

Product Disclosure Statement

# Principal Global Strategic Income Fund



2 February 2010 | ARSN 108 685 927

# Important Information

This Product Disclosure Statement (“PDS”) is issued by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFSL 225385), Level 43, AMP Centre, 50 Bridge Street, Sydney NSW 2000. Throughout this PDS the “Manager”, “responsible entity”, “we”, “us” and “our” mean Principal Global Investors (Australia) Limited. Reference to “the Fund” is a reference to the Principal Global Strategic Income Fund ARSN 108 685 927.

Direct investments in the Fund are only available to wholesale clients. Other investors may invest through an investor directed portfolio service (“IDPS”) or a similar service (commonly a master trust or wrap account). If you wish to access the Fund through an IDPS or similar service, you may use this PDS to direct the operator of that service to invest in the Fund but you will not become a unitholder in the Fund nor acquire the rights of an investor. Instead, the operator of that service acquires those rights and can exercise them, or decline to exercise them, on your behalf. For information about your investment, you should contact your IDPS provider.

Information in this PDS is general information only and does not take into account your individual objectives, financial situation or needs. You should consider whether an investment in the Fund is appropriate for you in light of your objectives and circumstances and we recommend that you get professional advice from a licensed financial adviser before making an investment decision.

Neither the Manager nor any company in the Principal Financial Group® promises that you will earn any return on your investment or that your investment will gain or retain its value. Your investment does not represent deposits in or other liabilities of the Manager, the Principal Financial Group® or any member of the Principal Financial Group®. Your investment is subject to risks, including possible delays in repayment and loss of income and principal invested. The Principal Financial Group® does not in any way guarantee the capital value and/or performance of the Fund.

The offer to which this PDS relates is available only to persons receiving this PDS in Australia. This PDS is not an offer or invitation in relation to the Fund in any place in which, or to any person to whom, it would not be lawful to make that offer or invitation. The distribution of this PDS in jurisdictions outside of Australia may be restricted by law and persons who come into possession of this PDS should seek their own advice on, and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of applicable securities laws. This PDS has not been lodged with the Australian Securities and Investments Commission (“ASIC”) and is not required to be lodged with ASIC. ASIC takes no responsibility for the contents of this PDS.

Unless otherwise stated, all monetary amounts in this PDS are expressed in Australian dollars.

*Please note that information in this PDS that is not materially adverse information is subject to change from time to time. We may update this information and make it available to investors via our website [www.principalglobal.com.au](http://www.principalglobal.com.au), where permitted by law. A paper copy of any updated information is available free of charge upon request.*

*Where a change is materially adverse to investors, we may issue a replacement or a supplementary PDS and give investors notice as required by law.*

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# About the Manager

The responsible entity of the Fund, Principal Global Investors (Australia) Limited (“Manager”), is part of Principal Global Investors<sup>1</sup>, the investment management business of the Principal Financial Group®.

Principal Global Investors is a diversified asset management organisation with operations in the United States, Europe, Asia and Australia. Globally, Principal Global Investors manages US\$215.4 billion in assets primarily for retirement plans and other institutional clients, and draws from the expertise of approximately 410 investment professionals<sup>1</sup>.

Principal Global Investors investment capabilities encompass an extensive range of real estate, fixed income and equity investments, as well as specialised overlay and advisory services.

The Manager offers Australian clients access to a wide range of the local and global investment management capabilities of Principal Global Investors, including:

- Australian and global property securities
- Australian and global fixed income
- Currency
- Global and emerging markets equity

The global reach of Principal Global Investors provides an information advantage in researching and managing investment portfolios. At the same time, we serve clients on a personalised basis and tailor our capabilities to specific client objectives and investment goals.

Principal Global Investors manages US\$123.7 billion in fixed income assets<sup>1</sup>. Our experience in fixed income management spans multiple economic and credit market cycles, and encompasses all major fixed income sectors and security types.

The Manager has appointed its affiliates Principal Global Investors, LLC; Post Advisory Group, LLC (“Post Advisory Group”) and Spectrum Asset Management, Inc. (“Spectrum Asset Management”) as sub-advisers to the Fund (“Sub-Advisers”). The capabilities of the Sub-Advisers encompass all major fixed income sectors and security types.

<sup>1</sup>As of September 30, 2009. Funds under management will change from time to time. The latest figure can be obtained from our website or from your IDPS provider.

Principal Global Investors is the asset management arm of the Principal Financial Group® (The Principal®) and includes the asset management operations of the following subsidiaries of The Principal: Principal Global Investors, LLC; Principal Real Estate Investors, LLC; Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Columbus Circle Investors; Edge Asset Management, Inc.; Morley Financial Services Inc.; Principal Global Investors (Europe) Limited; Principal Global Investors (Singapore) Ltd.; Principal Global Investors (Australia) Ltd.; Principal Global Investors (Japan) Ltd., Principal Global Investors (Hong Kong) Ltd; and the majority owned affiliates of Principal International, Inc. “The Principal Financial Group” and “The Principal” are registered trademarks of Principal Financial Services, Inc., a member of the Principal Financial Group.

# Key Features of the Principal Global Strategic Income Fund



## Fund Overview

The Fund aims to achieve a total return for investors of 3.00% per annum in excess of the UBS Bank Bill Index when measured over rolling 3-year periods (before fees). However, this is not a forecast and there is no guarantee that the Fund will achieve this return.

The Fund is designed to provide Australian investors with 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.

The Fund will primarily invest in fixed income securities and investments from the following sectors:

- High Yield Securities
- Preferred Securities
- Global Opportunistic Sector (please refer to the "Description of the Assets in the Fund" section for further details on this sector)

## Suggested Investment Timeframe

Depending on individual circumstances, the suggested minimum period of investment in the Fund is at least three to five years.

## Key Benefits of Investing in the Fund

- Access to a diversified portfolio across a variety of moderately correlated fixed income sectors which seeks to manage downside risk.
- Opportunity for individual investors to participate in fixed income assets such as preferred securities and high yield bonds that have not previously been easily accessible.
- The Fund invests in a portfolio of high yielding fixed income securities that seeks to deliver a total return comprised primarily of income received by the Fund from its investments. For further information regarding when distributions may be paid see the "How to Invest" section.

## Investment and Other Risks

All investments involve a certain degree of risk. In an investment context, risk is generally regarded as being the

variability in returns and the possibility that the value of your investment may fall.

The value of your investment in the Fund may be affected by a number of factors. The key risks of an investment in the Fund include:

- Interest rate risk
- Credit risk
- Liquidity and redemption risk
- Prepayment risk
- Market risk
- Individual investment risk
- Derivatives risk

For more information on these and other risks, please refer to the "Risks and How They are Managed" section.

