

# Principal Sustainable Asian Income Fund

## Generate Potential Income Through Investing For A Sustainable Future

Q4 2022

### Important Notes

- The Sub-Fund will primarily (i.e. at least 70% of the Sub-Fund's Net Asset Value) invest in a diversified portfolio of fixed income securities and fixed income-related securities of companies and issuers in Asia which are considered to be outperforming their peers with respect to sustainability performance based on environmental, social and governance ("ESG") factors ("ESG leaders") as well as ESG-focused exchange traded funds ("ETF") and other collective investment schemes ("CIS") which primarily invest in debt securities and companies or issuers that maintain better ESG profiles than their corresponding traditional counterparts (collectively "ESG-focused ETF/CIS"), and provide a return consisting of income and capital growth over medium to long term.
- The Sub-Fund will primarily invest in a portfolio of fixed income and fixed income-related securities of companies domiciled in, traded in and/or with substantial business interests in Asia and/or governments and government-related issuers located in Asia, including but not limited to sovereign, quasi-sovereign, agency, such investments may include corporate bonds/debentures, floating rate notes, bills, commercial papers, certificates of deposit, and debt instruments with loss-absorption features, which may be denominated in USD or other currencies. The Sub-Fund may invest 30% or more of its net asset value in fixed income and fixed income-related securities relating to emerging markets.
- The Sub-Fund may invest up to 40% of its Net Asset Value in debt securities rated below investment grade (i.e. rated BB+ or below by Standard & Poor's or comparable ratings by Moody's Investors Services or Fitch Ratings) or in the case the credit rating is designated/assigned by a PRC (means the People's Republic of China excluding Hong Kong, Macau and Taiwan for purpose of this material) credit rating agency, A+ and below, or unrated. For the purpose of the Sub-Fund, "unrated debt securities" is defined as debt securities which neither the debt securities nor their issuers have a credit rating. While these credit ratings provided by the relevant rating agencies serve as a point of reference, the Sub-Delegate of the Manager will conduct its own assessment on the credit quality based on various factors, such as leverage level, operating margin, return on capital, interest coverage, operating cash flows, industry outlook, competitive position in the market and corporate governance. The Sub-Fund may from time to time invest less than 30% of its Net Asset Value in RMB-denominated debt securities issued in the PRC, including through the Qualified Foreign Investor ("QFI") regime, the China interbank bond market direct access program and/ or China Hong Kong Bond Connect, as well as urban investment bonds which are debt instruments issued by local government financing vehicles ("LGFVs"). These LGFVs are separate legal entities established by local governments and/or their affiliates to raise financing for public welfare investment or infrastructure projects.
- The use of ESG criteria may affect the Sub-Fund's investment performance and, as such, the Sub-Fund may perform differently compared to similar funds that do not use such criteria. For instance, ESG criteria used in the Sub-Fund's investment policy may result in the Sub-Fund forgoing opportunities to buy certain securities when it might otherwise be advantageous to do so, and/or selling securities due to such securities no longer meeting the Sub-Fund's ESG criteria when it might be disadvantageous to do so. As such, the application of ESG criteria may restrict the ability of the Sub-Fund to acquire or dispose of its investments at a price and time that it wishes to do so, and may therefore result in a loss to the Sub-Fund.
- The use of ESG criteria may also result in the Sub-Fund being concentrated in companies with a focus on ESG criteria and its value may be more volatile than that of a fund having a more diverse portfolio of investments. The selection of securities may involve the subjective judgement of the Fund Manager's Sub-Delegates. There is also a lack of standardized taxonomy of ESG criteria evaluation methodology and the way in which different funds apply such ESG criteria may vary. The Fund Manager and the Fund Manager's Sub-Delegates' ESG assessment takes into account ESG data and research from external data providers, which may be incomplete, inaccurate or unavailable. As a result, there is a risk associated with the assessment of a security or issuer based on such information or data.
- The Sub-Fund may also invest up to 10% of its net asset value in debt instruments with loss absorption features, which may include instruments classified as Additional Tier 1/Tier 2 capital instruments, contingent convertible bonds ("CoCos"), non-preferred senior bonds which may also be known as Tier 3 bonds and other instruments eligible to count as loss-absorbing capacity under the resolution regime for financial institution, in compliance with its investment policy and limits. These instruments may be subject to contingent write-down or contingent conversion to equity on the occurrence of trigger event(s).
- The Sub-Fund's net derivative exposure may be up to 50% of the Sub-Fund's net asset value.
- 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 rely solely on this marketing material when making your investment decision. You should read the Explanatory Memorandum and Product Key Facts of Principal Prosperity Series for further details (including investment policy, risk factors, fees and charges, and fund information).
- The dividend distributed by the Sub-Fund in respect of Income Class Units may be paid effectively out of the capital of the Sub-Fund (i.e. making the distribution from gross income while charging all or part of the relevant Sub-Fund's fees and expenses to capital), resulting in an increase in distributable income for the payment of dividend by the Sub-Fund and may result in an immediate reduction of the net asset value per unit of the relevant class. Dividend for Income Plus Class Units may be paid out capital. Such payment of dividend out of capital or effectively out of capital amounts to a return or withdrawal of part of an investor's original investment in the Income Class Units or the Income Plus Class Units or from any capital gains attributable to that original investment. Dividend is not guaranteed.

