

**Submission ID**

P49002

**Region**

Hong Kong

**Category**

Greater China Equity

**Name of firm**

Principal

**The underlying Fund mirrored for the MPF Constituent Fund**

Principal MPF Smart Plan – Principal Dynamic Greater China Equity

**The Fund's ISIN Code**

N/A

**Data as of the quarter-end**

30/06/2021

**Total Fund Size (including all share classes)**

HKD 1,686 million

**Total Number of Portfolio Manager(s)**

2

**Total Number of Analysts**

19

**Pillar 1 - Investment Approach****1. Investment style consistency: Who has the ultimate responsibility for keeping the investment style consistent under all conditions and circumstances?**

The lead portfolio manager/s of this strategy

**2. Investment style consistency: If the investment style deviates, are there material, negative consequences for the person with ultimate responsibility for ensuring style consistency?**

Yes, there are material consequences, including bonus reduction, promotion freeze and/or specific financial consequences on the ultimately responsible individual

**3. Investment process: Does the investment process include any of the following.**

We have the strategy to have a target investors' risk/return profile

The initial screening of the investment universe account for target investors' needs

We generate ideas from the bottom up, e.g., drilling down into a potential investee's business model, moat, future cash flow, etc.

The risk managers are consulted at one or more points during the research, investment, divestment processes

**4. Do you take ESG as Investment/Divestment materiality consequences?**

Yes.

**Additional Remarks, if any (maximum 250 words)**

We consider ESG factor in our bottom up fundamental analysis, therefore this will depend on each company stock.

**5. ESG as Investment Process [v]: Is ESG information is used in an investment product's investment process or stewardship activities?**

Yes

**Selected: Yes**

The investment product's compliant presentation includes a description of the sources and types of ESG information used in the investment process or stewardship activities

As investment managers, we allocate efforts to evaluate the reliability of the ESG information used, including the following:

**Selected: As investment managers, we allocate efforts to evaluate the reliability of the ESG information used, including the following:**

cross-referencing two or more sources of information

evaluation of the accuracy or completeness of a dataset when determining the sources and types of ESG information that will be used in the investment process

evaluation of how inherent uncertainty in specific data sets might affect investment decisions

**6. When determining the materiality of ESG factors[v] [vi], does the strategy consider the following factors: (an adaptation of the CFA ESG disclosure requirements and recommendations)**

Sector/geographic risk affecting an entire industry or region, including regulatory and technological materiality issues associated with the business activity the company is involved in and/or to the markets it sources or sells to

**7. Response to capital/asset markets' structural changes: How is this investment strategy responding to these changes for investors' benefit?**

I believe the capital/asset markets have changed fundamentally -- volatility is appreciably more significant than before, therefore:

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We are using (or have concrete[iii] plans to operate within the next 12 months) ESG as an integral part of our risk and portfolio management

**8. Actual Example - Please provide an ACTUAL example of how you executed ONE of the following, in a maximum of 500 words.**

Maintained investment style consistency during a particularly challenging time for the portfolio

**Please briefly describe the critical challenge/s, actions taken, results and lessons learned:**

Following a very strong 2020, 1Q21 was a challenging period for the fund given the sharp sell-off of growth stocks in favor of more “value” orientated names. Whilst we had anticipated some style rotation and selectively added attractively valued cyclical growth stocks in 4Q20, the fund nevertheless underperformed the benchmark. Stock selection in Technology was a particular headwind, as both enterprise software as well as hardware names fell in a broad-based sell off. Additionally, not owning anything in the energy sector was also a detractor from the fund’s performance, particularly in the light of a 20%+ rise in the underlying oil price. We do acknowledge the risk from style rotation, however we also believe that our approach of focusing on long-term structural growth compounders will add value over market cycles. Therefore, rather than trying to second guess what the style environment would be like in the near-term, we remained ever more focused on bottom-up stock selection and identifying potential dislocation between long-term fundamentals and the stock price. Consequently, we added back to selective long-term structural growth stocks on the back of correction, for example Chinese EV battery and material names, internet and software stocks, as well as Taiwanese technology hardware equities. We also added to attractively valued cyclical growth rebound opportunities such as auto parts and glass companies, whilst maintaining our structural overweights to technology and healthcare sectors. 2Q21 saw more of an equilibrium restored with performance being much more driven by company specific rather than style factors, and the fund’s outperformance in 2Q21 was driven by stock selection in Technology and Industrials, a mirror image to 1Q21.