

# Principal Global Credit Opportunities Fund

**BENCHMARK**

 Bloomberg Barclays Global Aggregate Corporate Index (AUD hedged)<sup>1</sup>
**OBJECTIVE**

The Fund aims to achieve a total return above the benchmark before fees, over rolling three-year periods.

<b>APIR</b>	PGI0001AU	<b>ARSN</b>	108 685 927
<b>INCEPTION DATE</b>	31 May 2004	<b>FUND SIZE</b>	\$256.2m
<b>MANAGEMENT FEE</b>	0.8000% p.a.	<b>EXIT PRICE</b>	\$0.9918
<b>BUY / SELL SPREAD</b>	+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. <sup>2</sup>
<b>Fund</b>	<b>0.23</b>	<b>1.00</b>	<b>11.62</b>	<b>6.73</b>	<b>6.82</b>	<b>6.34</b>	<b>7.25</b>	<b>5.38</b>
Benchmark <sup>1</sup>	0.45	2.61	7.02	5.62	6.11	6.10	6.55	6.20
<i>Active</i>	-0.22	-1.61	4.60	1.11	0.71	0.24	0.70	-0.82

**Fund investments (%)**

Asset class	Physical <sup>3</sup>	Effective <sup>3,4,5</sup>	Benchmark
Global Investment Grade Credit	66.07	66.07	96.08
Global High Yield	11.37	11.37	0.00
Emerging Market Debt	6.77	6.77	3.92
Securitised Assets	1.35	1.35	0.00
Government Debt	4.61	4.61	0.00
Cash	9.84	9.84	0.00

**Fund analysis (%)**

Characteristics	Fund	Benchmark
No. of issuers	190	1986
Effective duration (years)	6.74	7.36
Spread duration (years)	4.26	7.39
Average credit quality	BBB+	A-
Yield to worst <sup>6</sup>	1.39	1.24
Yield to Maturity	1.58	1.31
Ex-Post VaR	5.43	5.23

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.

<sup>1</sup> 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.

<sup>2</sup> This figure represents the annualised performance of the Fund since inception.

<sup>3</sup> 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.

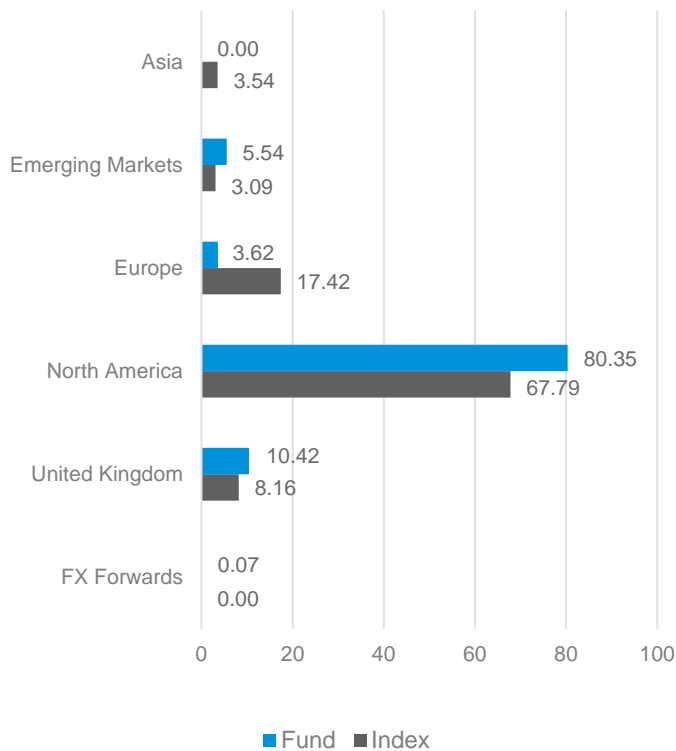
<sup>4</sup> Effective breakdown includes hedging exposure.

<sup>5</sup> Effective breakdown includes the residual effect of hedging and is not representative of the actual cash level.

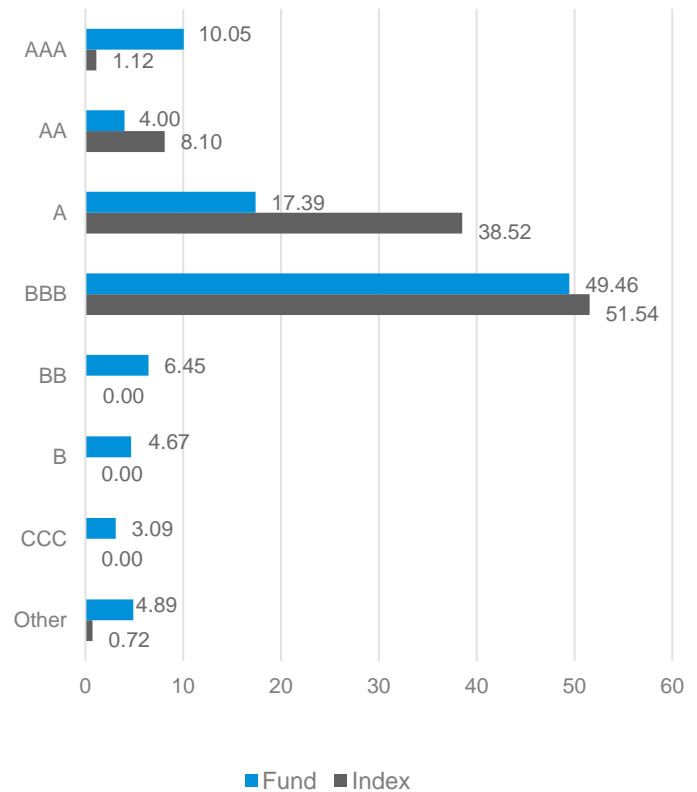
<sup>6</sup> Yield to worst is calculated as the lower of the yield to call or yield to maturity for each issue.



