Principal Edge

Principal Asset Management℠

EDGE SMA CONCENTRATED MID CAP

Quarterly commentary

FIRST QUARTER 2024

Market review

U.S. equities started 2024 on a positive high note as stocks rallied into year-end as investors embraced the narrative of easing financial conditions and anticipated that the Federal Reserve (Fed) would begin to cut rates later in the year. The Russell Mid Cap Index returned +8.6% during the first quarter.

Performance was positive across U.S equities during the quarter as the market breadth broadened out. Small- and mid-cap companies lagged a bit during the quarter with the Russell 2500 Index up +6.92% versus the Russell 1000 Index, which returned +10.30%. And from a sector standpoint 9 out of 11 sectors in the Russell Mid Cap Index posted a positive return with Industrial sector leading the way with a return of +13.75%. Financials (+12.52%) and Energy (+12.12%) rounded out the top 3 sectors while the Communications Services (-0.56%) and Real Estate sectors (-0.03%) fell in the red for the quarter.

As markets now move past peak earnings growth and headwinds remain, investors find themselves weighing the tension between growth and interest rates. While 2023 brought double digit returns across U.S. equities, we believe that investors will become more discerning by refocusing on fundamentals and higher-quality companies in 2024.

Performance as of 3/31/2024

Annualized performance (%)	3-month	1-year	3-year	5-year	10-year	Since inception (8/1/2007)
Edge SMA Concentrated Mid Cap (gross)	3.92	19.48	6.79	10.88	11.73	10.71
Russell Midcap® Index	8.60	22.35	6.06	11.09	9.94	9.11
Gross excess return	-4.68	-2.86	0.73	-0.21	1.80	1.60
Edge SMA Concentrated Mid Cap (net)	3.15	15.99	3.65	7.62	8.46	7.46
Net excess return	-5.45	-6.35	-2.41	-3.47	-1.48	-1.65

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 bundled 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.

Top five contributors

Kinsale Capital Group, Inc. (KNSL) is a property and casualty insurance company that operates in the excess and surplus line segments. We believe that the company has an advantaged business model including core competencies in underwriting and claim handling. During the quarter, KNSL beat expectation, which was driven than a better-than-expected loss ratio. KNSL continues to deliver attractive underwriting margins with all metrics (cat losses, expense ratio, and reserve releases) tracking favorably.

Tractor Supply Company, Inc. (TSCO) operates a retail farm store chain, providing farm maintenance, animal, general maintenance, lawn and garden, light truck equipment, work clothing, and other products. Tractor Supply serves ranchers, hobby, part-time, and full-time farmers, as well as rural customers, contractors, and tradesman. TSCO contributed to results during the quarter as management struck an optimistic tone for 2024 earnings despite their conservative assumptions such as continued unusually warm weather. January same store sales also started off strong during the period and management showed continued gross margin improvement, boosting investor confidence.

Lincoln Electric Holdings, Inc. (LECO) designs and manufactures welding and cutting products. The company's products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes, fluxes, and regulators and torches used in oxy-fuel welding and cutting. LECO added to performance as revenues rose organically with margins increasing as well as the company continued to pass on higher prices due to rising costs while growing volume. LECO also benefited as investors became excited about the company's opportunity in electric vehicle charging stations as the Biden administration has indicated a need for 500k charging points in the U.S. We continue to believe LECO is well-positioned given the shortage of skilled welders, labor inflation, reshoring, civil and energy infrastructure investments in electrification and are excited about LECO's opportunities in DC fast chargers.

Universal Health Services Inc. (UHS) operates as a healthcare services company. UHS owns the nation's largest network of behavioral health treatment centers and operates one of the largest acute care health systems, with most of its acute facilities located in Nevada, California, and Texas. While hospitals and medical device companies had underperformed last year due to concerns about GLP1 drugs, UHS benefited from higher-than-expected acute procedures.

MSA Safety, Inc. (MSA) is the market leader in self-contained breathing apparatus (SCBA) equipment used by firefighters, offering the most advanced technologies in the industry. MSA Safety is also a leader in multi-use portable gas and flame detection systems that protect and increase the efficiency of its customer's labor force and fixed assets. Lastly, the company sells a range of protection gear including premium hardhats (where they have #1 share) and fall protection. MSA outperformed after the company beat expectations and raised guidance, which now indicates full year revenue growth of mid-teens. In the quarter, sales were up 17% (balanced between volume and price) with broad based strength across its product portfolio and regions. Operating margins also increased, and the company continues to find new opportunities for improved efficiency and safety applications for its products.

As of 3/31/2024.

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

Top five detractors

YETI Holdings (YETI) is an active lifestyle brand of coolers, equipment, drinkware, and accessories with superior performance and design for a growing customer base. We like the company's strong competitive position in its core product offerings and believe YETI will grow by emphasizing both direct-to-consumer and international channels. YETI's quarterly results missed expectations and released 2024 guidance that was softer than consensus estimates. In addition, investors continue to worry about competition from Stanley drinkware.

Bio-Techne (TECH) develops and manufactures instruments, consumables and services to the research and clinical diagnostics markets. TECH's overall portfolio is skewed towards recurring revenues (~85% of sales), and almost 60% of revenues are from the Americas. The stock declined during the quarter following a strong end of year 2023 rally, due to the volatility within the biotech/life sciences industry which continues to find its footing post-COVID.

