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Key Investment Professionals

Jon Taylor, 35 years experience,
Co-Lead Portfolio Manager

Robert da Silva, 26 years experience,
Co-Lead Portfolio Manager

Tina Paris, 9 years experience,
Portfolio Manager

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Fund, please contact

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Principal Global Strategic Income Fund

31 July 2010

Fund Overview

The Principal Global Strategic Income Fund (the Fund) is designed to provide Australian investors access to a diversified fixed income fund that seeks to deliver a high total return by investing in a portfolio of high yielding fixed income securities whilst seeking to manage downside risk.

Fund Performance as at 31 July 2010 (%)

	One Month	Three Months	One Year	Three Years	Five Years	Since Inception
Gross Fund Performance ¹	1.8	0.0	19.1	-2.7	0.8	2.4
Net Fund Performance ²	1.8	-0.2	18.1	-3.5	0.0	1.6
UBS Bank Bill Index	0.4	1.2	4.0	5.5	5.8	5.7

Source: State Street Australia Limited

¹ Fund performance is before fees and assumes the reinvestment of distributions.

² Fund performance is after fees and assumes the reinvestment of distributions.

Performance for periods in excess of one year are annualised.

Past performance is not a reliable indicator of future results.

Objective of the Fund

The Fund aims to provide investors with performance of 3.0% per annum in excess of the UBS Bank Bill Index over rolling three year periods, before fees.

Depending on individual circumstances, this Fund is suitable for investors looking to invest for at least three to five years.

Fund Ratings



Fund Details

Fund Size

\$A 265.1 million

Number of Portfolio Holdings

265

Estimated Indirect Cost Ratio (ICR)

0.80% p.a. (capped)

The actual ICR for each financial year will be calculated as at 30 June each year.

Entry/Exit Fees

Nil

Buy/Sell Spread

0.10%/0.10%

Unit Prices

Unit prices are normally calculated and released daily based on the net asset value of the Fund at the close of the previous business day.

Distributions (last four quarters)

30 June 10 : 0.00 c/unit

31 March 10: 1.50 c/unit

31 December 09: 0.00 c/unit

30 September 09 : 0.00 c/unit

Principal Global Strategic Income Fund Review as at 31 July 2010

US Market Overview

July was the heart of earnings season as more than half of the S&P 500 has now reported. Results remained strong with earnings per share (EPS) beating expectations by an average of 7%. Encouragingly, cyclical sectors have been among the best performers, with more stable consumer staples, healthcare and utilities holding back overall growth.

During July, equity markets in major developed economies were much stronger (S&P 500 surged 6.88%); credit spreads were generally tighter across different sectors. Commodities were much stronger in the month of July, only gold and silver finished the month in the red amongst all members of S&P GSCI Commodity Index.

U.S Treasurys and UK Gilts had a mixed month in July, both curves rallied in the short-end and rose in yield at the 30-year maturity point. The two-year Treasury narrowed six basis points (bps) in yield, while the 30-year rose 10 bps in yield at the end of July. European government bonds on the other hand, were weaker. Nearly all points on the yield curve rose in the month of July, 10-year European government bonds surged nine bps in yield as at the end of July.

High yield spreads over the month narrowed 57 bps. Emerging market spreads tightened 51 bps. Investment grade corporates dropped 18 bps. Investment grade commercial mortgage-backed securities (CMBS) dropped 24 bps. The Preferred market was stronger in July; the Merrill Lynch Fixed Rate Preferred Index went up by 4.15%.

Fund Performance³

The Principal Global Strategic Income Fund (the Fund) returned 1.82% in July, outperforming the UBS Bank Bill Index (the Index), after fees.

The credit component of the Fund had a positive month, but underperformed the Merrill Lynch U.S. Corporate Investment Grade short duration index by about 40 bps. The main contributors to performance were banks and electric paper, while the detractor for July was airline bonds.

The preferred sector of the portfolio performed very strongly and returned about 8.50% in the month of July. All industry groups posted positive returns, banks and insurance were the main contributors in this segment, returned 8.10% and 7.30% respectively.

The high yield segment of the portfolio had a positive return of over 60 bps over the month, underperforming the Merrill Lynch high yield index (0-3yrs) in July. All industrial groups generated positive returns apart from commercial services and machinery.

