

Factor Investing 101: An Actionable Guide for Every Investor

Housekeeping

- Ask Questions
- Polls
- Survey

Today's Presenters

Moderator**Tom Lydon****CEO****ETF Trends****Panelist****Mustafa Sagun,
Ph.D., CFA***Chief Investment Officer***Principal Global Equities****Panelist****Matthew Cohen***Senior ETF Specialist***Principal Global Investors**

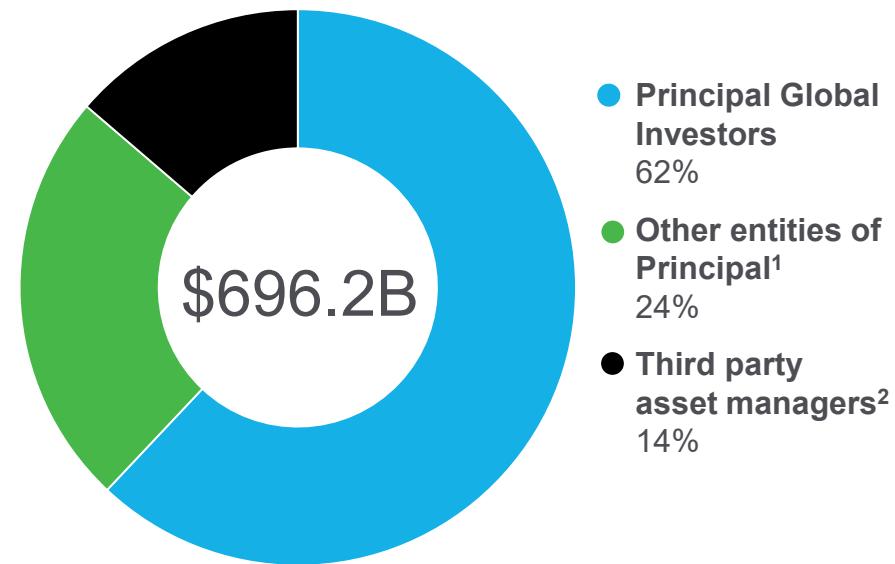
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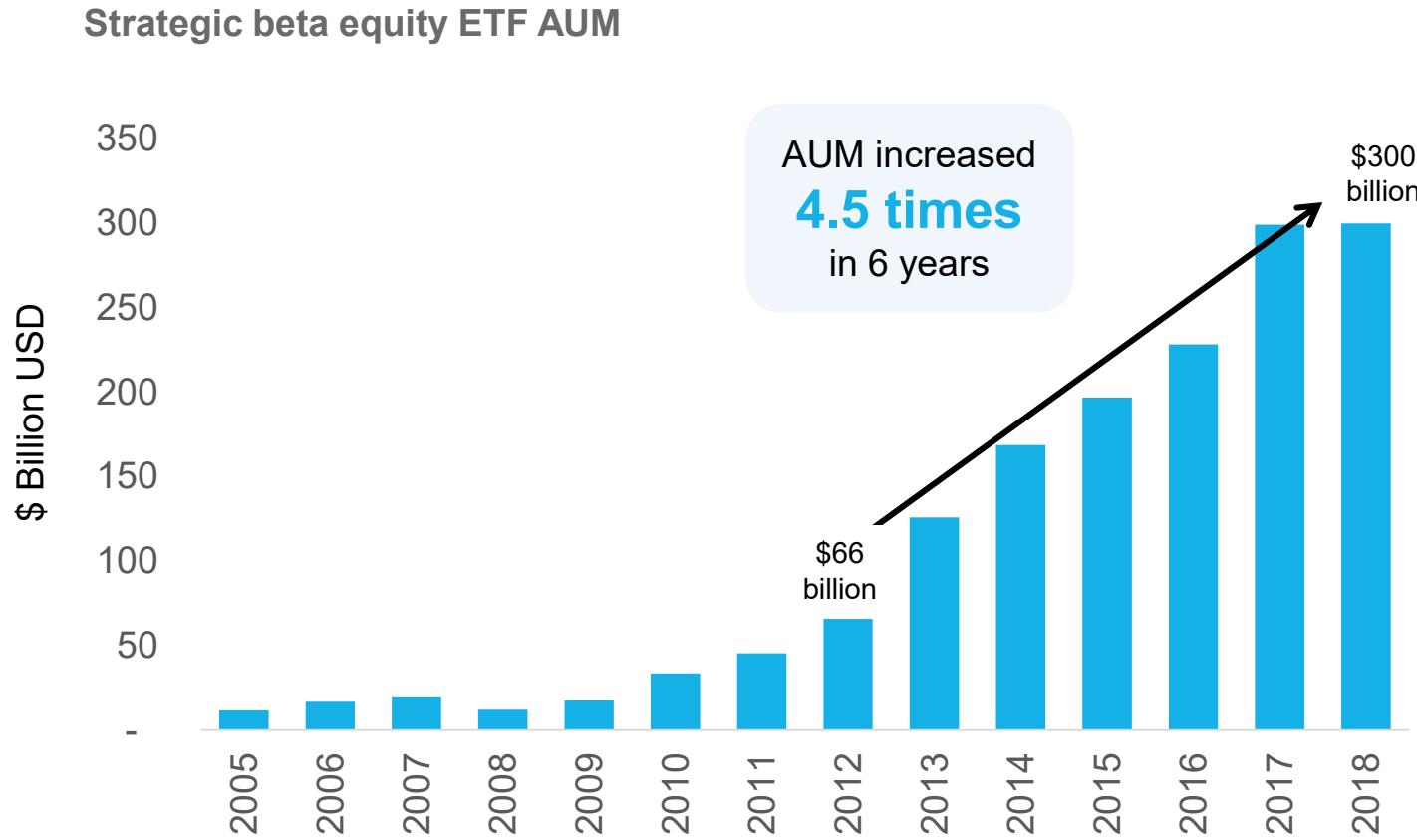
As of June 30, 2019.

