Principal Asset Management[SM]

QUARTERLY REPORT
AS AT 31 DECEMBER 2022

Principal Global Credit Opportunities Fund

BENCHMARK
Bloomberg 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**	$200.6m
MANAGEMENT FEE	0.8000% p.a.	**EXIT PRICE**	$0.7684
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	**-0.16**	**3.32**	**-18.09**	**-2.90**	**-0.06**	**1.90**	**2.85**	**3.67**
Benchmark[1]	-0.78	2.67	-15.45	-3.60	-0.28	1.71	2.64	4.51
Active	*0.62*	*0.65*	*-2.64*	*0.70*	*0.22*	*0.19*	*0.21*	*-0.84*

Fund investments (%)

Asset class	Physical[3]	Effective[3,4,5]	Benchmark
Global Investment Grade Credit	60.25	60.25	96.38
Global High Yield	24.09	3.55	0.00
Emerging Market Debt	4.73	0.98	3.63
Securitised Assets	1.90	1.90	0.00
Government Debt	0.68	0.67	0.00
Other	3.01	27.31	-0.01
Cash	5.34	5.34	0.00

Fund analysis (%)

Characteristics	Fund	Benchmark
No. of issuers	157	2146
Effective duration (years)	6.81	6.16
Spread duration (years)	6.62	6.33
Average credit quality	BBB	A-
Yield to worst[6]	4.80	4.54
Yield to Maturity	4.77	4.54
Ex-Post VaR	14.13	14.16

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]The return since inception represents the annualised performance from the first full month of operation.
[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.

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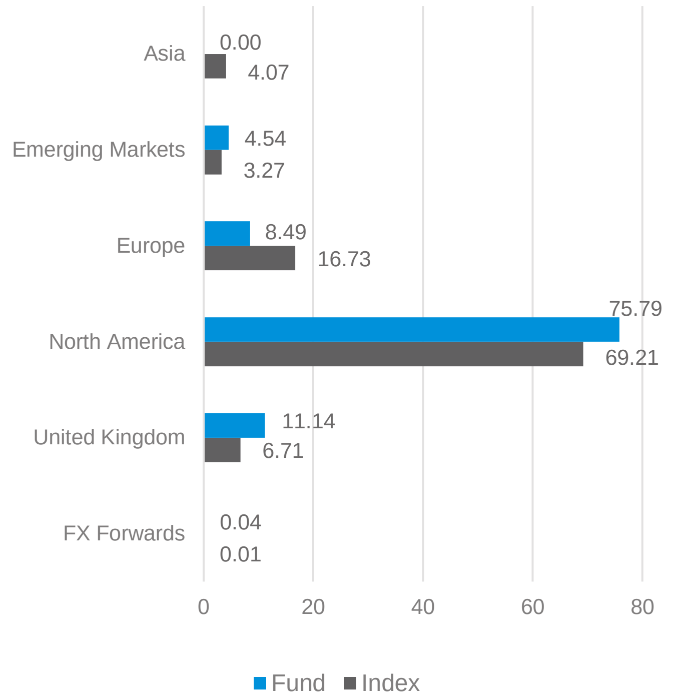
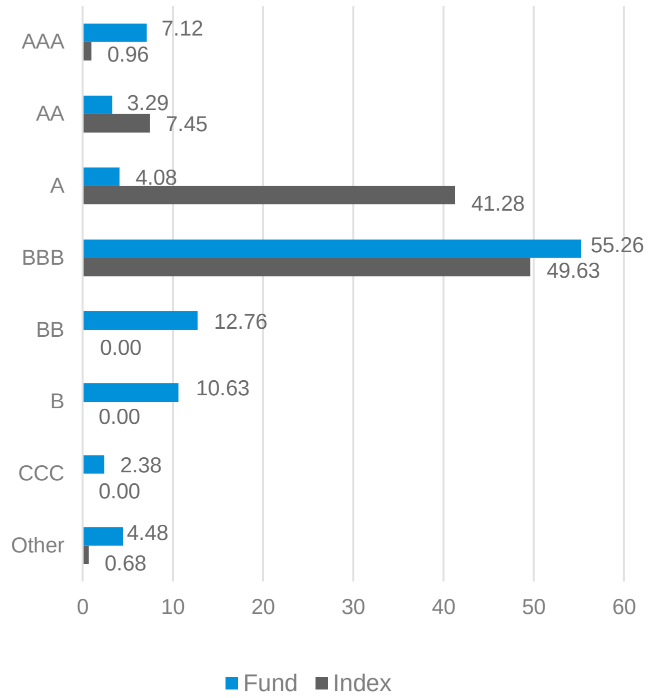
Regional asset allocation (%)[1]



Credit quality allocation (%)[2]



[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.

Market review

Markets were lifted during the fourth quarter of 2022 by signs that stubbornly high inflation may have peaked, which in turn supported the view that central banks may be able to ease up on aggressive tightening measures. After two consecutive months of CPI reports coming in below expectation, the Federal Reserve (Fed) delivered a 0.50% rate hike in December, stepping down from prior 0.75% rate hikes. However, other global central banks continue to quickly remove monetary accommodation. The European Central Bank and Bank of England aggressively raised rates in the fourth quarter of 2022, and the Bank of Japan surprised markets by loosening its yield-curve control measures. The Bank of Japan's actions may be a precursor to removing yield curve control measures and eventually lifting rates off zero.

