

# Manager profile

## Principal MidCap Value I Portfolio

Co-sub-advised by Victory Capital and LA Capital Management



Victory Capital is a multi-boutique asset management firm. Victory Capital provides institutions, financial advisors, and retirement platforms with a variety of investment asset classes and investment vehicles including separately managed accounts, collective trusts, mutual funds, and UMA/SMA vehicles.

Sycamore Capital, one of the nine autonomous investment franchises of Victory Capital, are mid and small value specialists. Sycamore seeks to invest in better businesses with financial strength and positive change using a bottom-up, value approach.

### ➤ Investment philosophy and process

Sycamore Capital franchise believes that investment success is a long-term endeavor that begins with trying to avoid the permanent loss of capital. By remaining disciplined and adhering to a repeatable investment process, we believe that success can be achieved regardless of what the macro landscape offers.

**Philosophy:** Sycamore's mid-cap value equity strategy employs a bottom-up, fundamental investment approach to build a diversified portfolio of mid-cap companies that the investment team believes are undervalued and offer an asymmetrical risk/reward profile. In building portfolios, the team identifies companies that it believes possess each of the following attributes:

- **Better business** – financially strong with sustainable business model.
- **Margin of safety** – trading at a discount to the team's estimate of intrinsic value.
- **Positive change** – fundamental drivers that will narrow the valuation gap.

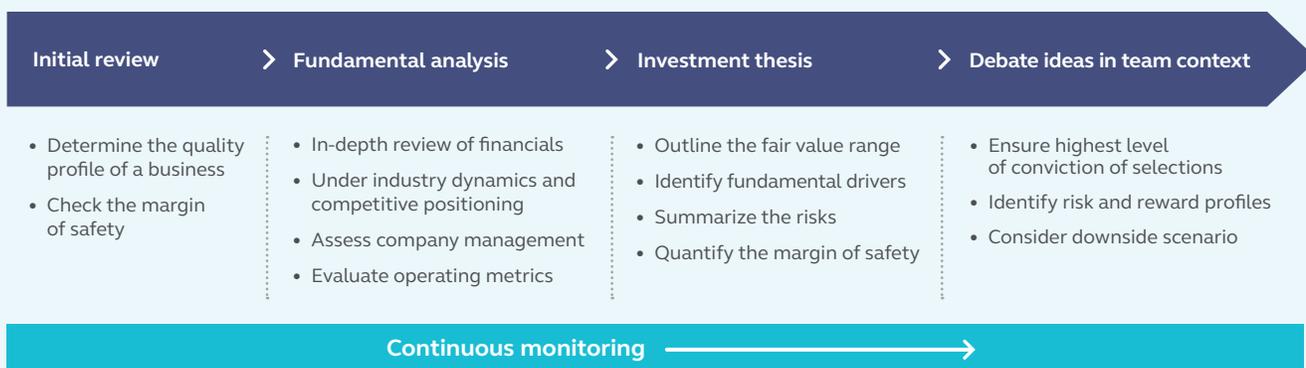
The investment team believes that companies that possess all three attributes offer the greatest downside protection without sacrificing the upside potential. By adhering to a disciplined and proven process, we believe that we can deliver attractive returns with lower risk and volatility over the long term relative to the benchmark and peers.

The investment advisor's investment philosophy and strategy may not perform as intended and could result in a loss or gain.

**Process:** Bottom-up, fundamental analysis drives the security selection process. Sector weightings are the result of bottom-up stock selection with allocations determined by the attractiveness of individual investment opportunities in each sector. Relative and absolute weightings are not actively managed, except where they approach our risk and diversification guidelines.

Not FDIC insured | May lose value | No bank guarantee

**Figure 1:**  
Sycamore Capital's investment process



The investment process consists of three key elements.

- 1. Our pursuit of value opportunities extends beyond mere statistical cheapness.** Our emphasis is on identifying high quality businesses with sustainable business models and strong market positions regardless of their end market cyclicity. We believe this provides the company the platform for generating attractive returns and cash flows over the cycle. Our aim is to purchase the shares of these companies when they are trading below our assessment of fair value. We believe that assessing the value proposition must include components of financial strength, growth, and profitability. It has been our experience that focusing on businesses with these attributes affords several means to excess return generation including valuation expansion, management growing the business faster than market expectations, or the company being acquired at a premium.
- 2. Our consistent ability to build portfolios that provide considerable downside protection without sacrificing upside during strong markets.** The strategy has performed well in various market environments, delivered consistent returns over the cycle, and done so with less volatility than the universe and peer group. This has been achieved as a result of the team's relentless focus on the risk-to-return merits of each investment.
- 3. Our collaborative team culture facilitates varied perspectives in assessing the merits of each investment candidate in the pursuit of alpha-generating ideas while protecting the portfolio.** This approach provides for shared and objective assessment of the facts which in turn drives better investment decisions. Furthermore, this method ensures a level of checks and balances throughout the investment process and results in the inclusion of only high conviction investment ideas that meet our strict risk/reward criteria being purchased for the portfolio.