Cable One, Inc. (CABO) is a rural cable, video, voice company that provides broadband services to residential and businesses in 750 non-metro, secondary markets in AZ, ID, IL, MI, MS, OK, and TX. The company benefits from moving consumers from video to broadband, a trend that was pulled forward during COVID. During the quarter, the company missed earnings. They reported in line on sub growth but missed on HSD ARPU as the company is pivoting their strategy from targeting only high-end customers to defending market share.

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, LFUS missed revenue, but earnings were in line and guidance was below expectations. This is due to continued destocking and pockets of end market softness across consumer electronics, industrial, and commercial vehicles. We expect a bottoming of this cycle in 2H2024. LFUS has done a good job on driving sustainable margin improvement through this cycle and we believe is well positioned to capitalize on unit and content increases due to electrification, renewable energy, connectivity, IOT and electrical vehicles.

Expeditors, Inc. (EXPD) provides a full suite of global logistics services including air and ocean freight consolidation and forwarding, customs brokerage, warehousing and distribution, purchase order management, vendor consolidation, temperature-controlled transit, time definite transport, cargo insurance, cargo monitoring/tracking and other supply chain solutions. During the quarter, EXPD missed expectations with air freight tonnage and ocean container volume down. The deceleration in demand they've seen since 2H22 has continued and rates generally remained soft while capacity exceeded demand in most lanes. The shipping industry has been going through a great unwinding and as a result, air and ocean capacity are plentiful and at rates well below the pandemic period. Customs brokerage transaction has fallen, and shippers continue to pivot back to ocean freight to reduce costs. Though the extent and pace of the current unwinding has been more unpredictable and disruptive, management has made deliberate efforts to control costs and manage headcount. We are encouraged by indications that tonnage and volumes are perhaps flattening or improving as tonnage and volumes increased sequentially for the first time since 3Q22 due to Red Sea and Baltimore shipping disruptions.

As of 3/31/2024.

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Buys

Casey's General Stores (CASY) was added during the period. CASY is a best-in-class convenience store operator with locations throughout 16 states, primarily in Iowa, Missouri, and Illinois. We believe CASY is in the early stages of consolidating the industry with strong geographic growth opportunities over our investment horizon.

nVent Electric (NVT) is an electrical equipment company that sells enclosures for electrical and tech equipment, fasteners and connectors, and thermal management equipment. We like NVT's strong margins, cash generation, and potential growth driver stemming from their liquid cooling business within data centers. nVent will benefit from burgeoning power demand in the U.S. as investment in the grid and data center infrastructure accelerates.

RPM International (RPM) is a conglomerate within specialty coatings producing specialty paints, protective coatings, roofing systems, sealants, and adhesives and is focused on the maintenance needs of both the industrial and consumer markets. The company's leading brands include Rust-Oleum and DAP. We've liked RPM's niche brand portfolio as well as the entrepreneurial management structure. The company has shown strong ability to pass on higher prices and management has a history of improving efficiencies.

Sells

There were no sells during the quarter.

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 last year has been confounding for many investors as interest rates fluctuated, inflation decelerated, and the highly anticipated recession never materialized. Investors grappled with the implications of regional banking troubles, a rising U.S. government debt burden, a war in Israel, geopolitical tension with China, a broad-based inventory correction, concerns about the health of the commercial real estate market, and the highest mortgage rates in over 20 years. At the same time, easing supply chain pressures, falling transportation and commodity costs, resilient consumer balance sheets, and a still healthy labor market painted a more favorable picture. With so many forces moving in different directions, there is no playbook to rely on for these unique times, and it's no wonder that many forecasts coming into the year missed the mark.

The start to 2024 has been no less confounding. Although it appeared inflation was abating and there were broad expectations among investors that the Fed was finished raising interest rates, we remain skeptical and believe that inflation could remain stickier than investors expect, and rates will probably remain higher throughout 2024 than investors are factoring into their current economic scenarios. If we are correct, investors will continue to contend with an economic outlook that remains far from predictable, and the debate by investors will center on the strength of the economy and the Fed's reaction to it. That could make the stock market more choppy than last year, although we are optimistic it will grind higher in 2024.

At Principal Edge, our focus is on identifying quality businesses across sectors that have advantaged characteristics and are trading at valuations that will allow them to outperform their sector peers over our 5-year investment horizon. As we saw in 2023, and expect it to continue in 2024, fluctuations in macroeconomic data make forecasting sector-level outperformance extremely challenging, but we find that quality businesses tend to endure the test of time. Our focus remains on pre-identifying quality businesses we would like to own and then waiting to buy them when they are off the market's radar. While short-term performance can fluctuate with the vagaries of the market, quality investing at reasonable prices has been a long-term recipe for success.

As we move through 2024, we expect to see a divergence in performance between companies as they contend with the tension between growth and interest rates. This environment will be good for some and very challenging for others. If there is a resurgence of inflation, pricing power and strong balance sheets will be paramount. If inflation continues to abate, some will retain price while others will be forced to give back the pricing that was hard won in the higher inflation environment and growth concerns could arise. Either path creates both opportunities and pitfalls. With a playbook that is no more certain this year than last, our dominant eye remains on company-level fundamentals and investing in advantaged businesses that can do it all: maintain a strong balance sheet, generate ample free cash flow, outmaneuver the competition, invest in long term growth, and consistently return capital to shareholders along the way.

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.

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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