



# Nationwide Global Sustainable Equity Fund

## Quarterly Commentary

Mutual funds

Commentary

### Q3 2018

**Asset class:** International Equity  
**Objective:** Seeks to maximize total return, consisting of capital appreciation and current income

**Morningstar category:**  
World Large Stock  
**Class A:** GGEAX  
**Class C:** GGECX  
**Inst Svc:** GGESX  
**Class R6:** GGEIX

## Executive summary

- *Stock selection in consumer discretionary and financials helped bolster performance enough to outperform the benchmark for the quarter*
- *An uptick in global risk underscores the team's focus on companies with long term secular opportunities*
- *Earnings and cash flow growth will be key to support long-term market returns going forward*

## Portfolio management



UBS Asset Management (Americas) Inc.



**Bruno Bertocci**  
Portfolio Manager  
Fund tenure since 2015



**Joseph R. Elegante**  
Portfolio Manager  
Fund tenure since 2015

## NATIONWIDE'S MARKET REVIEW

Equity markets rallied for the second consecutive quarter, with the S&P 500® Index delivering a positive return in 21 of the last 23 quarters. Following volatility in the first quarter of the year on fears of inflation, interest rates, geopolitical stress and trade disagreements, investors have refocused on the strong fundamental backdrop. The economy is strong, with GDP growth of 3.2% forecast for the third quarter, following 4.2% in the second quarter. Consumer, small business and executive confidence remains near record levels, and appears to be driving improved consumer and capital spending. Corporate profits provide strong support for equity market returns, with growth for the S&P 500 expected at 21% and the S&P Small Cap 600 could grow 35%. Corporate share repurchases are contributing to earnings and generating demand for shares, with buyback authorizations likely to top \$1 trillion this year. Each month of the quarter had positive performance, with the S&P 500 returning 11% for the year.

During the third quarter, the S&P, Dow Jones Industrial Average and NASDAQ Composite Index returned +7.7%, +9.0% and +7.4% respectively. For the S&P 500, it was the best performance since 2013. Growth stocks outperformed value, and large-caps outperformed small. Leading sectors for the quarter included health care, industrials and technology, while materials, energy and real estate lagged. During the quarter, the Federal Open Market Committee (FOMC) raised their Federal Funds target rate by 0.25% (third hike this year), with an expectation for one additional hike for 2018. The Fed's "dot plot" points to three additional hikes for 2019, bringing the range to between 3.00% and 3.25%, though the futures market is suggesting a more gradual pace. Interest rates rose for the fifth-straight quarter, with the 10-year yield closing near a seven-year high of 3.05%. The yield curve flattened, with the spread between the 10-year and 2-year Treasury yields

falling to 0.25%. Despite the rising rates, tightening credit spreads allowed the Bloomberg Barclays U.S. Aggregate Bond Index to deliver a slight positive return. While positive, international equity markets lagged on concerns over global growth and trade tensions, with the MSCI EAFE® Index returning +1.4% and the MSCI Emerging Markets® Index returning -1.0%.

## PERFORMANCE REVIEW

In the third quarter of 2018, the MSCI World Index increased by 5.0%. Healthcare (up 11.5%) and Information Technology (up 10.7%) were the best performing sectors. Real Estate (down 1.1%) and Materials (down 0.5%) underperformed the overall market. Growth outperformed Value: MSCI World Value Index was up 4.6% for the quarter, while MSCI World Growth Index was up by 6.2%.

## CONTRIBUTORS

Security name	Period return	Portfolio impact
Integrated Device Technology, Inc. (IDTI US)	+47.46%	+40 bps
TJX Companies Inc (TJX US)	+18.02%	+26 bps
Brambles Limited (BXB AU)	+21.43%	+24 bps
Facebook, Inc. Class A (FB US)	-15.37%	+23 bps
Amazon.com, Inc. (AMZN US)	+17.84%	+19 bps

Country/Sector	Period return	Portfolio impact
Consumer Discretionary	+12.15%	+62 bps
Financials	+4.80%	+35 bps
Real Estate	+4.68%	+18 bps

Source: UBS Asset Management (Americas) Inc., 09/30/18.

The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown.

