Principal Global Credit Opportunities Fund

BENCHMARK Bloomberg Barclays Global Aggregate Corporate Index (AUD hedged)[1]	**OBJECTIVE** The Fund aims to achieve a total return above the benchmark before fees, over rolling three-year periods.		
APIR	PGI0001AU	**ARSN**	108 685 927
INCEPTION DATE	31 May 2004	**FUND SIZE**	$271.4m
MANAGEMENT FEE	0.8000% p.a.	**EXIT PRICE**	$0.9613
BUY / SELL SPREAD	+0.15% / -0.30%		

Net performance (%)

	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.[2]
Fund	**1.23**	**2.47**	**2.33**	**7.69**	**5.49**	**5.16**	**6.64**	**5.20**
Benchmark[1]	1.17	2.40	3.31	5.95	4.43	5.02	6.19	5.95
Active	*0.06*	*0.07*	*-0.98*	*1.74*	*1.06*	*0.14*	*0.45*	*-0.75*

Fund investments (%)

Asset class	Physical[3]	Effective[3,4,5]	Benchmark
Global Investment Grade Credit	58.55	58.55	95.90
Global High Yield	24.56	24.56	0.00
Emerging Market Debt	9.84	9.84	4.10
Securitised Assets	2.48	2.48	0.00
Government Debt	0.87	0.87	0.00
Cash	3.70	3.70	0.00

Fund analysis (%)

Characteristics	Fund	Benchmark
No. of issuers	206	2068
Effective duration (years)	4.65	7.29
Spread duration (years)	5.96	7.34
Average credit quality	BBB	A-
Yield to worst[6]	2.13	1.58
Yield to Maturity	2.38	1.65
Ex-Post VaR	4.31	6.32

Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.

[1] The Bloomberg Barclays Global Aggregate Corporate Index (hedged to AUD) was adopted as the Fund's performance benchmark on 27 December 2011. Benchmark calculations prior to this date are based on the UBS Bank Bill Index. Source: Bloomberg Index Services Limited. BLOOMBERG is a trademark and service mark of Bloomberg Finance L.P. and its affiliates (collectively "Bloomberg"). BARCLAYS® is a trademark and service mark of Barclays Bank Plc (collectively with its affiliates, "Barclays"), used under license.

[2] This figure represents the annualised performance of the Fund since inception.

[3] Differences between physical and effective exposure reflect the impact of credit derivative hedges the Fund has in place. These hedges are using widely traded, liquid, credit market index derivatives.

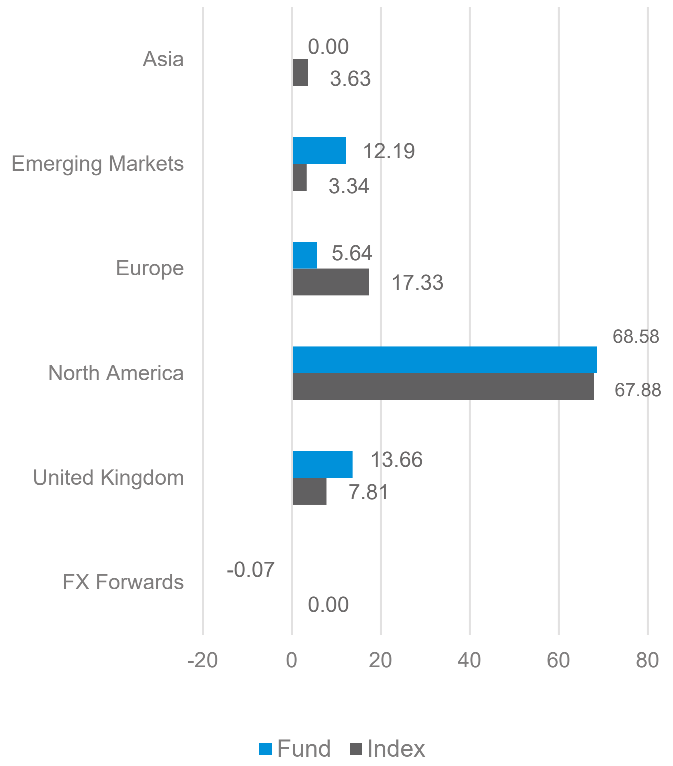
[4] Effective breakdown includes hedging exposure.

