

Principal®

Global  
Investors

### Portfolio Services Offering the Fund

Asgard; AUSMAQ; Beacon Investment Management Services, Ltd.; BT Wrap Solutions; Fiducian Portfolio Services Limited; ING Portfolio One; IOOF Investment Management, Ltd.; Macquarie Wrap Solutions; netwealth Investments, Ltd.; Symetry Portfolio Services; UBS Wealth Management

### Key Investment Professionals

Chris Lepherd, 17 years experience,  
Portfolio Manager

Alastair Gillespie, 12 years experience,  
Portfolio Manager

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# Principal Property Securities Fund

31 July 2010

## Fund Overview

The Principal Property Securities Fund (the Fund) invests primarily in Australian listed property securities across the retail, residential, commercial and hotel sectors. The Fund is actively managed against the S&P/ASX300 Property Accumulation Index ("Index"). The majority of the Fund's investments are in stocks within this Index. However, subject to strict risk controls the Fund can also invest in carefully selected stocks that fall outside this Index, including international listed property securities.

While we expect investment in stocks within the Index to be the main driver of performance, we consider that this expanded focus gives us enhanced ability to add value relative to the benchmark in a risk controlled way.

## Fund Performance as at 31 July 2010 (%)

	One Month	Three Months	One Year	Three Years	Five Years	Since Inception
Gross Fund Performance <sup>1</sup>	1.3	-5.0	19.2	-23.6	-8.2	0.1
Net Fund Performance <sup>2</sup>	1.2	-5.2	18.3	-24.2	-9.0	-0.7
S&P/ASX 300 PROP ACCUM Index	1.1	-4.2	18.9	-22.8	-8.5	-0.9

Source: State Street Australia Limited

<sup>1</sup> Fund performance is before fees and assumes the reinvestment of distributions.

<sup>2</sup> 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 1.5% per annum in excess of the 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



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STANDARD  
& POOR'S

S&P FUND RATING



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## Fund Details

### Fund Size

\$A 31.3 million

### Typical Number of Portfolio Holdings

15-25

### 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

0.25%/0.25%

### 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: 0.09 c/unit

31 March 10: 1.32 c/unit

31 December 09: 0.44 c/unit

30 September 09: 0.50 c/unit

## Principal Property Securities Fund Review as at 31 July 2010

### Market Overview

The S&P/ASX Property 300 Index (Index) underperformed the broader equities market by 340 basis points (bps) for the month of July. Year-to-date, the S&P/ASX Property 300 Index (-2.1%) has outperformed broader equities by 400 bps.

Equities grew steadily in the month as a result of declining risk aversion. Most major markets recorded gains, with the United States and the United Kingdom standout performers and Japan lagging behind. The financial sector was the outstanding performer globally, aided in large part by the announcement that only seven of ninety-one European banks had failed the much-anticipated stress tests. Defensive sectors, in contrast, generally underperformed.

The Australian 10-year benchmark yield grew 11 bps to 5.20% while the U.S. 10-year declined 3 bps to 2.91%. For the second consecutive month, the Reserve Bank of Australia (RBA) maintained cash rates at 4.50% prior to the release of both the European bank stress test results and second quarter Consumer Price Index (CPI) data. Given declining risk aversion, the Australian dollar rose against most major currencies, particularly the U.S. dollar, which fell against most major currencies.

### Fund Performance<sup>3</sup>

The Principal Property Securities Fund (the Fund) outperformed the S&P/ASX Property Trust 300 Accumulation Index after fees, during the month of July.

The main contributor to performance was our overweight in ING Industrial Fund (IIF) which benefited from news of Goodman Group's interest in acquiring its management platform and press reports of a potential plan to internalize IIF's management. CFS Retail Property Trust was the second key contributor given our relative underweight in the name.

The main detractor to performance was our overweight in deeply-discounted mid-cap Astro Japan Property Group (AJA). AJA's underperformance had resulted from weak property revaluations where it expects a devaluation of 5%. The second major detractor, given we do not own them, was Centro Properties Group which rose significantly as a result of its refinancing and restructuring plan.

