

Preferred Securities Fund

Uncover the Benefits of Return, Income & Diversification

Q2 2021

Important Notes

1. The Principal Preferred Securities Fund (“Fund”) will invest primarily in a portfolio of U.S. dollar denominated preferred securities and debt securities.
2. 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.
3. Investment involves risk. There is no assurance on investment returns and you may not get back the amount originally invested.
4. 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.
5. 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.
6. 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. Dividend is not guaranteed.



One of the few authorized preferred securities funds in HK

Fund Merits:



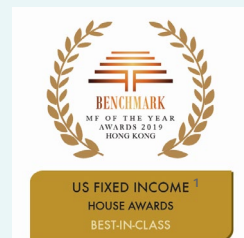
Preferred and Capital Securities provide investors with the opportunity for high current income and enhanced diversification without sacrificing quality



Historically lower default rates than other fixed income instruments



Managed by a highly specialized and experienced team



Citywire Fund Manager Rating ¹

> What are Preferred and Capital Securities?

- Preferred and capital securities are fixed income assets, which generally rank junior to senior debt and bank loans, but senior to common stock, on a company's capital structure.
- In the event a company and the assets of the company are liquidated to pay off to the creditors, the investors who are more senior in the capital structure would expect to have priority over those in lower segments of the capital structure.

Capital Structure of Preferred and Capital Securities²



> What Companies Issue Preferred and Capital Securities?

- Preferred and capital securities invest primarily in investment-grade offerings from issuers; issuers include financial institutions, like banks, insurance and brokerage companies.
- Among which **nearly 80% of issuers are financial institutions**. Banks issue preferred and capital securities as an attractive complement to fulfill their capital requirements.

Issuer of Preferred and Capital Securities³

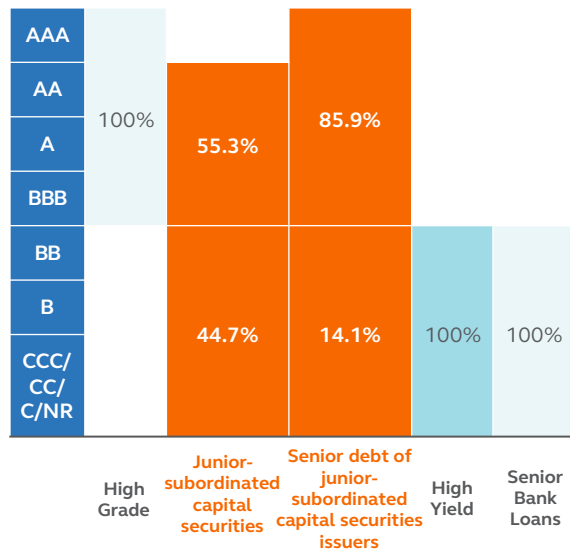
Banks Lloyds Banking Group / HSBC / Citigroup / Bank of America / PNC	51.2%
Insurance AXA / MetLife / ING	14.8%
Others Enel / AT&T / Emera / Verizon	34.0%



