



# Principal Global Equity Growth Fund

**Principal Global Investors combines the best of quantitative and qualitative thinking in a global equity growth fund that has the potential to deliver four times its benchmark, writes MICHELLE BALTAZAR.**

**T**rying times call for top-of-the-line tactics. At Principal Global Investors (PGI), the key is to stick to an umbrella strategy and let the portfolio's performance speak for itself.

Take the group's global equity portfolio performance in May, a month when the market bloodletting made even the most seasoned investor unsteady. At the time, the MSCI World Index gained 0.5 per cent. PGI's global equity portfolio trumped that more than four times with a 2.3 per cent gain, net of management fees.

Long term performance is just as solid. Over three years, PGI's global equity portfolio returned 8.6 per cent against its benchmark's 4.5 per cent. Over five years, PGI's gained 10.2 per cent against its benchmark's 6.4 per cent.

It is this track record that is the foundation of a new fund launched last December, the Principal Global Equity Growth. Headed by two portfolio managers, John Pihlblad and Mark Nebelung, the fund aims to beat the MSCI World Growth Index over the long term.

## Staunch stockpickers

On the surface, it's hard to imagine growth in global equities when macro-events are working against you. The ongoing liquidity crisis, unstable US economy and soaring oil prices have kept many businesses twitchy. How can you expect earnings growth against all those stresses?

The answer lies in rigorous stock selection. Nebelung said there are plenty of outstanding stocks that can ride a rickety economy, particularly in software services.

"We're negative on the semi-conductors and the hardware space but where we are more positive is on the software services side, in particular those that are related to the new generation of gaming platforms," he said.

Nebelung is referring to the spectacular successes of Wii and Nintendo, both of which have captured the attention of people who, only a few years ago weren't "gamers".

"There are a growing number of games released to the market and we view that as a potential revenue stream. Then other companies like Adobe which in terms of its business cycle is on the cusp of major launches and hence will have new revenue streams."

The fund's top ten holdings illustrate what Nebelung is talking about with Microsoft, IBM, Cisco Systems, Apple and Nokia high up the list.

His added advantage is that he is based in Tokyo, the city hub of consumers who tend to be the first to try new technologies.

## A day in the life

It's hard enough trying to stockpick in one region let alone around the world but the fund invests in between 150 to 250 shares globally through an investment system honed since 2000.

Asked to describe their day-to-day processes, Nebelung said, "A key part of it is a quantitative process which ranks the securities twice a week based on the factors we're looking for in stocks, which is basically on improving fundamentals, rising expectations and attractive valuations."

Once all the securities are ranked, the ones at the bottom of the list are reviewed and the fund's investment team then discusses which ones end on the cutting floor.

With the markets as unstable as they are, the fund doubly checks it makes the right decision by doing a qualitative screen.

"We have major factors shifting that really can't be captured through the quant process and needs someone who understands the company and how these factors will affect the company going forward ... that's when a qualitative overlay helps."

Nebelung and co-portfolio manager Pihlblad also have the backing of PGI's network of investment research experts. The global equities management team alone is made up of more than 72 equity professionals, managing more than \$62 billion of equities around the world.

To get a sense of the research muscle behind this \$62 billion asset base, Nebelung said the group's quantitative research platform evaluates 10,000 securities at any given day. Meanwhile, the pool of qualitative analysts behind Principal Global Equity Growth has an average 14 years industry experience.

More than that, Nebelung said everyone's remuneration is aligned with their clients.

"Compensation for both our analysts and portfolio managers are based on the performance of the fund that they are involved in."

He continued, "That means our analysts are not compensated based on their recommendations but rather based on the recommendations that actually make it to the portfolio."



MARK NEBELUNG

## The art of preserving alpha

A fund manager's ability to protect investor capital becomes even more critical when markets are falling, which is why the fund's investment team constantly tries to minimise the level of 'unintended risks' in the portfolio.

"One of our key differentiators is really our consistency that comes from our very disciplined approach in portfolio construction to ensure we don't take any risks that are unintended."

He continued, "We are stockpickers so we ensure that the risk of the portfolio is coming from the underlying stock level, not from factor tilts to sector, industry and so forth."

As for investors who are thinking of shying away from global equities while macro-events are cloudy, he argued that long term gains are made by being in the market, rather than out of it every time things look awry.

"In terms of timing, we're not really market timers. Our recommendation would be to 'dollar cost average' in to any particular position."

Besides, PGI's global equity portfolio performance over one month, one year, three years and five years show that Nebelung and his colleagues know more than a thing or two about preserving and generating alpha, regardless of market conditions. ■

**Table 1. Top 10 holdings as at 31 May 2008**

Holdings	Country	Sector	(%)
Microsoft	United States	Information Technology	2.1
International Business Machines	United States	Information Technology	1.7
Cisco Systems	United States	Information Technology	1.6
Apple	United States	Information Technology	1.5
E. ON	Germany	Utilities	1.4
BHP Billiton	Australia	Materials	1.4
Telefonica	Spain	Telecommunications	1.3
Novartis	Switzerland	Health Care	1.2
Nokia Finland	Finland	Information Technology	1.2
Hewlett-Packard	United States	Information Technology	1.1
<b>Total Top 10</b>			<b>14.6</b>
Number of Holdings	180		