealers or large institutional investors with creation and redemption agreements (called Authorized Participants) can purchase or redeem these Creation Units. Except when aggregated in Creation Units, the Shares may not be redeemed with the Funds.

Shares are held in book-entry form, which means that no Share certificates are issued. The Depository Trust Company or its nominee is the record owner of all outstanding Shares of the Funds and is recognized as the owner of all Shares for all purposes.

The NAV per Share for each Fund is computed by dividing the value of the net assets of the Fund (i.e., the value of its total assets less total liabilities) by the total number of Shares outstanding. Expenses and fees are accrued daily and taken into account for purposes of determining NAV. The NAV of each Fund is determined each business day after the close of trading (ordinarily 4:00 p.m., Eastern Time or "ET") of the New York Stock Exchange. Any assets or liabilities denominated in currencies other than the U.S. dollar are converted into U.S. dollars at the current market rates on the date of valuation as quoted by one or more sources.

The registration statement for the Funds describes the various fees and expenses for the Funds' Shares. For a more complete description of the Funds and the underlying indexes, visit the Funds' website at [www.PrincipalETFs.com](http://www.PrincipalETFs.com).

### PURCHASES AND REDEMPTIONS IN CREATION UNIT SIZE

BX members and PHLX members and member organizations are hereby informed that procedures for purchases and redemptions of Shares in Creation Unit Size are described in the Trust's prospectus and Statement of Additional Information and that Shares are not individually redeemable but are redeemable only in Creation Unit Size aggregations or multiples thereof.

### PRINCIPAL RISKS

Interested persons are referred to the discussion in the prospectus for the Fund of the principal risks of an investment in the Fund. These include tracking error risk (factors causing the Fund's performance to not match the performance of the underlying index), market trading risk (for example, trading halts, trading above or below net asset value), equity securities risk, index fund risk, market trading risk, and momentum style risk.

### EXCHANGE RULES APPLICABLE TO TRADING IN THE SHARES

Trading of the Shares on BX is on a UTP basis and is subject to BX equity trading rules. Trading of the Shares on PHLX's PSX system is on a UTP basis and is subject to PHLX rules.

### TRADING HOURS

The values of each index underlying the Shares are disseminated to data vendors every 15 seconds. The Shares will trade on BX between 8:00 a.m. and 7:00 p.m. ET. The Shares will trade on PSX between 9:00 a.m. and 5:00 p.m. ET. For trading during each market's pre-market and post-market sessions, market participants should note that additional risks may exist with respect to trading the Fund during these sessions, when the underlying index's values, intraday indicative value, or similar value may not be disseminated or calculated.

### DISSEMINATION OF FUND DATA

The Consolidated Tape Association will disseminate real time trade and quote information for the Funds to Tape C.

Fund Name	Listing Market	Trading Symbol	IOPV Symbol	NAV Symbol
Principal Contrarian Value Index ETF	NASDAQ	PVAL	PVAL.IV	PVAL.NV
Principal Sustainable Momentum Index ETF	NASDAQ	PMOM	PMOM.IV	PMOM.NV

## **SUITABILITY**

Trading in the Shares on BX will be subject to the provisions of BX Equity Rule 2310. Shares trading on PSX will be subject to the provisions of PHLX Rule 763. Members and member organizations recommending transactions in the Shares to customers should make a determination that the recommendation is suitable for the customer. In addition, members must possess sufficient information to satisfy the “know your customer” obligation that is embedded in the BX Conduct Rules.

BX members and PHLX members and member organizations should also review NASD Notice to Members 03-71 for guidance on trading these products. The Notice reminds members of their obligations to: (1) conduct adequate due diligence to understand the features of the product; (2) perform a reasonable-basis suitability analysis; (3) perform customer-specific suitability analysis in connection with any recommended transactions; (4) provide a balanced disclosure of both the risks and rewards associated with the particular product, especially when selling to retail investors; (5) implement appropriate internal controls; and (6) train registered persons regarding the features, risk and suitability of these products.