~ Target Yield is only available for income plus share class and refers to 2023 Q1 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.



## > What is ESG?

- ESG stands for Environmental, Social, and Governance. It is also called “sustainability” in many situations. Each pillar comprises a number of criteria that may be considered.

### ESG At Principal

- ESG issues are becoming more important to Principal's business and to our world. We believe having a strong commitment to ESG is not only the right thing to do, it can create tremendous business value for Principal.

### Environment

- Decrease greenhouse emissions
- Eco-friendly fixtures
- Energy reduction
- Water efficiency
- Recycling
- Supply chain management

### Social

- Diversity and inclusion
- Employee engagement
- Pay equity
- Supplier diversity
- Principal Foundation & Community Relations community investments
- Inclusive products and services

### Governance

- Global code of conduct
- Anti-corruption and bribery
- Board structure
- Cybersecurity and data privacy
- Human rights
- Risk oversight

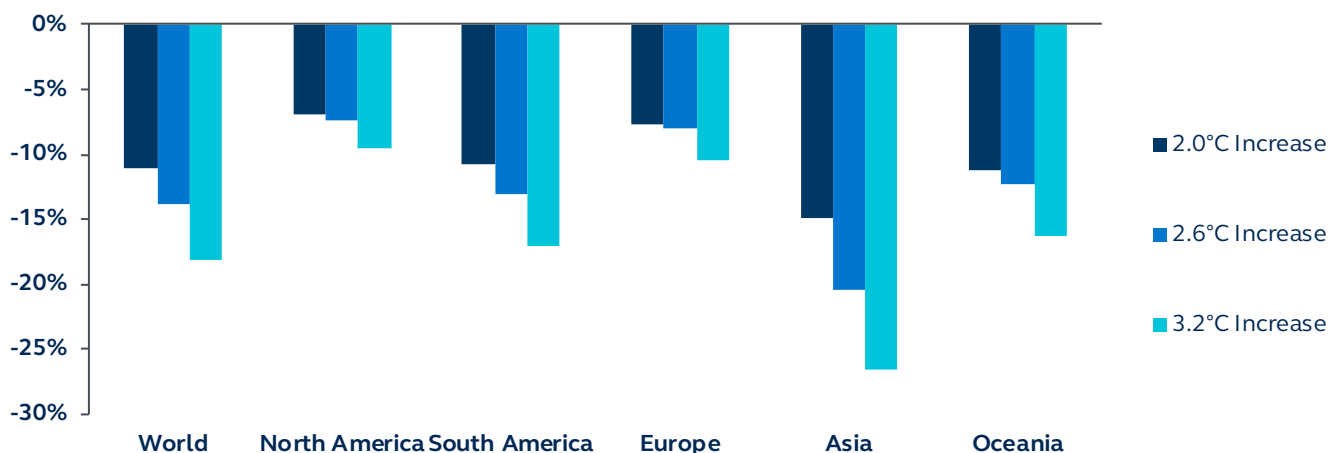
## > Why Asian Sustainability?

