

Preferred Securities Fund - A Class Income Units

30 September 2020

Investment advisor

Principal Global Investors, LLC ("PGI")

Sub investment advisor

Spectrum Asset Management, Inc.

("Spectrum")

Spectrum specialises in the management

of preferred securities.

Fund managers

Mark A. Lieb

43 Yrs Industry Exp

L. Phillip Jacoby, IV

38 Yrs Industry Exp

Manu Krishnan, CFA

16 Yrs Industry Exp

Bob Giangregorio

17 Yrs Industry Exp

Fred Diaz

28 Yrs Industry Exp

Kevin Nugent

36 Yrs Industry Exp

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

Bloomberg Barclays Global Aggregate Corporate USD TR Index*

Fund facts

| | |
|------------------|-------------------------------------|
| Fund size | \$4,695.9m |
| Base currency | USD |
| Fund domicile | Ireland |
| UCITS qualifying | Yes |
| Pricing | Daily |
| Dealing | 10am Dublin 5pm Hong Kong SAR |

Unit class facts

| | |
|--|-------------|
| Launch date | 27 Feb 2005 |
| Currency | USD |
| Hedging | Portfolio |
| Minimum investment | US\$1,000 |
| Management fee(s) | 0.90% pa |
| Income distribution | Income |
| Distribution frequency: | |
| Quarterly: March, June, September and December | |

Performance (%)

| | 1M | 3M | YTD | 1YR | 3YR | 5YR | 10YR |
|---------------------|-------|------|------|------|-------|-------|-------|
| Fund Cumulative Net | -0.22 | 3.73 | 0.71 | 3.29 | 11.61 | 28.24 | 78.17 |
| Index Cumulative | -0.23 | 1.67 | 6.54 | 7.78 | 20.08 | 33.17 | 64.78 |
| Fund Annualised Net | -0.22 | 3.73 | 0.71 | 3.29 | 3.73 | 5.10 | 5.94 |
| Index Annualised | -0.23 | 1.67 | 6.54 | 7.78 | 6.28 | 5.89 | 5.12 |

12-month rolling return (%)

| Oct 15 - Sep 16 | Oct 16 - Sep 17 | Oct 17 - Sep 18 | Oct 18 - Sep 19 | Oct 19 - Sep 20 |
|-----------------|-----------------|-----------------|-----------------|-----------------|
| 6.50 | 7.89 | -1.22 | 9.39 | 3.29 |

Risk analysis

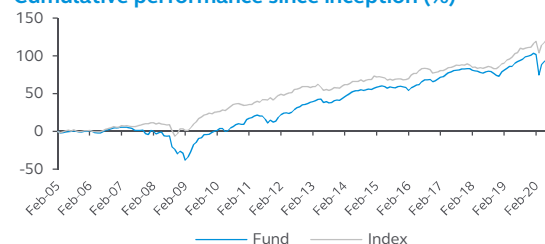
| | 3YR | 5YR |
|--------------------|------|------|
| Information Ratio | -0.5 | -0.2 |
| Alpha | -3.9 | -1.7 |
| Tracking Error | 5.4 | 4.7 |
| Standard Deviation | 9.8 | 8.0 |
| Beta | 1.3 | 1.2 |

Past performance is not a reliable indicator of future performance.

Source: Fund Administrator: BNY Mellon Fund Services (Ireland) DAC since February 2011, performance data prior to this date is sourced from PGI and/or its affiliates; and the Index.

Data: From December 2018, the performance data shown is based upon the Fund's official Net Asset Value (NAV) prices. The performance data shown is net of fees and other charges but excludes any potential entry/exit charges- as such the return an investor receives may be lower. Prior to December 2018, the performance data shown is based upon the Fund's month-end market close prices. (See performance note for important information.)

Cumulative performance since inception (%)



Fund analysis

| | Fund | Index |
|------------------------|------|-------|
| Average Credit Quality | Baa2 | A3 |
| Current Yield | 5.3 | 3.4 |
| Yield to Worst | 3.6 | 2.0 |
| Yield to Maturity | 4.5 | 2.1 |
| Modified Duration | 4.3 | 7.9 |

Any yields quoted on the fact sheet are calculated at portfolio level gross of tax and expenses.