Other advantages of the Sycamore Capital investment team include:

- Collaborative team approach
- Cross pollination across sectors
- Embedded portfolio specialist
- Dedicated trader
- Dedicated risk manager
- Partnering with senior management



**Victory Capital portfolio management team**

**Gary H. Miller**, Chief Investment Officer – Gary Miller has been with Victory Capital since 1987. He holds a Bachelor of Business Administration in Accounting from the University of Cincinnati and a Master of Business Administration from Xavier University.

**Greg Conners**, Portfolio Manager - Greg Conners has been with Victory Capital since 1999. He holds a Bachelor of Science in Economics from the College of Mount St. Joseph and a Master of Business Administration from Xavier University.

**Jeffrey Graff**, CFA, Portfolio Manager - Jeffrey Graff has been with Victory Capital since 2011. He holds a Bachelor of Business Administration from Cleveland State University and a Master of Finance from St. Louis University. Additionally, he is a CFA charterholder.

**Michael Rodarte**, CFA, Portfolio Manager - Michael Rodarte has been with Victory Capital since 2006. He earned his B.B.A. in Finance, Economics, and International Business from Ohio University. Mr. Rodarte has earned the right to use the Chartered Financial Analyst designation.

**James Albers**, CFA, Portfolio Manager - James Albers has been with Victory Capital since 2005. He earned a Bachelor of Science from University of Wisconsin and a Master of Science from University of Wisconsin. Additionally, he is a CFA charterholder.

LA Capital Management (LA Capital) is an employee-owned firm that utilizes a quantitative approach for security selection and portfolio management. Portfolios are tailored to meet the unique return and risk objectives of each assignment. The investment team developed the investment process at Wilshire Asset Management, where they worked together for sixteen years beginning in 1986. In March 2002, the team purchased the business from Wilshire Associates to set up an independent investment boutique.

## > Investment philosophy and process

**Philosophy:** LA Capital believes that investor preferences for specific risk characteristics evolve with changing market conditions.

The investment advisor’s investment philosophy and strategy may not perform as intended and could result in a loss or gain.

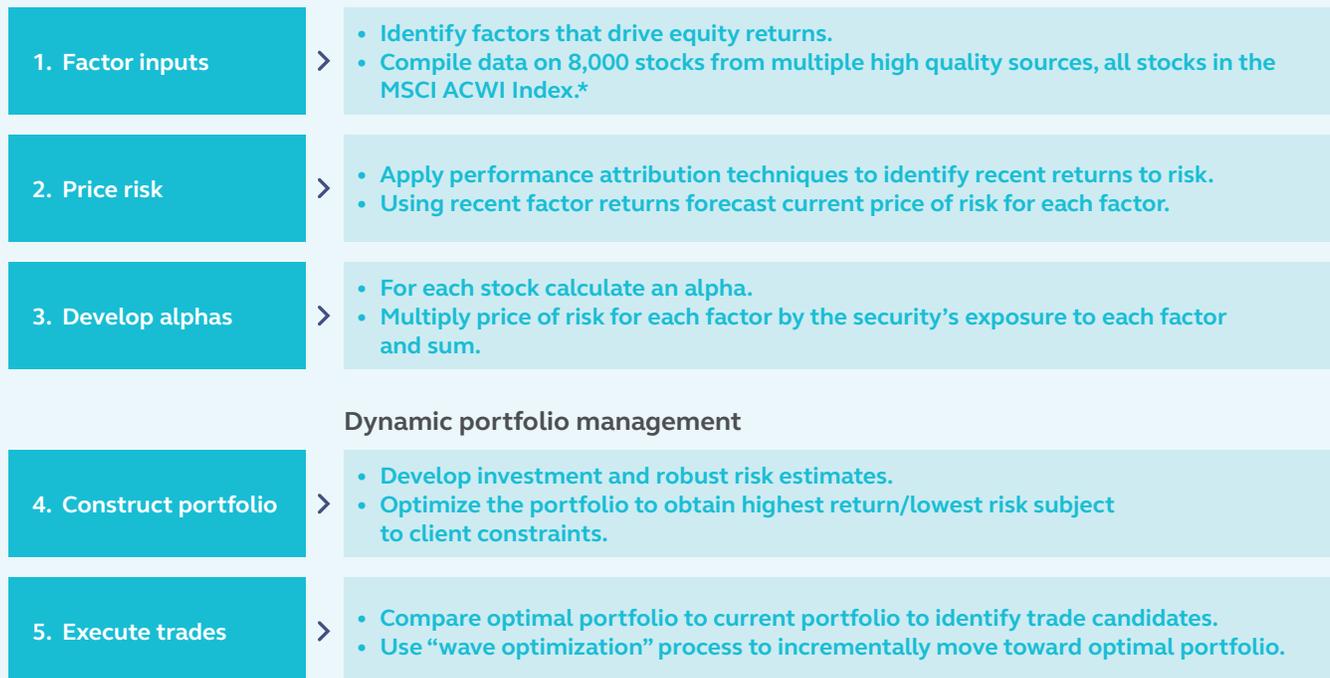
**Process:** The firm’s investment process (Figure 2) includes a robust research process that seeks to identify investor preferences for specific risk characteristics by analyzing valuation, income statement, balance sheet, industry, and market-related factors.