## Investment Strategy

Principal Global Investors employs a disciplined investment process involving both bottom-up and top-down portfolio construction techniques whilst maintaining a strong focus on relative value opportunities and broad diversification.

The cornerstone of this process is proprietary research at macroeconomic, sector and security levels.

It is our belief that while markets are not perpetually efficient, over time, prices do reflect fundamental values. By generating high quality internal research, we are well placed to exploit those instances when prices do not reflect value. In addition, our internal research capability allows us to benchmark the best third party research we receive, be that rating agency or broker research.

The portfolio management team at Principal Global Investors uses a range of tools (e.g. fundamental, relative value, alpha selection and security selection analysis models) to translate research into key structural decisions for the portfolio, including sector allocation. The portfolio construction process is highly interactive, with research and decision-making within each sector benefiting from the combined insights of the portfolio managers for the Fund, the sector heads and the research teams.

## What Assets Does the Fund Invest In?

The Fund holds a diversified mix of high yielding fixed income assets across a number of sectors, as shown in the below table. The Manager can change the sector allocation of the Fund's investments within the minimum and maximum ranges for each sector shown in the table below. The mix of the Fund's investments in particular sectors can change at any time.

Asset Class/Sector	Investment Range <sup>2</sup>	
	Min %	Max %
High Yield Securities	10%	50%
Preferred Securities	10%	40%
Global Opportunistic Sector <sup>3</sup>	10%	70%
Cash	0%	30%

For updated information on the allocation of the Fund's investments, please visit the Manager's website at [www.principalglobal.com.au](http://www.principalglobal.com.au).

<sup>2</sup>If market movements, cash flows or changes in the nature of an investment (e.g. a change in credit rating) cause the Fund to exceed any of the investment ranges or limits set out in this document, this will be rectified by Principal Global Investors as soon as reasonably practicable after becoming aware of it and Principal Global Investors will have no obligation or liability in relation to those circumstances.

<sup>3</sup>Please see "Description of the Assets in the Fund" section for further details on this sector.



## High Yield Securities

High yield securities are corporate bonds whose credit is rated below investment grade, based on the risk of default. Below investment grade denotes a rating below Baa3 by Moody's Investor Services ("Moody's") or below BBB- by Standard and Poor's ("S&P") or Fitch Ratings ("Fitch"). The credit ratings assigned by these agencies represent an assessment of the bond issuer's creditworthiness, that is, the issuer's ability to make interest and principal payments to bondholders. Since the financial condition of a non-investment grade issuer is not as strong as an investment grade issuer, non-investment grade issuers are compelled to pay higher interest rates on their bonds than higher rated borrowers. The Fund may also hold some unrated securities.

The high yield debt securities market offers investors the potential for attractive risk-adjusted returns relative to other fixed income securities, in addition to increased portfolio diversification.

Principal Global Investors offers specialised expertise in management of high yield fixed income securities through our affiliate, Post Advisory Group, and a dedicated team within Principal Global Investors, LLC.

## Preferred Securities

Often called hybrid securities, preferred securities may in many ways be more attractive to investors than either traditional equity or debt instruments. Because preferred securities are subordinate to senior bank loans and traditional bonds in the corporate balance sheet hierarchy, preferred securities typically offer higher yields than intermediate bond funds and Treasuries. Total return opportunities also exist due to significant inefficiencies in the preferred security markets, deriving from their large retail investor base. Preferred security issuers include banks, financial companies, utilities and industrial companies.

Principal Global Investors offers specialised expertise in management of preferred securities through our wholly owned affiliate, Spectrum Asset Management.

## Global Opportunistic Sector

The Global Opportunistic sector comprises a combination of securities across a variety of credit sectors and geographic regions. It encompasses all the available

investment opportunities that come to the attention of the global network of fixed income professionals within Principal Global Investors. New types of securities are emerging regularly in the credit market, so this segment includes (but is not limited to) the following sub-sectors:

- Investment Grade and Below Investment Grade Corporate Bonds
- Structured Debt
- Commercial Mortgage-Backed Securities ("CMBS")
- Asset-Backed Securities ("ABS")
- Emerging Market Debt
- Bank Loans
- Convertible Bonds
- Hybrid Securities (including Asia Pacific, US and Europe)

Please see below for further detail on the abovementioned sub-sectors.

**Investment Grade and Below Investment Grade Corporate Bonds:** are debt obligations issued by corporations whose credit rating is deemed to be investment grade or below investment grade (as the case may be). A credit rating is an independent assessment of an issuer's credit worthiness issued by a recognised rating agency. The leading ratings agencies currently define "investment grade" as follows: Moody's as a credit rating of Baa3 or higher, S&P and Fitch as a credit rating of BBB- or higher. The global universe of investment grade and below investment grade corporate bonds is very large, encompassing thousands of issuers and trillions of dollars in size. This provides opportunities for diversification and relative value opportunities.

The Fund may also hold some unrated securities.

**Structured Debt:** may include Collateralised Debt Obligations ("CDOs"), Collateralised Loan Obligations ("CLOs") and Structured Finance Collateralised Debt Obligations ("SFCDOs"). Please see definitions included in the Glossary.

**Commercial Mortgage-Backed Securities ("CMBS"):** are securities backed by (or collateralised by) a pool of loans secured on commercial property. The types

of commercial property include apartment complexes, office buildings, retail shopping centres and industrial parks or warehouses.

**Asset-Backed Securities (“ABS”):** are bonds or notes collateralised by the cash flows from a specified pool of underlying assets. Assets are pooled to aggregate otherwise minor investments, while also generally diversifying the underlying assets. Securitisation makes these assets available for investment to a broader set of investors. These asset pools can comprise any type of receivable. Common types of receivables include: credit card payments, automobile loans, home equity loans and student loans.

**Emerging Markets Debt:** are bonds issued by governments or corporations in countries which are seen to have developing economies. These countries often (but not always) have credit ratings below investment grade due to financial and/or political risk and so usually carry higher interest rates. They provide opportunities for diversification and high yield.

**Bank Loans:** are loans to corporations which may or may not be secured depending on the terms under which the loan was negotiated. The corporations which raise bank loans may or may not have a credit rating and the loans may be senior or junior ranking (i.e. junior loans are subordinate to senior loans). Typically, the bank loans in which the Fund invests are arranged by one or more banks which then syndicate the loans to other banks and non-bank investors. This asset class provides access to corporations which may not necessarily raise capital through public corporate bonds and therefore provide a further opportunity for diversification.

**Convertible Bonds:** are bonds that can be converted into a predetermined amount of the company's equity at certain times during its life, usually at the discretion of the bondholder.

