

31 August 2018

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
41 Yrs Industry Exp
L. Phillip Jacoby, IV
BS, Boston University
36 Yrs Industry Exp
Manu Krishnan, CFA
MBA, Cornell University
14 Yrs Industry Exp
Bob Giangregorio
MBA, Cornell University
15 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 objective by investing primarily in a portfolio of U.S. dollar denominated preferred securities and debt securities. At the time of the Fund's investment the majority of these securities will be rated as investment grade. Any exposure to currencies other than US dollar will be hedged back to US dollars.

Index

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

Fund Facts

Fund Size	\$4408.2m
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*

Austria, Belgium, Chile, 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	0.47	0.84	-1.93	-0.88	13.50	30.32	92.11
Cumulative Index	0.73	1.66	0.00	0.86	16.44	35.02	92.16
Fund Annualised Net	0.47	0.84	-1.93	-0.88	4.31	5.44	6.74
Index Annualised	0.73	1.66	0.00	0.86	5.20	6.19	6.75

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**	6.2	5.7
Yield to Worst***	5.1	4.4
Yield to Maturity#	6.4	5.7
Modified Duration	5.2	5.4

TOP 10 HOLDINGS %

	Fund
Lloyds Banking Group 12 12/24-49 REG S	3.7
AXA S.A. 8.60 12/15/30	2.4
Emera Inc 6.75 6/26-76	2.4
Metlife Inc. 10.75 8/1/39	1.7
Legal and General Group 5.25 3/27-47	1.7
BNP 7.195 6/37-49 Reg S	1.6
Demeter (Swiss Re) 5.75 08/25-50	1.6
Demeter Swiss Re 5.625 8/27-52	1.4
HSBC Capital Funding 10.176 6/30/30 RegS	1.4
ENEL 8.75 09/24/23-73	1.4
Total	19.2

No. of holdings

241

CREDIT QUALITY %

	Fund	Difference
AA or AAA	0.4	0.4
A	18.6	-2.9
BBB	66.1	-11.7
BB and Lower	14.9	14.2

COUNTRY ALLOCATION %

	Fund	Difference
United States	34.2	-27.9
Great Britain	18.1	14.6
France	10.7	4.2
Switzerland	8.0	7.7
Japan	7.7	-6.6
Canada	5.1	1.7
Bermuda	2.9	1.3
Sweden	2.9	2.9
Australia	2.8	-0.1
Italy	2.1	1.1
Netherlands	1.6	0.5
Denmark	1.2	1.2
Belgium	1.2	1.2
Other	1.0	-2.2
Cash	0.4	0.4

INDUSTRY ALLOCATION %

	Fund	Difference
Banks	43.4	7.0
Insurance	39.7	4.9
Utilities	7.9	-2.3
Energy	3.2	-0.9
Telecommunications	2.4	1.7
Industrials	2.3	-4.2
Financials	0.5	-3.4
Cash	0.4	0.4
REITs	0.2	-3.3
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	PRIIFS1 ID
ISIN	IE00B067MS69
Lipper	60015003
SEDOL	B067MS6
Valoren	2079429
WKN	A0D8H0

FUND MANAGEMENT COMMENTARY

Market Review

U.S. stock prices, measured by the S&P, rose to all-time highs and U.S. Treasury bond prices also lifted—the S&P 500 rose 3.50% and the September contract on U.S. Treasury long bonds rose 1.65%. The 30-year U.S. Treasury bond closed yielding 3.01% and the U.S. Treasury 10-year note closed yielding 2.86%. The yield curve differential between the two longer terms closed at 15 bps. August brought another policy meeting from the FOMC, where the decision maintained the target federal funds rate, as expected, at 1.75%-2.00%.

Fund Review

The retail-oriented \$25 par preferred and the institutional \$1000 par market had positive returns and their second-best month of the year. The top contributors were non-U.S. multi-line insurance, U.S. banking, non-U.S. property and casualty insurance, non-U.S. life insurance, and U.S. telecoms, all representing 32% of the portfolio at month-end. The only detractors by industry were non-U.S. banking, non-U.S. autos, and U.S. brokerages, comprising 34% of the portfolio at month-end and detracting less than 2 bps. All other industries contributed.

Market Outlook

Spreads across the board are better than at the start the year and income opportunities are as good as they have been in five years. If prices were to end the year unchanged, then an average coupon of 6.35% could still carry us into positive territory over the next four months. The preview for next year should depend mostly on how far the Fed goes on hiking its target funds rate. We don't think the Fed will push the lower bound above 3%. If more noise on the flattening yield curve creates unwarranted friction, the Fed has plenty of policy powder to manipulate the U.S. yield curve and encourage economic sentiment than markets seem to appreciate. Even as the U.S. Treasury continues to saturate the front end of the curve with issuance for annual budget savings, the Fed could reverse-twist by selling long bonds to buy new shorter-term issuance from Treasury. We have a sanguine view of solid credit fundamentals in global financials and beneficial structural (i.e., income) features that can uniquely support some preferred securities and CoCos over the prospective performance of ordinary corporate bonds.

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. Periods over one year are annualised. 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 3 year risk-adjusted performance for the period 30 June 2015 - 30 June 2018. 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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