

# Preferred Securities Fund - Hong Kong Dollar D2 Class Income Units

30 June 2022

## 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**

45 Yrs Industry Exp

**L. Phillip Jacoby, IV**

40 Yrs Industry Exp

**Manu Krishnan, CFA**

18 Yrs Industry Exp

**Bob Giangregorio**

19 Yrs Industry Exp

**Fred Diaz**

30 Yrs Industry Exp

**Kevin Nugent**

38 Yrs Industry Exp

**Satomi Yarnell**

12 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

BBG GLOBAL AGG CORP USD TR

## Fund facts

Fund size	HKD 30,550.0m
Base currency	USD
Fund domicile	Ireland
UCITS qualifying	Yes
Pricing	Daily
Dealing	10am Dublin
	5pm Hong Kong
	SAR

## Unit class facts

Launch date	08 Feb 2019
Currency	HKD
Hedging	Portfolio
Minimum investment	US\$1,000
Management fee(s)	0.60% pa
Income distribution	Income
Distribution frequency:	

## Performance (%)

	1M	3M	YTD	1YR	3YR	5YR	SI
Fund Cumulative Net	-3.63	-6.92	-11.24	-10.99	-1.08	-	4.55
Index Cumulative	-2.64	-6.65	-13.40	-12.91	-2.14	-	4.16
Fund Annualised Net	-3.63	-6.92	-11.24	-10.99	-0.36	-	1.32
Index Annualised	-2.64	-6.65	-13.40	-12.91	-0.72	-	1.21

## 12-month rolling return (%)

Jul 17 - Jun 18	Jul 18 - Jun 19	Jul 19 - Jun 20	Jul 20 - Jun 21	Jul 21 - Jun 22
-	-	1.48	9.52	-10.99

## Risk analysis

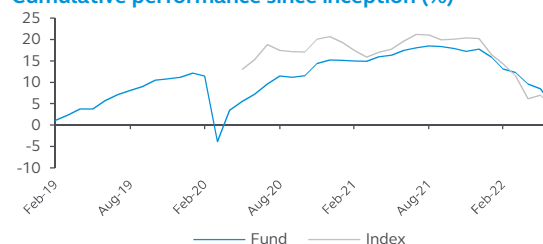
	1YR	3YR
Information Ratio	0.5	0.1
Alpha	-4.4	0.5
Tracking Error	4.2	5.6
Standard Deviation	4.4	10.1
Beta	0.5	1.1

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 Net Asset Value (NAV) prices of the last Irish business day of the month. For Funds not open for dealing on this day this will be an indicative NAV. 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 further details.)

## Cumulative performance since inception (%)



## Fund analysis

	Fund	Index
Average Credit Quality	Baa2	A3
Current Yield	5.9	3.9
Yield to Worst	6.4	4.8
Yield to Maturity	6.7	4.8
Modified Duration	3.8	7.1

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
Bank Of Nova Scotia 4.9 6/25 perp	3.0
HSBC Capital Funding 10.176 6/30/30 RegS	2.4
Enterprise Products Oper 5.25 8/27-77	2.0
Enbridge Inc 6 1/27-77	1.8
MetLife Inc. 10.75 8/1/39	1.7
Nippon Life Insurance 2.75 1/31-51 Reg S	1.6
Barclays 7.75 9/23-49	1.6
Demeter Swiss Re 5.625 8/27-52 Reg S	1.6
BNP Paribas 6.625 3/24-49 Reg S	1.5
MetLife Cap X 9.25 4/33-38 144a	1.5
<b>Total</b>	<b>18.9</b>

No. of holdings

214

## Geographic allocation (%)

	Fund
United States	32.9
Great Britain	11.7
Switzerland	9.9
Japan	9.0
France	9.0
Canada	8.5
Finland	2.7
Netherlands	2.5
Spain	2.3
Australia	2.3
Ireland	1.8
Italy	1.6
Sweden	1.4
Other	2.5
Cash	2.1

## Credit quality (%)

	Fund
AA or AAA	2.1
A	18.8
BBB	60.7
BB and Lower	18.4

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	45.3
Insurance	31.6
Utilities	7.7
Energy	7.7
Industrials	1.9
Telecommunications	1.5
Financials	1.2
REITs	1.1
Other	0.0
Cash	2.1

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.