**Hybrid Securities (including Asia Pacific, US and Europe):** can combine both debt and equity characteristics. A common example is a convertible bond that has features of an ordinary bond, but is heavily influenced by the price movements of the stock into which it is convertible. A variety of other structures exist, including structures where the influence of stock price movement is minimal.

These sectors, taken together with all the other sectors available under the Global Opportunistic banner, provide important benefits to the portfolio as a whole:

- The returns in these sectors, while influenced by some common factors, are also impacted by different market forces. This means they generally do not move in lock-step with each other (i.e. correlations to each other are low to moderate) and this creates a diversification benefit that lowers overall portfolio risk.
- Tapping into the huge universe of global opportunistic alternatives provides more prospects for finding relative value. This is particularly true when one sector is pricing risk differently to another for market-related technical reasons.
- These sectors also provide more choice with regards to credit quality and liquidity.



## Performance

For current portfolio size and performance information please visit the Manager's website at [www.principalglobal.com.au](http://www.principalglobal.com.au).

## Asset Allocation

Principal Global Investors adjusts the sector allocation of the Fund within the ranges previously specified in the "Key Features of the Fund" section under "What Assets Does the Fund Invest In?". Please remember that the investment mix can change at any time.

For updated information on asset allocation please visit the Manager's website at [www.principalglobal.com.au](http://www.principalglobal.com.au).

## Credit Diversification

For updated information on credit diversification please visit the Manager's website at [www.principalglobal.com.au](http://www.principalglobal.com.au).



## Investment and Other Risks

All investment involves a certain degree of risk. In an investment context, risk is generally regarded as being the variability in returns and the possibility that the value of your investment may fall.

Investments that typically produce higher long-term average returns tend to have higher volatility in the short term than those investments that produce lower long-term returns.

Your investment in the Fund may be affected by any or all of the following factors:

- **Interest rate risk:** The performance of the Fund will be sensitive to domestic and international interest rates (e.g. an increase in interest rates results in the capital value of fixed income securities falling).
- **Credit risk:** The ability of the issuer of the fixed income security (or counterparty) to meet its obligations to pay interest and principal when it is due is called credit or default risk.
- **Currency risk:** As the majority of the Fund's investments are denominated in foreign currencies, there is a risk that a change in the value of other currencies against the Australian dollar may cause losses to the Fund. We aim to manage this risk through being as close as possible to a position of fully hedging the Fund's currency exposure. However, hedging also carries risk. If a currency hedging position is realized at a loss while the corresponding currency gains on the Fund's portfolio remain unrealised, this may place a strain on the Fund's cash resources and liquidity. Furthermore, it may not be possible to remain fully (i.e. 100%) hedged at all times, which means there may be minor residual foreign currency exposures in the Fund from time to time .
- **Liquidity and redemption risk:** Liquidity risk arises when trading volume, lack of a market maker or legal restrictions impair the Fund's ability to sell particular securities at an advantageous time or price. Illiquidity or an interruption of regular trading in the market for an asset of the Fund may result in delays in pricing and processing redemption requests, and possible suspension of redemptions if the Fund ceases to be liquid. See "Redemptions" in the "How to Invest" section.
- **Distribution risk:** It is not guaranteed that distributions of income from the Fund will be made on a regular basis. Investors should not rely on distributions from the Fund to service other obligations.
- **Prepayment risk:** Certain debt securities can be prepaid at the option of the issuer. As there is no assurance that proceeds received from a prepayment can be invested in similar securities generating the same level or return, this can expose a portfolio to prepayment risk.
- **Market risk:** The value of your investments may decline over a given period of time simply because of economic changes or other events which impact large portions of the market.
- **Individual investment risk:** The risk that the value of an investment of the Fund may fall. This may mean that the Fund's investment return is lower than expected or that the Fund incurs a capital loss on disposal of the investment.
- **Investment manager risk:** This is the risk the investment managers responsible for the Fund will not achieve the investment objectives of the Fund and may underperform the benchmark or may underperform other investment managers.
- **Legal and country risk:** It may be more difficult to enforce legal obligations or to invest securely on behalf of the Fund in some overseas countries.
- **Derivatives risk:** Includes where there is potential illiquidity of a derivative or where the Fund or a counterparty to a derivative contract are not able to meet payment obligations. See "Use of Derivatives" section for further information.

As a result of these and other factors, it is not possible to predict the returns that the Fund will achieve. Therefore income distributions may be lower than expected (and can be zero – see "How to Invest" section under "Distributions" and "Distribution History of the Fund") and the value of your investment may go down significantly as well as up.

## Managing Risks

The aim of the risk management process is to manage the risk in the portfolio to be commensurate with the expected return, both at a portfolio level and with respect to the various individual securities that make up the portfolio.

One of the most effective ways of managing risk is through diversification. This involves spreading investments across different assets so that if a specific investment is performing poorly, another investment may help offset this by performing well.

Principal Global Investors sets limits on how the Fund is invested to achieve diversification within the portfolio.

The key relevant limits are:

- Maximum holding in any single issuer of 5%, or where the issuer is non-recourse, a maximum aggregated exposure to any underlying pool of assets of 5%.
- Minimum and maximum sector investment ranges as previously specified in the “Key Features of the Fund” section under “What Assets Does the Fund Invest In?”.

Other examples of how Principal Global Investors manages specific types of risks are as follows:

- Interest rate risk is managed by constraining total portfolio interest rate duration to a range of 0-3 years. This range reflects our strategy of aiming to keep interest rate volatility caused by interest rate changes to a modest level.
- Credit risk is managed through in-depth research of each issuer and broad diversification techniques across sectors and securities. Diversification is achieved by spreading investments across sectors and across a large number of individual securities.
- Currency risk is managed by hedging non-Australian investments into Australian dollars (\$A). Hedging means protecting the \$A value of non-Australian investments against changes in the relevant exchange rate.

Investors should note that the actions taken by Principal Global Investors to manage the above risks does not mean that those risks are removed from investments in the Fund.

## Use of Derivatives

Derivatives (such as swaps, futures and options) may be used for hedging purposes and for the efficient portfolio management of the Fund. Principal Global Investors does not intend to use derivatives to gear (leverage) the Fund.

An example of efficient portfolio management would be the use of strategies involving relative value trades, as detailed below.

### Relative Value Trades

As a generic term a relative value trade seeks to exploit a dislocation in the typical price relationship over time between two or more assets or derivatives. These assets or the derivatives they represent may be based on: specific securities, issuer name, senior versus subordinated debt, industry, rating band, etc.

The principle is that the current level of pricing is significantly different to the normal relationship displayed by the two assets over time, and that this relationship will come back to its typical pattern sometime in the near future. The goal is to profit from relative mispricing between instruments – going long (or buying) those that are perceived to be underpriced while going short (or selling) those that are perceived to be overpriced.