See Important Information page for AUM description. Due to rounding, figures and percentages shown may not add to the totals or equal 100%.

¹Other asset management entities of Principal Financial Group includes Principal Bank, assets managed by segments of the insurance company and sub-advised assets within the Retirement and Income Solutions (RIS) segment.

²Unaffiliated sub-advisors.

Rapid growth of strategic beta investing



Source: Morningstar and Principal Global Equities. As of 7/30/2019. Data shows AUM in non cap-weighted strategic beta equity ETF AUM.

Polling

What is your familiarity with factor-investing?

- ▶ Expert (factor investing is a core tenant of how I build portfolios)
- ▶ Experienced (allocating to factors in some portfolios for +3 years)
- ▶ New adopter (recently allocating to factors over the past year)
- ▶ Interested (considering factor allocation)

Factor fundamentals

Factors
are drivers
of return

Four criteria for successful factor investing



Academic



Persistent



Tradable



Time varying

Source: Principal Global Equities.

Commonly accepted equity factors

Factors	Inputs
 Value	Book yield, earnings yield, cash-flow yield
 Quality	Profitability, healthy balance sheets
 Momentum	3-12 month price appreciation
 Size	Small-cap stocks
 Volatility	Low-volatility stocks



Seeks return through outperformance



Seeks return through risk mitigation

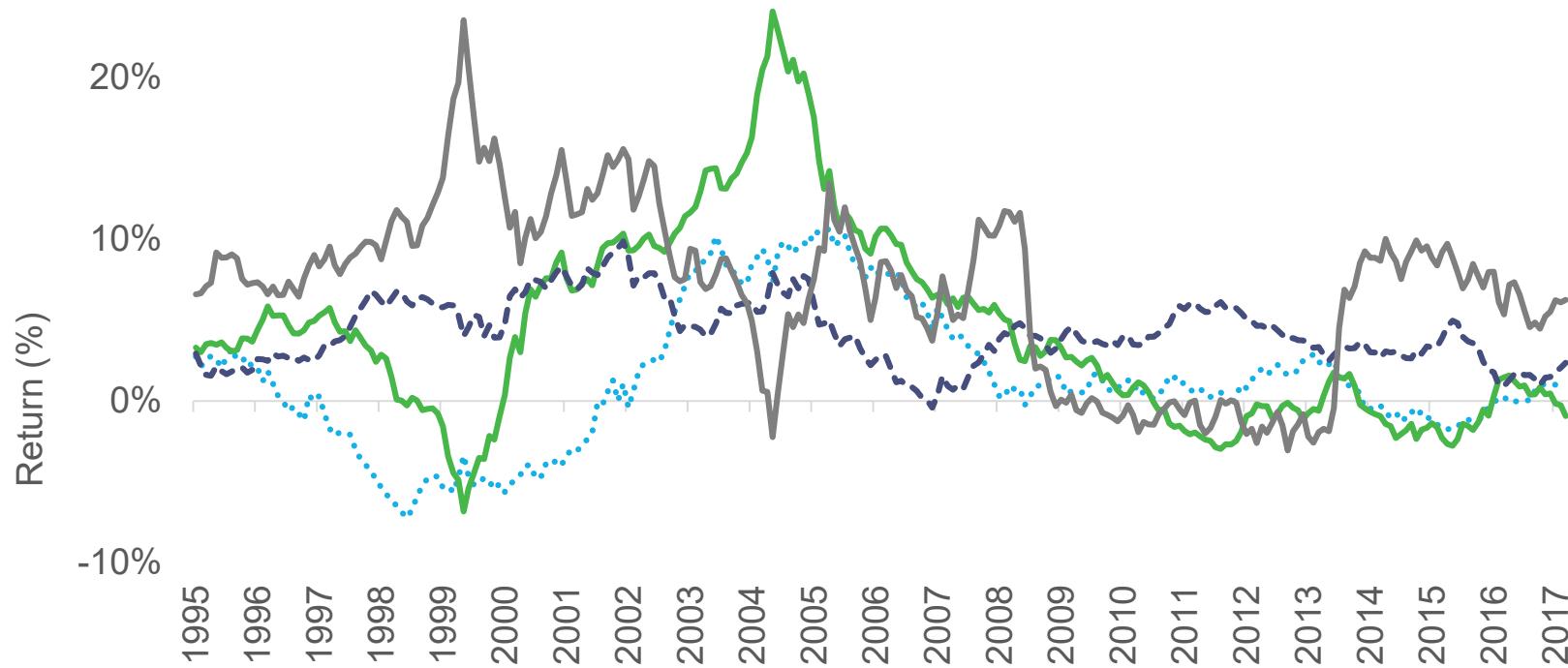
Each factor performs differently



Four factors commonly used to generate return through outperformance

Value Quality Momentum Size

Rolling annualized 5-year factor performance



Data source: Fama-French Long/Short Global Portfolios Kenneth French Website (mba.tuck.dartmouth.edu/pages/faculty/ken.french). These are current views and opinions of Principal Global Investors and are subject to change. Quality is represented as Fama-French Profitability factor. Data is 10/31/1995 – 12/31/2017.