Portfolio Strategy and Outlook

During the month, we have moderately reduced our exposure in the credit segment of the portfolio. Apart from that, modest asset allocation movements were caused by minor position adjustments in certain segments of the portfolio (and also currency movements) rather than strategic shifts in asset allocation. Short-term volatility eased in July and we believe from a medium to long-term perspective the carry of the bonds held in the Fund will deliver performance.

We remain constructive on the outlook for credit market performance in the medium to long-term despite the fact that short-term volatility wax and wane, driven by sovereign debt and concerns about economic growth. We continue to look for high relative value deals that can fit into the portfolio's parameters, and maximize relative performance against the benchmark with a monitored and managed risk profile. The average yield to maturity of the fund is about 11.50% as at the end of July.

³Past performance is not a reliable indicator of future results.



Fund Details

Inception Date

31 May 2004

Fund Type

Distributing unit trust

APIR Code

PGI0001AU

Reporting

Monthly & Quarterly performance updates

Responsible Entity

Principal Global Investors (Australia) Limited
 ABN: 45 102 488 068
 AFSL No.: 225385

Derivates Risk Statement

Available on request

Currency

Hedged in \$A

ASIC Registration

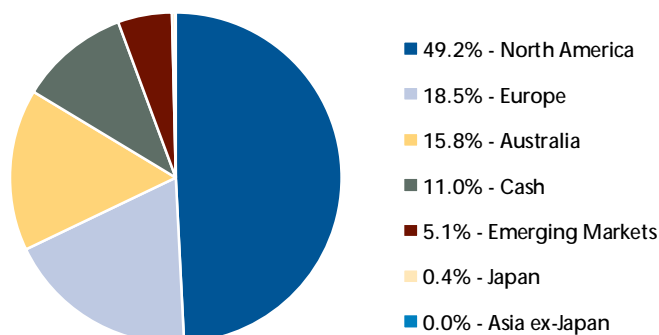
ARSN 108 685 927

Fund Investments as at 31 July 2010

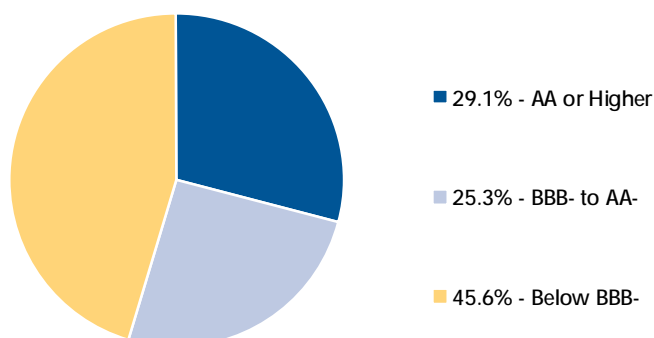
Asset Allocation	Physical (%)	Effective (%) ⁴
Global Opportunistic Sector	60.6	59.3
ABS	5.2	5.6
Bank Loans	6.6	6.9
CMBS	7.1	7.6
Credit	17.7	20.0
Emerging Markets	3.9	-2.1
Non-US Hybrids and Preferreds	7.2	7.3
Structured Debt	6.0	6.3
YTC/Other	7.1	7.6
High Yield Securities	15.7	14.2
Preferred Securities	12.7	13.7
Cash ⁵	11.0	12.8
Total	100.0	100.0

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. Their effect is to reduce market risk in the portfolio to the following areas – US high yield, emerging markets and US investment grade. This position has been taken with a view that while long-term value is attractive in these markets, there is near-term potential for volatility as the economic data continues to be very poor in the US.

Regional Allocation (%)



Credit Quality Distribution (%)



Investment Guidelines

Asset Class/Sector	Investment Range	
	Min%	Max%
High Yield Securities	10	50
Preferred Securities	10	40
Global Opportunistic Sector ⁶	10	70

- Min/Max portfolio duration: 0-3 years
- Max. cash holding: 30%

Source: Principal Global Investors

⁴ Effective breakdown includes hedging exposure.

⁵ Effective cash rate includes the residual effect of hedging, and is not representative of the actual cash level.

⁶ See above "Fund Overview" for asset sub-sectors.

Investments do not always add up to 100% due to rounding. Please see additional disclosures on page 4.



Principal Global Strategic Income Fund

Disclaimer

Principal Global Investors (Australia) Limited ABN 45 102 488 068 AFSL No. 225385 (PGIA) is the issuer and responsible entity of the Fund.

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