

# MidCap Equity

30 June 2023

## Strategy description

The strategy invests for the long-term in high-quality companies led by owner-operators. The strategy uses a highly active approach to U.S. mid-cap equities that aims for long-term outperformance with less risk.

## Strategy facts

**Manager:** Principal Aligned

**Inception:** 1 April 2000

**Index:** Russell MidCap Index

**Available vehicles<sup>1</sup>:** CIT, IMA, SMA, U.S. Mutual Fund

**Targeted number of holdings<sup>2</sup>:** 70-100

**Expected turnover<sup>2</sup>:** 15-30%

## Key differentiators

- A wide latitude to depart from index weights results in **higher active share and more concentrated top holdings than peers.**
- **Aligned incentives:** Owner-operators tend to be passionate and cost conscious; We believe they have longer-term outlooks and are better capital allocators.
- **An experienced team** with a history of delivering excess risk-adjusted returns over market cycles.

## Portfolio management

**K. William Nolin, CFA**

30 years' experience

**Thomas Rozycki, CFA**

23 years' experience

## Investment philosophy

We are long-term, completely fundamental investors. We invest in owner-operator management teams and companies we believe have sustainable competitive advantages. We're constantly focused on valuation and reducing risk.

## Composite performance (%)

	3M	YTD	1YR	3YR	5YR	10YR	Performance Start (1 April 2000)
MidCap Equity (gross)	9.84	16.15	21.98	12.27	12.05	13.27	11.16
MidCap Equity (net)	9.68	15.81	21.26	11.64	11.47	12.72	10.64
Russell MidCap Index	4.76	9.01	14.92	12.50	8.45	10.32	8.45

## Calendar year returns (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
MidCap Equity (gross)	34.59	13.51	2.13	11.00	26.24	-6.06	43.88	19.14	26.14	-22.63
MidCap Equity (net)	33.98	13.00	1.67	10.49	25.67	-6.49	43.23	18.60	25.43	-23.10
Russell MidCap Index	34.76	13.22	-2.44	13.80	18.52	-9.06	30.54	17.10	22.58	-17.32

Source: Principal Global Investors.

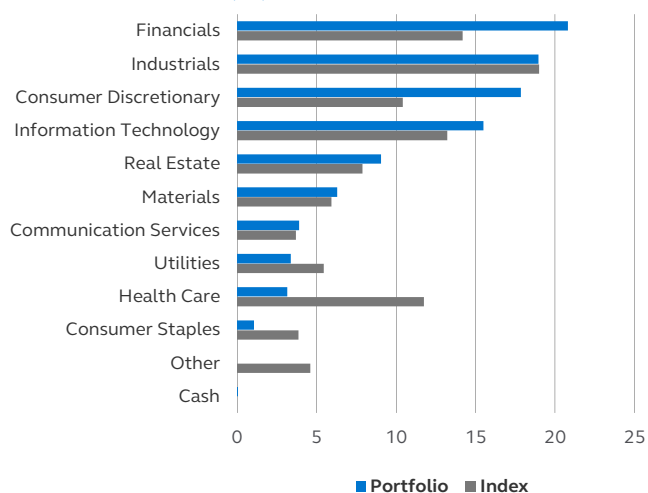
As of June 2023. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

<sup>1</sup>Not all vehicles are available to investors in all jurisdictions.

<sup>2</sup>Investment guidelines are subject to change.

Top 10 holdings (%)<sup>3</sup>

	Sector	Portfolio	Index	Active weight <sup>4</sup>
1 Transdigm Group Incorporated	Industrials	5.6	0.5	5.2
2 Copart, Inc.	Industrials	5.5	0.4	5.1
3 O'reilly Automotive, Inc.	Consumer Discretionary	4.7	—	4.7
4 Costar Group, Inc.	Real Estate	4.6	0.4	4.3
5 Brookfield Corporation	Financials	4.4	—	4.4
6 Heico Corporation	Industrials	4.3	0.2	4.1
7 Hilton Worldwide Holdings, Inc.	Consumer Discretionary	3.7	0.4	3.3
8 Vulcan Materials Company	Materials	3.4	0.3	3.1
9 Kkr & Co Inc	Financials	3.2	0.4	2.9
10 Brown & Brown, Inc.	Financials	3.0	0.2	2.8