- 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.

Top 10 holdings (%)

| | Fund |
|--|-------------|
| AXA S.A. 8.60 12/15/30 | 2.6 |
| Enterprise Products Oper 5.25 8/27-77 | 1.9 |
| Metlife Inc. 10.75 8/1/39 | 1.7 |
| Voya Financial Inc 5.65 5/23-53 | 1.7 |
| Demeter (Swiss Re) 5.75 08/25-50 | 1.6 |
| HSBC Capital Funding 10.176 6/30/30 | 1.6 |
| Demeter (Swiss Re) 5.625 8/27-52 Reg S | 1.6 |
| Enbridge Inc 6 1/27-77 | 1.5 |
| Barclays 7.75 9/23-49 | 1.4 |
| Bank Of Nova Scotia 4.9 6/25 perp | 1.4 |
| Total | 17.0 |

No. of holdings

243

Geographic allocation (%)

| | Fund |
|---------------|------|
| United States | 37.1 |
| Great Britain | 14.5 |
| Switzerland | 11.1 |
| France | 10.2 |
| Japan | 7.3 |
| Canada | 6.2 |
| Australia | 2.9 |
| Sweden | 2.5 |
| Spain | 1.9 |
| Finland | 1.9 |
| Netherlands | 1.8 |
| Denmark | 1.2 |
| Norway | 0.5 |
| Other | 0.5 |
| Cash | 0.5 |

Credit quality (%)

| | Fund |
|--------------|------|
| AA or AAA | 3.6 |
| A | 18.6 |
| BBB | 57.8 |
| BB and Lower | 20.0 |

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.

Industry allocation (%)

| | Fund |
|--------------------|------|
| Banks | 47.3 |
| Insurance | 34.1 |
| Energy | 4.9 |
| Utilities | 4.9 |
| Financials | 3.4 |
| Treasuries | 3.1 |
| Industrials | 1.2 |
| Telecommunications | 0.6 |
| Other | 0.0 |
| Cash | 0.5 |

Source: Principal Global Investors and/or its affiliates and the Index. Characteristics sources: Bloomberg, Moody's, S&P, Fitch, and Spectrum Asset Management.

Data: This data/analysis is not sourced from the Fund's official record. It is based upon data from the internal systems of Principal Global Investors and/or its affiliates. Performance shown in this section is gross which does not take into account any fees or other charges which, if taken into account, would reduce the figures shown.

| | |
|-------------------|--------------|
| Fund codes | |
| Bloomberg | PRIIFS1 ID |
| ISIN | IE00B067MS69 |
| Lipper | 60015003 |
| SEDOL | B067MS6 |
| CUSIP | G7244L289 |
| Valoren | 2079429 |
| WKN | A0D8HO |

Registration
Austria, Belgium, Chile, Denmark, Finland, France, Germany, Guernsey, Hong Kong SAR, Ireland, Italy, Jersey, Luxembourg, Netherlands, Norway, Singapore, South-Korea, Spain, Sweden, Switzerland, UAE and UK

Not all unit classes are registered in the listed countries, please contact your sales representative for more details. In Italy, the Fund is registered for Qualified Investors only and in Singapore, the Fund is registered as a Restricted Scheme for institutional investors and relevant persons defined in the SFA.

Contact us
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Fund management commentary

Market Review

After months of strong performance since the Covid-19 related sell-off, the market had a pullback in valuations. The sell-off in risk markets started in the U.S. equity market, specifically the technology sector, as valuations had become overstretched. This, combined with rising rates of Covid-19 infections in Europe, increased risk of a poor Brexit outcome, and uncertainty around a second stimulus bill in the U.S., resulted in a sell-off in risk. Rates were mostly unchanged across the curve.

Performance in Preferred Securities was negative with the ICE US Investment Grade Institutional Capital Securities Index (CIPS) returning -0.77% and the \$25 par ICE Fixed Rate Preferred Securities Index (POP2) -0.63%. The ICE US All Capital Securities Index (IOCS) that includes below investment-grade Preferreds returned -0.80%. The AT1 Cocos sector pulled back returning -0.69% (CDLR: ICE USD Contingent Capital Index). The European Banking equity index (SX7E) was down -11.90%. Therefore, AT1 Cocos have behaved like fixed income in the midst of this significant sell-off in European Bank equity.