> Merits of Preferred and Capital Securities

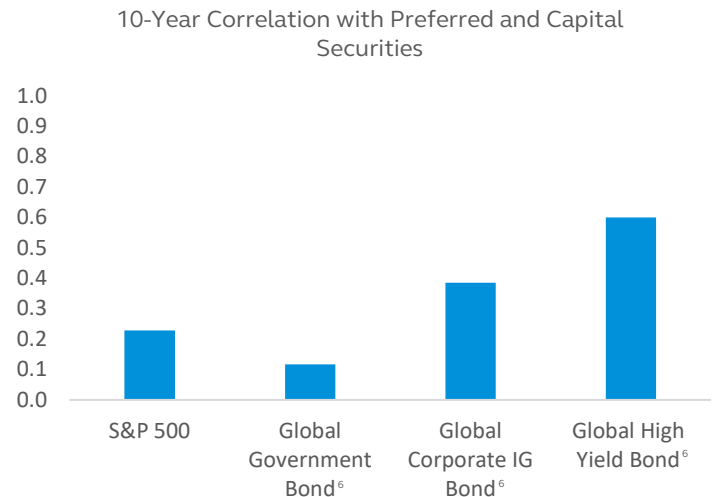
1. High Quality Credits⁴

- In the US Dollar Fixed Income market, preferred and capital securities is one of the asset classes with higher yields and credit ratings at the same time. **Nearly 90%** of the senior debt of preferred and capital securities issuers is investment-grade, making preferred and capital securities reasonably comparable to high grades.



2. Diversification

- Preferred and capital securities historically have had a **low correlation⁵** to other fixed-income and equity products in various market conditions, as shown in the table below.
- Investors can **capture potential returns** and **stable yields** throughout different economic cycles through a strategic allocation with preferred and capital securities.



3. Preferred Securities's Performance Comparing to Key Asset Classes Over the Past 10 Years⁷

- In 7 out of 10 periods, preferred securities performance is equal to or above listed asset classes median #.
- For example, when US-China Trade War escalated in 2018, preferred securities provided better downside protections than all listed equity asset classes. When the market recovered and boomed in 2019, preferred securities delivered more prominent returns than the other fixed income asset classes.

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Global Government Bond	6.35%	Preferred Securities 23.70%	US Equity 32.39%	US Equity 13.69%	Preferred Securities 1.52%	Global High Yield Bond 14.27%	Asia Pacific ex Japan Equity 36.98%	Global Government Bond -0.84%	US Equity 31.49%	Asia Pacific ex Japan Equity 22.44%
Global IG Bond	5.64%	Asia Pacific ex Japan Equity 22.31%	Global Equity 22.80%	Preferred Securities 9.00%	US Equity 1.38%	US Equity 11.96%	Global Equity 23.97%	Global IG Bond -1.20%	Global Equity 26.60%	US Equity 18.40%
Global High Yield Bond	3.12%	Global High Yield Bond 19.60%	Global High Yield Bond 7.33%	Global Equity 4.16%	Global Equity -2.36%	Global Equity 7.87%	US Equity 21.83%	Global High Yield Bond -4.06%	Asia Pacific ex Japan Equity 19.15%	Global Equity 16.26%
US Equity	2.11%	Global Equity 16.13%	Preferred Securities 6.82%	Asia Pacific ex Japan Equity 2.82%	Global High Yield Bond -2.72%	Asia Pacific ex Japan Equity 6.75%	Preferred Securities 10.49%	Preferred Securities -4.19%	Preferred Securities 18.38%	Global Government Bond 10.11%
Preferred Securities	0.20%	US Equity 16.00%	Asia Pacific ex Japan Equity 3.41%	Global IG Bond 0.59%	Global IG Bond -3.15%	Preferred Securities 5.19%	Global High Yield Bond 10.43%	US Equity -4.38%	Global High Yield Bond 12.56%	Global IG Bond 9.20%
Global Equity	-7.34%	Global IG Bond 4.32%	Global IG Bond -2.60%	Global High Yield Bond 0.01%	Global Government Bond -3.57%	Global IG Bond 2.09%	Global Government Bond 7.49%	Global Equity -9.42%	Global IG Bond 6.84%	Preferred Securities 7.77%
Asia Pacific ex Japan Equity	-15.60%	Global Government Bond 1.65%	Global Government Bond -4.00%	Global Government Bond -0.48%	Asia Pacific ex Japan Equity -9.37%	Global Government Bond 1.60%	Global IG Bond 7.39%	Asia Pacific ex Japan Equity -13.92%	Global Government Bond 5.90%	Global High Yield Bond 7.03%