### Climate Risk in Asia – Time to Act<sup>1</sup>









- Asia is, in many ways, on the front line of a changing climate. With many low-lying coastal cities exposed to flood and typhoon risk, Asia is expected to experience more severe socioeconomic impacts of climate change than global averages in the absence of adaptation and mitigation.
- Asian regions including Bangladesh, China, India, Indonesia, Japan, South Korea, and Vietnam will likely be impacted by physical climate risks, including dangerously high heat and humidity levels, sea level rise and flooding.
- Unless emissions are rapidly reduced and adaptations put in place, climate events may cause massive economic damage upon domestic and global infrastructure, supply chains, and labor capacity, with large impacts on Asian GDPs.

### Temperature Rise Scenario Impact On GDP, By Mid-century

Simulating for economic loss impacts from rising temperatures in % of GDP, relative to a world without climate change



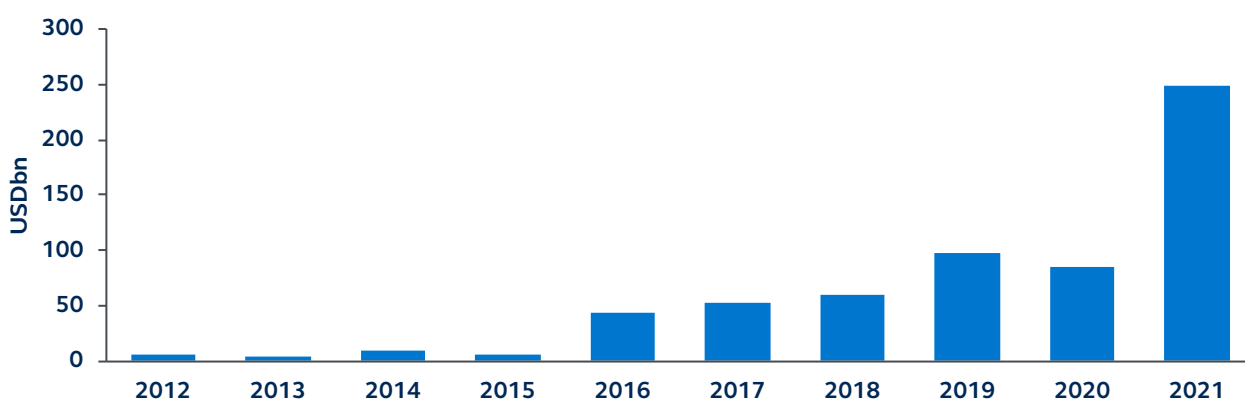
## Asia ESG Trends are Here to Stay<sup>2</sup>

Countries	Target Type	Target Year	Status
China 	Carbon neutral(ity)	2060	In policy document
India 	Net zero	2070	Declaration / pledge
Indonesia 	Net zero	2060	Proposed / in discussion
Thailand 	Net zero	2050	Declaration / pledge
Malaysia 	Carbon neutral(ity)	2050	Declaration / pledge
Vietnam 	Net zero	2050	Declaration / pledge
Philippines 	Reduction v. BAU	2030	In policy document
Singapore 	Net zero	2050	In policy document