[5] Effective breakdown includes the residual effect of hedging and is not representative of the actual cash level.

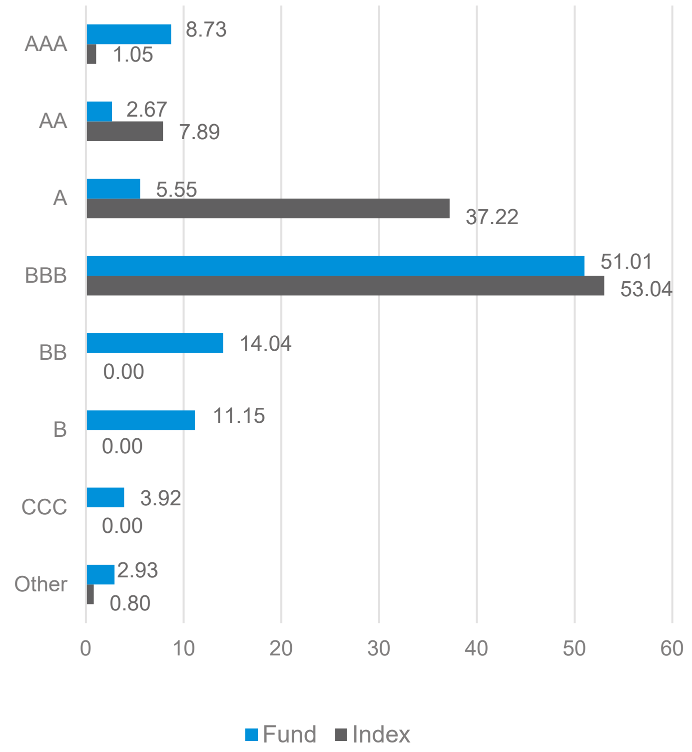
[6] Yield to worst is calculated as the lower of the yield to call or yield to maturity for each issue.

CONTACT DETAILS
T.1800 034 402 | **E.** Client.Services@ironbarkam.com | **W.** www.ironbarkam.com

Regional asset allocation (%)[1]



Credit quality allocation (%)[2]



Market Review

Risk assets continued to perform well during the second quarter due to accelerating economic growth combined with ongoing monetary and fiscal accommodation. Real GDP growth in the US rose at an annualised 6.4% rate as vaccinations increased and the economy reopened. The rapid economic rebound led to supply chain disruptions and rising inflation. Although the Federal Reserve continues to view the inflation as transitory, the market perceived the Federal Reserve's messaging to be somewhat more hawkish at its June meeting based upon labour market optimism and heightened inflation concern. The median Federal Open Market Committee member now expects two rate hikes in 2023, up from no expected hikes last quarter. The Federal Reserve's current policy remains extremely accommodative and is supportive of its work toward maximum employment.

Consumer balance sheets are extremely healthy and delinquency rates are at all-time lows. A large percentage of stimulus checks have been saved and the consumer is positioned to drive growth as the economy reopens. There remains approximately 7 million fewer people employed as compared to the start of the pandemic, but the investment manager expects this to improve substantially throughout the remainder of this year.

The reaction to the Federal Reserve dot plot and taper messaging led to a flattening of the yield curve. During the quarter, the two-year US Treasury rate increased by 0.09% to 0.25% while the five-year rate declined by 0.05% to 0.89%. The ten-year rate fell by 0.27% to 1.47% and the thirty-year rate dropped by 0.33% to 2.09%.

The Bloomberg Barclays Global Aggregate Corporate Index had an excess return of 0.92% for the quarter when compared to similar duration US Treasury securities. The Bloomberg Barclays US Aggregate Index, a proxy for the overall fixed income market, had an excess return of 0.16%. The top performing sectors were below investment grade corporate bonds, emerging market debt, and investment grade corporate bonds with excess returns of 2.01%, 1.20%, and 1.12%, respectively. Commercial mortgage-backed securities, asset-backed securities, and agencies outperformed similar duration US Treasury securities with excess returns of 0.82%, 0.24%, and 0.12%, respectively, however underperformed relative to the Bloomberg Barclays Global Aggregate Corporate Index. Mortgage-backed securities underperformed US Treasury securities with an excess return of -0.61%, also underperforming relative to the Bloomberg Barclays Global Aggregate Corporate Index.