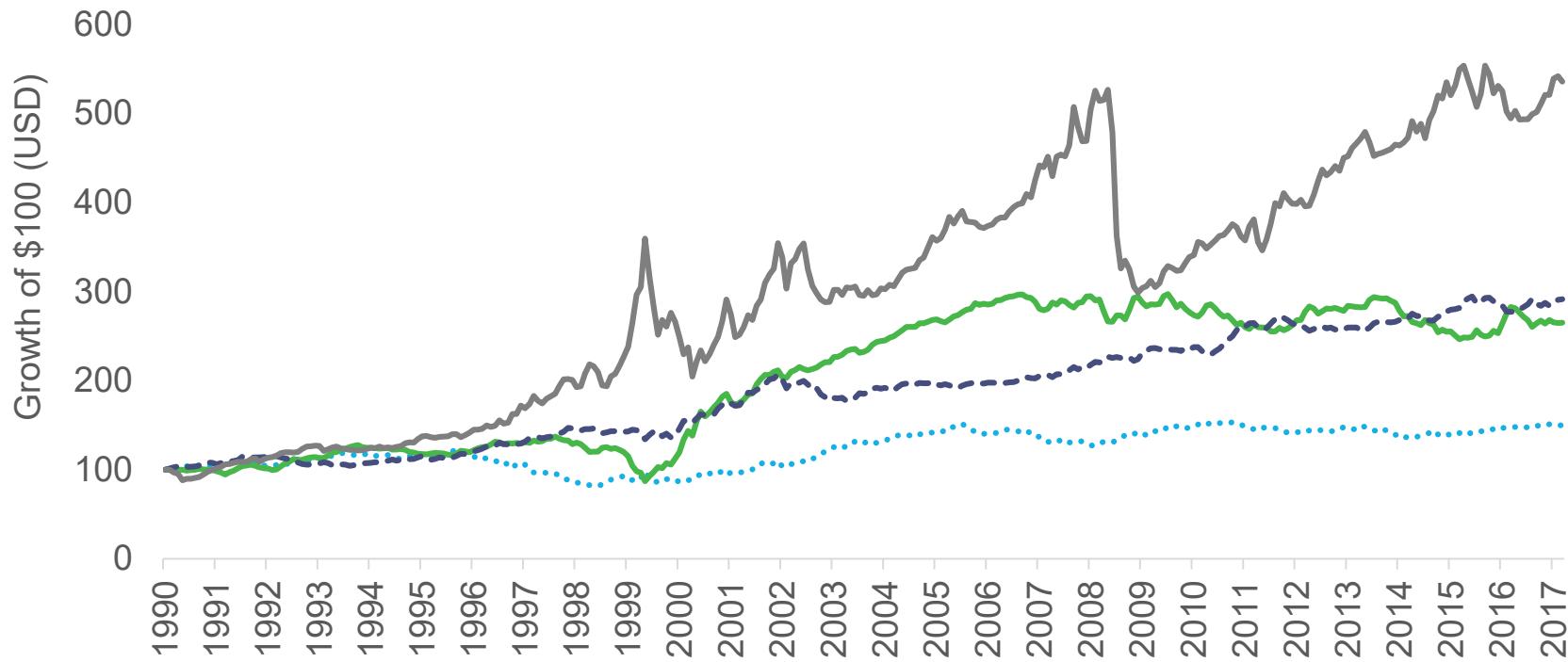
Factors are attractive for long-term investors