There are many variations on this theme and the weightings employed for each part of the trade can be determined in a variety of ways.

Some examples of relative value trades are described below (these do not encompass the full universe of relative value trades that the Fund may employ):

- Volatility trades – Trading implied volatility versus realised volatility in a variety of markets.
- Basis trades – Trading the difference between the credit spread on a Credit Default Swap (“CDS”) and the spread on a physical bond of that issuer.
- Issuer trades – Trading long (or short) an individual issuer (via CDS) versus a Credit Default Swap Index (“CDS Index”) in the expectation that the issuer will out (or under) perform the index.
- Index trades – Trading indices and/or their tranches against each other for relative value e.g. long a cheap index or tranche versus short an expensive index or tranche.
- Industry or sector trades – Going long an industry or sector against another e.g. buying exposure to the banking industry versus selling exposure to the automotive industry.
- Country trades – Going long a country or region against another e.g. buying exposure to the US investment grade index versus selling exposure to the European investment grade index.
- Credit quality trades – Going long one credit rating quality against another e.g. buying exposure to the US investment grade index versus selling exposure to the US high yield (below investment grade) index.

Further information about derivatives and how Principal Global Investors uses derivatives can be found in the Manager’s Derivatives Risk Statement, a copy of which may be obtained from the Manager upon request.

The warning below is required by law. The fees and other costs associated with investing in the Fund are described in this section.

## DID YOU KNOW?

Small differences in both investment performance and fees and costs can have a substantial impact on your long term returns.

For example, total annual fees and costs of 2% of your fund balance rather than 1% could reduce your final return by up to 20% over a 30 year period (for example reduce it from \$100,000 to \$80,000).

You should consider whether features such as superior investment performance or the provision of better member services justify higher fees and costs.

You may be able to negotiate to pay lower contribution fees and managements costs where applicable. Ask the fund or your financial adviser.

## TO FIND OUT MORE

If you would like to find out more, or see the impact of fees based on your own circumstances, the **Australian Securities and Investments Commission ("ASIC")** website ([www.fido.asic.gov.au](http://www.fido.asic.gov.au)) has a managed investment fee calculator to help you check out different fee options.

This document shows fees and other costs that you may be charged. These fees and costs may be deducted from your money, from the returns on your investment or from the Fund's assets as a whole. Information about taxes is set out in another part of this document. You should read all the information about fees and costs because it is important to understand their impact on your investment.

Type of Fee or Cost	Amount	How and When Paid
<b>Fees when your money moves in or out of the Fund</b>		
Establishment fee: The fee to open your investment	Nil	Not applicable.
Contribution fee: The fee on each amount contributed to your investment	Nil	Currently not charged but see "Additional Explanation of Fees and Costs" section in relation to Transaction Costs.
Withdrawal fee: The fee on each amount you take out of your investment	Nil	Not applicable but see "Additional Explanation of Fees and Costs" section in relation to Transaction Costs.
Termination fee: The fee to close your investment	Nil	Not applicable.
<b>Management Costs</b>		
Management costs: The fees and costs for managing your investment	0.80% <sup>4</sup> per annum of the Fund's net assets.	Fees and charges are calculated daily and are paid monthly. The amount of this fee can be negotiated. Refer to "Additional Explanation of Fees and Costs" section in relation to Fee Rebates and Commissions.
<b>Service Fees</b>		
Investment switching fee: The fee for changing investment options	Nil	Not applicable.

<sup>4</sup> This amount includes the net effect of GST and the benefits of Reduced Input Tax Credits (RITC).

## Example of annual fees and costs for the Fund

This table gives an example of how the fees and costs for the Fund can affect your investment over a one year period. You should use this table to compare this product with other managed investment products.

Example	Amount	Balance of \$50,000 with a contribution of \$5,000 during year
Contribution Fees	0%	For every additional \$5,000 you put in, you will be charged \$0.
PLUS Management Costs	0.80% <sup>5</sup>	And for every \$50,000 you have in the Fund you will be charged \$400 each year.
EQUALS Cost of the Fund		<p>If you had an investment of \$50,000 at the beginning of the year and you put in an additional \$5,000 during that year, you will be charged fees of \$400.</p> <p>What it costs you will depend on the fees you negotiate with your advisor or, if you are a wholesale investor, with the Manager.</p>

Please note that this is just an example. In practice, the actual investment balance of an investor will vary daily and the actual fees and expenses we charge are based on the value of the Fund, which fluctuates daily.

<sup>5</sup> This amount includes the net effect of GST and the benefits of RITC.



## Management Costs

Management costs represent the total ongoing management fees and other costs, for which the Manager is entitled to be paid or reimbursed from the Fund.

The Constitution of the Fund ("Constitution") allows the Manager to charge an ongoing management fee of up to 2% per annum of the value of the Fund's assets plus GST, calculated and payable monthly. From 1 July 2006, the fee has been calculated daily and payable monthly.

The Constitution also allows the Manager to be reimbursed out of the Fund's assets for all expenses incurred by the Manager in properly performing its duties. These expenses include custodial and insurance costs and compliance committee costs.

The Manager may recover from the Fund any normal and ongoing expenses incurred in its administration, for example statement production. These expenses, which may fluctuate from time to time, form part of the management costs. A measure of the management costs charged by the Manager is the Indirect Cost Ratio ("ICR"). For further information refer to the below section entitled "What is the Indirect Cost Ratio?".

## Contribution Fee

The Constitution allows the Manager to charge a contribution fee of up to 1% on the initial and every subsequent investment you make to the Fund. This fee is not currently charged.

## Transaction Costs or the Buy/Sell Spread

In addition to the fees and other costs outlined, transaction costs, such as brokerage and stamp duty, are incurred when buying and selling the underlying assets of

the Fund to either invest the money or provide cash for a redemption. Transaction costs may also be referred to as "buy/sell spread". The buy/sell spread is the difference between the Fund's entry price and exit price and is a cost incurred by investors when they invest or redeem funds. The buy/sell spread is retained within the Fund and is not a fee paid to the Manager. The buy/sell spread seeks to allocate the transaction costs incurred as a result of an investor entering or leaving the Fund, to the investor, and not to the other unitholders.

The transaction costs applied are based on an estimate of the transaction costs incurred by the Fund. As at the date of this PDS the buy/sell spreads for applications and redemptions are each 0.10%. The buy/sell spread for the Fund will be influenced by our experience of the costs involved in trading the Fund's assets or the costs actually paid by the Fund. The buy/sell spread will be reviewed whenever necessary and can change from time to time without prior notice. The latest buy/sell spread is available from the Manager upon request.

## Fee Rebates and Commissions

The Manager may rebate different levels of management fees to investors who are wholesale clients, on the basis of negotiation with the investor.