Best



Worst

Preferred Securities – 80% ICE BofA US Corp All Capital Securities + 20% ICE BofA US HY Capital Securities
 Asia Pacific ex Japan Equity - MSCI AC Asia Pacific ex Japan Total Return USD
 Global High Yield Bond - Bloomberg Barclays Global High Yield Total Return Index Value Unhedged Index
 Global Equity - MSCI AC World Total Return USD

US Equity - S&P 500 Total Return
 Global Government Bond - FTSE World Government Bond Index
 Global IG Bond - Bloomberg Barclays Global-Aggregate Total Return Index Value Unhedged USD

4. Lower Default Rates than Other Fixed Income Instruments

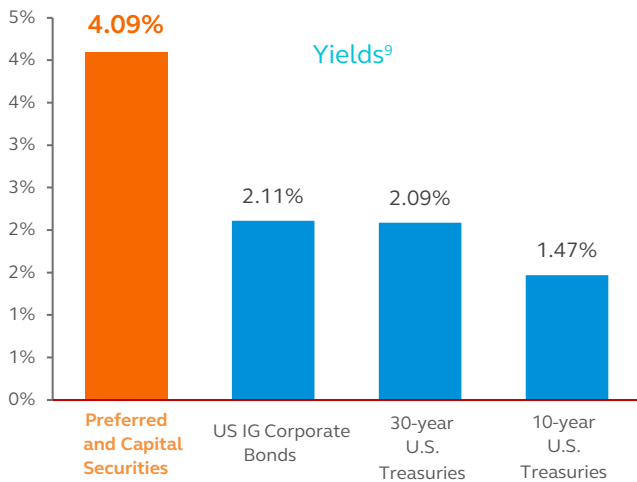
- Comparing with the high-yield bond market, preferred and capital securities historically have had **lower default rates**⁸. The issuers of preferred securities are usually corporates with stable financial status and therefore higher credit ratings.

Annual Default Rates (%) 2011-2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Average (2011-2020)
Preferred and Capital Securities	0.35%	0.00%	0.00%	0.00%	0.06%	0.00%	0.13%	0.11%	0.44%	0.07%	0.11%
High Yield Corporate Bonds	1.46%	2.05%	1.08%	1.74%	3.48%	3.27%	1.82%	1.92%	2.82%	6.07%	2.57%

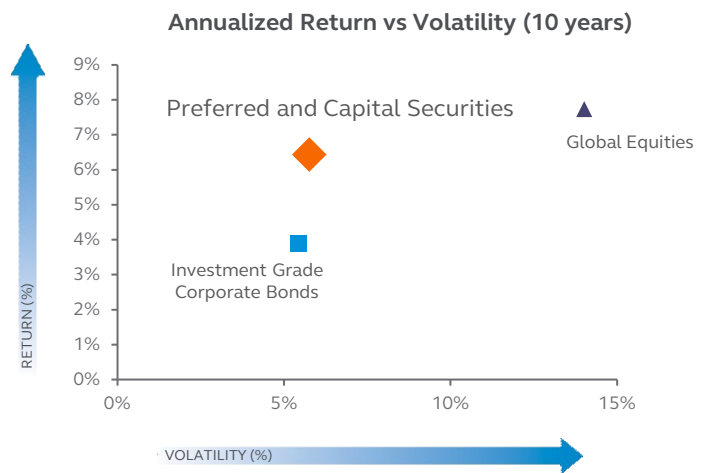
5. Potentially Higher Yields than Other Corporate Bonds

- The yield of the preferred and capital securities is **4.09%**, which generates higher yields than 10-year U.S. Treasuries and investment grade corporate bonds.



