Principal Asset Management℠

A closer look at the power of SMID dividends

There is a common misconception that small- and mid-cap (SMID) companies need to reinvest all their capital to grow their business, preventing them from paying a dividend. As a result, an investor interested in income generation may not keep SMID companies top of mind, potentially missing out on high-quality, dividend-paying companies that have historically outperformed with less volatility over time.

SMID dividends drive results

The outperformance of large-cap dividend payers over non-dividend payers— 2.6% annually since 1975—is well-known, so it may surprise investors that the outperformance within SMID companies is even more pronounced. Dividend payers in the SMID space have outperformed non-dividend payers by over 6% annually, with only two-thirds of the volatility.

Digging even deeper, active managers who can identify and invest specifically in dividend growers and initiators have historically delivered even better performance with lower standard deviation over time.

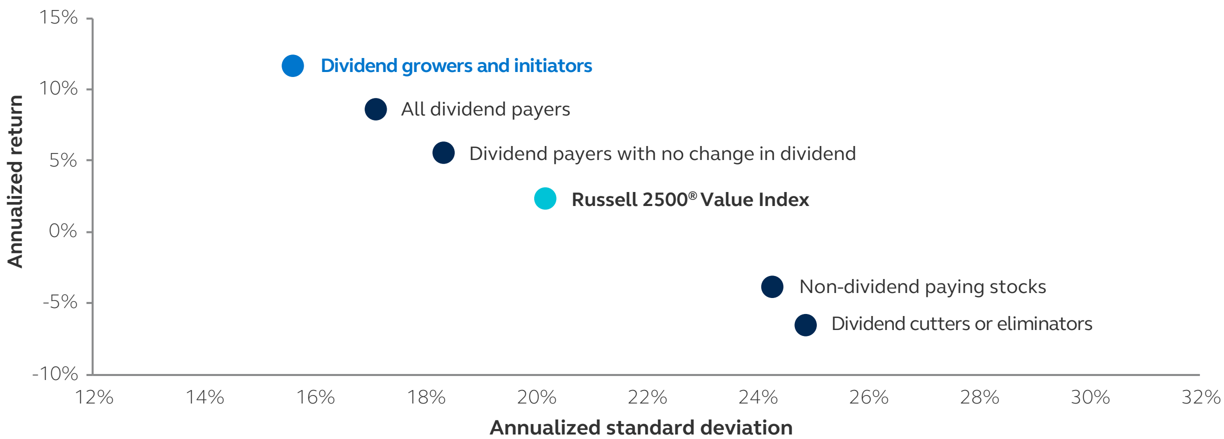
The long-term power of dividends
January 1975–December 2023

Large-cap stocks	Returns	Standard deviation
Dividend-paying stocks	14.06%	16.17%
All common stocks	13.27%	17.61%
Non-dividend paying stocks	11.43%	24.26%

Small- and mid-cap stocks	Returns	Standard deviation
Dividend-paying stocks	15.82%	17.45%
All common stocks	12.95%	20.89%
Non-dividend paying stocks	9.66%	25.89%

Data as of December 31, 2023. Source: Empirical Research Partners. Large-cap stocks: All largest 1,000 stocks. Small- and mid-cap stocks: Next 2,500 stocks after the largest 500 by market capitalization, rebalanced annually. Returns: Monthly returns compounded and annualized. Equally weighted data. Past performance does not guarantee future results.

Dividend growers: Better returns with less risk
Small- and mid-cap stocks, January 1987-December 31, 2023

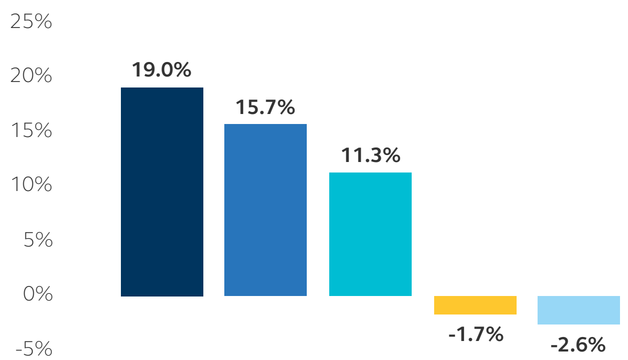


Data as of December 31, 2023. Source: Ned Davis Research. Data represents constituents of the Russell 2500 Value Index and is for illustrative purposes only. Equally weighted data. Past performance does not guarantee future results. Market index has been provided for comparison purposes. Dividends are not guaranteed.