## Fast-Growing ESG Debt Market<sup>3</sup>

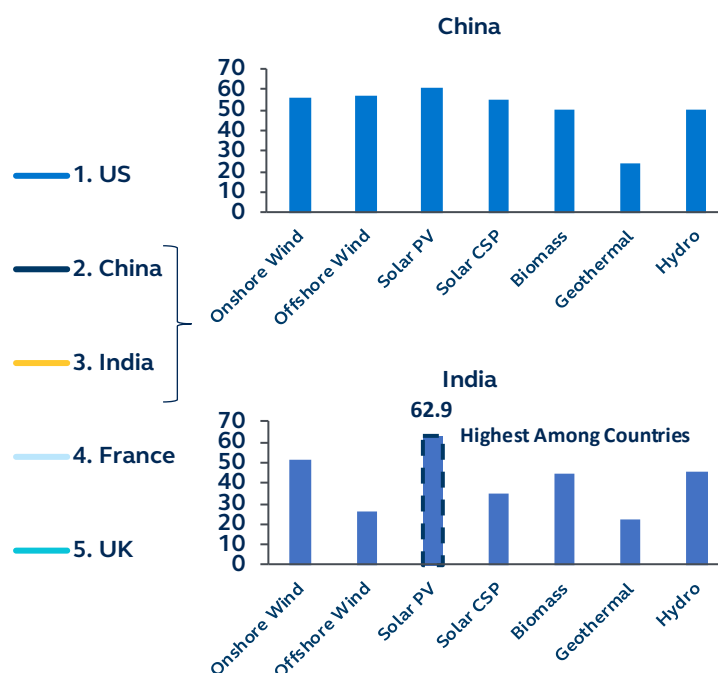
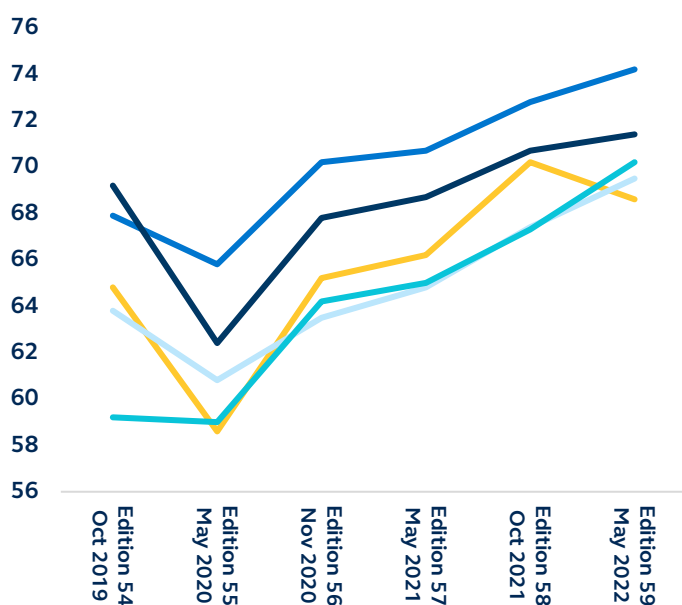
- The nascent sustainable debt market in Asia Pacific ex Japan continues its blistering growth with around \$250 billion of ESG issuance in 2021, more than a five-fold increase from its 2016 level.
- This is largely a result of issuers embracing corporate sustainability and governments acknowledging the importance of climate risk to economic sustainability. Across Asia, regulators are implementing initiatives to drive access and ESG disclosure, contributing to this growth.

Asia Pacific ex Japan ESG Debt Issuance



## China and India Lead in Promoting Renewable Energy<sup>4</sup>

The Renewable Energy Country Attractiveness Index



# > Why Asian Bonds?

## Performance During Fed Rate Hikes<sup>5</sup>

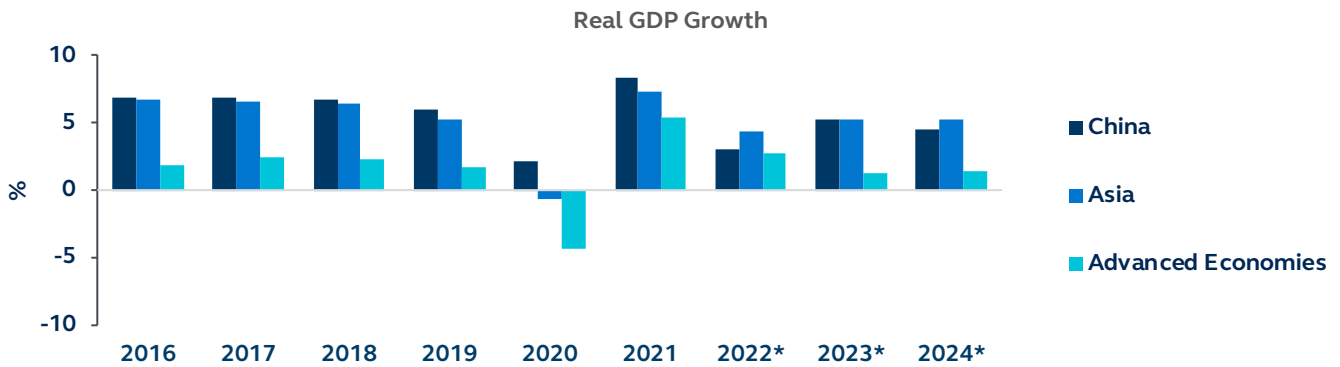
Cumulative Return Subsequent to Fed Rate Hike since June 30, 2004	3-Month	1-Year	2-Year
ICE BofA Asian Dollar Index	4.9%	10.8%	12.5%
Bloomberg Global-Aggregate Total Return Index	3.4%	7.5%	7.8%
Bloomberg US Treasury Total Return Index	3.3%	7.1%	5.3%