6. Compelling Return with Much Less Volatility Relative to Equity

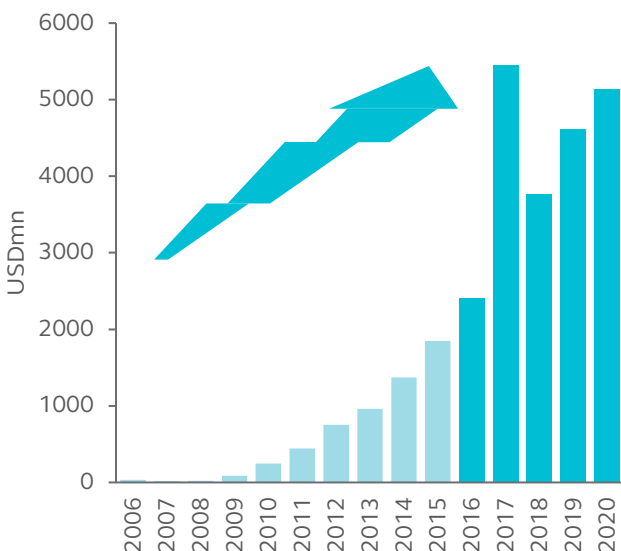
- Coupon premium** offered due to subordination plus concentration to financial services sectors add up to a high total return **at a volatility comparable to other fixed income instruments**¹⁰.



> Why Principal Preferred Securities Fund?

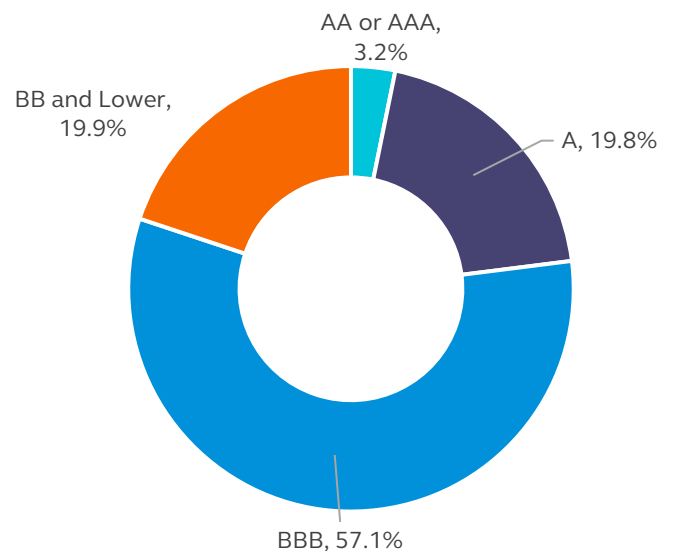
1. Strong AUM Growth with a Long Track Record

- As the authorized preferred securities fund with more than 10 years of proven track record in Hong Kong, the asset size of the fund grew exponentially since launch in 2005, with more than **20 times** over the past 10 years¹¹.



2. High Credit Quality

- The fund possesses **high credit quality** with about **80%**¹² rated investment grade.



3. Attractive Income Opportunities by Dividend Payout

- Preferred and capital securities **offer the potential for higher yields**¹³ than corporate bonds and behave like fixed-income investment due to the amount of income they generate.

Dividend Record – Average annualized dividend rate for past 14 years is 5.2%¹⁴.

Record Year	Annual Dividend Rate	Record Year	Annual Dividend Rate	Record Year	Annual Dividend Rate
2007	4.8%	2012	5.7%	2017	4.2%
2008	6.8%	2013	5.3%	2018	4.9%
2009	7.7%	2014	5.0%	2019	4.6%
2010	5.6%	2015	4.7%	2020	4.2%
2011	5.7%	2016	4.7%	2021 ¹⁵	3.7%

4. Outstanding Long-Term Performance

Annualized Return (%) ¹⁵	1 year	3 years	5 years	10 years
Principal Preferred Securities Fund (I Acc USD Class) *	10.32	7.27	6.48	6.63
Principal Preferred Securities Fund (D2 Income Plus)	9.25			
Bloomberg Barclays Global Aggregate Corporate USD TR Index Unhedged USD	3.56	7.67	4.89	5.15

Calendar Year Performance (%) ¹⁶	2020	2019	2018	2017	2016	2015
Principal Preferred Securities Fund (I Acc USD Class) *	5.18	16.97	-4.84	10.54	5.56	3.11
Principal Preferred Securities Fund (D2 Income Plus)			N/A			

