Principal Edge

Principal Asset Management℠

EDGE SMA EQUITY INCOME

Quarterly commentary

SECOND QUARTER 2025

The Principal Edge SMA Equity Income portfolio outperformed the Russell 1000® Value Index on a gross basis in the second quarter driven by positive stock selection in 5 out of 11 sectors. Over the trailing one-year, 94% of companies held have raised their dividend by a median of 6.8%..

What helped

The financial sector saw the strongest stock selection in the quarter which was aided by not owning Berkshire Hathaway Inc. (BRK.B), which saw its shares lag amid the fading "Buffett premium" with concerns about their leadership transition. Owning Morgan Stanley (MS) aided relative performance as the company topped earnings expectations, driven by share gains in prime brokerage and trading activity. As the energy sector fell in Q2, Marathon Petroleum Corporation (MPC) moved higher and contributed to relative performance as results were strong across all segments. MPC has also reduced its share count by 50% since mid-2021 as the company remains disciplined with its capital allocation.

What hurt

Within the communication services, stock selection was the weakest in the quarter. Owning both T-Mobile US, Inc. (TMUS) and Omnicom Group Inc (OMC) detracted from relative performance as shares moved lower in the quarter. OMC is in the process of merging with IPG, with the deal still expected to close in the second half of 2025 with management reaffirming confidence in the $750 million run rate for cost savings. The industrial sector saw strong performance from several names in the quarter, but stock selection was still negative as not owning GE Vernova Inc. (GEV), General Electric Company (GE), and Eaton Corp. Plc (ETN) detracted from relative performance.

What we did

In the quarter we added two new names and eliminated one holding. Following Russell's annual reconstitution at the end of June, Amazon (AMZN), Alphabet (GOOG/GOOGL) are now top 5 weights in the Russell 1000® Value Index, and Meta (META) returned to the index as well. These additions resulted in Equity Income being underweight communication services and consumer discretionary. GOOGL was added within the communication services sector and Williams-Sonoma (WSM) within consumer discretionary to reduce the strategy's underweights. With WSM, we like that 95% of their products sold are proprietary and believe they will benefit from reducing its more costly store base while driving more purchases online. The company also features a strong balance sheet with no debt and has been committed to growing its dividend. Halliburton Company (HAL) was sold as we consolidated our energy holding names.

Top five contributors

Trane Technologies plc (TT), a leading manufacturer of residential and commercial HVAC equipment, aided results as the company beat expectations driven by strength in North America. In particular, within its HVAC business, it had record bookings and its backlog increased $400m quarter over quarter, countering investor concern about decreasing demand due to tariff uncertainty.

Taiwan Semiconductor Manufacturing Co. (TSM) is the world's largest foundry with leading-edge technology in compute and power. TSM has expanded its global manufacturing footprint with locations in Japan, Germany, and the United States. During the quarter, TSM guided to 20% year over year revenue growth after experiencing minimal changes in customer orders related to tariffs. Similar to AVGO, shares moved higher as investors were reassured that AI capex will continue to grow.

Not owning Berkshire Hathaway Inc. (BRK.B), which does not pay a dividend, contributed to relative performance as shares lagged amid the fading "Buffett premium" with concerns about their leadership transition.

Morgan Stanley (MS) operates under three segments: wealth management, investment management, and institutional securities. Wealth management and investment management generate roughly half of its net revenue, with the E*TRADE and Eaton Vance acquisitions expected to provide significant future growth opportunities. MS shares aided relative performance as the company topped earnings expectations, driven by share gains in prime brokerage and trading activity. In addition, there was solid growth in its wealth channel and institutional securities came in higher than expected, with strength in equities and strong client activity amid a more volatile trading environment.

Broadcom Inc. (AVGO) designs, develops, and supplies semiconductor and infrastructure software solutions and has a portfolio of diverse franchises that sell into multiple end markets including wired, wireless, video, enterprise storage, and industrial. During the quarter, AVGO reported better than expected earnings and raised expectations due to strong demand and revenue visibility. The company also announced a new Tomahawk 6 product which has better performance, reliability and lower latency and power consumption needs than previous generations. Finally, investors were buoyed by information technology companies' higher capex spending on AI, which further bolstered AVGO's outlook.