Cumulative Return Subsequent to Fed Rate Hike since Dec 16, 2015	3-Month	1-Year	2-Year
ICE BofA Asian Dollar	2.4%	5.9%	11.9%
Bloomberg Global-Aggregate Total Return Index	3.9%	2.4%	9.1%
Bloomberg US Treasury Total Return Index	2.0%	0.5%	3.6%

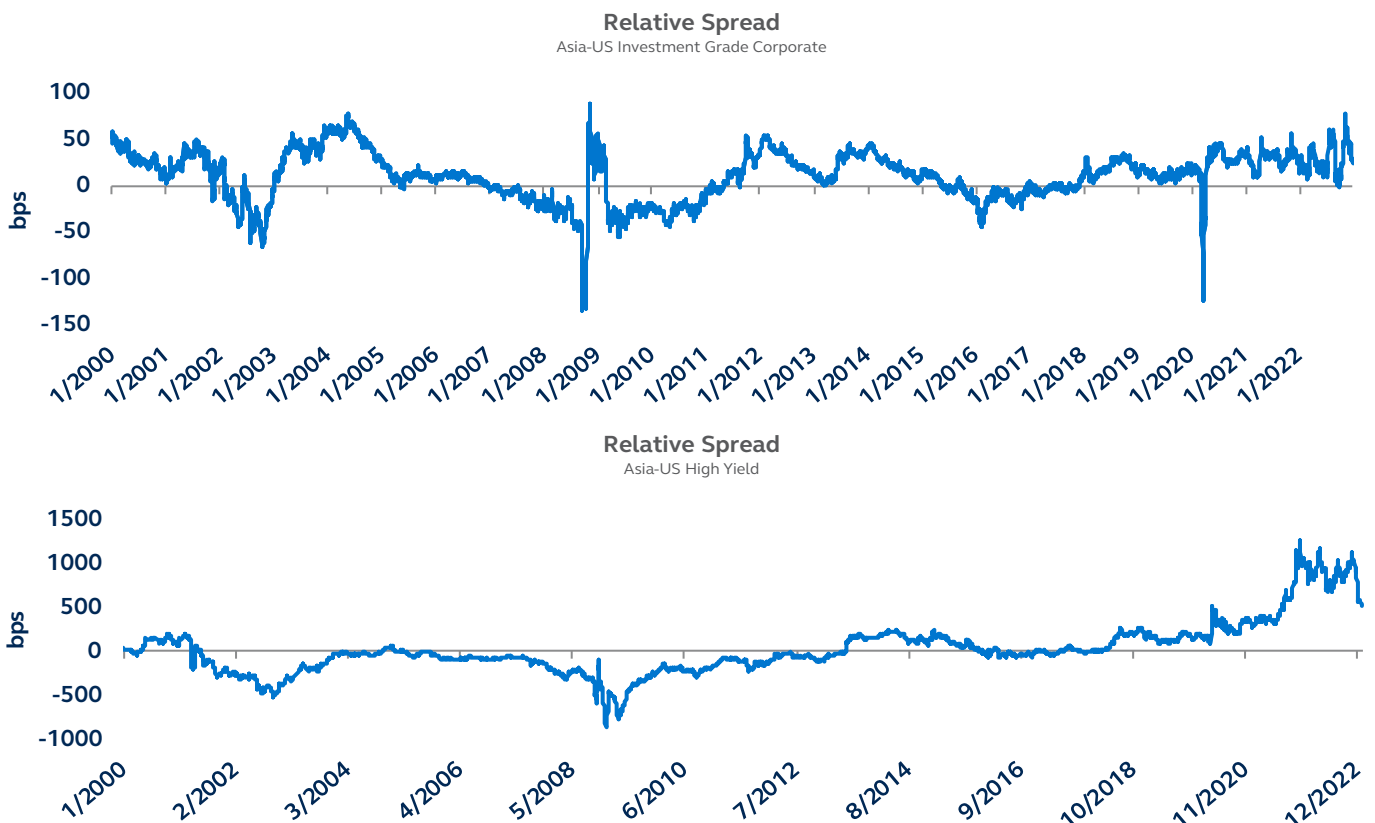
## Robust Economic Growth Potential<sup>6</sup>

- Although the COVID-19 pandemic has caused hardship, Asia as a region exhibited resilience in the face of this extraordinary shock. GDP growth has proved relatively stable through the pandemic and is expected to rebound faster in postpandemic times.



