

# Principal Edge Equity Income

31 March 2024

## Strategy description

The strategy seeks a relatively high level of current income and long-term growth of income and capital by investing primarily in the common stocks of U.S. large-cap companies.

## Strategy facts

**Manager:** Principal Edge  
**Inception:** 1 August 2000  
**Index:** Russell 1000 Value Index  
**Targeted number of holdings<sup>1</sup>:** 50-80  
**Expected turnover<sup>1</sup>:** 15-25%

## Key differentiators

- **Growers, not just payers.** Dividend growers and payers have historically had higher returns with less risk than non-dividend paying stocks.
- **Powered by great companies.** A quality-first mentality removes subpar operators, helping to avoid value traps.
- **Sector neutral approach.** Helps mitigate risk and relies on stock selection not sector bets to drive excess returns.

## Portfolio management

**Daniel R. Coleman**  
45 years' experience

**Nedret E. Vidinli, CFA**  
28 years' experience

**Sarah E. Radecki, CFA**  
28 years' experience

## Investment philosophy

We invest in companies that we believe are high-quality with competitive advantages, financial strength, shareholder-oriented management teams, and strong or improving profitability. We focus on quality first, have the patience to invest at attractive valuations, and maintain a long-term investment horizon.

## Composite performance (%)

	3M	1YR	3YR	5YR	10YR	Performance Start (1 August 2000)
Principal Edge Equity Income (gross)	8.15	20.58	7.47	10.76	10.19	9.91
Principal Edge Equity Income (net)	8.02	19.99	6.93	10.25	9.72	9.38
Russell 1000 Value Index	8.99	20.27	8.10	10.30	9.00	8.58

## 12-month rolling returns (%)

	Apr 19 - Mar 20	Apr 20 - Mar 21	Apr 21 - Mar 22	Apr 22 - Mar 23	Apr 23 - Mar 24
Principal Edge Equity Income (gross)	-12.87	54.22	10.02	-6.42	20.58
Principal Edge Equity Income (net)	-13.22	53.59	9.47	-6.89	19.99
Russell 1000 Value Index	-17.17	56.09	11.67	-5.91	20.27

Source: Principal Global Investors.

As of March 2024. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

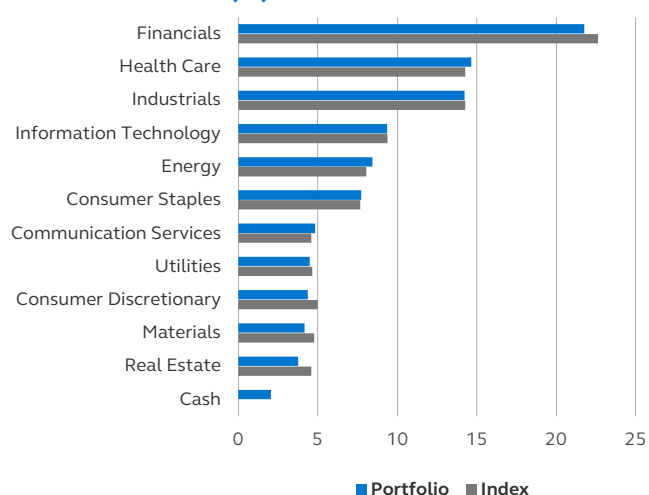
## Risk Considerations

- The potential for profit is accompanied by the possibility of loss.
- Equity markets are subject to many factors, including economic conditions, government regulations, market sentiment, local and international political events, and environmental and technological issues that may impact return and volatility.
- There is a risk that an investment will decline in value.

<sup>1</sup>Investment guidelines are subject to change.

Top 10 holdings (%)<sup>2</sup>

	Location	Sector	Portfolio	Index	Active weight <sup>3</sup>
1 Jpmorgan Chase & Co.	United States	Financials	3.3	2.6	0.6
2 Marathon Petroleum Corporation	United States	Energy	3.1	0.3	2.7
3 Parker-Hannifin Corporation	United States	Industrials	3.0	0.3	2.7
4 Kkr & Co Inc	United States	Financials	3.0	0.2	2.7
5 Blackrock, Inc.	United States	Financials	2.7	0.6	2.1
6 Morgan Stanley	United States	Financials	2.6	0.5	2.1
7 Merck & Co., Inc.	United States	Health Care	2.5	1.3	1.3
8 Costco Wholesale Corporation	United States	Consumer Staples	2.5	—	2.5
9 Paccar Inc	United States	Industrials	2.4	0.3	2.1
10 Trane Technologies Plc	United States	Industrials	2.4	0.2	2.2

Sector allocation (%)<sup>2</sup>Portfolio characteristics<sup>2,4</sup>

	Portfolio	Index
Market cap (weighted average)	\$243.9B	\$158.4B
Sales growth (trailing 5-year CAGR)	7.45	6.07
Turnover – last 12 months <sup>5</sup>	13.1%	-
Active share <sup>6</sup>	79.3%	-
Number of holdings	66	846
Dividend yield (weighted average)	2.38	2.12
Beta	0.95	1.00
Price/earnings – last 12 months	23.14	21.78
Operating margin (trailing 5-year average)	18.48	17.53
Return on capital (trailing 5-year average)	12.79	10.77

Composite risk statistics (gross)<sup>5</sup>

	3YR	5YR
Sharpe ratio	0.28	0.48
Standard deviation	17.12	18.31
Information ratio	-0.21	0.14
Tracking error	3.10	3.26

<sup>2</sup> Source: FactSet. Characteristics and weightings shown are of the representative portfolio. FactSet data is subject to revision over time, which may result in slight differences among data points reported during the same period.

<sup>3</sup> Portfolio security weight minus the benchmark security weight.

<sup>4</sup> Yields and yield related characteristics shown are only one component of performance or expected performance and are not and should not be viewed as a statement of the current or future performance of the strategy. See the gross and net performance of the strategy.

<sup>5</sup> Source: Principal Global Investors.

<sup>6</sup> A measure of the proportion of stock weights in a manager's portfolio that differ from the index.

Due to rounding, figures and percentages shown may not add to the total or equal 100%. The index benchmarks are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the portfolios included in the composites and the methods of calculating performance of the composite and the index may not be identical.

## Investment process overview

Seek quality companies at attractive valuations

### Screen for profitable companies

- Revenue growth > industry and GDP
- Return on invested capital > weighted average cost of capital
- Positive free cash flow

### Identify “Good Companies” from industry review

- **Competitive advantage.** Brand, patents, barriers to entry, location, etc.
- **Complexity.** Number and relatedness of businesses
- **Financial strength.** Variability of operating margins and strength of balance sheet
- **Potential for profitability change.** Is there a meaningful inflection up or down over our 5-year horizon
- **Shareholder friendliness.** History of increasing dividends, buying back stock at attractive prices or making accretive acquisitions

### Portfolio construction and risk management

- Monitor buy list for attractive entry point
- Seek to purchase companies when there has been company or industry specific dislocation and then own for years
- Sector neutral approach focuses team on stock selection within each sector to drive results
- Utilize BarraOne® for risk management oversight

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All figures shown in this document are in U.S. dollars unless otherwise noted.

Indices are unmanaged and do not take into account fees, expenses and transaction costs are not available for direct investment.

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