Four factors commonly used to generate return through outperformance

— Value - - - Quality — Momentum Size

Cumulative factor performance

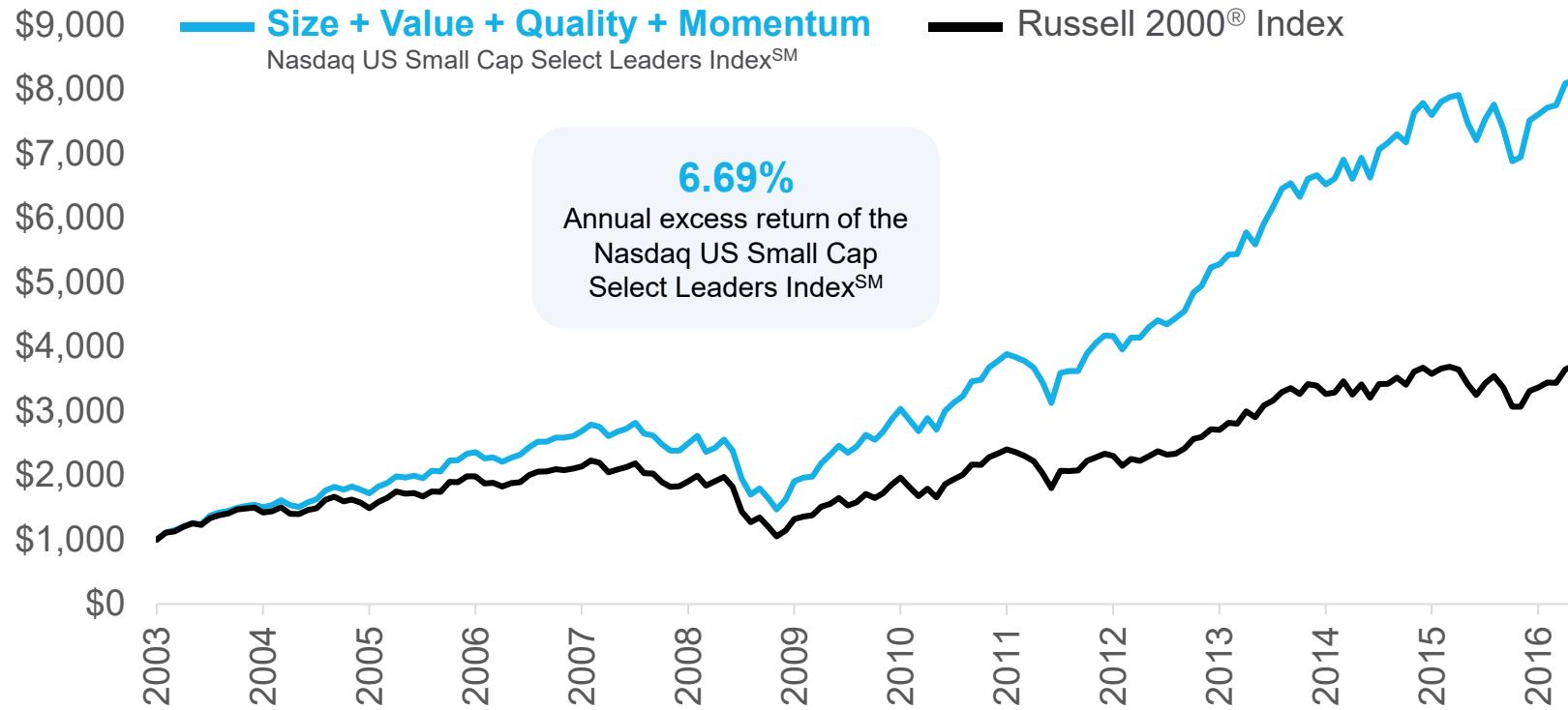


Data source: Fama-French Long/Short Global Portfolios Kenneth French Website (mba.tuck.dartmouth.edu/pages/faculty/ken.french). These are current views and opinions of Principal Global Investors and are subject to change. Quality is represented as Fama-French Profitability factor. Data is 10/31/1990 – 12/31/2017.

Using multiple factors drives excess return

Pre-inception performance of Nasdaq US Small Cap Select Leaders IndexSM versus actual performance of Russell 2000[®] Index
 Pre-inception performance analysis for the period 5/1/2003 – 8/31/2016 (last full month of data prior to inception)

Growth of \$1,000 chart | Hypothetical Index comparative results



Principal pays the index provider, Nasdaq, an annual license fee, which is based on the net asset value of the ETF. Analysis includes pre-inception performance for the period 5/1/2003 – 8/31/2016 (the last full month of data prior to inception). The Nasdaq US Small Cap Select Leaders IndexSM performance shown is the performance data published by the index provider, adjusted to reflect the fees of the ETF. The inception date of the index is 9/19/2016. The ETF is a new product and any performance prior to the date of the index inception is hypothetical. All performance prior to this date represents pre-inception index performance data ("PIP") and is reflected in the table above. Actual performance is reflected in the table in this presentation. Pre-inception index performance results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance and cannot account for all financial risk that may affect the actual performance of the ETF(s). The actual performance of the ETF may vary significantly from the PIP data. PIP does not account for factors such as: transaction costs, liquidity, and other market factors. Had these factors been accounted for, actual performance would have been lower. Past performance is no guarantee of future results.

Polling

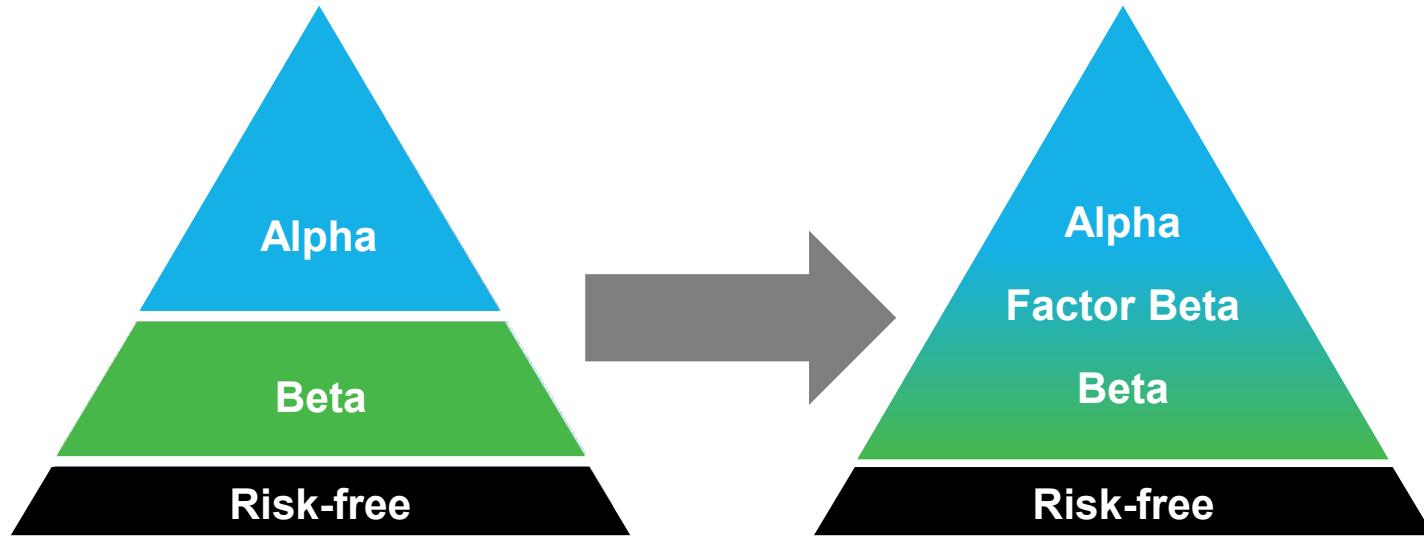
How are you allocating to factors in investor portfolios?