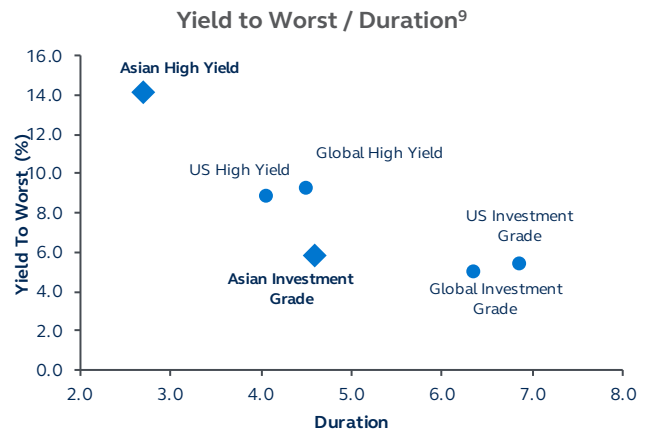
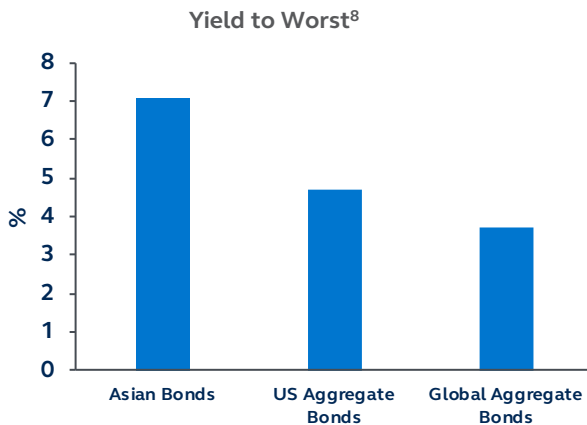
## Attractive Relative Valuation<sup>7</sup>

- With solid fundamentals, Asian bonds looked attractive over US bonds in relative value terms.



## Competitive Yields Relative To Developed Markets

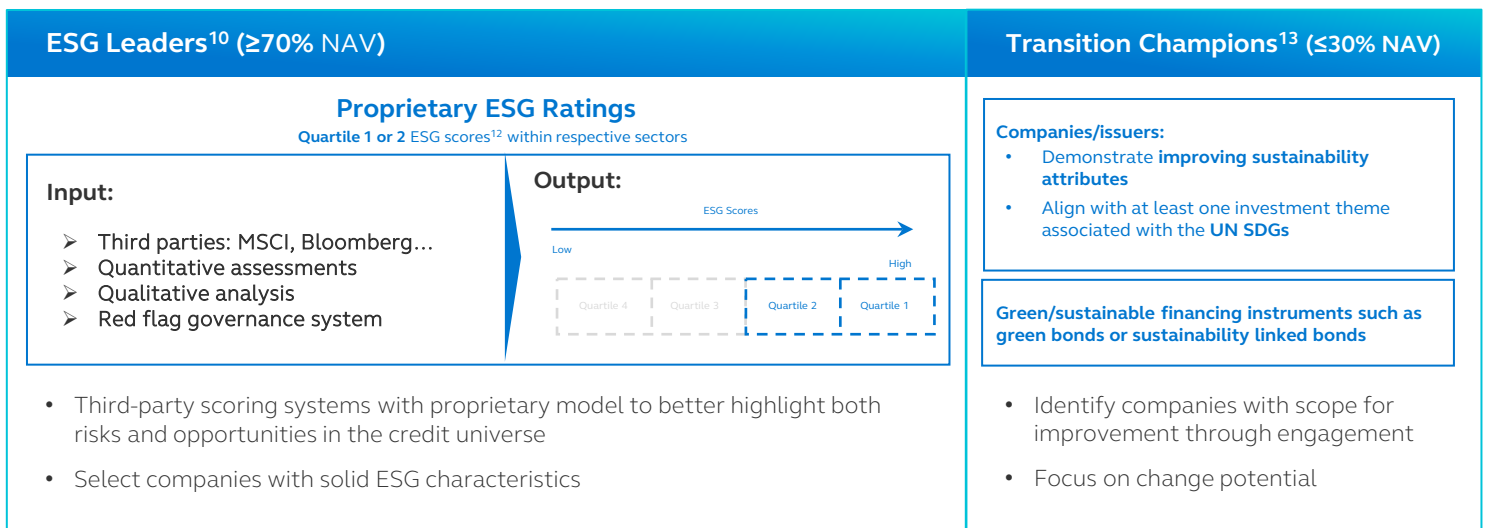
- While interest rates in developed markets are on the rise, Asia still possesses potential yield advantages. Benefiting from higher yields and relatively short duration, both Asian investment grade and high yield bonds have yield/duration ratios higher than their global counterparts. This may cushion the impacts of rising interest rates.