## DETRACTORS

Security name	Period return	Portfolio impact
Apple Inc. (APPL US)	+22.25%	-39 bps
Electronic Arts Inc. (EA US)	-14.56%	-34 bps
Aptiv PLC (APTIV US)	-8.23%	-25 bps
Sage Group plc (SGE LN)	-7.86%	-23 bps
Spectris plc (SXS LN)	-10.20%	-21 bps

Country/Sector	Period return	Portfolio impact
Information Technology	+6.60%	-56 bps
Health Care	+6.81%	-55 bps
Communication Services	-1.56%	-22 bps

Source: UBS Asset Management (Americas) Inc., 09/30/18.

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## PORTFOLIO POSITIONING

Market volatility has increased in 2018 and concerns about tariffs, cost inflation and currencies are creating a more challenging environment for risk assets. General economic activity and corporate profitability remain robust despite these issues, though we are closely monitoring the implications of these challenges as they relate to global growth. Companies with leading positions in longer term secular opportunities that can manage these cyclical risks are areas we are currently emphasizing in the portfolio.

From an economic sector perspective, we remain overweight Industrials and Materials with meaningful underweights in Information Technology and Utilities. From a regional perspective, the portfolio is currently underweight North America and overweight Western Europe and Emerging Markets.

## BUYS AND SELLS

Security Name	Initial Buy Date	Rationale for Purchase
Novartis AG (NOVN SW)	09/07/2018	Attractive relative valuation
Naspers Limited Class N (NPN SJ)	07/18/2018	Attractive relative valuation
Centrica plc (CAN LN)	07/18/2018	Attractive relative valuation
Takeda Pharmaceutical Co. Ltd. (4502 JP)	09/14/2018	Attractive relative valuation
Sony Corporation (6758 JP)	07/18/2018	Attractive relative valuation

Security Name	Sell Date	Rationale for Sale
Cisco Systems Inc. (CSCO US)	07/18/2018	Realigning position to size of opportunity
Lyondellbasell Industries NV (LYB US)	07/18/2018	Realigning position to size of opportunity
Shire PLC (SHP LN)	09/07/2018	Realigning position to size of opportunity
EOG Resources, Inc. (EOG US)	09/10/2018	Realigning position to size of opportunity
PTC Inc. (PTC)	09/07/2018	Realigning position to size of opportunity

## MARKET ENVIRONMENT

In 3Q18, the US equity market benefitted from continued strong economic data. Consumer spending continued to rise in the 3rd quarter even when adjusted for inflation. Inflation numbers came in somewhat weaker than expected, but that did not deter the Federal Reserve from raising its key interest rate for the third time this year as was widely expected. The Fed's language suggested that the "accommodative" era is over and that one more hike would likely follow this year.

Meanwhile in Europe, progress with Brexit negotiations is tenacious at best. Equity investors seemed unfazed by the set-back. Risks in emerging markets continued to dominate headlines. The Turkish central bank's decision to raise rates by 625bps to 24% bolstered their weak currency and brought back some confidence to the vulnerable emerging market.

## OUTLOOK

As the economic cycles get closer to the end, risks rise and volatility picks up. Year-to-date, risk-adjusted returns for equities have moderated. We continue to monitor both company level and overall global economic strength.

We believe that earnings and cash flow growth will support long-term market returns, especially for companies that can manage upcoming wage and input cost inflation. To navigate this environment, we have constructed a diversified portfolio of attractively valued companies exposed to many interesting secular themes that creates a unique investment opportunity for long term investors. We continue to see rising interest in sustainable investment strategies as pension funds see the inclusion of material sustainability factors as helpful to the analytical process. We also see heightened awareness of the external social impact of securities portfolios.

## Average annual total returns (%)

Share class	QTD	YTD	1-year	3-year	5-year	10-year
Class A (without sales charge)	4.99	8.50	13.68	14.43	7.65	8.07
<b>Class A (with 5.75% max sales charge)</b>	<b>-1.04</b>	<b>2.26</b>	<b>7.15</b>	<b>12.19</b>	<b>6.38</b>	<b>7.43</b>
Class C	4.79	7.88	12.86	13.57	6.84	7.28
Institutional Service Class	5.10	8.78	14.06	14.80	7.99	8.41
Class R6	5.11	8.84	14.16	14.90	8.08	8.46
MSCI World Free Index	4.98	5.43	11.24	13.54	9.28	8.56
World Large Stock Category	3.47	3.69	8.87	12.44	8.24	8.25

Performance returns assume the reinvestment of all distributions. Returns for periods less than one year are not annualized. Total returns reflect a contractual expense limitation for direct annual Fund expenses for all classes for certain periods since inception, without which returns would have been lower. Pre-inception historical performance for newer share classes is based on the corresponding share class performance of a Fund's predecessor fund. If no predecessor Fund applies, historical performance is based on that of the longest existing share class, adjusted for sales charges if applicable.