Select all that apply.

- ▶ Replacement for core holdings
- ▶ Complement for core holdings
- ▶ Tactical exposure
- ▶ Not yet allocating

Allocating to factors in portfolios

Investors are now blurring the lines of alpha and beta by using factors



Traditional approach

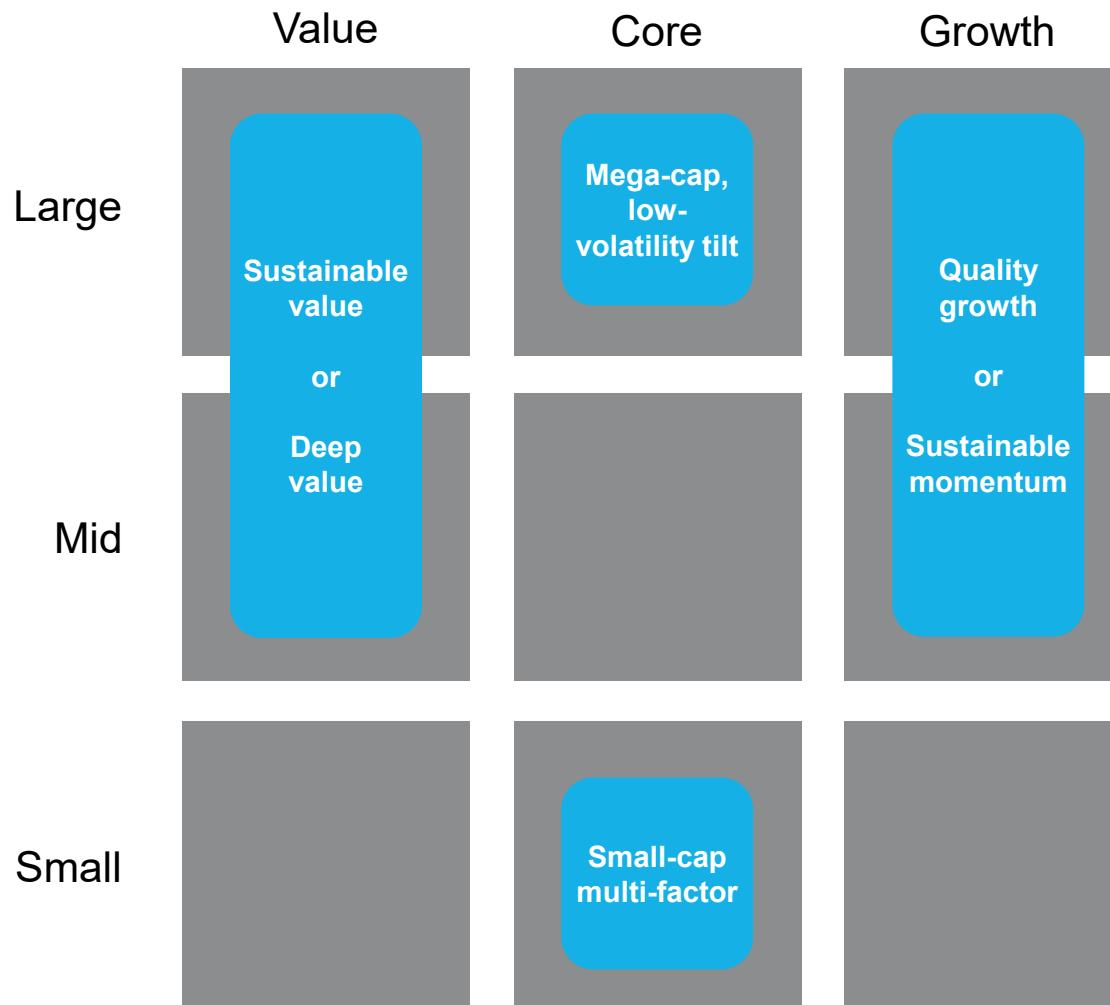
Credit goes to the stock picker for excess returns (alpha) above the market (beta).

Modern approach

Credit goes to thoughtful allocation to factor exposure for excess returns (alpha) above the market (beta).

Shown for illustrative purposes only.

Principal's application of factor investing

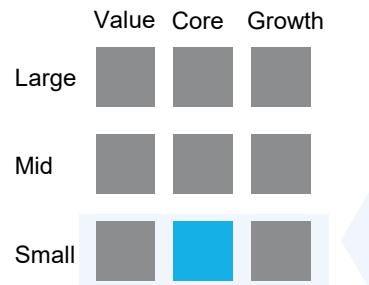


Source: Principal Global Equities. Shown for illustrative purposes only.

Principal factor-based ETFs

Ticker	Factor definitions	Net / Gross Expense Ratio
USMC	Mega-cap, low-volatility tilt	0.12% / 0.15%
PVAL	Deep value (book yield)	0.29%
PY	Sustainable value (cash-flow yield)	0.29% / 0.40%
PMOM	Sustainable momentum	0.29%
PSET	Quality growth	0.29% / 0.40%
PSC	Small-cap, multi-factor	0.38%

Using factors as a core replacement

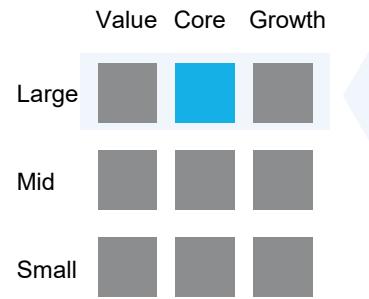


PSC
Principal U.S. Small-Cap
Multi-Factor Index ETF
0.38% expense ratio

Size + Value + Quality + Momentum

Shown for illustrative purposes only.