The US consumer remains supported by a strong labour market; both the unemployment rate and new jobless claims are holding steady near pre-COVID lows. However, job openings are beginning to trend lower, suggesting that restrictive monetary policies are starting to effect labour markets. Although the typical US consumer began the year in an excellent condition due to savings accumulated during the pandemic, persistently high inflation is beginning to stress household balance sheets. Due to an inflation rate that exceeds the pace of wage increases, consumers are increasingly relying on credit card debt to maintain spending as savings becomes depleted. However, despite declining savings, household debt-to-income ratios remain near pre-COVID levels and significantly lower than the Great Financial Crisis levels.

Global interest rates continued to have volatile daily moves as central banks tighten monetary policies. During the quarter, the two-year US Treasury rate increased 0.15% to 4.43% while the five-year yield dropped 0.09% to 4.01 %. The ten-year rate increased 0.05% to 3.88% and the thirty-year rate rose 0.19% to 3.97%. The two and ten-year yield curve continues to be deeply inverted as the market is increasingly concerned that a recession could be on the horizon.

The Bloomberg Global Aggregate Corporate Index, the benchmark for this Fund, had an excess return of 2.82% for the quarter when compared to similar duration US Treasury securities. The Bloomberg US Aggregate Index, a proxy for the overall fixed income market, had an excess return of 1.03%. The best performing sectors were emerging market debt, below investment grade corporate bonds, and investment grade corporate bonds with excess returns of 5.76%, 3.05%, and 2.89%, respectively. Mortgage-backed securities (MBS) outperformed similar duration US Treasury securities but underperformed the Bloomberg Global Aggregate Corporate Index with an excess return of 1.06%. Asset-backed securities (ABS) and commercial mortgage-backed securities (CM BS) underperformed with excess returns of -0.20% and -0.10%, respectively.

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Performance review

During the quarter, the Principal Global Credit Opportunities Fund (the 'Fund') returned 3.32% (net) for the quarter, outperforming the Bloomberg Global Aggregate Corporate Index's (AUD hedged) return of 2.67% by 0.65%.

Outperformance was led by sector allocation and duration positioning. Security selection also contributed to outperformance. Within sector allocation, positive performance was led by an out-of-index allocation to below investment grade corporate bonds. Positive security selection was led by issuer specific performance within investment grade corporate bonds. Issuer specific performance within below investment grade corporate bonds and emerging market debt also contributed to outperformance. Long duration positioning while rates rallied in November contributed to outperformance. Top performing issuers during the quarter included JBS, Corebridge, and Aetna. The investment manager's major themes consist primarily of companies that are deleveraging, able to maintain margins, and have pricing power on the heels of inflationary pressures. The investment manager is focused on companies that will be able to hold up well in a recession. The one common aspect to most of their major themes is that they are focused on longer maturity bonds. As the investment manager looks at issuance for 2023, they are expecting similar total gross issuance, a bit less net issuance, and significantly less longer maturity company debt to be issued. As interest rates have risen, companies that do borrow will do so with shorter maturities. At the same time, the investment manager is seeing significant interest from longer maturity investors such as pensions. Some of the investment manager's larger thematic long bond positions are in Meta, Warner Brothers Discovery, AJ Gallagher, Corebridge, and JBS.

Market outlook

Signs are emerging that the inflation trajectory is improving as supply chain issues ease and demand softens due to restrictive monetary policy. However, inflation is likely to remain well above target throughout 2023, largely due to the lagged nature of rent inflation. Therefore, the Fed will remain in a restrictive stance for the foreseeable future, even as the economy softens.

The investment manager believes that the economic data will continue to deteriorate, leading to a recession by mid-2023. While savings accumulated during the pandemic supported consumer spending in 2022, strong consumer spending may not be sustainable as inflation has depleted household savings. In addition, skyrocketing mortgage rates contributed to declining home affordability, slowing home-building activity, and falling home prices.

Markets are currently pricing in a peak Fed Funds rate of 4.75%-5.00% in the first half of 2023. The Fed is likely to remain near this restrictive level throughout much of 2023 due to elevated inflation. While front-end yields will remain elevated in the near-term due to Fed Fund levels, longer-term rates are influenced to a greater extent by recession expectations. Due to slowing economic activity, longer-term rates will likely decline, and thus further invert the curve.

Investment grade corporate fundamentals remain strong, and profitability continues to show resilience. However, earnings growth is slowing, and peak credit quality is likely behind us. Technicals have improved recently with high grade bond fund inflows returning and waning new issue supply. Net new supply is expected to decline 20% in 2023. However, the investment manager expects continued spread volatility due to tightening monetary conditions and recession concerns. Exposure to investment grade corporate bonds was maintained during the quarter, comprised of the best opportunities within the sector.

Although default rates within below investment grade corporate bonds remain muted, the investment manager expects default rates to begin to tick up off very low levels. The investment manager forecasted default rate for the next 12 months is 3.5%-4.0%. Below investment grade corporate issuance totalled only $107 billion in 2022, a fraction of the $483 billion raised during 2021. Issuers were able to refinance debt at record low yields in 2021, thus improving their balance sheets and significantly reducing further near-term capital needs. 2023 issuance is expected to be about $150 billion, which is somewhat higher than 2022 levels, but significantly below 2021 issuance. Below investment grade investors generally remain risk-off and high yield funds reported net outflows throughout much of 2022. Exposure to below investment grade corporate bonds was further reduced during the quarter and remains near the bottom of the investment manager's typical range, reflecting their expectation that restrictive central bank policy and deteriorating economic data will cause additional volatility in risk assets. Emerging market debt was supported in the fourth quarter by a rebound in flows into the asset class as well as slowing new issuance. However, the investment manager remains cautious due to slowing economic growth, a challenging inflation outlook, and ongoing dollar strength. Valuations are attractive relative to developed market alternatives. Exposure to emerging market debt was reduced to an underweight position during the quarter.

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