Source: FactSet. Information is based upon a Model (hypothetical) portfolio of the Edge SMA Equity Income strategy. Contributors and detractors do not represent all of the securities purchased, sold or recommended for the model portfolio during the quarter. It should not be assumed that recommendations made in the future will be profitable or equal the performance of the securities listed. Past performance is no guarantee of future results. Securities identified as contributors that were not held during the period represented acted as contributors to the active return due to the firm's decision not to invest. The decision not to invest resulted in an increase in active return due to the security underperforming relative to the other constituents.

Top five detractors

Alexandria Real Estate Equities, Inc. (ARE) has carved out a niche within the office sector as the leading life science REIT specifically focused on lab office space. ARE leases primarily to pharma, life science and not-for-profit research institutions in key research clusters of San Francisco, Boston, New York City, Seattle, San Diego, and the Research Triangle. ARE detracted from results as management lowered expectations on reduced occupancy. Additionally, investors worried about funds from operations weakening in 2026 as biotechnology spending remains weaker due to U.S. academic/NIH funding, slower biotech funding, increased China uncertainty, and tariffs.

Fidelity National Financial (FNF) is a title insurance and transaction service provider to the real estate and mortgage industries. FNF is the largest title insurance company in the U.S. with subsidiaries such as Fidelity National Title, Chicago Title, and Alamo Title. The company lagged after missing expectations in both its title and F&G businesses, though it did resume its stock buyback program.

T-Mobile (TMUS) serves over 100 million customers, and we believe it is the best-positioned U.S. wireless carrier due to its network capacity, untapped pricing potential, and its focus on costs. Shares detracted from relative performance in the quarter as TMUS saw postpaid phone adds come in lower than expectations as telephone companies have seen higher churn from recent pricing actions, elevated promos, and a pull forward in some upgrades ahead of potential tariffs.

Merck & Co., Inc. (MRK) is a biopharma company and the global leader in oncology with additional focus in vaccines, cardiometabolic health, and animal health products. MRK moved lower as negative attention regarding Gardasil weighed on the stock and put investor focus back on its dependence on Keytruda, which has an upcoming loss of exclusivity in 2028.

Not owning **GE Vernova Inc (GEV)** detracted from results as the company rose during the quarter.

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Buys

Alphabet, Inc. (GOOGL) is a holding company which engages in software, health care, transportation, and other technologies. It operates through the following segments: Google Services, Google Cloud, and other bets. The Google Services segment includes products and services, such as ads, Android, Chrome, devices, Google Maps, Google Play, Search, and YouTube. The Google Cloud segment refers to infrastructure and platform services, collaboration tools, and other services for enterprise customers. We added GOOGL during the quarter after a steep sell-off due to regulatory concerns and to reduce our underweight position in Communication Services versus the benchmark.

Williams-Sonoma, Inc. (WSM) is the owner of the Williams Sonoma, Pottery Barn, and West Elm brands. We like that 95% of the products WSM sells are proprietary and believe they will benefit from reducing its more costly store base while driving more purchases online, which is higher margin. The company also features a strong balance sheet with no debt and has been committed to growing its dividend. WSM was added to the portfolio during the quarter.

Sells

Halliburton Co. (HAL) engages in the provision of products and services to the energy industry. During the quarter, HAL was eliminated from the portfolio in favor of other opportunities within the energy area.

Quarterly buys and sells represent all new purchases and full liquidations of securities for the model portfolio for the previous quarter. It should not be assumed that securities identified above will prove to be profitable. Any reference to a specific investment or security does not constitute a recommendation to buy, sell or hold such investment security.