## **TRADING HALTS**

BX will halt trading in the Shares of a Fund in accordance with BX Equity Rule 4120. PHLX will halt trading in the Shares of a Fund in accordance with PHLX Rule 3100. The grounds for a halt under these rules include a halt by the primary market because the intraday indicative value of the Fund, the value of its underlying index, or a similar value are not being disseminated as required, or a halt for other regulatory reasons. In addition, BX and PHLX will also stop trading the Shares of a Fund if the primary market delists the Fund.

## **DELIVERY OF A PROSPECTUS**

BX members and PHLX members and member organizations should be mindful of applicable prospectus delivery requirements under the federal securities laws with respect to transactions in the Fund.

Prospectuses may be obtained through the Fund’s website. The prospectus for the Funds does not contain all of the information set forth in the Fund’s registration statement (including the exhibits to the registration statement), parts of which have been omitted in accordance with the rules and regulations of the Securities and Exchange Commission (“SEC”). For further information about the Fund, please refer to the registration statement.

In the event that the Fund relies upon an order by the SEC exempting the Shares from certain prospectus delivery requirements under Section 24(d) of the 1940 Act and in the future make available a written product description, BX Equity Rules 4420 and 4421, and PHLX Rule 803 require that members and member organizations, respectively, provide to all purchasers of Shares a written description of the terms and characteristics of such securities, in a form prepared by the Trust for the Fund, no later than the time a confirmation of the first transaction in the Shares is delivered to such purchaser. In addition, members and member organizations shall include such a written description with any sales material relating to the Shares that is provided to customers or the public. Any other

written materials provided by members or member organizations to customers or the public making specific reference to the Shares as an investment vehicle must include a statement in substantially the following form: “A circular describing the terms and characteristics of the Shares of the Fund has been prepared by the Trust and is available from your broker. It is recommended that you obtain and review such circular before purchasing Shares of the Fund. In addition, upon request you may obtain from your broker a prospectus for Shares of the Fund.”

Any BX or PHLX member or member organization carrying an omnibus account for a non-member broker-dealer is required to inform such non-member that execution of an order to purchase Shares for such omnibus account will be deemed to constitute agreement by the non-member to make such written description available to its customers on the same terms as are directly applicable to BX members and PHLX members or member organizations under this rule.

Upon request of a customer, BX members and PHLX members or member organizations shall provide a copy of the prospectus.

#### **EXEMPTIVE, INTERPRETIVE AND NO-ACTION RELIEF UNDER FEDERAL SECURITIES REGULATIONS**

The SEC has issued exemptive, interpretive or no-action relief from certain provisions of rules under the Securities Exchange Act of 1934 (the “Act”) regarding trading in the above mentioned exchange-traded Fund.

#### **REGULATION M EXEMPTIONS**

Generally, Rules 101 and 102 of Regulation M prohibit any “distribution participant” and its “affiliated purchasers” from bidding for, purchasing, or attempting to induce any person to bid for or purchase any security which is the subject of a distribution until after the applicable restricted period, except as specifically permitted in Regulation M. The provisions of the Rules apply to underwriters, prospective underwriters, brokers, dealers, and other persons who have agreed to participate or are participating in a distribution of securities.

The SEC has granted an exemption from Rule 101 under Regulation M to permit persons participating in a distribution of shares of the above-mentioned Fund to engage in secondary market transactions in such shares during their participation in such a distribution. In addition, the SEC has granted relief under Regulation M to permit persons who may be deemed to be participating in the distribution of Shares of the above-mentioned Fund (i) to purchase securities for the purpose of purchasing Creation Unit Aggregations of Fund Shares and (ii) to tender securities for redemption in Creation Unit Aggregations. Further, the SEC has clarified that the tender of Fund Shares to the Fund for redemption does not constitute a bid for or purchase of any of the Fund’s securities during the restricted period of Rule 101. The SEC has also granted an exemption pursuant to paragraph (e) of Rule 102 under Regulation M to allow the redemption of Fund Shares in Creation Unit Aggregations during the continuous offering of Shares.