Use factors to mitigate risk or fill a portfolio gap



USMC

Principal U.S. Mega-Cap
Multi-Factor Index ETF
0.12% net expense ratio

Low-volatility tilt

As of 06/30/2019 the net/gross expense ratio is 0.12%/0.15%. The investment adviser has contractually agreed to reduce total annual fund operating expenses for the Fund by waiving a portion of its management fee, or reimbursing the Fund, to the extent that total expenses exceed 0.12% (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) expressed as a percent of average net assets on an annualized basis. It is expected that the expense limit will continue through the period ending 10/31/2019; however, Principal Exchange-Traded Funds and the investment adviser may mutually agree to terminate the expense limit prior to the end of the period.

Potential for excess return with risk mitigation



Pre-inception performance of Nasdaq US Mega Cap Select Leaders IndexSM versus actual performance of S&P 500[®] Index

Pre-inception performance analysis for the period 5/31/2001 – 5/31/2017 (last full month of data prior to inception)

Pre-inception date performance and risk profile | Hypothetical Index comparative results

Performance profile ending 5/31/2017	1-year	3-year	5-year	10-year	5/1/2001 – 5/31/2017
Annualized return	16.31%	10.23%	14.99%	8.02%	6.59%
S&P 500 [®] Index annualized return	17.47%	10.13%	15.41%	6.93%	6.28%
Annualized excess return vs S&P 500 [®] Index	-1.16%	0.11%	-0.42%	1.09%	0.31%
Up-market capture	N/A	94.20%	95.94%	91.24%	89.19%
Down-market capture	N/A	88.38%	94.30%	84.21%	85.65%
Risk profile ending 5/31/2017	1-year	3-year	5-year	10-year	5/1/2001 – 5/31/2017
Standard deviation	5.97%	9.70%	9.32%	13.29%	12.81%
S&P 500 Index [®] standard deviation	5.89%	10.23%	9.56%	15.16%	14.26%
Beta	0.90	0.92	0.95	0.86	0.87
Sharpe ratio	2.67	1.04	1.59	0.56	0.41
S&P 500 Index [®] Sharpe ratio	2.90	0.97	1.60	0.42	0.35

Principal pays the index provider, Nasdaq, an annual license fee, which is based on the net asset value of the ETF. The Nasdaq US Mega Cap Select Leaders IndexSM performance shown is the performance data published by the index provider, adjusted to reflect the fees of the ETF. The inception date of the index is 6/26/2017. The ETF is a new product and any performance prior to the date of the index inception is hypothetical. All performance prior to this date represents pre-inception index performance data ("PIP") and is reflected in the table above. Actual performance is reflected in the table in this presentation. Pre-inception index performance results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance and cannot account for all financial risk that may affect the actual performance of the ETF(s). The actual performance of the ETF may vary significantly from the PIP data. PIP does not account for factors such as: transaction costs, liquidity, and other market factors. Had these factors been accounted for, actual performance would have been lower. Past performance is no guarantee of future results.

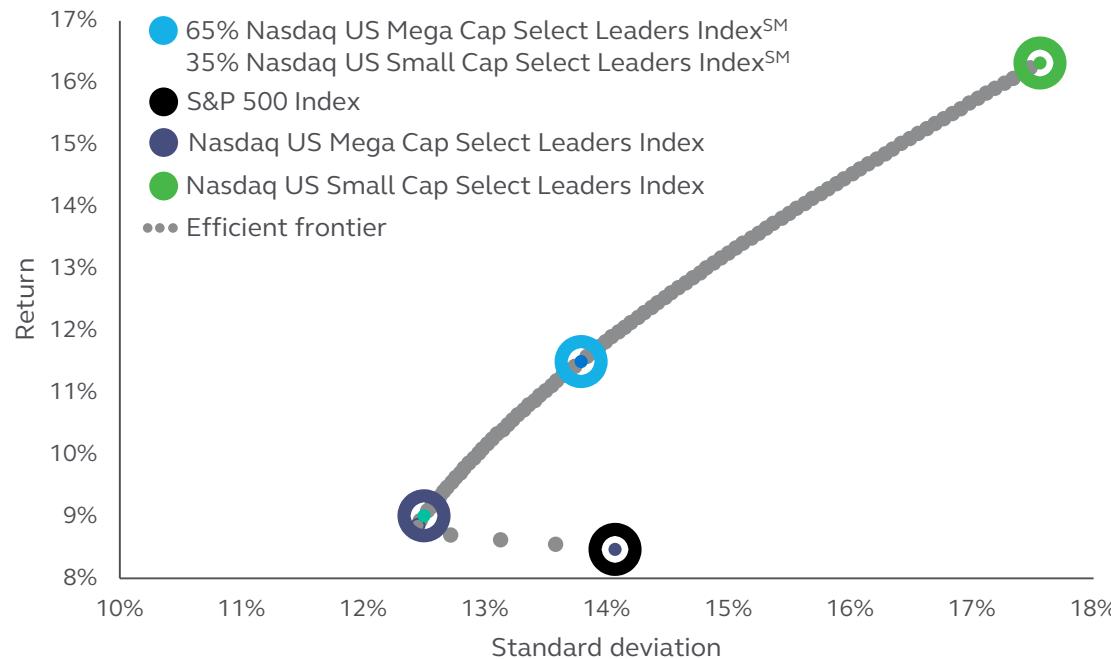
A barbell approach to combining two factor-based strategies



Pre-inception performance of hypothetical portfolio versus actual performance of S&P 500® Index TR

Combining mega-cap and small-cap factor-based strategies can potentially lower volatility profile