Sector allocation (%)<sup>3</sup>Portfolio characteristics<sup>3</sup>

	Portfolio	Index
Number of holdings	71	812
Operating margin	22.1%	16.4%
Active share <sup>5</sup>	90.1%	-
Market cap (weighted average)	\$34.0B	\$22.3B
Turnover – last 12 months	8.7%	-

Composite risk statistics (gross)<sup>6</sup>

	3YR	5YR
Sharpe ratio	0.54	0.48
Standard deviation	20.38	21.79
Information ratio	-0.04	0.63
Tracking error	5.72	5.75

<sup>3</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>4</sup> Portfolio security weight minus the benchmark security weight.

<sup>5</sup> A measure of the proportion of stock weights in a manager's portfolio that differ from the index.

<sup>6</sup> Source: Principal Global Investors.

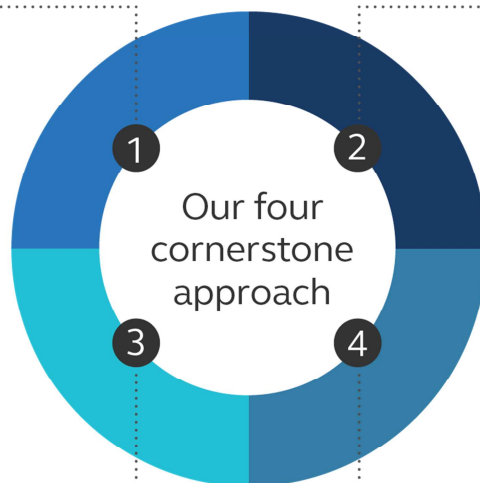
Due to rounding, figures and percentages shown may not add to the total or equal 100%. The index benchmarks are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the portfolios included in the composites and the methods of calculating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

## Investment process overview

High-quality companies led by owner-operators

**High-quality businesses**  
with a sustainable  
competitive advantage

Businesses with **owner-operator**  
management  
or culture



**Focused on risk reduction**  
throughout  
the entire process

**Valuation discipline**  
builds in a margin  
of safety

- Long horizon (5-10 years) shapes what we look for
- All efforts focused on fundamental analysis of individual companies
- Quality companies, led by owner-operators, trading at a discount

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. Mid-cap stocks may have additional risks including greater price volatility.

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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.

The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index. In reports issued prior to 1 January 2001, the S&P 500 Index was used for comparison purposes. The benchmark was changed to be more representative of the composite strategy. Information regarding the comparison to the benchmarks is available upon request. Russell Investment Group is the source and owner of the trademarks, service marks & copyrights related to the Russell indexes. Russell® is a trademark of Russell Investment Group.

Composite performance results are based on fully discretionary accounts under management, including those accounts no longer with the firm. Gross performance shown does not reflect the deduction of investment management fees and certain transaction costs, which will reduce portfolio performance. Net performance results reflect a reduction for investment advisory fees based on the firm's applicable asset management fee schedule. Effective March 2021, composite net performance is calculated using the highest applicable fee as shown in the composite fee schedule. Prior to March 2021, composite net returns were derived based the aggregation of underlying portfolios net returns that were either calculated by applying actual client fees for non-affiliated clients or a model tiered fee schedule for affiliated clients, unless otherwise noted. Composite net returns after January 1, 2011, are inclusive of performance-based fees (where applicable). Performance-based fees are accounted for on a cash basis. Prior to January 2003 certain commingled funds which returns may be utilized in a Composite's performance track record had net returns that reflected a deduction for administrative fees in addition to direct trading expenses and investment management fees. Therefore, the average fees will be higher during these time periods.

Each portfolio included in the composite is managed according to its own individual investment restrictions and limitations and therefore their characteristics may vary from those of the Representative Portfolio shown. Portfolio performance, characteristics and volatility may differ from the benchmark shown. Holdings and weightings are subject to change daily.

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