Principal Asset Management[SM]

EDGE SMA CONCENTRATED MID CAP

Quarterly commentary

FIRST QUARTER 2025

The Principal Edge SMA Concentrated Mid Cap portfolio outperformed the Russell Midcap® Index on a gross 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 and 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 and like that it has been a dividend aristocrat. 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.

Past performance is no guarantee of future results, including possible loss of principal. Securities identified as detractors that were not held during the period represented acted as detractors 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 outperforming relative to the other constituents.

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.

Expeditors International of Washington (EXPD) is a technology leader in customs brokerage and a top ten freight forwarder globally with a long history of consistent dividend growth. Market volatility tends to benefit EXPD as clients seek their expertise, which played true as gross profits increased 13% year-over-year, driven by the company's highest volume since 4Q 2021.

Source: FactSet. Information is based upon a Model (hypothetical) portfolio of the Edge SMA Concentrated Mid Cap strategy. Contributors 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.

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.

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Buys

Cardinal Health, Inc. (CAH), one of three major pharmaceutical distributors in the U.S., was purchased during the quarter. 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 and like that it has been a dividend aristocrat. .

Sells

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.

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.

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

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.

Gross performance as of 3/31/2025

Annualized performance (%)	3-month	1-year	3-year	5-year	10-year	Since inception (8/1/2007)
Edge SMA Concentrated Mid Cap	-2.34	0.25	4.44	14.90	10.10	10.09
Russell Midcap® Index	-3.40	2.59	4.61	16.27	8.82	8.73
Excess return	1.06	-2.35	-0.17	-1.37	1.28	1.36

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 3/31/2025

Annualized performance (%)	3-month	1-year	3-year	5-year	10-year	Since inception (8/1/2007)
Edge SMA Concentrated Mid Cap	-3.08	-2.72	1.36	11.53	6.87	6.86
Russell Midcap® Index	-3.40	2.59	4.61	16.27	8.82	8.73
Excess return	0.33	-5.32	-3.25	-4.74	-1.95	-1.88

Past performance does not guarantee future results. Periods over one are 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 MidCap Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

Hypothetical/Model Portfolio Objectives The Model Portfolio has been designed to seek long-term growth of capital by investing primarily in U.S. companies in the mid-capitalization range. The portfolio is benchmarked to the Russell Midcap 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. Individuals cannot invest directly in an index.

Hypothetical/Model Portfolio Construction The Model Portfolio has been constructed by selecting companies that have positive fundamental characteristics and possess the ability to grow from mid to large capitalization companies.

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. Mid-cap stocks may have additional risks including greater price volatility. The strategy may have an increased potential for loss because its portfolio includes a relatively small number of holdings. Movements in the prices of the individual assets may have a magnified effect on the portfolio.

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This strategy is only provided through separately managed accounts program sponsors. Clients should consult their 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.

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