

31 December 2017

Preferred Securities Fund - A Inc USD

Sub Investment Advisor

Spectrum Asset Management† specialises in the management of preferred securities.

†Principal Global Investors, LLC has been appointed as Investment Advisor to the Fund, and has appointed Spectrum Asset Management, Inc. as the Sub-Investment Advisor.

Investment Advisor

Principal Global Investors, LLC

Fund Managers

Mark A. Lieb
MBA, University of Hartford
40 Yrs Industry Exp
L. Phillip Jacoby, IV
BS, Boston University
35 Yrs Industry Exp
Manu Krishnan, CFA
MBA, Cornell University
13 Yrs Industry Exp
Bob Giangregorio
MBA, Cornell University
14 Yrs Industry Exp
Fred Diaz

Investment Objective

The Fund seeks to provide an income return consistent with capital preservation. The Fund seeks to achieve its overall objective by investing primarily in a portfolio of U.S. dollar-denominated preferred securities and debt securities. Value will be primarily added through security selection.

Index

50% BofA Merrill Lynch Fixed Rate Preferred Securities Index and 50% BofA Merrill Lynch US Capital Securities Index##

Fund Facts

Fund Size \$5454.6m
Launch Date 27 Feb 2005
Fund Base Currency USD
Hedging Portfolio
Fund Domicile Ireland
UCITs Qualifying Yes
Pricing Daily
Dealing Cut off 10am Dublin
5pm Hong Kong
Income Distribution Income
Fee Structure A Class
Preliminary Charge max 5%
Management Fee 0.90% pa
Admin Charge 0.15% pa
Trustee Fee Not more than 0.022%pa

Investor Minimum
Please contact Principal Global Investors

Country Registration

Belgium, Finland, France, Germany, Guernsey, Hong Kong, Ireland, Italy*, Jersey, Luxembourg, Netherlands, Singapore*, South-Korea, Spain, Sweden, Switzerland, UAE and UK

Fund Grading

Mark Lieb and Phil Jacoby AA rated - Citywire Fund Manager Ratings



IMPORTANT NOTE

- The Principal Preferred Securities Fund will invest primarily in a portfolio of U.S. dollar denominated preferred securities and debt securities.
- The Fund's investments will be offered on markets listed in Appendix A to the Prospectus, although it is anticipated that the majority will be issued by U.S. issuers. Compared with a well-diversified fund, its concentration risk is relatively high and hence it might be more volatile than a well-diversified fund.
- Investment involves risk. There is no assurance on investment returns and you may not get back the amount originally invested.
- The investment decision is yours but you should not invest in this Fund unless the intermediary who sells it to you has advised you that it is suitable for you and explained how it is consistent with your investment objectives.
- You should not invest solely in reliance on this marketing material alone. You should read the Prospectus and the relevant Supplement(s) before investing including the Special Investment Considerations and Risks section of the Prospectus.
- In relation to A Class Income Units of the Fund, the dividends which may be distributed by such class of units may be paid effectively out of the capital of the Fund (i.e. making the distribution from gross income while charging all or part of the Fund's fees and expenses to capital), resulting in an increase in distributable income for the payment of dividends by the Fund and an immediate reduction of the net asset value per unit of the Fund. Payment of dividends effectively out of capital amounts to a return or withdrawal of part of an investor's original investment or from any capital gains attributable to that original investment.

PERFORMANCE %

	1M	3M	YTD	1YR	3YR	5YR	10YR
Fund Cumulative Net	0.28	0.97	9.76	9.76	17.82	33.77	91.61
Cumulative Index	0.18	0.55	10.11	10.11	19.05	35.05	79.74
Fund Annualised Net	0.28	0.97	9.76	9.76	5.61	5.99	6.71
Index Annualised	0.18	0.55	10.11	10.11	5.98	6.19	6.03

Fund performance is calculated on a NAV to NAV basis, net performance including trustee and management fees. See performance notes.

CALENDAR YEAR PERFORMANCE %

	2017	2016	2015	2014	2013
Fund Net	9.76	4.84	2.39	10.21	3.02
Index	10.11	3.79	4.18	11.54	1.71

FUND ANALYSIS

	Fund	Index
Average Credit Quality	Baa2	Baa2
Current Yield**	5.7	5.6
Yield to Worst***	3.9	3.0
Yield to Maturity#	5.7	5.1
Modified Duration	4.8	4.8

TOP 10 HOLDINGS %

	Fund
Rabobank Nederland 11 6/19-49 Reg S	3.9
Lloyds Banking Group 12 12/24-49 REG S	3.3
Emera Inc 6.75 6/26-76	1.8
Metlife Inc. 10.75 8/1/39	1.5
AXA S.A. 8.60 12/15/30	1.4
Demeter (Swiss Re) 5.75 08/25-50	1.4
Legal and General Group 5.25 3/27-47	1.2
HSBC Capital Funding 10.176 6/30/30 RegS	1.2
BNP Paribas 7.625 3/30/21-49 Reg S	1.2
Standard Chartered 7.014 7/37-49 Reg S	1.1
Total	18.1

No. of holdings 269

CREDIT QUALITY %

	Fund	Difference
AA or AAA	5.4	5.4
A	14.6	-6.9
BBB	61.7	-16.2
BB and Lower	18.4	17.7

COUNTRY ALLOCATION %

	Fund	Difference
United States	30.1	-30.0
Great Britain	17.5	13.1
Switzerland	8.8	8.5
France	8.3	1.1
Japan	6.6	-7.0
Netherlands	5.6	2.6
Canada	4.3	-0.4
Australia	2.9	0.0
Sweden	2.9	2.9
Bermuda	2.4	1.0
Spain	1.8	1.8
Italy	1.1	1.1
Belgium	1.0	1.0
Other	1.4	-1.2
Cash	5.4	5.4