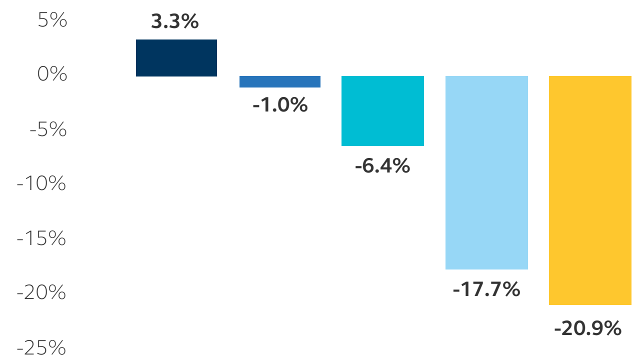
Dividend growth rewarded

When the Federal Reserve (Fed) pauses or cuts rates, it's a signal to the market that growth has slowed or stopped, and that tighter fiscal conditions are no longer warranted. Dividend payers and growers have historically provided positive average returns in the 12 months following a Fed pause or rate cut. In these weakening environments, investors have rewarded strong dividend growth as it often signals management's confidence and visibility into future earnings.

Average returns 12 months after Fed pause



Average returns 12 months after Fed cut



Dividend growers and initiators
All dividend payers
Dividend payers with no change in dividend
Dividend cutters or eliminators
Non-dividend paying stocks

Data as of December 31, 2023. Source: Ned Davis Research, FactSet. Data represents constituents of the Russell 2500 Value Index and is for illustrative purposes only. Equally weighted data. Past performance does not guarantee future results. Dividends are not guaranteed.

Profitability matters

Following a strong 2023, large-cap companies' valuations look rich with relative value to be found within small- and mid-cap companies. Selectivity remains key as the macro environment is far from certain, and many small- and mid-cap companies lack the balance sheet strength should economic stresses mount.

The Russell 2500 Value Index—which measures the performance of the small- to mid-cap value segment of U.S. equities—currently includes nearly one in four unprofitable companies. In the brief 2020 recession, the speed and magnitude of liquidity that flooded markets not only allowed most unprofitable companies to survive, but to thrive. In the short-term, lower quality companies that benefited from excess liquidity outperformed. However, the recent uptick in bankruptcies exposed the longer-term effects of higher interest rates and flawed business models, highlighting the need for an active manager that can successfully identify winners and losers in the space.

	% time cheaper than current valuations
Russell 2500 Value Index	**60%**
Russell 2500 Growth Index	71%
Russell 1000 Value Index	90%
Russell 1000 Growth Index	91%

Data as of December 31, 2023. Source: FactSet.
% time cheaper is a calculated measure, comprised of 20% price-to-earnings (next twelve months), 20% price-to-earnings (last twelve months), 20% price-to-book, 20% price-to-cash flow, and 20% dividend yield (last twelve months). Valuation data goes back to first available in FactSet, June 2003. Indices shown for comparison purposes only. It is not possible to invest directly in an index.

Why Principal Edge for SMID

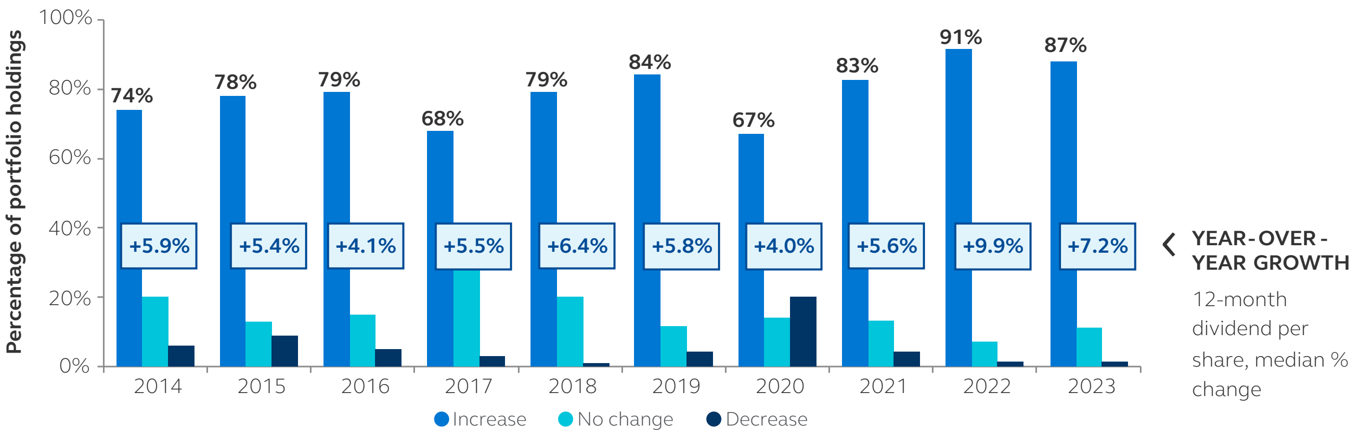
Choosing the right manager is critical for investors who want to take advantage of current SMID opportunities. Principal Edge uses a simple but powerful approach, focusing on high-quality companies with durable competitive advantages, strong balance sheets, and excellent management teams.

The Edge SMID Dividend Income strategy invests in companies that pay a dividend, with a preference for companies that can consistently grow their dividend. In general, these companies have produced a consistent return profile, performing best in down, flat, and modestly positive environments.

"We believe the best companies can do it all—operate profitably, invest in their business, and return capital to shareholders."

