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## PRESS RELEASE

### PRINCIPAL INVESTMENT MANAGEMENT EXTENDS INVESTMENT OFFERING

Principal Investment Management is, for the first time, providing its higher value clients and potential clients with access to alternative, hedged investment strategies. In order to provide access to a well diversified range of hedge funds cost-effectively, Principal's service will be structured as a fund of hedge funds.

**Principal Absolute Alpha Portfolio (AAP)** aims to provide investors with a genuinely alternative and uncorrelated investment portfolio, through the use of active hedging techniques. The underlying funds within AAP will invest across geographic regions and will use a variety of strategies.

AAP will be actively managed to remove market and interest rate bias. It will use equity market and interest rate hedges to maintain its uncorrelated status and will aim to isolate alpha return from the underlying managers' strategies.

Commenting, William Gilmore, Senior Investment Manager at Principal, said: "We believe that this is a truly alternative investment vehicle. The hedging techniques used by some or all of the underlying funds will tend to reduce or eliminate market risk, although a certain amount will remain. As investment manager to the fund, we will aim to identify and quantify the residual market risks and neutralise them through additional hedging techniques to achieve the objective of no correlation to either the stock market or long term government bonds."

Principal believes that the timing is now right for investors to include an allocation to hedge funds. Many investors turned to hedge funds at the end of the bear market in 2003. But with equity markets at such low levels, it was not surprising that straight equities went on to outperform hedge funds, delivering double digit growth in each of the last four years. This means that the former severe undervaluation of equities has now unwound.

This, combined with the high levels of volatility in global markets currently, means it is now a more sensible time for investors to consider hedge funds in a portfolio.

Investment objectives of **Principal Absolute Alpha Portfolio**:

- Long term capital appreciation, with short term capital preservation
- Annualised return of at least the risk free rate of return plus 2% (net of any expenses) over any 36 month period, and a positive return over any 12 month period
- No correlation to movements in the stock market and long term government bonds
- A volatility of returns that is less than the volatility of the stock market

Other key points:

- Qualitative and quantitative selection criteria used to identify suitable underlying funds, selected on best of breed basis
- Diversified portfolio, actively managed, with any market “creep” from underlying funds’ exposure hedged out
- Diversified geographically as well as through use of different strategies
- Annual management fee – 1.5%
- No performance fee
- Jersey Incorporated Cell, listed on Channel Islands Stock Exchange
- Monthly valuation
- Quarterly redemptions with 75 days’ notice

Anne Gilbert, Managing Director of Principal Investment Management, said: “We have been researching how best to use alternative investment strategies for our clients for some time and believe that now is the right time to introduce them, where it is suitable in light of the client’s investment objectives and attitude to risk.

“Although we remain big supporters of equities and continue to believe they will be the best asset class to deliver real long-term returns, the strong market performance of the last four years means that there are now good investment and valuation reasons for considering an allocation to hedge funds in a portfolio.

“We believe we have hired some of the best proven expertise to run our portfolio, in William Gilmore. He has many years experience in this market, researching

strategies, conducting due diligence on hedge fund managers and managing risk in portfolios of hedge funds.”

*The Fund has been granted a permit under the Collective Investment Funds (Jersey) Law 1988 by the Jersey Financial Services Commission.*

*This information is directed at investment professionals (eg authorised intermediaries) only and is not suitable for distribution or communication to any other person.*

Ends

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**Notes to editors:**

- Currency risks will be hedged into sterling
- AAP can employ borrowing to provide margin for hedging positions and to satisfy short term liquidity requirements, but not more than 20% of net asset value
- No more than 20% of net asset value can be invested in any one fund
- No more than 25% of net asset value can be invested in funds managed by the same investment manager
- The value of the fund's investment in any one fund cannot exceed 20% of that underlying fund's net asset value
- The fund cannot invest in real property
- The fund cannot invest in physical commodities

**Portfolio Breakdown by Strategy (01/04/07)**

Corporate Event Driven / Value	31%
Equity Hedge – Europe	8%
Equity Hedge – US	15%
Equity Market Neutral	46%