## > Why Principal Sustainable Asian Income Fund?

### Best-In-Class Strategy

- All securities investable are screened with the aim of identifying ESG leaders<sup>10</sup>.
- The Fund's goal is to achieve a relatively better ESG rating than the traditional index<sup>11</sup>.



### Core Plus Satellite Approach<sup>14</sup>

- The purposes of the satellite approach are yield enhancement and diversification of income exposure.



## Implementation of Our ESG Principles<sup>15</sup>

### E & S: Environment and Social driven by sector specific factors

- One parameter does not fit all when it comes to assessing companies' ESG profiles
- To better reflect companies' E & S risk, we adopt a sector specific framework to each investable company

### G: Governance being the most important element

- Definite 40% category weight among E, S, and G
- Red flag events can override ESG score and companies may be excluded from investments
- Quantitative + Qualitative Analysis in the form of Corporate Governance Overlay

## Fund Performance<sup>16</sup>

Performance (%)	1 Month	3 Months	6 Months	1 Year
Principal Sustainable Asian Income Fund (Retail Acc USD Class) (net)	1.85%	3.43%	-0.76%	-14.70%

Performance is for reference only. Past performance does not guarantee future return.

## Distribution Records<sup>17</sup>

### Principal Sustainable Asian Income Fund (Retail Income Plus USD Class)

Record Date	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22
Annualized Distribution Rate	5.17%	5.29%	5.53%	6.03%	6.02%	5.99%
Record Date	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Annualized Distribution Rate	6.01%	6.04%	6.48%	6.53%	6.37%	6.45%

## > Fund Facts

<b>Investment Objective</b>	The Sub-Fund will primarily (i.e. at least 70% of the Sub-Fund's net asset value) invest in a diversified portfolio of fixed income securities and fixed income-related securities of companies and issuers in Asia which are considered to be outperforming their peers with respect to sustainability performance based on environmental, social and governance ("ESG") factors ("ESG leaders") as well as ESG-focused exchange traded funds ("ETF") and other collective investment schemes ("CIS") which primarily invest in debt securities and companies or issuers that maintain better ESG profiles than their corresponding traditional counterparts (collectively "ESG-focused ETF/CIS"), and provide a return consisting of income and capital growth over medium to long term.				
<b>Reference Index</b>	ICE BofA Asian Dollar Index				
<b>Base Currency</b>	USD				
<b>Fund Size<sup>18</sup></b>	USD\$16.82m				
<b>Share Class</b>	Retail Accumulation Class Units	Retail Income Class Units	Retail Income Plus Class Units	Institutional Accumulation Class Units	Institutional Income Class Units
<b>Currency</b>	USD/ HKD/ RMB	USD/ HKD	USD/ HKD/ RMB	USD	USD
<b>Management Fee</b>	0.90% p.a.	0.90% p.a.	0.90% p.a.	0.55% p.a.	0.55% p.a.
<b>Minimum Investment</b>	US\$1,000/ HK\$5,000/ RMB 5,000	US\$1,000/ HK\$5,000	US\$1,000/ HK\$5,000/ RMB 5,000	US\$1,000,000	US\$1,000,000
<b>Distribution Policy<sup>18</sup></b>	/	Monthly	Monthly	/	Monthly
<b>Target Yield<sup>~</sup></b>	/	/	USD/ HKD: 6.5% RMB: 8.5%	/	/

