PRINCIPAL EDGE MIDCAP FUND

Quarterly commentary

FIRST QUARTER 2025

TICKER:

Class I: PEDGX
Class A: PEMCX

The Principal Edge MidCap Fund outperformed the Russell Midcap® Index on a net basis in the first quarter as stock selection was positive in 7 out of 11 sectors.

What helped

The financials sector saw the strongest stock selection in the quarter. Our insurance names, Fidelity National Financial (FNF) and Markel Group (MKL), both contributed to relative performance in the quarter. Stock selection within the health care sector also contributed to performance during the quarter. Owning STERIS (STE) and Cardinal Health (CAH) both aided results. STERIS is a provider of infection prevention products and services, and the company posted growth in revenues and earnings.

What hurt

Stock selection within the energy sector detracted the most from performance during the quarter. Not owning several larger benchmark weights including Williams Companies (WMB), Hess Corporation (HES), and Targa Resources (TRGP), all hurt performance. Within the consumer discretionary sector, performance was hurt by owing Hyatt Hotels (H) and YETI Holdings (YETI) which saw their share prices fall. YETI is an active lifestyle brand of coolers, equipment, drinkware, and accessories with superior performance and design for a growing customer base. The company saw Coolers & Equipment sales grow a robust 17% year-over-year, but the second half outlook weighed on investor sentiment.

What we did

In the quarter we added one new name and eliminated two. Teleflex Incorporated (TFX) was sold during the period. TFX provides medical technology products which enable healthcare providers to improve patient outcomes and enhance patient and provider safety. We have been disappointed in the growth of its core business as well as its Urolift product and exited the company in favor of Cardinal Health. Cardinal Health (CAH) is one of three major pharmaceutical distributors in the U.S. We like that the company has refocused business on core pharma distribution after misguided medical products and technology pursuits in the mid-2010's. We believe the company is now following a similar playbook to competitors, balancing reinvestment and capital return. We also believe that the company will be successful in turning around its medical products segments. Littelfuse, Inc. (LFUS) is a leader in circuit protection products for the electronics, automotive, and industrial markets. LFUS is the largest fuse supplier to the auto industry and also supplies a portfolio of sensors and power control products. During the quarter, we sold LFUS in favor of other opportunities within the sector as we believe end market demand will remain weak.

PRINCIPAL EDGE MIDCAP FUND

The Principal Edge MidCap Fund seeks long-term growth of capital by investing primarily in common stocks of mid-capitalization U.S. companies.

Top five contributors

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. Despite missing expectations due to its F&G business line during the quarter, the company contributed to results as investors anticipated higher home purchase applications.

Casey's General Stores (CASY) is a best-in-class convenience store operator with locations throughout 16 states, primarily in Iowa, Missouri, and Illinois. We believe CASY's is in the early stages of consolidating the industry with strong geographic growth opportunities over our investment horizon. CASY outperformed during the quarter following strong results led by strong same store sales, particularly in the prepared food and dispensed beverage areas.

STERIS plc (STE) is a provider of infection prevention products and services. The company provides healthcare, life science and service solutions such as sterilizers and washers, surgical tables, gastrointestinal endoscopy accessories, and services including equipment installation, maintenance, and repair solutions. We like the company's exposure to the secularly expanding infection protection area as well as the shift towards recurring revenue. This played out during the quarter with the company posting growth in revenues and earnings.

Alliant Energy Corporation (LNT) is an electric utility that services Wisconsin and Iowa through its two subsidiaries, Wisconsin Power & Light and Interstate Power & Light. We believe that the company benefits from operating in what are considered two of the most constructive regulatory jurisdictions. During the quarter, the company's stock responded positively as the company beat expectations and reiterated it's 5-7% long-term guidance range.

Essential Utilities, Inc. (WTRG) provides water, wastewater, and natural gas services. The company outperformed as investors valued stability during the quarter.

Top five detractors

Teradyne, Inc. (TER) develops and sells automatic test systems for semiconductors, systems, and wireless segments. The company also has a robotics division that designs, manufactures and markets robotic arms, autonomous mobile robots, and advanced robotic control software. TER lagged during the quarter as the recovery in test and robotics is slower than expected.

nVent Electric plc (NVT) is an electrical equipment company that sells enclosures for electrical and tech equipment, fasteners/connectors, and thermal management equipment. NVT's liquid cooling systems represent a large opportunity, specifically in data centers, as traditional air systems are unable to efficiently cool the servers of tomorrow. NVT detracted from results as investors' excitement around AI cooled, affecting sentiment about the need for NVT's liquid cooling systems.

Bio-Techne Corporation (TECH) develops and manufactures instruments, consumables, and services to the research and clinical diagnostics markets. Despite reporting strong organic growth during the quarter, the stock lagged as management underscored "lumpy" Q2 ordering.

