Principal Asset Management[SM]

QUARTERLY REPORT
AS AT 31 MARCH 2024

Principal Global Property Securities Fund

BENCHMARK
FTSE EPRA/NAREIT Developed Index (hedged to Australian dollars) NTR

OBJECTIVE
Aims to achieve a total return above the benchmark, before fees, over three to five year periods.

APIR	PGI0002AU	**ARSN**	122 853 758
INCEPTION DATE	1 February 2007	**FUND SIZE**	$192.9m
MANAGEMENT FEE	1.0000% p.a.	**EXIT PRICE**	$0.7445
BUY / SELL SPREAD	+0.15% / -0.15%		

Performance (%)

Gross	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.[2]
Fund	**3.26**	**-0.51**	**7.95**	**-0.79**	**0.16**	**3.67**	**5.59**	**3.80**
Benchmark[1]	3.64	-0.10	7.69	-0.67	-0.83	1.74	4.05	2.17
Active	*-0.38*	*-0.41*	*0.26*	*-0.12*	*0.99*	*1.93*	*1.54*	*1.63*

Net	1 month	3 months	1 year	3 years p.a.	5 years p.a.	7 years p.a.	10 years p.a.	Since inception p.a.[2]
Fund	**3.17**	**-0.76**	**6.88**	**-1.78**	**-0.84**	**2.64**	**4.55**	**2.78**
Benchmark[1]	3.64	-0.10	7.69	-0.67	-0.83	1.74	4.05	2.17
Active	*-0.47*	*-0.66*	*-0.81*	*-1.11*	*-0.01*	*0.90*	*0.50*	*0.61*

Top 10 holdings (%)

Stock	Country	Sector	Weight
Prologis	United States	Office & Industrial	5.31
Equinix	United States	Technology Space	4.75
Welltower	United States	Healthcare	4.50
Extra Space Storage	United States	Self-Storage	3.97
AvalonBay Communities	United States	Residential	3.47
Ventas	United States	Healthcare	3.19
Invitation Homes	United States	Residential	2.99
VICI Properties	United States	Net Lease	2.83
Essex Property Trust	United States	Residential	2.54
Mitsui Fudosan	Japan	Diversified	2.54

Past performance is not indicative of future performance. Net performance figures are calculated using exit prices, net of fees and reflect the annual reinvestment of distribution. Returns are rounded to two decimal places. Slight variations to actual calculations may occur.
[1]FTSE EPRA/NAREIT Developed Index (hedged to AUD) NTR Index Return is stated on a Net Total Return ('NTR') basis for all periods. Factsheets issued from inception until 23 June 2016 state Index Return on a Gross Total Return basis.
[2]This figure represents the annualised performance of the Fund from inception.

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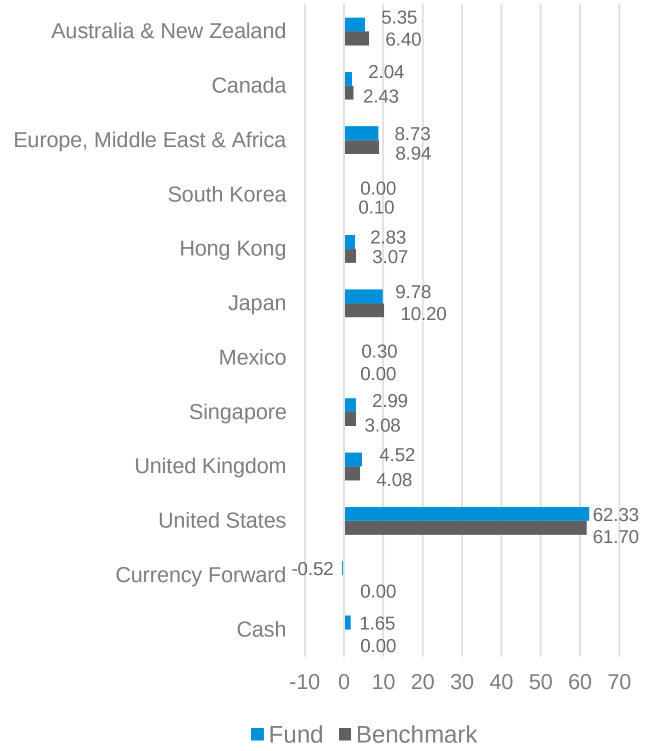
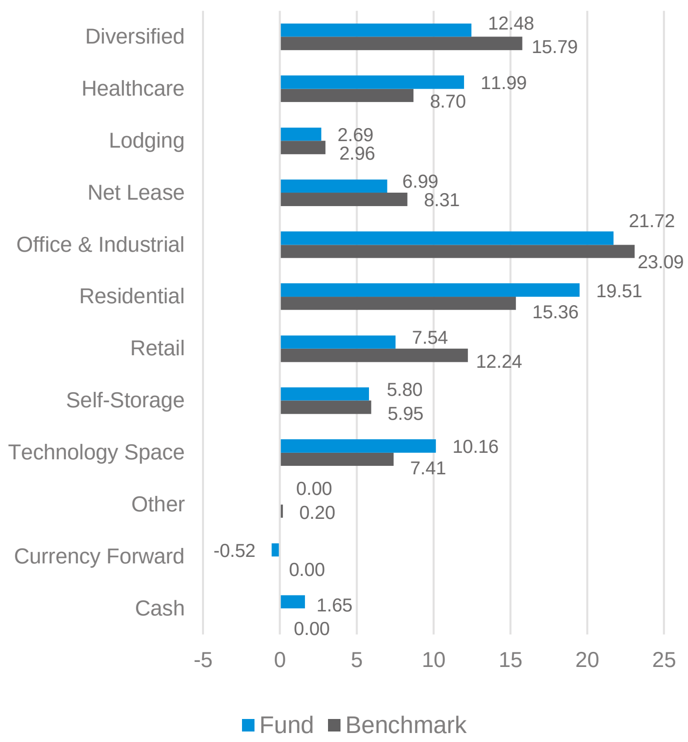
Country asset allocation (%)