Outlook

Similar to when interest rates rose violently in 2022 and most macroeconomists predicted an imminent recession (that never came), we don't believe the impact of the evolving tariff announcements are any clearer. If there is anything we've learned in recent years, it's to expect the unexpected. Clearly, we can all calculate a company's sourcing and revenue exposure by country and the potential "impact" of tariffs as a result. But the reality is much more nuanced and there are potentially powerful second derivative effects that are not picked up by simple exposure charts. We continue to believe that the tariffs only exacerbate the strength of the headwinds, tailwinds, and crosswinds that investors face and, as a result, we expect the performance of individual stocks to continue to diverge. As a result, any tactical moves we make will be grounded in deep fundamental research, will be company specific, and will be focused on business model resilience, strong cash flow generation, and pricing power as we look forward.

With so much in flux, we continue to take a thoughtful approach to all environments and avoid knee jerk reactions. We remain skeptical that the tariff increases that take effect this year will cause the U.S. economy to fall into a recession, but we acknowledge that they will cause prices to increase, and therefore a company's pricing power becomes a key determinant of their ability to manage a higher tariff environment. What is not so simple to determine is which companies truly have pricing power in the current environment. However, the devil is in the details, and what matters to us is whether a company of any size can pass on price and/or improve productivity such that they are able to maintain profitability in the face of these headwinds. Longer term, the second derivative effects may matter just as much as the direct effects. Do the tariffs result in lower taxes, more reshoring, and more efficient supply chains? If so, the economy could benefit, and high-quality companies could be extremely well positioned. So, for us, it's less of a call on small versus large, or on industrials vs financials, as it is a call on which companies can take pricing, take market share, and grow earnings over time in an evolving landscape.

With uncertainty prevalent, there are fewer quality franchises that can effectively maneuver on unsteady terrain. Deep fundamental research is therefore essential to identifying quality businesses with strong franchises that are also nimble. In addition, the AI revolution continues forward, and we believe quality companies who use the power of AI to keep costs in line or enhance sales growth will be at a distinct advantage against their competition over the comping years. There is no substitute for bottom-up, company specific analysis the separates the winners from the losers in a unsteady and volatile world.

Gross performance as of 6/30/2025

Annualized performance (%)	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception (1/1/1997)
Edge SMA Equity Income	5.42	5.77	14.05	13.37	14.28	10.95	10.06
Russell 1000® Value Index	3.79	6.00	13.70	12.75	13.92	9.18	8.60
Excess return	1.64	-0.24	0.35	0.62	0.36	1.77	1.47

The financial market outlook is based on current market conditions. There is no assurance that such events or projections will occur and actual conditions may be significantly different than that shown here. The potential for profit is accompanied by the possibility of loss.

Past performance does not guarantee future results. Periods over one year are annualized. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

Net performance as of 6/30/2025

Annualized performance (%)	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception (1/1/1997)
Edge SMA Equity Income	4.65	4.21	10.71	10.05	10.94	7.69	6.83
Russell 1000® Value Index	3.79	6.00	13.70	12.75	13.92	9.18	8.60
Excess return	0.86	-1.80	-2.99	-2.70	-2.99	-1.49	-1.77

Past performance does not guarantee future results. Periods over one year are annualized. Net of fees reflects the gross returns reduced by an assumed maximum bundle fee of 3%. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

Index Descriptions

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The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

Hypothetical/Model Portfolio Objectives The Model Portfolio has been designed to seek a relatively high level of current income and long-term growth of income and capital by investing primarily in mid- and large cap U.S. companies. The portfolio is benchmarked to the Russell 1000 Value Index. The volatility of the index is materially different from that of the model portfolio. Volatility of the model may be subject to loss and investment results portrayed in the model may vary. Individual cannot invest directly in the index.

Hypothetical/Model Portfolio Construction The Model Portfolio has been constructed by selecting companies that have a capacity to pay dividends, consistently grow dividends over time, and/or demonstrate commitment of shareholders.

Disclosures

Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal. 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. Dividends are not guaranteed. Small- and mid-cap stocks may have additional risks including greater price volatility.

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