

# Mortgage-Backed Securities

30 September 2020

## Strategy description

A securitized debt strategy primarily invested in agency mortgage-backed securities (MBS) with the ability to invest in Treasuries, US agencies, and non-agency MBS.

## Portfolio managers

**Bryan C. Davis, CFA**  
29 years' experience

**Zach Gassmann, CFA**  
15 years' experience

## Index

Bloomberg Barclays Mortgage-Backed Securities Index

## Risk warning

- The potential for profit is accompanied by the possibility of loss.
- Fixed Income investments are subject to interest rate risk; when interest rates rise, the price of debt typically declines.
- Potential investors should be aware that fixed investments carry credit risks, default risk, liquidity risks, currency risks, operational risks, legal risks, counterparty risk and valuation risks.

## Composite performance (%)

	3M	YTD	1YR	3YR	5YR	10YR
Mortgage-Backed Securities (gross)	0.34	4.65	5.40	3.96	3.22	3.46
Bloomberg Barclays Mortgage-Backed Securities Index <sup>^</sup>	0.11	3.62	4.36	3.68	2.98	3.00
Excess gross return	0.23	1.03	1.04	0.28	0.24	0.45
Mortgage-Backed Securities (net)	0.28	4.47	5.16	3.72	2.98	3.21

## 12-month rolling return (%)

	Oct 15 - Sep 16	Oct 16 - Sep 17	Oct 17 - Sep 18	Oct 18 - Sep 19	Oct 19 - Sep 20
Mortgage-Backed Securities (gross)	4.03	0.27	-1.49	8.22	5.40
Mortgage-Backed Securities (net)	3.79	0.02	-1.73	7.98	5.16
Bloomberg Barclays Mortgage-Backed Securities Index <sup>^</sup>	3.61	0.30	-0.92	7.80	4.36

As of September 2020.

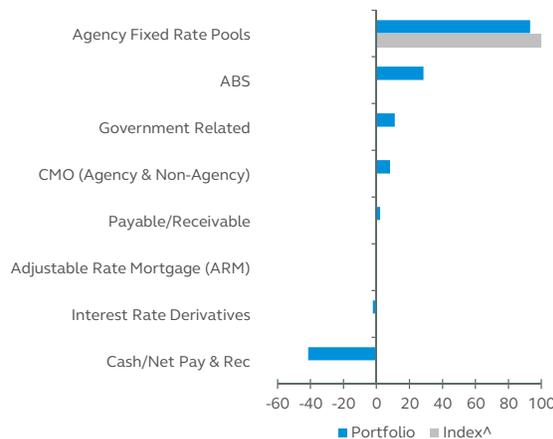
Source: Principal Global Investors.

**Past performance is not a reliable indicator of future performance and should not be relied upon to make investment decisions.**

Periods over one year are annualized. Please see disclosures for additional information on performance.

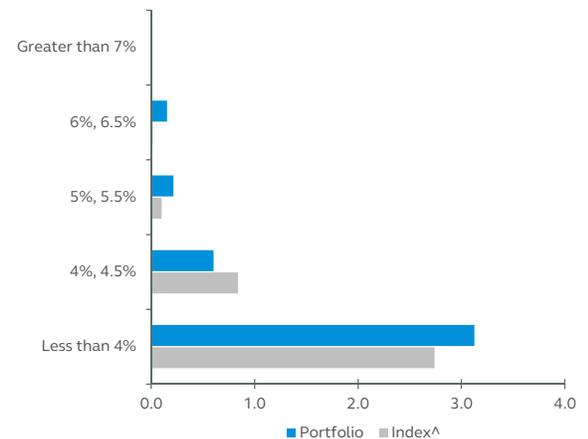
## Sector distribution<sup>†</sup>

Market value (%)



## Coupon profile<sup>†</sup>

Contribution to spread duration (%)