Dan Coleman,
Co-Chief Investment Officer,
Principal Edge

SMID dividend growth



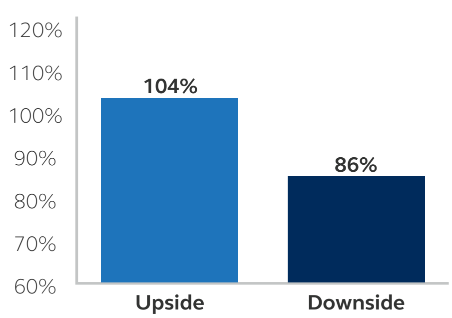
SMID Equity Income Institutional Composite representative portfolio. As of December 31, 2023. Source: FactSet. Dividends are not guaranteed.

A history of outperformance with less risk

Edge SMA SMID Dividend Income vs. Russell 2500 Value Index

	Annualized return	Cumulative return	Alpha (annualized)
Edge SMA SMID Dividend Income (gross)	9.93%	392.96%	2.99%
Russell 2500 Value Index	6.94%	209.73%	—
Edge SMA SMID Dividend Income (net)	6.70%	198.28%	-0.24%

Capture ratios



Rolling returns

Rolling period	Number of periods	Outperforming periods	Batting average	Average excess
3-year	167	129	77%	2.07
5-year	143	114	80%	2.06
7-year	119	117	98%	2.12
10-year	83	83	100%	2.10

All charts above: Since inception (March 1, 2007) as of December 31, 2023. Source: Principal Global Investors. Capture ratios and rolling returns: Gross returns. Capture ratios: Shows the relationship of the composite's performance to the performance of an index during a specific timeframe, as a percentage of that index's position (upside capture) and negative (downside capture) performance. Represents quarterly returns. Batting average is calculated by dividing the number of rolling periods in which the manager beat an index by the total number of rolling periods in the total time frame of the analysis. Portfolio information is based on the strategy's composite. Past performance does not guarantee future results.

Want to learn more? Contact your Principal representative or visit PrincipalAM.com.

Performance as of December 31, 2023

	3-month	1-year	3-year	5-year	10-year	Since inception (03/01/2007)
Edge SMA SMID Dividend Income (gross)	14.09	19.43	11.11	10.72	8.53	9.93
Russell 2500 Value Index	13.76	15.98	8.81	10.78	7.42	6.94
Edge SMA SMID Dividend Income (net)	13.27	15.94	7.84	7.47	5.34	6.70

Periods over one year are annualized. Net of fees reflects the gross returns reduced by an assumed maximum bundled fee of 3%. See disclosure section for details.

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.

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

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. The methods of calculating performance of the composite and the index may not be identical and it is not possible to invest in an index.

The SMA SMID Dividend Income composite contains all fully discretionary fee paying accounts that seek a relatively high level of current income and long-term growth of income and capital by investing primarily in common stocks of small and mid-cap U.S. companies and specifically does not invest in master limited partnerships. For comparison purposes, the benchmark is the Russell 2500® Value Index. The composite was created on November 22, 2010. Performance prior to October 1, 2012 reflects the Small Mid Cap Value institutional composite and does not reflect actual SMA accounts. The composite inception date is March 01, 2007.

Russell 2500® Value Index measures the performance of those Russell 2500® companies with lower price-to-book ratios and lower forecasted growth values. Information regarding the comparison to the Russell 2500® Value Index is available upon request.

This strategy is only provided through separately managed accounts program sponsors. Clients should consult a financial professional before making any investment decisions. Financial professionals should consider the appropriateness of the manager, strategy and program for its clients on an initial and ongoing basis.

Wrap fee schedules are provided by independent wrap sponsors and are available upon request from the representative wrap sponsor. Actual returns will be reduced by investment advisory fees and other expenses that may be incurred in the management of the account. Net performance shown reflects the gross returns reduced by a maximum bundled fee which includes brokerage, custodial, and investment management expenses. Actual investment advisory fees incurred by clients may vary.

Actual client portfolios may differ because of account size, client-imposed investment restrictions, the timing of client investments and market, economic and individual company considerations.

Principal Global Investors ("PGI") acts as a discretionary investment manager or non-discretionary model provider in a variety of separately managed account or wrap fee programs ("SMA Program") sponsored by either broker-dealers or another financial services firm ("Sponsor"). When acting as a discretionary investment manager, PGI is responsible for implementing trades in SMA Program accounts. When acting as a non-discretionary model provider, PGI's responsibility is limited to providing non-discretionary investment recommendations of model portfolios to the SMA Program Sponsor who may utilize such recommendations in connection with its management of SMA Program accounts. In such model SMA Programs ("Model Programs"), it is the Sponsor, and not PGI, which serves as the investment manager to, and has trade implementation responsibility for, the Model Program accounts.

This document is issued in the United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Asset Management is a trade name of Principal Global Investors, LLC.

Principal Edge is an investment team within Principal Global Investors.

MM13488-04 | 01/2024 | 3300685-052024