### Regional asset allocation (%)<sup>1</sup>



### Credit quality allocation (%)<sup>2</sup>



## Market Review

Risk assets rallied during the fourth quarter due to several positive developments, most notably the approvals of multiple COVID 19 vaccines. Other favourable news included the passage of another stimulus package in late December and much better than expected corporate earnings results. In addition, the UK and the European Union reached a trade deal just days prior to the UK's exit. These positive events were more than enough to overcome any negativity including increasing virus infections, hospitalisations, and renewed lockdown measures throughout the world.

Following a sharp economic contraction in the spring of 2020, US employment and consumption continue to improve. The US unemployment rate improved to 6.7% in November from an April high of 14.7%. The housing market remains robust and is supported by all-time low mortgage rates. US consumers are further supported by continued fiscal stimulus measures, and a high savings rate suggests that consumer spending may further improve throughout 2021 due to pent-up demand.

Front-end rates remained anchored near zero during the quarter due to expectations for the Federal Reserve to stay on hold for a considerable time. However, there was considerable volatility in longer-term rates as the market digested a wide range of events including the US elections, political wrangling over fiscal stimulus, vaccine approvals, lockdowns, and a potential maturity extension of Federal Reserve purchases. The two-year US Treasury rate declined 0.01% to 0.12% while the five-year rate increased 0.08% to 0.36%. The ten-year rate increased 0.23% to 0.91% and the thirty-year rate increased 0.19% to 1.65%.

The Bloomberg Barclays Global Aggregate Corporate Index, the benchmark for this Fund, had an excess return of 3.37% when compared to similar duration US Treasury securities. The Bloomberg Barclays US Aggregate Index, a proxy for the overall fixed income market, had an excess return of 1.34%. The top performing sectors were below investment grade corporate bonds, emerging market debt, and investment grade corporate bonds with excess returns of 6.69%, 5.38%, and 4.11%, respectively. Commercial mortgage-backed securities ('CMBS'), mortgage-backed securities ('MBS'), asset-backed securities ('ABS'), and agencies outperformed similar duration US Treasury securities but underperformed the Bloomberg Barclays Global Aggregate Corporate Index with excess returns of 1.50%, 0.34%, 0.34%, and 0.31%, respectively.

## Performance review

The Principal Global Credit Opportunities Fund (the 'Fund') returned 1.00% (net) for the quarter, underperforming the Bloomberg Barclays Global Aggregate Corporate Index's return of 2.61% by 1.61%.

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<sup>2</sup>"Other" includes the currency forwards that are used for hedging and securities that are rated lower than CCC or are not rated.



## Performance review (continued)

Underperformance during the quarter was led by sector allocation. Security selection also detracted from performance while curve positioning had a positive impact. Within sector allocation, underperformance was driven by an underweight allocation to investment grade corporate bonds. This was partially offset by an out-of-index allocation to below investment grade corporate bonds. Negative security selection was led by issuer specific performance within investment grade corporate bonds. This was partially offset by positive issuer specific performance within emerging market debt. Positive curve positioning was due to an underweight position at the long-end of the US Treasury curve as the curve steepened. Top performing issuers included MetLife, BAT Capital, and Aramco. During the quarter, the investment manager focused on owning shorter maturity US investment grade credit and corporate bonds in sectors that should continue to perform through a longer economic recovery (communications, technology, and pharmaceuticals) while avoiding more economically sensitive industries (energy and retail).

## Market outlook

Strong housing markets, consumer spending, and corporate earnings, combined with the core foundations of global central bank support, are serving as economic tailwinds that will drive growth in 2021. However, near-term COVID 19 concerns and associated lockdowns may result in slower growth and more volatility in early 2021.

Investment grade corporate fundamentals continue to surprise, the upside and margins have moved to record highs for the cycle, as companies cut costs to offset revenue declines. Credit markets have traded with optimism on continued positive vaccine news and strong flows in the face of limited supply. Given the additional positive vaccine news and the potential near-term economic impact from an increase in COVID 19 cases, spreads have now reached a point where the investment manager expects some resistance. Exposure to investment grade corporate bonds was maintained during the quarter, comprised of the best opportunities within the sector.

Default rates within below investment grade corporate bonds will likely continue declining as credit fundamentals are expected to improve throughout 2021. Technicals are solid due to robust investor demand absorbing issuance. Inflows into US high yield funds totalled over \$40 billion in 2020 despite the impact of COVID 19. Positive vaccine news and expected improvements in credit fundamentals are supportive of valuations but key risks include increasing COVID 19 cases and the potential for lockdowns. The allocation to below investment grade corporate bonds remains at the lower end of the Fund's typical range.

The economic outlook for most emerging market economies remains positive with Asian growth leading the way. Technicals are strong due to fund flows that have turned consistently positive. Emerging markets will continue to benefit from supportive global central banks and improved commodity prices. Spreads appear attractive relative to developed market alternatives. Exposure to the sector was increased to an overweight allocation during the quarter.

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