INDUSTRY ALLOCATION %

	Fund	Difference
Banks	46.3	9.2
Insurance	32.6	0.5
Utilities	6.3	-2.9
Cash	5.4	5.4
Energy	3.8	-1.2
Industrials	2.6	-5.8
Telecommunications	2.2	1.5
Financials	0.6	-3.2
REITs	0.2	-3.4
Treasuries	0.0	0.0
Agencies	0.0	0.0
Media	0.0	0.0
Options	0.0	0.0

Fund Codes

Income Units:

Bloomberg	PRIIFSI ID
ISIN	IE00B067MS69
Lipper	60015003
SEDOL	B067MS6
Valoren	2079429
WKN	A0D8H0

FUND MANAGEMENT COMMENTARY

Market Review

December closed a remarkable year for the equity market as this was the first year on record that total return for the S&P 500 was positive each month. Equities have been on a run since the Trump election 14 months ago and in the process, volatility has virtually vanquished. The S&P 500 zoomed up 17.3% to a new all-time month end high of 2674. The 30-year U.S. Treasury bond finished the year yielding 2.74% (31 basis points (bps) lower on the year) and the U.S. Treasury 10-year note finished yielding 2.41% (2 bps lower on the year) as the yield curve differential between the two flattened by 29 bps. The FOMC statement focused on the labor market remaining strong and expectations for sustained 2% inflation in providing rationale for bumping up the target Fed funds rate to 1.50% this month. Overall, the BofAML All US Capital Securities Index (i0cs) inched up 0.17% in to close yielding 2.86%, a spread of +82 bps over comparable treasury securities. The rebalancing this month added \$47 million in preferred securities and edged up the yield to 2.90%. The ICE BofAML Contingent Capital Index (coco) rose 0.27% to close yielding 4.27%. The rebalancing this month reduced the benchmark by just \$42 million and had no impact on yield. A considerable topic this month was (again) MetLife, which filed an 8-K to guide some dialogue to the company's outlook, which disclosed that there are more risks that could be material to results.

Fund Review

In December the institutional \$1000 par market had its 11th month of positive returns in the year and the retail-oriented \$25 par preferred market had its 12th month of positive returns. The top contributors by industry in December were non-U.S. banking, U.S. banking, U.S. life insurance, non-U.S. property and casualty insurance, and non-U.S. utilities. These industries represented 62% of the portfolio as of the end of the month. The only detractors by industry were U.S. gas, U.S. industrials, non-U.S. reinsurance, and non-U.S. gas. These industries comprised 8% of the portfolio at the end of the month and detracted 0.01% from performance.

PERFORMANCE NOTE

Performance is calculated on a NAV-to-NAV basis, includes the reinvestment of all investment income, and does not take account of application fee or tax, but does include trustee and management fees. The NAVs used in these calculations reflect the month-end market close prices of assets. The actual performance an investor receives reflects the NAVs at which they trade the Fund, which are calculated at the Fund's Valuation Point - as such, the two returns will differ. The performance information reflects the performance of the A Class income units. Investors should obtain their own independent tax advice. ##Blended Index: Different indices have been used in relation to prior periods, as follows: Inception – 30/09/2008 - Lehman Aggregate Index or BofA Merrill Lynch Preferred Stock Index, 1/10/2008 - 31/03/2011 - 65% BofA Merrill Lynch Fixed Rate Preferred Securities Index / 35% Barclays Capital CapSec U.S. Dollar Tier 1 Index, 1/04/2011-28/02/2014 - 50% BofA Merrill Lynch Fixed Rate Preferred Securities Index / 50% Barclays Capital CapSec U.S. Dollar Tier 1 Index. The inception date of the fund is 22 April 2003; not all share classes may be available to all investors. Performance since the inception of the fund is available on request. Outperforming the Blended Index is not specifically included in the objective of the Fund, and the figures shown in the table are provided as a comparison only. The methods of calculation of performance may not be identical. The source of performance is based on the current Advisor, Principal Global Investors, LLC. Past performance is not indicative of future performance. **Current Yield is the annual interest earned on the underlying bonds divided by the market price of the underlying portfolio of bonds. The figure is not the dividend yield received by the investors and is subject to change depending on the underlying portfolio of bonds. ***Yield to Worst is the lowest potential yield that can be received on a bond without the issuer actually defaulting. The yield to worst is calculated by making the worst-case scenario assumptions on the issue. #Yield to Maturity is a concept used to determine the rate of return an investor will receive if a long-term, interest-bearing investment, such as a bond, is held to its maturity date. Please note that this is not the return or dividend to be received by investors in the fund. Credit Quality refers to the credit ratings for the underlying securities in the Fund as rated by Standard & Poor's or Moody's Investors Service, and typically range from AAA/Aaa (highest) to C/D (lowest). If Moody's and S&P assign different ratings, the higher rating is used. Ratings methodologies and individual ratings can change over time. Source & Copyright: CITYWIRE. Mark Lieb and Phil Jacoby are AA rated by Citywire for his 3 year risk-adjusted performance for the period 31 December 2014 – 31 December 2017. Citywire's exclusive methodology ranks fund managers based on their individual track records across all funds they manage globally. All figures shown in this document are in U.S dollars unless otherwise noted.

DISCLOSURE

*Where applicable: In Singapore, the Fund is registered as a Restricted Scheme and in Italy for Qualified Investors only.

Divergences between the returns of unit classes denominated in the base currency of the fund and hedged unit classes may arise among other things due to interest rate differentials between the base currency of the fund and the hedged unit class currency.

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This document has not been reviewed by the Securities and Futures Commission.

Contact Us

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