Sector asset allocation (%)



All property returns below are stated in (local, USD) format and are based on the FTSE EPRA NAREIT Developed index or representatives held in the portfolio unless stated otherwise.

Market review

Global real estate investment trusts (REITs) returned 3.5% over the month, outperforming global equities by 3.2% and global bonds by 0.6%. The dovish March Federal Open Market Committee meeting provided reassurance to markets that the Federal Reserve remains on course to deliver three rate cuts starting from June. Signs of weaker than expected inflation data in Europe and a rate cut from the Swiss National Bank added to the support for rate sensitives. The Bank of Japan's successful normalisation of its negative interest rate policy without incident or disruption to rate markets also helped lift sentiment toward equities and REITs.

Europe was the best performer amidst the first signs of inflation coming in below consensus in countries like Spain, France, and Sweden. Higher levered regions such as Germany, Sweden, and Spain fared better with bond proxy residential stocks in Germany and the more cyclical office stocks in Sweden and Spain leading the way. The defensive Swiss market lagged. The Americas lagged amidst signs of sticker inflation and resilient US economic data. Cyclical and shorter duration lease sectors such as malls, office, residential, and storage led. Data centers underperformed on a short seller report that targeted Equinix. Asia was lifted by the ongoing rally in Japan developers as the Bank of Japan successfully exited its negative interest rate policy, triggering hope of a long-awaited return to deflation. Hong Kong lagged weighed by retail HREITs on lingering upward pressure on US long bond yields and weakening tenant sales.

Performance review

The Principal Global Property Securities Fund returned -0.76% (net) for the quarter, an underperformance of 0.66% when compared with the FTSE EPRA/NAREIT Developed Index (hedged to AUD) NTR return of -0.10% for the quarter in Australian dollar terms.

The portfolio lagged the benchmark on selection in the Americas and Europe. Within the US, the main detractor was the underweight to the more cyclical mall sector which outperformed on signs of resilient economic data and retail spending. An overweight to towers which continued to be weighed by a weak near-term operating outlook also weighed on performance as did selection within industrial because of questionable capital allocation decisions at a key portfolio holding and below expectations guidance at another. European performance was impacted by selection in Spain. Contribution came from selection in Asia where an overweight to an Australian industrial stock benefitting from index inclusion and data center optionality tailwinds was the main performance driver. Selection within Japan was also additive as the portfolio was overweight reflationary plays that benefitted from the improving growth outlook.

Market outlook

After a strong performance in the fourth quarter of 2023, REITs have lagged equities once again in the first quarter of 2024 as interest rate cut expectations have been dialed back. The investment manager continues to believe that REITs offer an attractive investment opportunity with valuations looking very cheap both when measured against public equities and private real estate. Rate cuts, which have historically been a strong tailwind for REITs, also look to be increasingly a matter of “when” not “if”. There is growing evidence of core inflation slowing around the world. The Swiss National Bank has become the first major central bank to cut rates. Inflation has come in weaker than expected in markets such as France, Canada, Sweden, and Australia. Whilst US economic data have been broadly resilient, there remain signs of weakness under the surface with sluggish bank loan growth and a weak household employment survey.

Post the dovish March Federal Open Market Committee the Federal Reserve remains on course to deliver three rate cuts later this year, likely commencing from June despite resilient economic data. This is likely intended to pre-emptively ward off downside risks to the economy. Provided inflation continues to moderate, these rate cuts could allow the Federal Reserve to achieve the much talked about soft landing a virtuous cocktail of decelerating inflation driven by easing supply side constraints and improving economic momentum. It is, however fair to say that history is not on the Federal Reserve’s side, most interest rate increases of such magnitude have tended to ultimately end in recession.

Regardless of the outcome, be it soft landing or recession, there is a strong case for owning REITs at this point in time. A soft-landing could mean the best possible outcome of positive absolute and relative returns for REITs. Rate cuts drive expectations of lower borrowing costs and discount rates which inordinately benefit capital intensive asset classes; meanwhile improving growth helps bolster the topline. Admittedly a recession may mean negative absolute returns for both broader equities and REITs, however REITs have historically tended to be relatively defensive during such periods. Historical evidence suggests that REITs have delivered strong positive returns in the 12 months after real yields peaked.

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