Performance for I Class Accumulation Units is for reference only

5. Highly Specialized and Experienced Team

- Spectrum Asset Management (Spectrum) was founded in 1987 and it **is one of the largest specialized managers of preferred and capital securities in the United States and the world.**
- Spectrum has a team of 10 investment professionals with an average of 30 years' of industry experience. Mark Lieb and Phillip Jacoby are **+ rated by Citywire**¹ for the 3-year risk adjusted performance for the period 28 February 2017 to 29 February 2020.

> Fund Facts

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.						
Fund Managers	L. Phillip Jacoby, IV, Mark A. Lieb, Manu Krishnan, Bob Giangregorio, Fred Diaz, Kevin Nugent						
Fund Domicile	Ireland						
Comparator¹⁷	Bloomberg Barclays Global Aggregate Corporate USD TR Index						
Base Currency	USD						
Fund Size¹²	USD 5,315.4m						
Preliminary Charge	Maximum 5%						
Share Class	A Class Acc (USD)	A Class Acc (JPY) (Hedged)	A Class Inc (USD)	D2 Class Inc (USD)	D2 Class Inc (HKD)	D2 Class Income Plus Units (HKD)	D2 Class Income Plus Units (USD)
Management Fee	0.9% pa	0.9% pa	0.9% pa	0.60% pa	0.60% pa	0.60% pa	0.60% pa
Marketing and Distribution Fees	N/A	N/A	N/A	0.6% pa	0.6% pa	0.6% pa	0.6% pa
Launch Date	26-Mar-12	27-Jun-16	27-Feb-05	18-Feb-16	8-Feb-19	2-Jun-20	2-Jun-20
ISIN Code	IE0032590923	IE00BZBWH422	IE00B067MS69	IE00BYM2LQ48	IE00BFNQRS61	IE00BJLTX980	IE00BJLTX873
Bloomberg Code	PPSECAA ID	PGPSJAA ID	PRIIFSI ID	PGPUD2I ID	PGPSD2H ID	PPSD2PH ID	PPSD2PU ID
Target Yield¹⁴						6.5%	6.5%
Distribution Policy¹⁴	N/A	N/A	Quarterly dividend (in January, April, July and October)	Monthly dividend distribution	Monthly dividend distribution	Monthly dividend distribution	Monthly dividend distribution