Fund Review

The Tier1 Banking securities in the portfolio performed strongly. The positive performance by the Legacy Tier1 sector is more remarkable in the context of a drop in European Bank equities. The AT1 Cocos in the portfolio outperformed the AT1 Cocos index. Higher quality bonds and short call Cocos outperformed relatively. The Insurance hybrids in the portfolio, one of the highest allocations to a sector, performed well. Therefore, our allocations to Jr. subordinated debt in the Insurance space helped relative to the performance on the Preferred indices.

U.K. bonds in the portfolio in Cocos and Sub debt performed poorly relatively. The midstream/pipelines in the portfolio was down. Even though the absolute in this sector was a drag, it outperformed relative to the sector in the IOCS index resulting in better security selection relative to IOCS. The Senior debt allocation was a drag.

Market Outlook

We expect that demand for subordination premium will continue to be robust given the significant amounts of capital looking for return's in a yield starved world. That being said, risks exist on the horizon. We added to new issues and non-financial diversification.

Risk warnings

- The market value of debt securities is affected by changes in prevailing interest rates and the Fund may be exposed to credit risk by investing in debt securities.
- Default risk and liquidity risk associated with investment in below investment grade securities.
- Contingent Convertible Securities risk is due by the substantially greater risk that these instruments may have compared to other forms of securities in times of credit stress and may result in a material loss to the Fund.
- This shareclass is unhedged. Unhedged shareclasses are exposed to greater risk and volatility. Please note the fund does have hedged shareclasses available.

Performance note

Index disclosure: The Fund is actively managed and aims to outperform the Bloomberg Barclays Global Aggregate Corporate USD TR Index (the "Index"). However, the Index composition is not factored into the investment management process and the portfolio manager maintains full discretion to select investments for the Fund in line with the above investment policy.

This document presents the performance of this particular unit class of the Fund from the date of inception of the unit class in its unit class currency, as specified on the front page. Performance since inception date of the Fund, which precedes the inception date of the unit class, is available upon request. Prior to December 2018, the performance data shown is not based upon the Fund's official Net Asset Value ("NAV") prices. The performance calculations reflect the month-end market close prices of the Fund's assets, whereas the actual performance investors receive reflects the official NAVs at which they trade the Fund which are calculated at the Fund's Valuation Point. As a result, it is possible that the stated performance and the actual investment returns received differed. For income unit classes, returns are measured on a total return basis i.e. net investment income plus capital gain or loss from investment. The performance data shown is net of fees and other charges but excludes any potential entry/exit charges – as such the returns an investor receives may be lower.

Disclosure

Principal Global Investors ("PGI") is the asset management arm of the Principal Financial Group, and includes (amongst other entities): Principal Global Investors LLC ("PGI LLC"), Principal Global Investors (Europe) Limited ("PGIE") and any Sub-Advisers to the Fund. PGIE has been appointed as Distributor for the Fund and has identified that the Fund is compatible with the needs, characteristics and objectives of both institutional and retail investors. Please note however that PGI does not distribute directly to retail investors who should seek independent investment advice before deciding whether the fund in question is suitable to meet their investment needs and objectives. Full details of the risks associated with investing in the Fund are detailed in the Fund Prospectus, Supplement and Key Investor Information Document ("KIID"). All fees and charges related to the Fund may not be contained within this document. Information regarding the costs and charges associated with the Fund is provided in the MiFID II ex-ante disclosure. These documents are available on our website at principalglobal.com and you are advised to read them before investing so you can make an informed decision about whether to invest. Any person selling or advising you about the Fund may charge you additional costs and you should request information about those costs and charges from that person.