The Manager may also provide remuneration to master trust and wrap account operators ("Platforms"), dealer groups and other licensees for offering the Fund on their investment menus or for the provision of services.

These types of payments made will generally be in the form of Fund Manager Payments or Product

Access Payments. As at the date of this PDS these payments may be an amount up to \$12,500 per annum and/or 0.40% (exclusive of GST) of funds invested. These amounts may be rebated or retained by the Platform, dealer group or licensee. Your Platform or adviser should provide further details in its financial services guide and/or statement of advice.

The amounts of these payments may change during the life of this PDS. These amounts are paid by the Manager out of its own resources and they are not an additional cost to you.

## Other

The Manager may recover from the Fund certain extraordinary expenses such as those in relation to unitholder meetings.

The Constitution also allows for User Pays Fees. These are fees that the Manager is able to charge an investor to indemnify itself against any liability for tax or any cost in relation to certain payments or acts which the Manager considers should be borne by the investor. These fees are not charged at present.

## What is the Indirect Cost Ratio?

The Indirect Cost Ratio ("ICR") is a general measure of the fees paid and some expenses that an investor would incur as a result of investing in the Fund rather than directly in the underlying assets. The ICR is the ratio of the Fund's management costs that are not deducted directly from an investor's account, to the Fund's average net assets.

The ICR does not include any contribution fee (where applicable), buy or sell spreads or certain transaction costs

recovered from the Fund such as brokerage, settlement costs, custody costs on settlement and borrowing costs.

## Increases or Changes to Costs

The costs described are current at the date of this PDS and include the effect of GST net of RITCs. The Manager reserves the right to waive or increase costs up to the maximum amounts provided in the Constitution. Factors which may lead the Manager to vary the costs of this product include legal, economic, policy and procedural changes. The right to vary costs is at the Manager's discretion and this is not an exhaustive list of the circumstances which would lead the Manager to vary the cost of the Fund. The Manager will not increase the current cost structure unless it gives investors written notice as may be required by law.

To the extent there are ceilings to which the Manager could increase its costs, details are set out in the "Additional Explanation of Fees and Costs" section.

## Goods and Services Tax

If the Manager is required to pay Good and Services Tax ("GST") on any goods or services supplied in connection with the Fund, it is entitled to be paid or reimbursed that amount from the assets of the Fund.

Taxes and other payments are separate from the fees and charges. Further information about taxes is set out in the "Taxation" section.

This PDS is for persons investing through an investor directed portfolio service (“IDPS”) or similar service (commonly a master trust or wrap account). Throughout this PDS, we refer to this party as an “IDPS provider”. Your IDPS provider will advise you about how to invest including the minimum investment amount and how your cheque is to be made.

**If you are an institutional investor and are not investing through an Investor Directed Portfolio Service (“IDPS”) or similar investment service, please contact the Manager for an application form and further information on how to invest.**

## Additional Investments

Your IDPS provider will advise you about how to make additional investments, including the minimum amount involved.

## Redemptions

Your IDPS provider will advise you about how to make redemptions, including any minimum amount involved.

Note that under the Corporations Act and the Constitution, if the Fund has less than 80% liquid assets (cash and marketable securities) it will be taken to be illiquid and redemptions at the request of investors will not be permitted in the absence of a formal offer of withdrawal which the Manager may choose to make. If the Fund becomes illiquid and redemption requests have been received but not paid, those redemption requests may only be processed on a pro rata basis in accordance with the Corporations Act requirements for illiquid schemes, not at the price that would have applied at the time the request was received.

If there is an interruption of regular trading in the market for assets of the Fund, or the Manager does not consider that it is in the best interests of the unitholders taken as a whole, to realise sufficient assets to satisfy a redemption request, there may be delays in processing redemption requests. In such circumstances, the Constitution allows

the specified period for satisfaction of a redemption request (i.e. 30 days) to be extended by the number of days during which the circumstances apply.

## Unit Prices

Unit prices are usually calculated and released daily based on the net asset value of the Fund at the close of the previous business day, divided by the number of units on issue and then adjusted for transaction costs<sup>6</sup>. Applications and redemptions are usually processed at the respective application or redemption price released on the day after receipt from the IDPS provider.

In exceptional circumstances, including interruption of regular trading in the market for assets of the Fund or lack of liquidity in the markets in which the Fund invests, the calculation of the unit price may be delayed and may occur less frequently than daily. We reserve the right to change our practice so that the Fund is valued less frequently than daily. If we do so, we will notify you.

Further information regarding unit pricing can be found in the Manager’s unit pricing policy, a copy of which is available free of charge by contacting the Manager.

## Distributions

The amount of distributable income will vary from period to period, and where there is insufficient distributable income, a distribution may not be made. Distributions include income such as interest, dividends and net realised gains. Distributable income is normally calculated quarterly.

In order to minimise risk, the Fund has the objective of hedging its currency exposure. However differences in the maturity of the hedging contracts and the investments of the Fund may have the effect of crystallising profits or losses in the Fund, which at times could enhance or restrict the Fund’s ability to

<sup>6</sup> Transaction costs are not a fee paid to the Manager but cover the costs incurred by the Fund in acquiring or selling investments. Please see the “Additional Explanation of Fees and Costs” section in relation to Transaction Costs.

distribute income for a period of time, as reflected in the Fund's history of paying quarterly distributions (see section – "Distribution History of the Fund").

The Fund's Constitution also allows the Manager to distribute an amount (whether capital or income) at any time and such distribution may be made in cash or by way of additional units.

When a distribution is to be made, this is reinvested unless your IDPS provider has requested otherwise. The reinvestment occurs at the next unit price calculated after the end of the distribution period. Where there has been a request to pay distributions they are generally payable to your IDPS provider within 12 business days after the end of the quarter.

### Distribution History of the Fund

The Fund made quarterly distributions to its investors for each financial year from the inception of the Fund until and including the financial year ended 30 June 2008.

However, the Fund incurred losses during the financial year ended 30 June 2009, largely foreign currency hedging losses resulting from the sharp depreciation of the Australian dollar and realized losses on the sale of investments. These losses offset the income received from the Fund's investments in fixed income securities. As a result the Fund did not have any "distributable income" as calculated under the provisions of the Fund's Constitution and accordingly, no distributions were paid for the 2009 financial year or for the quarterly period ended 30 September, 2009.

Due to the "carry forward" nature of these losses, there may be no "distributable income" and therefore no quarterly distributions paid to investors for some time.

Information about distributions from the Fund since inception can be obtained from your IDPS provider or by contacting the Manager.

