

# Diversified International Equity

30 September 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 (ex-US) and emerging market countries.

## Portfolio managers

**Paul H. Blankenhagen, CFA**  
27 years' experience

**Juliet Cohn**  
37 years' experience

## Index

MSCI ACWI ex-US 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. Equity stocks of small-cap companies carry greater risks including that they may be more volatile and less liquid than equity stocks of larger, more established companies.

## Composite performance (%)

	3M	YTD	1YR	3YR	5YR	10YR
Diversified International Equity (gross)	-1.65	13.38	-3.38	5.96	3.87	6.51
MSCI ACWI ex-US Index <sup>^</sup>	-1.80	11.56	-1.23	6.33	2.90	4.45
Excess gross return	0.14	1.82	-2.15	-0.38	0.97	2.06
Diversified International Equity (net)	-1.78	12.95	-3.86	5.40	3.32	5.93
Standard deviation - composite			15.71	11.70	11.84	14.21
Tracking error			2.81	2.32	2.66	2.53
Information ratio			-0.77	-0.16	0.37	0.81

## 12-month rolling return (%)

	Oct 14 - Sep 15	Oct 15 - Sep 16	Oct 16 - Sep 17	Oct 17 - Sep 18	Oct 18 - Sep 19
Diversified International Equity (gross)	-6.49	8.74	21.66	1.19	-3.38
Diversified International Equity (net)	-7.01	8.13	20.99	0.65	-3.86
MSCI ACWI ex-US Index <sup>^</sup>	-12.16	9.26	19.61	1.76	-1.23

As of September 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.

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

	Portfolio	Index <sup>^</sup>
Earnings growth <sup>1</sup>	9.1%	7.7%
Earnings revision <sup>2</sup>	4.7%	-9.3%
Price/earnings	16.3x	15.8x
Active share ratio <sup>3</sup>	75.7%	0.0%
# of holdings	164	2,215
Market cap. Weighted median	\$33.8bil	\$34.4bil

<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*
Financials	23.6	21.6	2.0
Information technology	10.7	8.9	1.8
Health care	9.6	8.5	1.1
Consumer discretionary	12.4	11.4	1.0
Communication services	7.0	6.8	0.2
Energy	6.4	6.7	-0.3
Utilities	2.9	3.5	-0.6
Real estate	2.3	3.2	-0.9
Consumer staples	9.1	10.2	-1.0
Industrials	10.4	11.9	-1.5
Materials	3.6	7.3	-3.7
Cash	1.9	0.0	1.9
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

## Top 10 overweights (%)<sup>†</sup>

	Portfolio	Active*
Brookfield Asset Management Inc.	1.8	1.5
3i Group plc	1.3	1.2
Roche Holding AG	2.1	1.2
Alimentation Couche Tard Inc.	1.2	1.1
Canadian National Railway Company	1.4	1.0
Nestle S.A.	2.6	1.0
Taiwan Semiconductor Manufacturing Co., Ltd.	2.0	1.0
Itochu Corporation	1.0	0.9
Logitech International S.A.	0.9	0.9
Legal & General Group Plc	1.0	0.9

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

	Portfolio	Index <sup>^</sup>	Active*
Developed	77.1	74.0	3.1
Europe	47.9	42.5	5.5
Europe Ex Uk	39.5	31.5	8.0
United Kingdom	8.5	11.0	-2.5
Americas	9.1	7.0	2.1
Canada	9.1	7.0	2.1
Asia Pacific	20.1	24.5	-4.4
Japan	14.8	16.5	-1.6
Asia Pacific Ex Japan	5.3	8.1	-2.8
Emerging	21.0	26.0	-5.0
Latin America	3.1	3.1	0.0
Latin America	3.1	3.1	0.0
Asia	16.4	18.9	-2.5
Asia X Greater China	8.1	7.6	0.5
Greater China	8.3	11.3	-3.0
Eemea	1.5	4.0	-2.5
Eastern Europe	1.5	1.6	-0.1
Middle East/Africa	0.0	2.4	-2.4
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 ACWI ex-U.S. Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the U.S. For time periods prior to March 1, 2008, the MSCI EAFE index returns are used. From March 1, 2008, forward, the MSCI ACWI ex-U.S. Index returns are used. In reports issued prior to March 1, 2008, the MSCI EAFE Index was used for comparison purposes. The benchmark was changed to be more representative of the composite strategy. 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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