This document is intended for information purposes only. It is not an offer or a solicitation to anyone to subscribe for units in the Fund. It should not be construed as investment advice. There is no guarantee that the investment objective of the Fund will be achieved. Commentary is based on current market conditions, there is no assurance that such events or projections will occur and actual conditions may be significantly different. Expressions of opinion and predictions within this document are accurate as of the date of issuance and subject to change without notice. Reference to a specific investment or security does not constitute a recommendation to buy, sell or hold such investment or security, and is provided for illustrative purposes. Percentages do not always add up to 100% due to rounding. The Fund may offer different unit classes which may be subject to different fees and expenses (which could affect performance) and may not be available to all investors. Where the Fund offers hedged unit classes, returns of such unit classes may diverge from that of unit classes denominated in the base currency of the Fund and the hedged unit class currency.

The figures published are for information purposes only and provide details of the performance of a comparable index. The method of calculating performance may differ between the Fund and it's index. Further, it is not possible to invest in an index. Information in this document has been derived from sources believed to be accurate as of the date of issuance and is derived from PGI or its affiliates unless otherwise noted. Information derived from sources other than PGI or its affiliates is believed to be reliable however we do not independently verify or guarantee its accuracy or validity. Subject to any contrary provisions of applicable law, no company in the Principal Financial Group nor any of their employees or directors gives any warranty of reliability or accuracy nor accepts any responsibility arising in any other way (including by reason of negligence) for errors or omissions in this document. This material is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation. When this document is issued in the following countries/jurisdictions, it is issued by the entities noted: Europe, by PGIE, Level 1, 1 Wood Street, London, EC2V 7JB, registered in England, No. 03819986, which has approved its contents, and which is authorized and regulated by the Financial Conduct Authority; Switzerland, by Principal Global Investors (Switzerland) GmbH; Singapore, by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), regulated by the Monetary Authority of Singapore ("MAS"); and the Dubai International Financial Centre ("DIFC"), by Principal Global Investors LLC, a branch registered in the DIFC and authorized by the Dubai Financial Services Authority ("DFSA") as a representative office.

Disclosure for Singapore: The Fund is a restricted scheme in Singapore, it is not authorised or recognised by the MAS and the units in the Fund are not allowed to be offered to the retail public. The Fund is available only to: 1) Institutional Investors under Section 304 of the Securities and Futures Act ("SFA"); and 2) persons within the meaning of "relevant persons" defined in Section 305 of the SFA and in accordance with the conditions of, any other applicable provisions of the SFA. Mandatory Disclosure for the DIFC: Module 4.6.5.(d) - The DFSA has no responsibility for reviewing or verifying any prospectus or other documents in connection with this financial product. It has not approved this document or any other associated documents nor taken any steps to verify the information set out therein. The document is intended for sophisticated institutional and professional investors only in the DIFC and is delivered in on an individual basis to the recipient only and should not be passed on or otherwise distributed to any other person or organization. Disclosure for Switzerland: Where the Fund is registered in Switzerland, the name of the Swiss representative is ACOLIN Fund Services AG, Leutschenbachstrasse 50, CH-8050 Zurich. This is an advertising document. The name of the Swiss paying agent is Banque Cantonale de Genève, 17, quai de l'île, 1204 Geneva. Investors can obtain free of charge the prospectus, trust deed, the prospectus, the key investor information document (KIID), and the annual and semi-annual reports from the representative in Switzerland.

Important information

The Investment Objective as stated in this document is a summary, please refer to the supplement for full details of the Investment Objective and Policy of the Fund. The following indices were used for the Fund between the dates specified: Inception to 30 September 2008, Lehman Aggregate Index or BofA Merrill Lynch Preferred Stock Index; 1 October 2008 to 31 March 2011, 65% BofA Merrill Lynch Fixed Rate Preferred Securities Index and 35% Barclays Capital CapSec Tier 1 Index; 1 April 2011 to 28 February 2014, 50% BofA Merrill Lynch Fixed Rate Preferred Securities Index and 50% Barclays Capital CapSec Tier 1 Index; and 28 February 2014 to 30 July 2018, 50% BofA Merrill Lynch Fixed Rate Preferred Securities and 50% BofA Merrill Lynch US Capital Securities Index. On 30 July 2018, the index for the Fund changed to the current Index and on that date the index returns presented in this factsheet from inception of the Fund were amended to solely show those of the current index. Index returns for the other indices will be provided upon request.