## Portfolio characteristics<sup>†</sup>

	Portfolio	Index <sup>^</sup>
Yield to worst	1.4%	1.2%
Option adjusted spread duration (yrs)	4.1	3.7
Option adjusted spread (bps)	74	57

## Top 10 holdings (%)<sup>†</sup>

Company	Portfolio
FNMA	12.0
FNMA	9.2
United States Treasury Bill	7.1
GNMA II	6.7
GNMA II	4.8
FNMA	4.4
United States Treasury Bill	3.4
FNMA	2.4
Fannie Mae Pool	2.4
Ginnie Mae II Pool	2.3
<b>Total</b>	<b>54.8</b>

Securities listed are based on the issue, not the issuer.

<sup>^</sup>Source: Bloomberg

<sup>†</sup>Source: Certain analytics powered by Aladdin<sup>®</sup> by BlackRock<sup>®</sup>. BlackRock<sup>®</sup> and Aladdin<sup>®</sup> are trademarks and service marks of BlackRock, Inc. and its affiliates (collectively, "BlackRock"). BlackRock owns all proprietary rights in the marks and in the Aladdin<sup>®</sup> by BlackRock<sup>®</sup> services. BlackRock neither approves or endorses this material, or guarantees the accuracy or completeness of any information herein, or makes any warranty, express or implied, as to the results to be obtained therefrom. Characteristics shown are of the representative portfolio.

Due to rounding, figures and percentages shown may not add to the total or equal 100%.

Figures relating to the index are shown for comparative purposes only. The two methods of calculation may not be identical and it is not possible to invest in an index.

## About Principal Global Fixed Income

Principal Global Fixed Income is a specialized investment management group within Principal Global Investors. Our fixed income capabilities span multiple credit market cycles and draw upon the depth and breadth of our credit research process. Our analysts are industry experts, providing independent credit ratings and investment recommendations on over 1500 issuers.

Our macroeconomic and risk perspective serves as a consistent foundation for evaluating all opportunities and is integrated into the risk management process; this unique part of our process aims to deliver downside risk reduction while allowing for upside capture.

## Investment philosophy

We believe superior returns are best achieved for our clients through the integration of rigorous fundamental research, a global perspective, and disciplined risk management.

## Investment process

Our consistent, repeatable investment process focuses on establishing a macro and risk perspective, which informs the sector allocation and security selection decisions driven by our fundamental research process. Allocation and security decisions are aligned with our client objectives to construct diversified portfolios. Thorough, ongoing monitoring of macro and issuer risk ensures consistency with those client objectives.

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All figures shown in this document are in US dollars unless otherwise noted. Indices are unmanaged and do not take into account fees, expenses and transaction costs are not available for direct investment.

Bloomberg Barclays Mortgage-Backed Securities (MBS) Index covers agency mortgage-backed pass-through securities (both fixed-rate and hybrid ARM) issued by Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC). Introduced in 1986, the GNMA, FHLMC, and FNMA fixed-rate indices for 30- and 15- year securities were backdated to January 1976, May 1977, and November 1982, respectively. Balloon securities were added in 1992 and removed on January 1, 2008. 20-year securities were added in July 2000. On April 1, 2007, agency hybrid adjustable-rate mortgage (ARM) pass-through securities were added to the U.S. MBS Index. Hybrid ARMs are eligible until 1 year prior to their floating coupon date. Information regarding the comparison to the Bloomberg Barclays MBS Index is available upon request.

Composite performance results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance.

Net performance results reflect a reduction for investment advisory fees based on the firm's applicable asset management fee schedule. Additional information on calculation of composite performance data is available on request. Actual investment advisory fees charged to clients may vary.

Each portfolio included in the composite is managed according to its own individual investment restrictions and limitations and therefore their characteristics may vary from those of the Representative Portfolio shown. Portfolio performance, characteristics and volatility may differ from the benchmark shown. Holdings and weightings are subject to change daily. The holdings listed should not be considered a recommendation to purchase or sell any security and there is no assurance an investment in these securities will be profitable.

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