<b>Fund codes</b>	
Bloomberg	PGPSD2H ID
ISIN	IE00BFNQRS61
Lipper	68537057
SEDOL	BFNQRS6
Valoren	44119931
WKN	A2PDH4

**Registration**  
Austria, Belgium, Denmark, Finland, France, Germany, Guernsey, Hong Kong SAR, Ireland, Italy, Jersey, Liechtenstein, Luxembourg, Macau, Netherlands, Norway, Singapore, 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.

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**Contact us**  
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Fund management commentary

**Market Review**  
Returns this month were driven largely by one event; the CPI number for May that was released on June 10. The CPI number came in at 8.6% (higher than the expectation of 8.3%) which showed that inflation had not peaked yet. This number immediately sparked a sell-off in equity and credit with investors recalibrating their expectations of fed fund rates higher. The Fed did not disappoint and raised rates by an unprecedented 75 bps in their meeting on June 15. The ICE BofA US Investment Grade Institutional Capital Securities Index (CIPS) returning -3.64%. The ICE BofA US All Capital Securities Index (IOCS) that includes below investment grade preferreds returned -4.18%. The AT1 Coco sector was the weakest returning -4.95% (CDLR: ICE BofA USD Contingent Capital Index). The \$25 par retail sector reversed course after last month's rally returning -3.71% (POP2). Spreads on the CIPS index widened given recessionary fears and a rate rally over the last couple of weeks moving from 267 to 337 bps (+70 bps). Spreads on the \$25 par sector (POP2) widened from 247 bps to 271 bps (+24 bps). Spreads on the CDLR (Cocos) widened from 364 to 461 bps (+97 bps). Spreads on the IG Corporate index (COAO) ended the month at 163 bps (+25 bps) and high yield spreads moved the most to 592 bps (H0AO, +156 bps). Therefore, relative to the IG index, CIPS offers a subordination premium of 337/163 or 2.07 and Cocos are 461/163 or 2.82 times. Also, from a duration standpoint IG Preferred securities (CIPS) has an effective duration of 3.64 relative to 7.45 on the IG Corporate Index. Therefore, within the IG umbrella, one can pick up approximately 2 times the spread by going down the capital structure into Preferred securities with half the duration risk, which continues to be the value proposition of our asset class.

**Fund Review**  
The new issue AT1 Coco, Credit Suisse 9.75 that we added this month performed strongly returning 2.35%. AT1 Cocos were the worst contributor in our portfolio given the movement in spreads, with the Coco index being down 4.95%.

**Market Outlook**  
The risk of global recession has increased as a reaction to the monetary and fiscal stimulus provided to fight COVID-19; the war in Ukraine and associated rise in commodity prices and lastly China's zero-COVID-19 policy.

- 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 BBG GLOBAL AGG CORP USD TR (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 31st December 2018, the data performance calculations reflect the month-end market close prices of the Fund's assets. After 1 January 2019, the performance data shown is based upon the Fund's Net Asset Value (NAV) prices of the last Irish business day of the month. For Funds not open for dealing on this day this will be an indicative NAV. As a result, it is possible that the stated performance and the actual investment returns available to investors will differ. 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. 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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.

**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 strategy promotes environmental and/or social characteristics as referenced in Article 8 of the Sustainable Finance Disclosure Regulation (EU) No. 2019/2088 ("SFDR"). Please refer to the required pre-contract disclosures contained in the relevant prospectus or offering memorandum (as applicable) and on our website. More information can be found at <https://www.principalglobal.com/about-us>.)