[1]Certain analytics powered by Aladdin by BlackRock. BlackRock and Aladdin are trademarks and service marks of BlackRock, Inc. and its affiliates (collectively, "BlackRock"). BlackRock owns all proprietary rights in the marks and in the Aladdin by BlackRock services. BlackRock neither approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained there from. Investors should be aware that the allocation of the investments do not always add up to 100%.
[2]"Other" includes the currency forwards that are used for hedging and securities that are rated lower than CCC or are not rated.

Performance review

During the quarter, the Principal Global Credit Opportunities Fund (the 'Fund') returned 2.47% (net) for the quarter, outperformed the Bloomberg Barclays Global Aggregate Corporate Index's (AUD hedged) return of 2.40% by 0.07%.

Outperformance was led by security selection. Sector allocation also contributed to outperformance while duration positioning detracted. Within sector allocation, positive performance was driven by an out-of-index allocation to below investment grade corporate bonds. An out-of-index allocation to collateralised mortgage obligation securities and an overweight allocation to emerging market debt also contributed to outperformance. This was partially offset by a detraction from an underweight allocation to investment grade corporate bonds. Positive security selection was led by issuer specific performance within below investment grade corporate bonds, investment grade corporate bonds, and emerging market debt. Short duration positioning detracted from performance as rates declined during the quarter. Top performing issuers included Charter, General Motors, and Amazon. As evidenced by the Fund's top performing issuers, the Fund's themes continued to focus on communications, select cyclicals - most notably the autos (General Motors and Ford in particular), and technology along with online retailers (such as Amazon and EBAY). The Fund's credit themes are structured around well positioned borrowers and companies poised to take advantage of strong economic growth in the next few quarters.

Market outlook

Vaccinations are moving the world toward normalcy and global central bank accommodation continues to spur risk-taking. Economic data shows a strong recovery is underway as consumer and corporate fundamentals improve. The US and Europe continue to make strong progress towards vaccinations, but a significant gap remains with non-European developed countries and emerging economies. Although the total number of deaths globally in 2021 has surpassed 2020 levels, the investment manager is encouraged by the overall trajectory of vaccinations and how it is leading to a reopening of economies globally.

Due to strong economic growth and a Federal Reserve that is preparing the market for a likely taper announcement in the second half of this year, the investment manager believes rates will increase and the US Treasury curve will continue to flatten. Historically, the Treasury curve begins to flatten prior to the end of accommodation periods. As a result, the portfolio is positioned short duration, particularly in the five to ten-year portion of the curve.

Investment grade corporate fundamentals continue to trend higher as much better than expected earnings and revenue continue to be reported. Leverage is improving to pre-covid levels. Technicals remain resilient with continued strong investor demand. Spreads are near historic tights, and the investment manager expects resistance to further tightening. However, the investment manager also expects limited potential downside due to the accommodative Federal Reserve policies. With spreads through their pre-covid tights, the investment manager reduced the Fund's exposure to investment grade corporate bonds during the quarter.

Default rates within below investment grade corporate bonds will continue to decline as credit fundamentals improve and access to capital remains wide open. After a record year of issuance in 2020, 2021 shows no signs of slowing. In fact, 2021 supply is on pace for another record year of issuance. However, approximately 70% of issuance is for refinancing.

Improving credit fundamentals, along with monetary and fiscal accommodation, provides support to valuations. Due to strong fundamentals and central bank accommodation creating a conducive environment for risk-taking, exposure to below investment grade corporate bonds was increased during the quarter.

Emerging market growth continues to rebound and is led by strength in commodities. The vaccine rollout among developing countries has improved, however results vary by region. Investor demand for emerging market debt remains strong and fund flows turned positive in the second quarter after a mixed first quarter. Valuations remain attractive relative to developed market alternatives. The overweight allocation to emerging market debt was further increased during the quarter.

CONTACT DETAILS
T.1800 034 402 | **E.** Client.Services@ironbarkam.com | **W.** www.ironbarkam.com