Investors should seek specialist tax advice specific to their circumstances prior to investing. However, the following summarises some of the Australian taxation considerations based on the Australian tax laws as at the date of this PDS. The Australian tax laws are subject to continual change, and as the tax treatment applicable to particular investors may differ, it is recommended that all investors seek their own professional advice on the taxation implications before investing in the Fund.

## Tax on Distribution

All net income, for tax purposes, is distributed to unitholders. Tax is payable in the unitholder's hands, for every year distributions are made. This is the case, even if the distribution is reinvested.

The Fund does not pay tax when net income is fully distributed. The taxation of various components (including the character given to it by the Fund) instead rests in the hands of unitholders.

The Fund may be in receipt of dividends or equity like distributions ("equity like distributions") and such amounts form part of the net income distribution to a unitholder. The Australian tax rules apply an "imputation system." Under this system, there are "imputation credits" (or "franking credits"), representing the underlying tax paid by the dividend paying entity on pre-tax profits out of which equity like distributions were paid. In this way, the unitholder of the Fund receives and uses the tax already paid by the paying entity. Subject to various anti-avoidance rules, including the 45 day holding period rule, the franking credits can be offset against the amount of tax that would normally be payable on the equity like distribution income component in the unitholder's hands.

Investors must declare and utilise any available imputation credits in their annual income tax return. In some cases unitholders may be entitled to a refund of credits in excess of any tax normally payable on equity like distribution income.

If income includes foreign sourced income, Australian resident unitholders may be able to claim a offset. This offset is for any foreign tax already paid on that component of foreign sourced income. Again, unitholders must declare and utilise any available foreign tax offsets in their annual income tax return. In determining the foreign tax offset entitlement to be included in your tax return, you should refer to the Australian Tax Office's ("ATO") publication "How to claim a foreign tax offset."

Your distribution may also include a foreign currency gain or loss. This will be appropriately characterized as a gain

or loss that is revenue or capital in nature for income tax purposes.

Your IDPS provider should report to you each year after the Fund's accounts are audited on the type of your distributions and any credits or rebates you may have received through the Fund, so that you will know what to include in your tax return.

## Tax Losses of Funds

Any tax loss made by the Fund in any income year will not flow through to unitholders, but may be carried forward by the Fund and used to offset the Fund's taxable income in future years, subject to the trust loss rules. Unitholders should be aware that the trust loss rules restrict the circumstances in which a trust may claim an allowable deduction for prior and current year tax losses. Broadly, the Fund will need to show a greater than 50% continuity of underlying ownership from the start of the income year in which a loss is incurred to the end of the income year in which the loss is recouped in order to utilise tax losses.

In the event the Fund makes foreign sourced tax losses, the Fund will be able to offset the foreign losses against other assessable income of the Fund.

## Capital Gains on Redeeming Units from the Fund

Normally, units in the Fund are assets for tax purposes. These assets are subject to "the capital gains tax" (CGT) rules. This means that any realised gains or losses will be taxed under those rules. Alternatively, when those units are acquired by a unitholder who is a trader or carries on a business of investing for profit, then the normal income tax rules may apply to treat the gain as ordinary income and a realised loss as an allowable deduction.

If a gain is subject to the CGT rules, a capital gain is calculated as the net proceeds on disposal less the cost base of the units, and a capital loss is calculated as the net proceeds on disposal less the reduced cost base of the units. In calculating the taxable amount of capital gains, a discount (after offsetting capital losses against gross discount capital gains) may be available to particular unitholders. For example, an individual or a complying superannuation fund is entitled to a reduction in the amount of gains subject to CGT (only when held by investors for at least 12 months). A unitholder will need to declare and utilise such concessions in annual income tax returns.

## Foreign Investment Funds (“FIF”)

The Fund may invest in foreign companies or trusts that are “foreign investment funds” (“FIF”) for Australian tax purposes. Under the FIF rules, the net income distributed to you may include unrealised income or gains accumulating from these investments. However, the combination of available exemptions from the FIF rules and our investment strategy is expected to minimise the impact of the FIF regime on the Fund.

Significant changes to the FIF regime were foreshadowed in the 2009-2010 Australian Federal Budget. The final form of any legislation that may come out of the budget is uncertain at this stage, though the Manager will continue to monitor this.

## Taxation of Financing Arrangements (“TOFA”)

The Tax Laws Amendment (TOFA) Act 2009 may apply new rules to certain “financial arrangements”. Subject to transitional rules, the TOFA rules apply only to arrangements entered into within the income year commencing on 1 July 2010 or, if an election is made, 1 July 2009.

The impact of the TOFA regime may change the taxation consequences of income derived by the Fund. The Manager of the Fund is currently obtaining professional advice in relation to the impact on the Fund of the TOFA regime.

## Ongoing Tax Reform

It should be noted that the Australian tax system is in a continuing state of reform, and with a new Government, reform is likely to escalate rather than diminish. Any reform of a tax system creates a degree of uncertainty, whether it be uncertainty as to the full extent of announced reforms, or uncertainty as to the meaning of new law that is enacted pending interpretation through the judicial process. Current reforms in progress include the deemed capital gains tax election for managed investment trusts, a new tax regime for managed investment trusts, the Henry review of the taxation system and the Cooper and Ripoll reviews which may have taxation implications. The Manager of the Fund will continue to monitor the progress of these reforms and their impact on the Fund. However, given these reforms may impact on the tax position of the Fund and its investors, it is strongly recommended that investors seek their own professional advice in relation to the potential impact of these reforms on their tax position.

## Non-Resident Investors

“Withholding tax” applies on any component that is part of the Australian sourced portion of the income distribution (except franked dividends) where the unitholder is a non-resident. The withholding tax rate will depend on the type of that component of income. Withholding tax is collected and paid to the Australian Taxation Office by the Fund on behalf of a non-resident unitholder.

If you are a non-resident wishing to invest in the Fund, we recommend that you seek independent professional tax advice. Currently, amounts are withheld on account of tax at the prescribed rates from so much of your income entitlement which comprises Australian sourced income and Australian sourced gains.

Non-resident investors should not be subject to Australian capital gains tax on the sale, redemption or disposal of units in a Fund unless:

- a) the units were capital assets held by the investor in carrying on a business through a permanent establishment in Australia; or
- b) both of the following conditions are satisfied:
  - i) you, together with associates held, or had an option or right to hold, a direct participation interest of 10% or more of the units in the Trust at the time of the disposal or throughout a 12 month period that begins no earlier than 2 years before the disposal; and
  - ii) more than 50% (by market value) of the Trust’s assets are comprised (directly or indirectly) of interests in taxable Australian real property. The Manager expects that the Trust will not have such interests in taxable Australian real property.

It is strongly recommended that non resident investors obtain their own tax advice.