Hyatt Hotels Corporation (H) is one of the largest hotel operators in the world and the largest operator of luxury resorts. Portfolio includes over 335k managed, franchised, and owned rooms. Key brands include Hyatt, Grand Hyatt, Andaz, and Park Hyatt as well as extended stay brands Hyatt House and Hyatt Studios. We like the company's movement towards an asset-light portfolio and advantaged brand. H lagged during the quarter as the company's EBITDA came in lower than expected due to the timing of owned hotel dispositions, a bad debt reserve adjustment, and impact from Hurricane Milton on bookings in their vacation club business.

HubSpot, Inc. (HUBS) engages in cloud-based customer relationship management. We like the company's product portfolio which includes five clouds for client relationship management (sales, marketing, ops, services, and content management) and that they serve an under penetrated small and medium business customer base with lower competition. During the quarter, HUBS detracted from results as its 2025 revenue and margin guidance disappointed investors.

Outlook

The first quarter of 2025 proved to be a wild ride ending with the S&P 500 down 4.3%. U.S. equities started the year off in positive territory, but sentiment turned sharply negative in mid-February, driving the market down 8.5% from the February high. As we move into the second quarter, volatility has escalated further with the size of the U.S. tariff announcements surprising the market and prompting a sharp sell-off. The tariff announcements clearly add complexity for investors, but with complexity comes greater risk and opportunity, which begs the question: how should disciplined equity investors react?

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. 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

With so much in flux, we are inclined to take a thoughtful approach and avoid knee jerk reactions. We are skeptical that the tariff increases presented by the White House on April 2nd will be the actual tariffs that are in effect a year from now, but we acknowledge that tariffs are clearly a tool that the current administration will be using to some extent over the next four years. We believe tariffs, in general, act as a price 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.

Smaller cap companies tend to have less scale than large cap companies on a relative basis and can be disproportionately impacted by price increases as a result. 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 as a whole could benefit, and high-quality small caps in particular could be extremely well positioned. So, for us, it's less of a call on small versus large or on industrials versus 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.

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 recently announced tariffs is any clearer. 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.

PRINCIPAL EDGE MIDCAP FUND as of March 31, 2025

Top 10 holdings

	% of net assets
Casey's General Stores Inc	3.2
STERIS PLC	3.0
Alliant Energy Corp	2.9
Cullen/Frost Bankers Inc	2.9
Tractor Supply Co	2.9
Hamilton Lane Inc	2.8
Tyler Technologies Inc	2.7
LPL Financial Holdings Inc	2.7
Fidelity National Financial Inc	2.6
Fair Isaac Corp	2.6
Total	**28.3**

The holdings listed do not constitute a recommendation to purchase or sell a particular security. Cash and/or derivative positions that are not part of the core investment strategy will not be reflected in the top holdings list.

Performance, rankings, & ratings

Average annual total returns (%)								
	3-month	1-year	3-year	5-year	10-year	Since inception (09/28/2015)	Expense ratio[1] (gross/net)	Expense limit expiration date
Class I[2]	-2.51	-0.50	3.64	14.02	—	10.10	0.86/0.77	12/30/2025
Russell MidCap Index[3],[4]	-3.40	2.59	4.62	16.28	8.82	—	—	—
Morningstar category average	-4.55	-0.13	4.46	16.02	7.99	—	—	—

Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall		
Category and number of funds in category: Mid Cap Blend	437	404	379	349	241	379	—	—
Class I percentile rankings[5]	—	47	66	85	—	—	—	—
Class I ratings[6]	—	—	★★★	★★	—	★★	—	—

Calendar year returns	2016	2017	2018	2019	2020	2021	2022	2023	2024
Class I[2]	24.44	14.00	-6.00	33.88	10.44	21.42	-15.89	18.14	5.84
Russell Midcap® Index[3],[4]	13.80	18.52	-9.06	30.54	17.10	22.58	-17.32	17.23	15.34
Morningstar category average	14.14	15.93	-11.15	26.21	12.39	23.40	-14.01	16.00	14.40

Morningstar percentile rankings are based on total returns. Morningstar ratings are based on risk-adjusted returns.

Returns represent past performance and do not guarantee future results. Share price, principal value, and return will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For the most recent month-end performance, visit PrincipalAM.com.

(1) The net expense ratio reflects contractual expense limits, if any, which may lower net expenses and cause the gross and net expense ratios to differ. In such cases a date is listed through which expense limits are expected to apply; however, Principal Funds and the investment adviser may mutually agree to terminate the expense limits prior to the end of the period. Returns displayed are based on net total investment expense.

(2) Performance assumes reinvestment of all dividends and capital gains.

(3) The Russell Midcap® Index is a market capitalization weighted index that represents the smallest 800 companies in the Russell 1000® Index (Companies 201-1000). nformation regarding the comparison to the Russell Midcap® Index is available upon request. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

(4) Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

(5) Morningstar percentile rankings are based on total returns and do not reflect the inclusion of sales charges. If sales charges were reflected, rankings could be lower.

(6) The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36–59 months of total returns, 60% five-year rating/40% three-year rating for 60–119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Morningstar ratings do not reflect the inclusion of sales charges. If sales charges were reflected, ratings could be lower. © 2025 Morningstar, Inc. All rights reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

MM10615-24 | 04/2025 | 4410109-082025