

# Global Opportunities Equity

30 June 2019

## Strategy description

We are bottom-up, earnings-focused investors who embrace the principles of behavioral finance.

Recognizing that investors are change averse and risk averse, we capitalize on persistent biases, anomalies and inefficiencies by identifying companies exhibiting:

- Fundamental change – placing particular emphasis on sustainable earnings trends
- Expectation gaps – opportunities offering the greatest potential for positive earnings surprise
- Relative valuation – focusing on companies offering a valuation discount with re-rating potential

The strategy aims to provide long-term capital growth by investing primarily in the shares of companies domiciled in developed and emerging markets.

## Portfolio managers

**Mustafa Sagun, Ph.D., CFA**  
28 years' experience

**Christopher Ibach, CFA**  
25 years' experience

## Index

MSCI All Country World NTR Index

## Risk warning

- The potential for profit is accompanied by the possibility of loss.
- Equity markets are subject to many factors, including economic conditions, government regulations, market sentiment, local and international political events, and environmental and technological issues that may impact return and volatility.
- There is a risk that an investment will decline in value.
- Investing in emerging markets has associated risks including currency risk, confiscatory taxation, nationalization of assets, possibility of expropriation, volatility, liquidity and external factors (e.g., war or natural disasters).

## Composite performance (%)

	3M	YTD	1YR	3YR	5YR	SI*
Global Opportunities Equity (gross)	2.33	14.07	2.30	8.84	5.12	10.63
MSCI All Country World NTR Index <sup>^</sup>	3.61	16.23	5.74	11.62	6.16	9.96
Excess gross return	-1.28	-2.16	-3.44	-2.79	-1.03	0.67
Global Opportunities Equity (net)	2.21	13.82	1.84	8.34	4.64	10.05
Standard deviation - composite			18.17	12.19	11.59	12.41
Tracking error			2.60	2.21	2.56	2.73
Information ratio			-1.32	-1.26	-0.40	0.24
Sharpe ratio			0.00	0.61	0.37	0.82

## 12-month rolling return (%)

	July 14 - June 15	July 15 - June 16	July 16 - June 17	July 17 - June 18	July 18 - June 19
Global Opportunities Equity (gross)	2.64	-2.96	15.05	9.53	2.30
Global Opportunities Equity (net)	2.16	-3.42	14.52	9.04	1.84
MSCI All Country World NTR Index <sup>^</sup>	0.71	-3.73	18.78	10.73	5.74

As of June 2019.

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.

\*Inception Date: 01 July 2010.

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

	Portfolio	Index <sup>^</sup>
Earnings growth <sup>1</sup>	15.1%	11.3%
Earnings revision <sup>2</sup>	29.3%	10.2%
Price/earnings	17.0x	17.8x
Active share ratio <sup>3</sup>	84.9%	0.0%
# of holdings	86	2,849
Market cap. Weighted median	\$41.8bil	\$56.8bil

<sup>1</sup> Average of trailing one year and forward one year earnings per share (EPS) growth.

<sup>2</sup> Percentage of companies with positive EPS revisions less percentage with negative EPS revisions.

<sup>3</sup> Active share ratio is a measure of the proportion of stock weights in a manager's portfolio that differ from the index.

## Sector distribution (%)<sup>†</sup>

	Portfolio	Index <sup>^</sup>	Active*
Communication services	11.6	8.7	2.9
Industrials	12.9	10.5	2.3
Real estate	4.8	3.2	1.6
Financials	17.7	16.9	0.8
Energy	6.6	5.9	0.7
Consumer discretionary	11.3	10.8	0.5
Utilities	3.4	3.3	0.1
Health care	10.2	11.4	-1.2
Consumer staples	6.1	8.3	-2.2
Information technology	12.5	16.0	-3.6
Materials	1.2	4.9	-3.7
Cash	1.9	0.0	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

## Top 10 holdings (%)<sup>†</sup>

Company	Portfolio
Facebook, Inc.	2.9
Microsoft Corporation	2.8
Alphabet Inc.	2.3
Nestle S.A.	2.2
ConocoPhillips	1.9
MasterCard Inc.	1.7
Johnson & Johnson	1.7
AMETEK, Inc.	1.6
Uber Technologies, Inc.	1.5
Roche Holding AG	1.5
<b>Total</b>	<b>20.1</b>

## Geographic distribution (%)<sup>†</sup>

	Portfolio	Index <sup>^</sup>	Active*
Developed	84.9	88.2	-3.3
Europe	24.4	19.0	5.4
Europe Ex UK	19.2	14.0	5.2
United Kingdom	5.3	5.0	0.3
Asia Pacific	8.9	10.9	-2.0
Asia Pacific Ex Japan	4.9	3.8	1.1
Japan	4.0	7.1	-3.0
Americas	51.6	58.3	-6.7
Canada	4.6	3.1	1.6
United States	47.0	55.3	-8.3
Emerging	13.2	11.8	1.4
Asia	12.3	8.5	3.8
Greater China	8.7	5.0	3.7
Asia X Greater China	3.6	3.5	0.1
Latin America	0.9	1.4	-0.6
Latin America	0.9	1.4	-0.6
Eemea	0.0	1.8	-1.8
Eastern Europe	0.0	0.8	-0.8
Middle East/Africa	0.0	1.1	-1.1
Cash	1.9	0.0	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

<sup>^</sup>Source: MSCI. MSCI makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used to create indices or financial products. This report is not approved or produced by MSCI.

<sup>†</sup>Source: FactSet. Characteristics shown are of the representative portfolio.

\*Portfolio security weight minus the index security weight.

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 Equities

Principal Global Equities is a specialized investment management group within Principal Global Investors. The investment team is powered by an intensive research effort encompassing focused fundamental analysis, a deep understanding of the principles of behavioral finance and specialized expertise in equity factor risk premiums. Our objective is to deliver competitive risk-adjusted returns across a diverse range of investment solutions to help clients meet their investment goals.

## Investment philosophy

We believe that bottom-up stock selection is the most reliable and repeatable source of long-term, consistent performance. We believe persistent behavioral biases and structural inefficiencies create robust alpha opportunities over time. We seek to exploit these anomalies and inefficiencies through a focused fundamental research process, emphasizing the early identification of fundamental change, relative to expectations at attractive valuations.

### Focused stock selection

- We utilize a proprietary quantitative ranking tool to generate ideas and clearly prioritize the most promising subset of candidates
- Our analysts conduct original fundamental company due diligence, focusing on key earnings-based fundamental characteristics and challenging both sell-side consensus expectations and company management teams in order to understand a company's key earnings drivers

### Strategic portfolio construction

- We build high alpha portfolios that clearly reflect our stock selection philosophy and focus on fundamental change
- Our portfolio managers align analyst recommendations with specific portfolio objectives ensuring that all risk exposures are intended

## Investment process

We leverage powerful analytical tools and technology platforms to complement our investment professionals' original fundamental research, analysis, and insights in order to make well-informed, high-conviction stock selection and portfolio construction decisions.

All of our resources and efforts are focused on bottom-up stock selection, with the connections across our globally integrated team enhancing our macro awareness and responsiveness to global earnings trends.

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The MSCI AC World NTR Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI AC World NTR Index consists of developed and emerging market country indices. In reports issued from November 3, 2010, through January 8, 2013, the MSCI World GTR Index was used for comparison purposes. In reports issued from January 9, 2013, through December 12, 2013, the MSCI AC World GTR Index was used for comparison purposes. The first change was made to be more representative of the composite strategy. The benchmark was changed a second time to align with the decision to report composite results net of withholding taxes. Information regarding the comparison to the benchmarks 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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