## Provision of Tax File Number

Investors are not obliged to provide their IDPS provider with their Tax File Number (“TFN”) or their Australian Business Number (“ABN”). If Australian unitholders choose not to do so, the IDPS provider may be required to withhold tax at the highest marginal rate plus Medicare levy from the distribution entitlement.

## Fund Constitution

The Fund is governed by a Constitution, which, together with the Corporations Act and other laws, such as case law and legislation governing the duties of responsible entities and trustees, sets out the conditions under which the Fund operates and the rights, responsibilities and duties of the Manager and the unitholders.

The main provisions of the Constitution relate to:

- The Manager's rights and liabilities as responsible entity of the Fund (including our rights to limit our liability and to be indemnified).
- The rights and liabilities of unitholders.
- The nature of the units – identical rights attach to each class of units.
- Investment and redemption procedures while the Fund is liquid (including circumstances in which a redemption may be delayed or redemption proceeds paid in assets rather than cash).
- Withdrawal offers if the Fund were to become illiquid.
- Calculation and timing of unit pricing and distributions.
- Fees and reimbursable expenses.
- Compliance Committee arrangements.
- Termination of the Fund.
- The process by which complaints are dealt with.

A copy of the Constitution is available free of charge on request. Please contact your IDPS provider if you would like a copy.

## Compliance Plan

The compliance plan of the Fund describes procedures that the Manager applies in operating the Fund in compliance with the Corporations Act and the Constitution. A compliance committee, with a majority of independent members, oversees the Manager's procedures for complying with the compliance plan, the Constitution and the Corporations Act.

## Unitholder Liability

The Constitution of the Fund limits a unitholder's liability to the value of their investment in the Fund so that a unitholder will not, by reason of being a unitholder alone, be personally liable to indemnify the Manager and/or any creditor in the event that the liabilities of the Fund exceed the assets of the Fund. However, we cannot give an absolute assurance about such liability because the issue has not been finally determined by the superior courts. A

unitholder may be separately liable for User Pays Fees (see "Other" section under "Additional Explanation of Fees and Costs").

## Application Money Held in Trust

In certain circumstances we may be obliged to hold application moneys received in a trust account. Interest will not be paid on amounts held in trust.

## Reporting

Reporting will be provided by your IDPS provider. To assist in this, we provide the following to your IDPS provider:

- Monthly and quarterly statements showing the balance of their account and all transactions processed throughout the period.
- Monthly and quarterly performance updates.
- A tax statement.

## Annual Financial Reports

An annual financial report for the Fund will be made available on our website [www.principalglobal.com.au/fixedincome/funds.aspx](http://www.principalglobal.com.au/fixedincome/funds.aspx) by 30 September each year. If you would prefer to receive a paper copy or have one emailed to you, please contact us.

## Outsourced Services

The Manager has outsourced custodial services, unit registry, unit pricing and financial accounting to State Street Australia Limited ("Custodian"). Under our contract with the Custodian, the Custodian must act in accordance with our directions. Whilst the Custodian's fees are part of the Fund's expenses and are able to be reimbursed out of the Fund, the Manager currently pays these fees out of its own funds.

The Custodian has not independently verified the information contained in this PDS, and accordingly, accepts no responsibility for the accuracy or completeness of this PDS. The Custodian does not guarantee the success or the performance of any of the funds nor the repayment of any capital or any particular rate of capital or income return.

The Manager reserves the right to outsource any or all of its investment management functions, including to related parties without notice to investors.

## Termination

The Fund terminates 80 years from its settlement date, being 4 February 2004, although we can terminate it earlier by notice to investors. On termination, assets will be realised and each investor's share of the net proceeds will be paid to that investor.

## Complaints

If you have a complaint, please contact your IDPS provider who is able to contact the Manager's Complaints Officer where necessary. We will work with your IDPS provider to resolve complaints relating to the Fund, and we are required to respond to your IDPS provider with a determination, remedy or information within 45 days of being notified of the complaint. If a complaint is not resolved to your satisfaction, your IDPS provider may pursue your complaint with the Financial Ombudsman Service ("FOS"). The responsible entity as Manager is a member of FOS.

If you are seeking information about your investment, you should contact your IDPS provider first, as they are best placed to assist you.

## Disclosure of Interests

The directors of the Manager may receive a salary as employees of Principal Financial Group®. From time to time, the directors may hold interests in shares in the Principal Financial Group®, securities held by the Fund or securities to which the Fund has exposure.

When we invest for the Fund we deal with professional organisations (including in relation to the execution of transactions), which may include the Principal Financial Group® or its associated companies. These professional organisations may also receive commissions or fees at prevailing market rates in relation to advisory, broker and other services provided. In dealing with the Fund, the Principal Financial Group® may be dealing as principal or on behalf of other portfolios that are under the management of the Principal Financial Group®. All transactions are conducted on arm's length terms.

## Register of Alternative Forms of Remuneration

The Manager maintains a register of the material alternative forms of remuneration that it pays to distributors of its financial products ("Register"). The Register is publicly available and you may obtain a copy free of charge by contacting the Manager.

## Ethical Policy

Given the Fund's investment guidelines, we do not take into account labour standards, environmental, social or ethical considerations for the purpose of selection, retention or realisation of investments.

## Cooling Off

Under the Corporations Act, wholesale clients including institutional investors have no cooling off rights. If you have invested in the Fund through an IDPS or a similar service you should consult your IDPS provider about any cooling off rights you may have.

## The Rights and Obligations as Manager

The role of the Manager is to make investment decisions and to operate the Fund. Powers to invest, borrow and generally manage the Fund are basically unrestricted. The Manager must comply with the Fund's Constitution and the Corporations Act and this PDS, which together define the parameters within which the Fund must operate.

## Issuer Information

The Manager is the responsible entity of the Fund and also the issuer of this PDS and of units in the Fund. The Fund may become a disclosing entity. Once the Fund becomes a disclosing entity, it will be subject to regular reporting and disclosure requirements under the Corporations Act.

Copies of documents that will be required to be lodged with ASIC in relation to the Fund will be able to be obtained from any ASIC office (see [www.asic.gov.au](http://www.asic.gov.au) for further details). Once the Fund becomes a disclosing entity, you also have a right to obtain a copy of the annual financial report most recently lodged with ASIC for the Fund, any half yearly financial reports lodged with ASIC and any continuous disclosure notice given for the Fund after the lodgment of the annual financial report and before the date of this PDS.