- › Historical excess return 2.9%
- › Same risk as the S&P 500® Index
- › Modest increase in fees and costs
- › Simple to implement (two strategies)
- › Reasonable tracking error of 2.3%



Source: Principal Global Equities. For illustrative and informational purposes only. Hypothetical portfolio is comprised of 65% Nasdaq US Mega Cap Select Leaders IndexSM and 35% Nasdaq US Small Cap Select Leaders IndexSM TR and includes pre-inception performance for the period 1/1/2004 – 12/31/2015 (the last full year of data prior to inception of the Nasdaq US Small Cap Select Leaders IndexSM). Assumes monthly rebalancing. The Nasdaq US Small Cap Select Leaders IndexSM performance shown is the performance data published by the index provider, adjusted to reflect the fees of the ETF. The inception date of the index is 9/19/2016. The Nasdaq US Mega Cap Select Leaders IndexSM TR USD performance shown is the performance data published by the index provider, adjusted to reflect the fees of the ETF. The inception date of the index is 6/26/2017. The ETFs are new products and any performance prior to the date of the index inception is hypothetical. All performance prior to this date represents pre-inception index performance data ("PIP") and is reflected in the table above. Actual performance is reflected in the table in this presentation. Pre-inception index performance results are based on criteria applied retroactively with the benefit of hindsight and knowledge of factors that may have positively affected its performance and cannot account for all financial risk that may affect the actual performance of the ETF(s). The actual performance of the ETFs may vary significantly from the PIP data. PIP does not account for factors such as: transaction costs, liquidity, and other market factors. Had these factors been accounted for, actual performance would have been lower. Past performance is no guarantee of future results. Principal pays the index provider, Nasdaq, an annual license fee, which is based on the net asset value of the ETF.

Now you know factor fundamentals. What's next?



You are already
a factor
investor

Factors are
easy to
implement

Not all factor
solutions are
the same

Polling

Do you plan to add or initiate a position in any of the following Principal factor-based ETFs over the next 6 months?

Select all that apply.

- ▶ PSC: Size + Value + Quality + Momentum
- ▶ USMC: Mega-cap, low-volatility tilt
- ▶ Other Principal factor-based ETFs
- ▶ Need to learn more

**Mustafa Sagun,
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Principal Global Equities



Matthew Cohen

Senior ETF Specialist
Principal Global Investors



Questions?

Please submit your questions using the Q&A box.

Important information

Principal U.S. Mega-Cap Multi-Factor Index ETF (USMC)

Performance history (as of June 30, 2019)

	Total returns (%)					Yields (%)		
	USMC inception 10/11/2017	3-month	Year-to- date	1-year	Since inception	30-day SEC (subsidized) ¹	30-day SEC (unsubsidized) ¹	Distribution yield ²
Net asset value (NAV) return	3.84	16.36	14.32	11.05	2.07	2.05	2.23	
Market price return	3.92	16.09	14.25	11.05	N/A	N/A	N/A	
Nasdaq US Mega Cap Select Leaders Index SM	3.89	16.51	14.56	11.36	N/A	N/A	N/A	
S&P 500® Index	4.30	18.54	10.42	10.72	N/A	N/A	N/A	

As of 06/30/2019 the net/gross expense ratio is 0.12%/0.15%³.

Performance data quoted represents past performance. Past performance is no guarantee of future results and investment returns, and principal value of the Fund will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. Visit principaletfs.com for current month-end performance.

Source: Morningstar, State Street.

Total returns for periods longer than one year are average annual total returns. Total returns shown for periods of less than one year are not annualized.

¹ The 30-Day SEC yield represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the fund's share price at the end of the 30-day period. It is calculated based on the standardized formula set forth by the SEC. It is designed to standardize the yield calculation so that all exchange traded fund companies with the same or similar portfolios use a uniform method to obtain yield figures.

Unsubsidized yield reflects what the SEC yield would be if the investment company were not waiving a portion of the Fund's expense ratio. Subsidized yield would reflect a Fund's yield incorporating all expense ratios waivers.

² As of 07/01/2019. The distribution yield is calculated by annualizing actual dividends distributed for the dividend period (monthly, quarterly, etc.) ending on the most recent dividend distribution date and dividing by the net asset value for the same date. The yield does not include long- or short-term capital gains distributions.

³ The investment adviser has contractually agreed to reduce total annual fund operating expenses for the Fund by waiving a portion of its management fee, or reimbursing the Fund, to the extent that total expenses exceed 0.12% (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) expressed as a percent of average net assets on an annualized basis. It is expected that the expense limit will continue through the period ending 10/31/2019; however, Principal Exchange-Traded Funds and the investment adviser may mutually agree to terminate the expense limit prior to the end of the period.

Principal U.S. Small-Cap Multi-Factor Index ETF (PSC)

Performance history (as of June 30, 2019)

PSC inception 9/21/2016	Total returns (%)				Yields (%)		
	3-month	Year-to-date	1-year	Since inception	30-day SEC (subsidized) ¹	30-day SEC (unsubsidized) ¹	Distribution yield ²
Net asset value (NAV) return	1.30	13.53	-4.84	9.74	1.51	1.51	0.96
Market price return	1.21	13.65	-4.84	9.74	N/A	N/A	N/A
Nasdaq US Small Cap Select Leaders Index SM	1.42	13.82	-4.47	10.23	N/A	N/A	N/A
Russell 2000® Index	2.10	16.98	-3.31	10.14	N/A	N/A	N/A

As of 06/30/2019 the net/gross expense ratio is 0.38%.