1. Source: McKinsey, Swiss Re Institute, as of April 2021.
2. Source: Net Zero Tracker, as of 31 December 2022.
3. Source: Bloomberg, as of 31 December 2021.
4. Source: EY, Renewable Energy Country Attractiveness Index (RECAI), as of May 2022.
5. Source: Bloomberg, as of 31 December 2022.
6. Source: World Economic Outlook December 2022, International Financial Statistics (IMF). Asia is represented by Emerging and Developing Asia. \*2022 and 2023 data are estimated by IMF.
7. Source: Bloomberg, as of 31 December 2022. Spreads are based on ICE BofA indices and represents the difference between effective yield in bps. ICE BofA Asian Dollar Investment Grade Corporate Index, ICE BofA US Corporate Index, ICE BofA Asian Dollar High Yield Index and ICE BofA US High Yield Index represent Asia Investment Grade Corporate, US Investment Grade Corporate, Asia High Yield and US High Yield, respectively.
8. Source: Bloomberg, as of 31 December 2022. ICE BofA Asian Dollar Index, Bloomberg US Aggregate Total Return Value Unhedged USD and Bloomberg Global Aggregate Total Return Index Value Unhedged USD represent Asian Bonds, US Aggregate Bonds and Global Aggregate Bonds, respectively.
9. Source: Bloomberg, as of 31 December 2022. ICE BofA Asian Dollar High Yield index, ICE BofA Asian Dollar Investment Grade Corporate Index, ICE BofA US High Yield Index, ICE BofA US Corporate Index, Bloomberg Global Agg Corporate Total Return and Bloomberg Global High Yield Total Return Index represent Asian High Yield, Asian Investment Grade, US High Yield, US Investment Grade, Global Investment Grade and Global High Yield, respectively. Yield to worst is a measure of the lowest possible yield that can be received on a bond that fully operates within the terms of its contract without defaulting.
10. Source: Principal Asset Management Company (Asia) Limited. ESG leaders are defined as companies and issuers in Asia Pacific (ex-Japan) which are considered to be outperforming their peers with respect to sustainability performance based on environmental, social and governance ("ESG") factors.
11. Traditional Index refers to ICE BofA Asian Dollar Index.
12. Source: Principal Asset Management Company (Asia) Limited. ESG rating is defined by investment procedure of respective managers.
13. Source: Principal Asset Management Company (Asia) Limited. Transition Champions are companies/ issuers that are not considered to be ESG leaders. For example, companies/issuers that are not ranked in Quartile 1 or 2 or a minimum of MSCI ESG Rating of BBB but, we believe are demonstrating improving sustainability attributes, or whose business principles or activities align with one or more sustainable investment themes associated with the UN Sustainable Development Goals, or green/sustainable financing instruments such as green bonds or sustainability linked bonds, or securities issued by companies in the green sector such as renewable companies.
14. Source: Principal Global Fixed Income, as of 31 December 2022.
15. Source: Principal Global Fixed Income, as of 31 December 2022.
16. Source: Morningstar, as of 31 December 2022. Performance is for reference only. Past performance does not guarantee future return.
17. Calculation: Annualized distribution rate =  $[(1 + \text{distribution per unit} / \text{Ex-Distribution Price})^{\text{distribution frequency}}] - 1$ , the annualized distribution rate is calculated based on the latest distribution with distribution reinvested and may be higher or lower than the actual annual distribution yield. Positive distribution rate does not imply positive return. Distribution rate is not guaranteed. Distributions may be paid from capital. Dividend is not guaranteed.
18. Source: Principal Asset Management Company (Asia) Limited, as of 31 December 2022. Distributions of the Income Class Units and Income Plus Class Units will be declared and paid monthly within 30 days of the end of each calendar month. Dividend, if declared, will be automatically re-invested unless cash distribution is applied for. For funds offering classes with a distribution feature, dividend rate is not guaranteed. Distributions may be paid from capital.

~ Target Yield is only available for income plus share class and refers to 2023 Q1 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.

#### Disclosures:

Source of data: All fund data is as of 31 December 2022 and all figures shown in this document are in U.S. dollars unless stated otherwise.

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