## Anti-money laundering and counter-terrorism financing

By directing your IDPS provider to invest in the Fund for you, you warrant that:

- you are not investing under an assumed name;
- any money used by you to invest in the units is not derived from or related to any criminal activities;
- any proceeds of your investment will not be used in relation to any criminal activities;
- if we ask, you will provide us with additional information we reasonably require for the purposes of anti-money laundering and counter-terrorism financing laws and regulations (“AML/CTF Laws”) (including information about any beneficial interest in the units, or the source of funds used to invest);
- we may obtain information about you or any beneficial owner of a unit from third parties if we believe this is necessary to comply with AML/CTF Laws; and
- in order to comply with AML/CTF Laws we may be required to take action, including:
  - delaying or refusing the processing of any application or redemption, or
  - disclosing information that we hold about you or any beneficial owner of the units to our related bodies corporate or service providers, or relevant regulators of AML/CTF Laws (whether in or outside of Australia).

## Privacy

We may collect personal information from you and hold and use such information in order to process applications, administer the investments and provide related services. We may also disclose your personal information to the companies within the Principal Financial Group®, related entities, agents, external service providers (who supply administrative, financial or other services), financial advisers, and potential acquirers of the Principal Financial Group®, on the basis that they deal with such information in accordance with the privacy policy of the Principal Financial Group®.

We may also use your personal information to tell you about other products and services offered by us or other members of the Principal Financial Group®. Please contact us if you prefer not to receive this ongoing information.

The Manager may disclose your personal information to fulfil legal obligations and to a regulatory agency in compliance or purported compliance with regulatory obligations.

Under the Privacy Act 1988 (Cwlth) (as amended), you can gain access to the personal information that we hold about you, subject to certain exemptions under law. You can gain access to your personal information by telephoning or writing to the Manager’s Privacy Officer as follows:

Privacy Officer  
Principal Global Investors  
GPO Box 4169  
Sydney NSW 2001  
Phone: +61 2 8226 9000

You can obtain a copy of the Manager’s Privacy Policy by visiting the website at [www.principalglobal.com.au](http://www.principalglobal.com.au).

If you believe that the personal information we retain about you is inaccurate, incomplete or out of date, please contact us and we will take steps to correct it.

**ABN** – Australian Business Number

**AML/CTF Laws** – Anti-money laundering and counter-terrorism financing laws and regulations

**Asset-Backed Securities (ABS)** – Bonds or notes collateralised by the cash flows from a specified pool of underlying assets. Assets are pooled to aggregate otherwise minor investments, while also generally diversifying the underlying assets. Securitisation makes these assets available for investment to a broader set of investors. These asset pools can comprise any type of receivable. Common types of receivables include: credit card payments, automobile loans, home equity loans and student loans.

**AFSL** – Australian Financial Services Licence granted pursuant to section 911A of the Corporations Act

**ARSN** – Australian Registered Scheme Number

**ASIC** – Australian Securities and Investments Commission

**CGT** – Capital Gains Tax

**Collateralised Debt Obligation (CDO)** – A type of asset-backed security and structured credit product. CDOs gain exposure to the credit of a portfolio of fixed-income assets and divide the credit risk among different tranches:

- senior tranches (rated AAA),
- mezzanine tranches (AA to BB), and
- equity tranches (unrated).

Losses are applied in reverse order of seniority and so junior tranches offer higher coupons (interest rates) to compensate for the added risk.

The two common types of CDOs are Collateralized Loan Obligations (CLOs) and Structured Finance CDOs (SFCDOs).

**Collateralised Loan Obligation (CLO)** – A type of CDO backed primarily by leveraged bank loans.

**Commercial Mortgage-Backed Securities (CMBS)** – Securities backed by (or collateralised by) a pool of loans secured on commercial property. The types of commercial property include apartment complexes, office buildings, retail shopping centres and industrial parks or warehouses.

**Constitution** – The constitution of the Fund as amended from time to time.

**Corporations Act** – Corporations Act 2001 (Cth)

**Credit Default Swap (CDS)** – A swap designed to transfer the credit exposure of fixed income products between parties. The buyer of a credit default swap receives credit protection (and pays a periodic fee for this), whereas the seller of the swap guarantees the credit worthiness of the product (and receives the fee from the buyer). By doing this, the risk of default is transferred from the holder of the fixed income security to the seller of the swap.

When a credit event is triggered, the protection seller either takes delivery of the defaulted bond for the par value (physical settlement) or pays the protection buyer the difference between the par value and recovery value of the bond (cash settlement).

**CDS Index** – A credit default swap index is a credit derivative used to hedge credit risk or to take a position on a basket of credit entities. A credit default swap index is a standardised credit security and may therefore be more liquid and trade at a smaller bid-offer spread. This means that it can be cheaper to hedge a portfolio of credit default swaps or bonds with a CDS index than it would be to buy many CDS to achieve a similar effect. There are currently two main families of CDS indices: CDX and iTraxx. CDX indices contain North American and Emerging Market, and iTraxx contain companies from the rest of the world.

A new series of CDS indices is issued every six months. Running up to the announcement of each series a group of investment banks is polled to determine the credit entities that will form the constituents of the new issue.

**Custodian** – State Street Australia Limited

**FIF** – Foreign Investment Funds

**Fitch** – Fitch Ratings

**FOS** – Financial Ombudsman Service

**Fund** – Principal Global Strategic Income Fund (ARSN: 108 685 927)

**Fund Manager Payments** – As defined in IFSA/FPA Industry Guide on Rebates and Related Payments in the Wealth Management Industry November 2004

**GST** – Goods and Services Tax

**ICR** – Indirect Cost Ratio

**IDPS** – Investor Directed Portfolio Service

**Manager** – Principal Global Investors (Australia) Limited (ABN: 45 102 488 068, AFSL: 225385)

**Moody's** – Moody's Investor Service

PDS – Product Disclosure Statement

Platform – Master trust or wrap account operator

Post Advisory Group – Post Advisory Group, LLC

Product Access Payments – As defined in IFSA/FPA Industry Guide on Rebates and Related Payments in the Wealth Management Industry November 2004

Register – Register of Alternative Forms of Remuneration

RITC – Reduced Input Tax Credits

S&P – Standard and Poor’s

Spectrum Asset Management – Spectrum Asset Management, Inc.

Structured Finance Collateralised Debt Obligation (SF CDO) – A type of CDO backed primarily by asset-backed securities, mortgage-backed securities, home equity asset-backed securities, and commercial mortgage-backed securities.

Sub-Advisers – Principal Global Investors, LLC; Post Advisory Group, LLC and Spectrum Asset Management, Inc.

TFN – Tax File Number



Fund Name	ARSN	Inception Date
Principal Property Securities Fund	104 037 425	1 Apr 2003
Principal Global Strategic Income Fund	108 685 927	31 May 2004
Principal Global Property Securities Fund	122 853 758	1 Feb 2007
Principal Emerging Markets Equity Fund	129 179 335	28 Dec 2007
Principal Global Equity Growth Fund	129 179 237	28 Dec 2007

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### Contact Details

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