Share class	Expense ratios		Inception date
	Gross (%)	Net (%)	
Class A	1.59	1.35	06/30/1997
Class C	2.35	2.11	11/27/2001
Institutional Service Class	1.28	1.04	11/21/2012
Class R6	1.19	0.95	01/28/1994

The expense ratios are as shown in the most recent prospectus. Expenses include underlying fund expenses. The difference between gross and net operating expenses reflects contractual fee waivers in place through 06/30/2019. Please see the Fund's prospectus for more details.

## Top Holdings

	% of portfolio
Amazon.com Inc	3.7
TJX Companies Inc	2.5
SAP SE	2.5
Unilever NV	2.3
Marsh & McLennan Companies, Inc.	2.2
Ecolab Inc	2.2
UnitedHealth Group Inc	2.2
Allergan plc	2.2
Walt Disney Company	2.1
Makita Corporation	1.9

Holdings are provided for informational purposes and should not be deemed as a recommendation to buy or sell the securities.

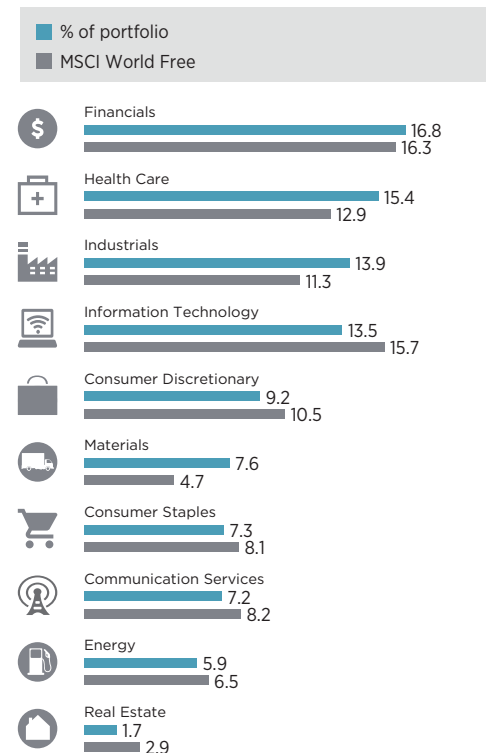
## Portfolio characteristics

Total Net Assets (all classes)	\$59.1M
Total Number of holdings	76
P/E ratio	21.7x
Sharpe Ratio*	1.3
Standard deviation*	10.6
Alpha*	0.0
Beta*	1.1
R-Squared*	89.7
Turnover	38%

Portfolio characteristics are based on Institutional Service Class shares.

\*Rolling 36 months

## Top Sectors



The results shown represent past performance; past performance does not guarantee future results. Current performance may be lower or higher than the past performance shown. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. To obtain the most recent month-end performance, go to [nationwide.com/mutualfunds](http://nationwide.com/mutualfunds) or call 800-848-0920.

Class A - max front end sales charge of 5.75%, 0.25% 12b-1 fee (investment size may reduce or eliminate front-end sales charge). Class C - 1.00% Contingent Deferred Sales Charge, 1.00% 12b-1 fee. Class R6 shares - no sales charge, no 12b-1 fee. Institutional Class shares - no sales charge, no 12b-1 fee.

• Not a deposit • Not FDIC or NCUSIF insured • Not guaranteed by the institution • Not insured by any federal government agency • May lose value

## Important Disclosures

This material is not a recommendation to buy, sell, hold, or roll over any asset, adopt an investment strategy, retain a specific investment manager or use a particular account type. It does not take into account the specific investment objectives, tax and financial condition or particular needs of any specific person. Investors should work with their financial professional to discuss their specific situation.