- Source & Copyright: CITYWIRE, Mark Lieb and Phil Jacoby are + rated by Citywire Fund Manager Ratings for the 3 year risk-adjusted performance period 28 February 2017 – 29 February 2020. Citywire's exclusive methodology ranks fund managers based on their individual track records across all funds they manage globally. BENCHMARK House Awards received are based on the qualitative methodology and tools determined by BENCHMARK, Top Fund Awards received are based on performance data provided by Refinitiv to BENCHMARK between 1 October 2018 and 30 September 2019. For details of source and assessment criteria, please refer to <https://benchmark.exchange/hk/asset-management/result-announcement-2019>
- A capital structure refers to the way a corporation finances its assets by issuing different types of equity, debt, or hybrid securities. Preferred securities refer to Subordinated Debt, Trust Preferred Securities, Hybrid Capital, Enhanced Capital, Contingent Capital ("Co Cos"), Additional Tier 1 Capital ("AT1"), Cumulative Preferred Securities and Non-Cumulative Preferred Stock. With cumulative preferred securities, dividend payments will accrue in the event the issuer does not make timely dividend payments. These accrued dividends are paid before payment of common stock dividends.
- Source: Spectrum Asset Management, Inc. Securities mentioned are presented for illustrative purposes only. It should not be assumed that securities identified above will prove to be profitable. Nothing in this material constitutes an offer to buy or sell an interest in any security.
- Source: Spectrum Asset Management, Inc. and Bloomberg, LLP. As of 31 March 2021.
- Source: Bloomberg, as of 30 June 2021. Correlation is a statistic that measures the degree to which two securities move in relation to each other. A zero correlation implies no linear relationship.
- The performance of Global Government Bond, Global Corporate IG Bond and Global High Yield Bond represents the FTSE World Government Bond Index, Bloomberg Barclays Global Aggregate Corp Total Return Index Value Unhedged USD and Bloomberg Barclays Global High Yield Total Return Index Value Unhedged Index, respectively.
- Source: Bloomberg, Total Return in USD, as of 31 December 2020. Past performance is not an indication of future results. # Asset classes median represents for the fourth largest return out of 7 asset classes listed.
- Preferred Securities default rates include deferrals that may not constitute technical events of default. All default and deferral rates are volume weighted. Sources: Moody's Investors Service (high yield corporate bonds). Spectrum Asset Management, Inc. (preferred securities).
- Yields refer to Yield to Maturity. ICE BofA Merrill Lynch Fixed Rate Preferred Securities Index represents for Preferred Securities. ICE BofA Merrill Lynch US Corporate Index represents for US Corporate Bonds. Index returns reflect no deduction for fees, expenses, or taxes. Indices are unmanaged, and individuals cannot invest directly in them. 30-Year and 10-Year U.S. Treasuries are issued by the U.S. Treasury Department. Treasury notes have a coupon payment every 6 months. Source: Bloomberg, as of 30 June 2021.
- Source: Bloomberg, as of 30 June 2021. ICE BofA Merrill Lynch Fixed Rate Preferred Securities Index performance represents for Preferred Securities; Bloomberg Barclays Global Aggregate Corporate Total Return Index Value Unhedged USD Index represents for Investment Grade Corporate Bonds; MSCI ACWI Index represents for Global Equities.
- The asset size growth over the past 10 years record the period from 2010 to 2020. The asset size of the fund represents AUM from since inception (27 February 2005) to 31 December 2020.
- Source: Principal Global Investors. Data as of 30 June 2021.
- "Offer the potential for higher yields" refers to bullet point 5 on Page 4.
- Calculation: Annualized yield = $[(1 + \text{distribution per unit} / \text{Ex-Dividend Price})^{\text{distribution frequency}}] - 1$, the annualized dividend yield is calculated based on the latest dividend distribution with dividend reinvested, and may be higher or lower than the actual annual dividend yield. Positive distribution yield does not imply positive return. For funds offering classes with a distribution feature, such classes aim at quarterly distribution as the case may be. Dividend rate is not guaranteed. Distributions may be paid from capital. Distribution policy: Quarterly dividend distribution, i.e. January, April, July and October (if any), but the policy is subject to the complete and absolute decision of the fund manager and there is no guarantee that a particular dividend policy will continue. The distribution yield here refers to A Income USD Class. A Income USD Class is for reference only. Target Yield refers to D2 Class Income Plus Units Q2 Target Yield, which is for reference only and subject to review every quarter and not guaranteed. Positive distribution yield does not imply positive return. Dividend is not guaranteed.
- 2021 average annualized dividend rate is based on the distributions of A Income USD Class in April, July, October and January with dividend reinvested and may be different from the actual 2021 dividend yield. Dividend is not guaranteed.
- As of 30 June 2021. Source: © Morningstar 2021, Principal Global Investors (PGI). *The performance data of Principal Preferred Securities Fund (I Acc USD Class) is provided by PGI. The performance comparator for the Fund changed to the Bloomberg Barclays Global Aggregate Corporate USD TR 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. 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 Index is not specifically included in the objective of the Fund, and the figures shown in the table are provided as a comparison only.
- Since 30 September 2018, the performance comparator for the Fund changed to the Bloomberg Barclays Global Aggregate Corporate USD TR 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. 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 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 source of the performance is based on the current Adviser, Principal Global Investors, LLC. Past performance is not indicative of future performance.

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