

International Small-Cap Equity

31 December 2021

Strategy description

The strategy aims to provide long-term capital growth by investing primarily in the shares of small-cap companies domiciled in developed (ex-US) markets. The strategy is research-driven and focused on bottom-up stock selection, not bold calls on macro or geopolitical conditions.

Portfolio managers

Brian W. Pattinson, CFA
27 years' experience

Tiffany N. Lavastida, CFA
25 years' experience

Index

MSCI World ex-U.S. Small-Cap 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.
- 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	1YR	3YR	5YR	10YR
International Small-Cap Equity (gross)	-0.06	10.21	14.17	10.48	11.47
MSCI World ex-U.S. Small-Cap NTR Index ^Δ	0.39	11.14	16.26	11.03	9.98
Excess gross return	-0.45	-0.93	-2.09	-0.54	1.48
International Small-Cap Equity (net)	-0.27	9.33	13.39	9.74	10.75
Standard deviation - composite		9.89	20.12	17.52	15.40
Tracking error		2.08	2.77	2.76	2.85
Information ratio		-0.45	-0.75	-0.20	0.52

12-month rolling return (%)

	January 17 - December 17	January 18 - December 18	January 19 - December 19	January 20 - December 20	January 21 - December 21
International Small-Cap Equity (gross)	37.68	-19.66	28.19	5.37	10.21
International Small-Cap Equity (net)	36.78	-20.18	27.39	4.72	9.33
MSCI World ex-U.S. Small-Cap NTR Index ^Δ	31.04	-18.07	25.41	12.78	11.14

As of December 2021.

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[†]

	Portfolio	Index ^Δ
Earnings growth ¹	26.8%	26.5%
Earnings revision ²	26.9%	12.8%
Price/earnings	17.6x	19.2x
Active share ratio ³	85.5%	0.0%
# of holdings	208	2,591
Market cap. Weighted median	\$4.3bil	\$2.8bil

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

² Percentage of companies with positive EPS revisions less percentage with negative EPS revisions.

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

Top 10 overweights (%)[†]

	Portfolio	Active*
VAT Group AG	0.8	0.8
Dechra Pharmaceuticals PLC	1.0	0.7
ULVAC, Inc.	0.8	0.7
ATS Automation Tooling Systems Inc.	0.8	0.7
Aalberts N.V.	0.9	0.7
Husqvarna AB	0.7	0.7
PERSOL HOLDINGS CO. LTD.	0.7	0.7
Future PLC	0.9	0.7
Tower Semiconductor Ltd	0.8	0.7
Constellium SE	0.7	0.7

Sector distribution (%)[†]

	Portfolio	Index ^Δ	Active*
Industrials	23.6	22.3	1.3
Communication services	5.3	4.2	1.1
Financials	11.0	10.4	0.6
Health care	6.5	6.3	0.1
Real estate	12.2	12.2	0.0
Energy	2.8	2.9	-0.1
Consumer staples	5.0	5.3	-0.3
Utilities	2.8	3.3	-0.5
Materials	10.1	10.6	-0.5
Information technology	9.3	10.3	-1.1
Consumer discretionary	10.5	12.1	-1.6
Cash	1.0	0.0	1.0
Total	100.0	100.0	-

Geographic distribution (%)[†]

	Portfolio	Index ^Δ	Active*
Developed	99.0	100.0	-1.0
Americas	12.5	8.8	3.6
Canada	12.5	8.8	3.6
Europe	53.3	53.6	-0.3
United Kingdom	18.7	16.4	2.3
Europe Ex Uk	34.6	37.2	-2.6
Asia Pacific	33.2	37.6	-4.3
Japan	23.0	24.4	-1.4
Asia Pacific Ex Japan	10.2	13.1	-2.9
Cash	1.0	0.0	1.0
Total	100.0	100.0	-

^ΔSource: 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.

[†]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 fundamentally based, bottom-up stock-selection is the most reliable and repeatable source of consistent performance and wealth generation over time. We also recognize that persistent behavioral biases and structural impediments to capital flows create market inefficiencies and opportunities.

We seek to exploit these anomalies and inefficiencies through a focused fundamental research process and a disciplined multi-faceted approach to risk management, grounded in the principles of behavioral finance. Simply put, we focus on the early identification of businesses becoming better.

Investment process

All our resources and efforts are focused on bottom-up stock selection with strong collaboration across our globally integrated team.

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

- Investing in three distinct types of businesses that we believe are becoming better as a result of positive change: innovators, renovators, and pacesetters
- Identifying potential underappreciated growth and improvement opportunities ahead of the market
- Isolating stock selection as the key driver of results - delivering style consistency over time using a comprehensive system of checks and balances

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.

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The MSCI World ex-U.S. Small-Cap Index is an unmanaged index that measures the performance of stocks with the smallest 15% of cumulative market capitalization by market across developed markets outside the US. For time periods prior to January 1, 1999, the S&P Developed ex-U.S. Small-Cap Index returns are used. From January 1, 1999, forward, the MSCI World ex-U.S. Small-Cap Index returns are used. In reports issued prior to August 1, 2012, the MSCI World ex-U.S. Small-Cap Index returns were used for periods from October 1, 2008, forward, and the S&P Developed Ex US Small-Cap Index returns were used for time periods prior to October 1, 2008. In reports issued prior to October 1, 2008, the S&P Developed ex-U.S. Small-Cap Index was used for comparison purposes. In reports issued prior to October 1, 2002, the MSCI EAFE Small-Cap Index was used for comparison purposes. In reports issued prior to January 1, 2001, the Salomon Smith Barney World Equity < \$1 Billion Index was used for comparison purposes. The benchmark was changed each time 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.

Effective March 2021, composite net performance is calculated using the highest applicable fee as shown in the composite fee schedule. Prior to March 2021, composite net returns were derived based the aggregation of underlying portfolios and their noted actual or model fee tier. Actual investment advisory fees incurred by clients may vary. Composite net returns after January 1, 2011, are inclusive of performance-based fees (where applicable). Performance-based fees are accounted for on a cash basis.

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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- (ii) have sustainable investment as its objective in a way that meets the specific criteria contained in Article 9 of SFDR.

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