**Investors should carefully consider a fund's investment objectives, risks, fees, charges and expenses before investing any money. To obtain this and other information on Nationwide Funds, please call 1-800-848-0920 to request a summary prospectus and/or a prospectus, or download a summary prospectus and/or a prospectus at [nationwide.com/mutualfunds](http://nationwide.com/mutualfunds). Please read it carefully before investing.**

**DEFINITIONS:** **Average annual total returns** are the annual compounded returns that would have produced the cumulative total return if fund performance had been constant during the given period. **P/E ratio** is the price of a stock divided by trailing 12-month earnings per share. **Sharpe ratio** measures excess return per unit of risk (standard deviation). A higher Sharpe ratio suggests better risk-adjusted performance. **Standard deviation** measures performance fluctuation, may not be indicative of future risk and is not a predictor of returns. **Alpha** represents the excess returns of a fund relative to its benchmark. A positive alpha is the added value an active manager has contributed over the benchmark returns. **Beta** measures volatility in relation to the fund's benchmark. A beta of less than 1.0 indicates lower volatility, while a beta of more than 1.0 indicates higher volatility relative to the benchmark. **R-Squared** measures the percentage of a fund's movements that can be explained by movements in a benchmark. **Turnover** measures how frequently investments are bought and sold within a fund during a 12 month period. The portfolio turnover rate is as of the fund's fiscal year end and is usually expressed as a percentage of the total value of a fund.

**Principal Risks:** Investing in mutual funds involves risk, including the possible loss of principal. Share price, principal value, and return will vary, and you may have a gain or a loss when you sell your shares. There is no assurance that the investment objective of any fund will be achieved. The Fund is subject to the risks of investing in equity securities (including small companies). Smaller companies are usually less stable in price and less liquid than larger, more established companies. Smaller companies are more vulnerable than larger companies to adverse business and economic developments and may have more limited resources. Therefore, they generally involve greater risk. The Fund also is subject to the risks of investing in foreign securities (currency fluctuations, political risks, differences in accounting and limited availability of information, all of which are magnified in emerging markets). The Fund may concentrate on specific countries, subjecting it to greater volatility than that of other mutual funds. Sustainability factors used in the subadviser's investment process will likely make the Fund perform differently from a fund that relies solely or primarily on financial metrics. The Fund may invest in more-aggressive investments such as derivatives (which create investment leverage and are highly volatile). Please refer to the most recent prospectus for more detailed information.

**Market Indexes:** Market index performance is provided by a third-party source Nationwide Funds Group deems to be reliable. Indexes are unmanaged and have been provided for comparison purposes only. No fees or expenses have been reflected. Individuals cannot invest directly in an index. **The S&P SmallCap 600<sup>®</sup> Index:** measures the small-cap segment of the U.S. equity market. The index is designed to track companies that meet specific inclusion criteria to ensure that they are liquid and financially viable. **NASDAQ Composite Index:** a market capitalization-weighted index that measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market. **MSCI World Index Free:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in global developed markets as determined by MSCI. The "Free" suffix denotes an index with a somewhat different history but the same constituents and performance in relation to its counterpart index without the suffix. **S&P 500<sup>®</sup> Index:** An unmanaged, market capitalization-weighted index of 500 stocks of leading large-cap U.S. companies in leading industries; gives a broad look at the U.S. equities market and those companies' stock price performance. **Bloomberg Barclays US Aggregate Bond Index:** An unmanaged, market value-weighted index of U.S. dollar-denominated, investment-grade, fixed-rate, taxable debt issues, which includes Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities and commercial mortgage-backed securities (agency and non-agency). **MSCI Emerging Markets Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in emerging-country markets as determined by MSCI. **MSCI EAFE Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in developed markets as determined by MSCI; excludes the United States and Canada. **MSCI World Index:** An unmanaged, free float-adjusted, market capitalization-weighted index that is designed to measure the performance of large-cap and mid-cap stocks in global developed markets as determined by MSCI. **MSCI World Value Index:** A subset of the MSCI World Index, and targets 50% coverage of the MSCI World Index, with value investment style characteristics for index construction using three variables: book value to price, 12-month forward earnings to price, and dividend yield. **MSCI World Growth Index:** A subset of the MSCI World Index, and targets the remaining 50% coverage. The indices are gross of withholding taxes, assume reinvestment of dividends and capital gains, and assume no management, custody, transaction or other expenses.

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