Performance data quoted represents past performance. Past performance is no guarantee of future results and investment returns, and principal value of the Fund will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. Visit principaletfs.com for current month-end performance.

Source: Morningstar, State Street.

Total returns for periods longer than one year are average annual total returns. Total returns shown for periods of less than one year are not annualized.

¹ The 30-Day SEC yield represents net investment income earned by a fund over a 30-day period, expressed as an annual percentage rate based on the fund's share price at the end of the 30-day period. It is calculated based on the standardized formula set forth by the SEC. It is designed to standardize the yield calculation so that all exchange traded fund companies with the same or similar portfolios use a uniform method to obtain yield figures. Unsubsidized yield reflects what the SEC yield would be if the investment company were not waiving a portion of the Fund's expense ratio. Subsidized yield would reflect a Fund's yield incorporating all expense ratios waivers.

² As of 07/01/19. The distribution yield is calculated by annualizing actual dividends distributed for the dividend period (monthly, quarterly, etc.) ending on the most recent dividend distribution date and dividing by the net asset value for the same date. The yield does not include long- or short-term capital gains distributions.

Important information

Glossary

Alpha

Excess return of an investment relative to a market index or benchmark that represents the market's broader movements.

Beta

An investment's sensitivity to market movements.

Down-market capture

Generally thought to show whether a given fund has outperformed – lost less than a broad market benchmark during periods of market weakness, and if so, by how much. Down-market capture ratios are calculated by taking the fund's monthly return during the periods of negative benchmark performance and dividing it by the benchmark return.

Excess Return

The difference between an investment option's return and the return of an external standard such as a passive index.

Sharpe Ratio

Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance.

Standard Deviation

Measures how much an investment's returns are likely to fluctuate.

Up-market capture

Generally thought to show whether a given fund has outperformed – gained more than a broad market benchmark during periods of market strength, and if so, by how much. Up-market capture ratios for are calculated by taking monthly return during months when the benchmark had a positive return and dividing it by the benchmark return during that same month.

Important information

Carefully consider a fund's objectives, risks, charges, and expenses. For a prospectus, or summary prospectus if available, containing this and other information, visit PrincipalETFs.com or call Sales Support at 800-787-1621. Please read it carefully before investing.

Risks

Asset allocation and diversification do not ensure a profit or protect against a loss. Investing in ETFs involves risk, including possible loss of principal. ETFs are subject to risk similar to those of stocks, including those regarding short-selling and margin account maintenance.

Investor shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Ordinary brokerage commissions apply.

Risks specific to:

PMOM Principal Sustainable Momentum Index ETF: Mid-cap stocks may have additional risks, including greater price volatility. Stocks that previously exhibited high momentum characteristics may not experience positive momentum or may experience more volatility than the market as a whole. In addition, there may be periods when momentum style is out of favor, during which the investment performance of a Fund that uses momentum based strategies may suffer.

PSET Principal Price Setters Index ETF, PY Principal Shareholder Yield Index ETF and PVAL Principal Contrarian Value Index ETF: Mid-cap stocks may have additional risks, including greater price volatility.

PSC Principal U.S. Small-Cap Multi-Factor Index ETF: Small-cap stocks may have additional risks including greater price volatility.

USMC Principal U.S. Mega-Cap Multi-Factor Index ETF: Equity investments involve greater risk, including heightened volatility, than fixed income investments.

Important information

Indices

PMOM Principal Sustainable Momentum Index ETF seeks to track the Nasdaq US Sustainable Momentum IndexSM, which is designed to provide exposure to equity securities of mid- to large capitalization companies within the Nasdaq US Large Mid Cap IndexSM that exhibit strong price momentum.

PSET Principal Price Setters Index ETF seeks to track the Nasdaq US Price Setters IndexSM, which is designed to provide exposure to equity securities of large capitalization U.S. issuers. The index focuses on U.S. companies with sustainable pricing power, consistent sales growth, high/stable margins, quality earnings, low volatility, and high levels of profitability.

PSC Principal U.S. Small-Cap Multi-Factor Index ETF seeks to track the Nasdaq US Small Cap Select Leaders IndexSM, which is designed to provide exposure to companies within the Nasdaq US Small Cap IndexSM that exhibit high degrees of sustainable shareholder yield, pricing power, and strong momentum.

PVAL Principal Contrarian Value Index ETF seeks to track the Nasdaq US Contrarian Value IndexSM, which is designed to provide exposure to the balance sheet value risk premia of companies within the Nasdaq US Large Mid Cap IndexSM, while attempting to avoid those companies that exhibit value traps.

PY Principal Shareholder Yield Index ETF seeks to track the Nasdaq US Shareholder Yield IndexSM, which is designed to provide exposure to equity securities of mid- and large capitalization U.S. issuers. The index focuses on U.S. companies with sustainable shareholder yield, strong cash flow generation, and capacity to increase dividends and/or buybacks.

USMC Principal U.S. Mega-Cap Multi-Factor Index ETF seeks to track the Nasdaq US Mega Cap Select Leaders IndexSM, which provides exposure to the largest U.S. companies within the Nasdaq US 500 Large Cap IndexSM with a tilt to lower volatility companies.

S&P 500® Index includes 500 leading companies in industries of the US economy. It was first published in 1957. Information regarding the comparison to the S&P 500® Index is available upon request.

Russell 1000® Index measures the performance of the 1,000 largest companies in the Russell 3000® Index. Information regarding the comparison to the Russell 2000® Index is available upon request.

Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. Information regarding the comparison to the Russell 2000® Index is available upon request.

Important information

Information regarding the indexes presented in this material, including the calculation methodology used, is available upon request.

Unless otherwise noted, index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

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Thank You