The firm’s Dynamic Alpha Stock Selection Model then calculates expected returns for a universe of mid-capitalization securities based on a security’s exposure and the model’s expected return for each factor. On a daily basis, the model is updated to capture new fundamental data as well as price and dividend information.

On a weekly basis, the investment team identifies the target portfolio that maximizes the portfolio’s expected return while maintaining a risk profile similar to the Russell Midcap Value Index. The portfolio is diversified across industries, common risk factors, and securities. Portfolio risks and

**Figure 2:**  
LA Capital’s investment process

### Los Angeles Capital’s Dynamic Alpha Stock Selection Model®



\*The MSCI ACWI 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 ACWI consists of 45 country indices comprising 24 developed and 21 emerging market country indices.

implementation costs are tightly controlled and minimized through a proprietary optimization process. The investment team monitors portfolio returns and risks on a daily basis. The firm's Portfolio Review Committee formally reviews the portfolio for compliance with investment objectives and guidelines on a monthly basis.

LA Capital's investment team is highly dedicated to the research process with more than half of the firm's resources dedicated to various areas of research—including Factor Research, Model Development, Risk Management, and Information Technology, which combine to form an integrated global research platform. The goal of the investment research process is to enhance returns, control risk, and reduce trading costs. Accordingly, the investment team focuses on four areas of research:

- 1. Identification of new risk factors which explain security returns.**
- 2. Improved statistical techniques to more accurately price risk factors.**
- 3. Enhancements to the risk management and portfolio construction process.**
- 4. Low-cost trading strategies.**

Each research project is evaluated for its ability to add value to the investment process. The firm believes the distinguishing feature of the research process is its ability to identify and adapt to changing market conditions.



**LA Capital**  
portfolio manager

---

**Hal W. Reynolds** co-founded LA Capital in 2002. He earned a B.A. from the University of Virginia and an M.B.A. from the University of Pittsburgh. Mr. Reynolds has earned the right to use the Chartered Financial Analyst designation.

**Thomas D. Stevens** co-founded LA Capital in 2002. He earned a B.B.A. and M.B.A. from the University of Wisconsin. Mr. Stevens has earned the right to use the Chartered Financial Analyst designation.

## › About Principal Portfolio Strategies

Principal Portfolio Strategies<sup>1</sup> is a specialized boutique that engages exclusively in the creation of asset allocation solutions. Principal Portfolio Strategies has responsibility for portfolio management of the core portion for all of the core-satellite investment options. In managing the core portion, Principal Portfolio Strategies utilizes a team approach overseen by a portfolio manager. Additionally, the boutique oversees the proprietary due diligence process for identifying, selecting, and monitoring investment managers. The philosophy of Principal Portfolio Strategies is to design innovative strategies that address specific portfolio risks, rather than simply aligning with an investment style.

<sup>1</sup>Principal Portfolio Strategies is involved in the creation of asset allocation solutions and is responsible for the initial selection and ongoing monitoring of affiliated and unaffiliated investment managers. Principal Portfolio Strategies is a specialized investment management group within Principal Global Investors, the investment adviser to Principal Funds.

### Additional information

**Carefully consider a fund's objectives, risks, charges, and expenses. Contact your financial professional or visit [principal.com](http://principal.com) or [principalfunds.com](http://principalfunds.com) for a prospectus, or summary prospectus if available, containing this and other information. Please read it carefully before investing.**

**Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting [principal.com](http://principal.com).**

Investing involves risk, including possible loss of principal.

Small and mid-cap stocks may have additional risks including greater price volatility.

Sub-Advised Investment Options include separate accounts available through a group annuity contract with Principal Life Insurance Company and mutual funds available through Principal Funds, Inc.

---

Principal Financial Group, Des Moines, Iowa 50392-0001, [principal.com](http://principal.com)

Insurance products and plan administrative services provided through Principal Life Insurance Co. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities offered through Principal Securities, Inc., 800-547-7754, [member SIPC](#) and/or independent broker-dealers. Principal Life, Principal Funds Distributor, Inc. and Principal Securities are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options and contract riders may not be available in all states or U.S. commonwealths.

© 2017 Principal Financial Services, Inc. | MM8838-01 | 05/2017 | t16070803bc