

# Preferred Securities Fund - D2 Class Inc Plus Units (USD)

31 August 2021

## Investment advisor

Principal Global Investors, LLC

## 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.

## Fund managers

**Mark A. Lieb**  
44 Yrs Industry Exp

**L. Phillip Jacoby, IV**  
39 Yrs Industry Exp

**Manu Krishnan, CFA**  
17 Yrs Industry Exp

**Bob Giangregorio**  
18 Yrs Industry Exp

**Fred Diaz**  
29 Yrs Industry Exp

**Kevin Nugent**  
37 Yrs Industry Exp

**Satomi Yarnell**

## Investment objective

The Fund seeks to achieve its overall objective by investing primarily in a portfolio of US dollar denominated preferred securities and debt securities, including convertible bonds and contingent convertible securities (CoCos).

## Index

Bloomberg Barclays Global Aggregate Corporate USD TR Index

## Fund facts

Fund size	\$5,453.5m
Launch date	02 Jun 2020
Fund base currency	USD
Hedging	Portfolio
Min investment	US\$1,000
Fund domicile	Ireland
UCITS qualifying	Yes
Pricing	Daily
Dealing cut off	10am Dublin 5pm Hong Kong SAR
Income Distribution	Income
<b>Fee structure</b>	<b>D2 Class</b>
Preliminary charge	max 5%
Management fee	0.60% pa
Admin charge	0.15% pa
Marketing and distribution fee	0.60% pa
Trustee fee	Not more than 0.022% pa

Investor minimum

Please contact Principal Global Investors

## Important note

- The Preferred Securities Fund will invest primarily in a portfolio of U.S. dollar denominated preferred securities and debt securities.
- 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 Summary Prospectus and the relevant Supplement(s) before investing including the Special Investment Considerations and Risks section of the Summary Prospectus.
- In relation to D2 Class Income Plus 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. Dividend is not guaranteed.

## Performance (%)

	1M	3M	YTD	1YR	3YR	5YR	SI
Fund Cumulative Net	0.39	1.73	2.66	6.02	-	-	11.91
Cumulative Index	-0.24	2.55	-0.01	2.70	-	-	6.71
Fund Annualised Net	0.39	1.73	2.66	6.02	-	-	9.43
Index Annualised	-0.24	2.55	-0.01	2.70	-	-	5.34

Fund performance is calculated on a NAV to NAV basis. Please see performance notes for further details. SI represents Since Inception.

## Fund analysis

	Fund	Index
Average Credit Quality	Baa2	A3
Current Yield**	4.9	3.2
Yield to Worst***	2.6	2.0
Yield to Maturity#	4.5	2.0

## Top 10 holdings (%)

	Fund
Bank Of Nova Scotia 4.9 6/25 perp	2.5
AXA S.A. 8.60 12/15/30	2.2
HSBC Capital Funding 10.176 6/30/30 RegS	2.1
Enterprise Products Oper 5.25 8/27-77	1.8
Metlife Inc. 10.75 8/1/39	1.6
Nippon Life Insurance 2.75 1/31-51 Reg S	1.5
Voya Financial Inc 5.65 5/23-53	1.5
BNP Paribas 6.625 3/24-49 Reg S	1.5
Enbridge Inc 6 1/27-77	1.5
Demeter (Swiss Re) 5.75 08/25-50 Reg S	1.4
<b>Total</b>	<b>17.5</b>

No. of holdings

246

## Geographic allocation (%)

	Fund
United States	33.6
Great Britain	14.7
France	10.0
Switzerland	8.9
Japan	8.5
Canada	7.5
Netherlands	2.7
Sweden	2.7
Finland	2.2
Australia	2.0
Spain	1.9
Ireland	1.2
Denmark	1.1
Other	1.9
Cash	1.3

## Credit quality (%)

	Fund
AA or AAA	2.1
A	19.3
BBB	61.0
BB and Lower	17.6

## Industry allocation (%)

	Fund
Banks	45.7
Insurance	34.3
Energy	6.6
Utilities	5.3
Financials	2.2
Industrials	1.6
Telecommunications	1.4
REITs	1.0
Treasuries	0.8
Other	0.0
Cash	1.3

**Fund codes**

Bloomberg	PPSD2PU ID
ISIN	IE00BJLTX873
Lipper	68610576
SEDOL	BJLTX87
CUSIP	G72486353
Valoren	51720304
WKN	A2P6BN

**Registration\***

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

**Fund management commentary****Market Review**

Preferreds and Jr. subordinated capital securities posted mildly positive returns with coupon income providing the majority of return with capital prices flat to down. Messaging from the Fed is being watched very closely by investors; Treasury bonds rose in rates in anticipation of the Fed's Jackson Hole meeting but rallied in price when the message was on the dovish side with Fed Chair Powell being vague about the timing of tapering.

The ICE BofA US Investment Grade Institutional Capital Securities Index (CIPS) returned 0.41% and the \$25 par ICE BofA Fixed Rate Preferred Securities Index (POP2) - 0.27%. The ICE BofA US All Capital Securities Index (IOCS) that includes below investment grade preferreds returned 0.19%. The AT1 Cocos sector performed well returning 0.39% (CDLR: ICE BofA USD Contingent Capital Index). Spreads on the CIPS index tightened by 7 bps. Spreads on the \$25 par sector (POP2) widened given tight valuations. Spreads on the CDLR (Cocos) index stayed flat at 274 bps. Spreads on the IG Corporate index (COAO) ended at 88 bps (+1 bps) and high yield spreads are at 333 bps (HOAO, -12 bps). Therefore, relative to the IG index, CIPS offers a subordination premium of 190/88 or 2.16 and Cocos are 274/88 or 3.11 times, which is still attractive despite falling nominal yields. From a duration standpoint IG Preferred securities (CIPS) has an effective duration of 4.3 relative to 8.4 on the IG Corporate Index.

**Fund Review**

Insurance hybrids had strong performance. The spread compression theme continued to play out with long spread duration bonds performing the best relatively.

The subordinated debt holdings underperformed

**Market Outlook**

Increasing vaccination rates around the world is fostering strong optimism around re-openings, normalcy, and recovery. Economic output is rebounding strongly, jobs are being added, and consumer spending is picking up given the high rate of savings that the pandemic has fostered. The ECB and Fed remain committed to supporting their jurisdictions and providing appropriate monetary response to market stresses. What will be key going forward is effective communication from the Fed and the ECB as they taper bond purchases in view of a strong economy.

**Performance note**

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 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. The performance information reflects the performance of the D2 Class income units. Periods over one year are annualised. Investors should obtain their own independent tax advice. 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. All figures are stated in USD unless otherwise noted. \*\*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.

**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.

Unless specified in this document, the strategy does not:

(i) promote environmental or social characteristics in a way that meets the specific criteria contained in Article 8 of the Sustainable Finance Disclosure Regulation (EU) No. 2019/2088 ("SFDR"); nor

(ii) have sustainable investment as its objective in a way that meets the specific criteria contained in Article 9 of SFDR.

Notwithstanding this, the strategy/product is managed in line with the Principal Global Investors responsible investment policy, incorporating its Sustainability Risk and Principle Adverse Impacts policies. These policies can be found at <https://www.principalglobal.com/about-us>.

**Contact us**

For more information on the fund, please contact:

Principal Investment & Retirement Services Limited  
852 2117 8383

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