#### **CUSTOMER CONFIRMATIONS FOR CREATION OR REDEMPTION OF FUND SHARES (SEC RULE 10B-10)**

Broker-dealers who handle purchases or redemptions of Fund Shares in Creation Unit size for customers will be permitted to provide such customers with a statement of the number of Creation

Unit Aggregations created or redeemed without providing a statement of the identity, number and price of shares of the individual securities tendered to the Fund for purposes of purchasing Creation Unit Aggregations (“Deposit Securities”) or the identity, number and price of shares to be delivered by the Trust for the Fund to the redeeming holder (“Redemption Securities”). The composition of the securities required to be tendered to the Fund for creation purposes and of the securities to be delivered on redemption will be disseminated each business day and will be applicable to requests for creations or redemption, as the case may be, on that day. This exemptive relief under Rule 10b-10 with respect to creations and redemptions is subject to the following conditions:

- 1) Confirmations to customers engaging in creations or redemptions must state that all information required by Rule 10b-10 will be provided upon request;
- 2) Any such request by a customer for information required by Rule 10b-10 will be filed in a timely manner, in accordance with Rule 10b-10(c);
- 3) Except for the identity, number and price of shares of the component securities of the Deposit Securities and Redemption Securities, as described above, confirmations to customers must disclose all other information required by Rule 10b-10(a).

#### **SEC RULE 14E-5**

An exemption from Rule 14e-5 has been granted to permit any person acting as a dealer-manager of a tender offer for a component security of the Fund (1) to redeem Fund Shares in Creation Unit Aggregations from the issuer that may include a security subject to such tender offer and (2) to purchase Fund Shares during such tender offer. In addition, a no-action position has been taken under Rule 14e-5 if a broker-dealer acting as a dealer-manager of a tender offer for a security of the Fund purchases or arranges to purchase such securities in the secondary market for the purpose of tendering such securities to purchase one or more Creation Unit Aggregations of Shares, if made in conformance with the following:

- 1) such bids or purchases are effected in the ordinary course of business, in connection with a basket of 20 or more securities in which any security that is the subject of a distribution, or any reference security, does not comprise more than 5% of the value of the basket purchased; or
- 2) purchases are effected as adjustments to such basket in the ordinary course of business as a result of a change in the composition of the underlying index; and
- 3) such bids or purchases are not effected for the purpose of facilitating such tender offer.

#### **SECTION 11(D)(1); SEC RULES 11D1-1 AND 11D1-2**

Section 11(d)(1) of the Act generally prohibits a person who is both a broker and a dealer from effecting any transaction in which the broker-dealer extends credit to a customer on any security which was part of a new issue in the distribution of which he participated as a member of a selling syndicate or group within thirty days prior to such transaction. The SEC has clarified that Section 11(d)(1) does not apply to broker-dealers that are not Authorized Participants (and, therefore, do not create Creation Unit Aggregations) that engage in both proprietary and customer transactions in Shares of the Fund in the secondary market, and for broker-dealer Authorized Participants that

engage in creations of Creation Unit Aggregations. This relief is subject to specific conditions, including the condition that such broker-dealer (whether or not an Authorized Participant) does not, directly or indirectly, receive from the fund complex any payment, compensation or other economic incentive to promote or sell the Shares of the Fund to persons outside the fund complex, other than non-cash compensation permitted under NASD Rule 2830(I)(5)(A), (B) or (C). (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.) The SEC also has taken a no-action position under Section 11(d)(1) of the Act that broker-dealers may treat Shares of the Fund, for purposes of Rule 11d1-2, as "securities issued by a registered open-end investment company as defined in the Investment Company Act" and thereby extend credit or maintain or arrange for the extension or maintenance of credit on Shares that have been owned by the persons to whom credit is provided for more than 30 days, in reliance on the exemption contained in the rule.

#### **SEC RULE 15C1-5 AND 15C1-6**

The SEC has taken a no-action position with respect to Rule 15c1-5 and Rule 15c1-6 as to the required disclosure of control by a broker or dealer with respect to creations and redemptions of Fund Shares and secondary market transactions therein. (See [letter](#) from Catherine McGuire, Chief Counsel, SEC Division of Market Regulation, to Securities Industry Association, Derivative Products Committee, dated November 21, 2005.)

**This Information Circular is not a statutory prospectus. BX members and PHLX members and member organizations should consult the Fund's prospectus and/or the Fund's website for relevant information.**

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Inquiries regarding this Information Circular should be directed to:

- Ben Haskell, Listing Qualifications, at 301.978.8092
- BX / PSX Market Sales, at 800.846.0477