### Portfolio Strategy and Outlook

We continue to view the Australian real estate investment trust (A-REIT) market as undervalued but strong gains in the sector since March 2009 has reduced the 'super profit' opportunities to fewer stocks. An increasing interest rate environment has resulted in more caution towards the sector, but the recent outperformance of the sector during a period of market instability shows a return of the sector to being recognised as defensive.

We have an underweight position to prime retail, as we expect a more difficult retailing environment to erode current share price premiums within these names. On a relative value perspective we remain underweight the large-cap retail stocks, although we are now favouring CFS Retail over Westfield as the preferred underweight position, given greater optimism on Westfield's U.S. exposure.

The attractive pricing of the sector and dramatic differences in cost of capital and balance sheet capacity is likely to lead to industry consolidation through mergers and acquisitions (M&A) and privatisations over the next 12 months. This has been evident in several transactions over the past six months including Westpac Office Trust, Mirvac Real Estate Investment Trust and Challenger Kennedix. We continue to believe current pricing is a good opportunity to buy into various well-managed and diversified property businesses over a medium-term horizon.

<sup>3</sup>Past performance is not a reliable indicator of future results.



## Fund Details

### Inception Date

1 April 2003

### Fund Type

Distributing unit trust

### APIR Code

PRE0001AU

### 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

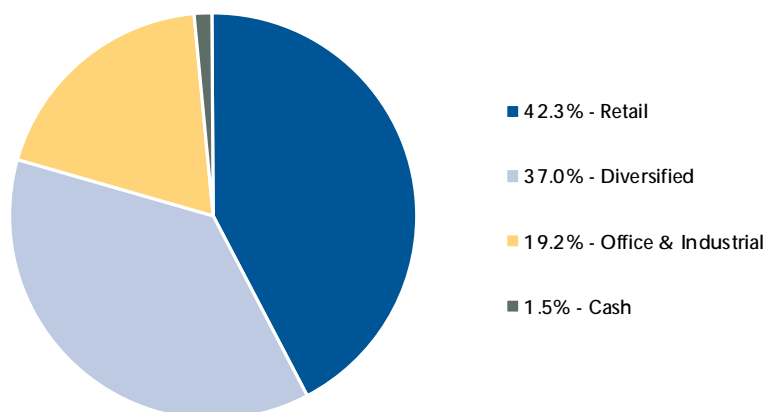
Hedged in \$A

### ASIC Registration

ARSN 104 037 425

## Fund Investments as at 31 July 2010 <sup>4</sup>

### Asset Allocation (%)



### Non-Index Exposure

Portfolio Exposure	(%)
S&P/ASX 300 PROP ACCUM Index	90.84
Non-Index	7.67
Cash	1.49
Total	100.00

### Top Five Holdings

Holdings	Sector	(%)
Westfield Group Australia	Retail	39.7
Stockland Australia	Diversified	13.4
Mirvac Group	Diversified	7.7
Goodman Group	Office & Industrial	5.7
GPT Group	Diversified	4.9
Total Top Five		71.5
Number of Holdings		23

### Investment Guidelines

- Ex Ante Tracking Error: Maximum 5% pa
- Maximum allocation to securities outside the index: 20%<sup>5</sup>
- Maximum allocation to securities outside Aust/NZ: 10%
- Min/Max stock position relative to the index: +/- 5%
- Maximum cash holding: 20%

Source: Principal Global Investors

<sup>4</sup> In preparing the asset and sector exposure of the Fund we have taken into account both direct and indirect investments and the effects of futures and options contracts. Investors should be aware that the exposure of the Fund could change significantly on a daily basis.

Investments do not always add up to 100% due to rounding.

<sup>5</sup> This includes any allocation to securities outside Australia or New Zealand  
Please see additional disclosures on page 4.



# Principal Property Securities Fund

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