Principal Asset Management℠

EDGE SMA SMID DIVIDEND INCOME

Quarterly commentary

FIRST QUARTER 2025

The Principal Edge SMA SMID Dividend Income portfolio outperformed the Russell 2500® Value Index on a gross basis in the first quarter as stock selection was positive in 5 out of 11 sectors. Over the trailing one-year, 86% of companies held in the portfolio have raised their dividend with a median increase of +7.7%.

What helped

The strategy saw strong stock selection within the health care sector as owning Quest Diagnostics (DGX), STERIS (STE), and Concentra (CON) all aided results. Concentra is our newest holding within the sector as the company was spun off from Select Medical (SEM), a current SMID holding, during the fourth quarter of 2024. We like CON's scale and margin advantages in both its workers comp and employer services businesses and believe it is poised for continued growth as the industry remains fragmented, allowing CON to gain share and increase margins over time. Also, within the health care sector, not owning any biotech names contributed to performance within the sector, as none pay a dividend. Within the Real Estate sector, eight out of our nine REIT holdings contributed to positive stock selection. Agree Realty (ADC) is a single-tenant, triple-net retail REIT focused on big-box internet resistant businesses and was the top contributor as occupancy remained strong with 99.6% of their portfolio leased.

What hurt

Financials is the largest sector by weight within the Russell 2500® Value Index at 22%, and stock selection within the sector detracted the most from performance in Q1. Jefferies Financial Group (JEF) posted strong results in 2024 as investment banking revenues rebounded in activity from recent lows, but as uncertainty flooded the market, investment banking activity slowed dramatically. Not owning Robinhood (HOOD), which is the largest non-dividend payer within the Russell 2500® Value Index, detracted from results as shares moved higher. Stock selection was weak within the consumer staples sector as not owning BJ's Wholesale Club (BJ), Casey's General Stores (CASY), and Albertsons Companies (ACI) detracted from results as these retailing and distribution names held up relative well during the period.

What we did

In the quarter we added three new names and eliminated three holdings. Williams-Sonoma (WSM) has no debt, increased dividend 26% over the past year, and has been a positive performer for the strategy over the past two years as margins have improved meaningfully. On this strength, we trimmed back WSM early in the year and put some of the proceeds into Service Corp (SCI) which operates under two segments: funeral services and cemeteries. We like the high barriers to entry in cemeteries where SCI has 15% market share, SCI's EPS growth outlook, and the fact they consistently grow their dividend. Also, within the consumer discretionary sector we added Domino's Pizza (DPZ). We like DPZ's combination of high loyalty penetration and high digital usage, which we believe gives Domino's significant customer data, allowing more targeted and effective marketing and promotions. Diamondback Energy (FANG) was added to the portfolio in March of 2020 as we upgraded our energy holdings as the market selloff. At the time of purchase, FANG's market cap was only $5 billion, and we liked the strong balance, their Permian Basin exposure, and dividend coverage. Following several strong years of performance and their highly accretive acquisition of Endeavor Energy Resources in 2024, FANG's market cap topped $40 billion, neared our upper market cap limit, and was sold from the portfolio. Kinsale Capital Group, Inc. (KNSL) is a property and casualty insurance company that operates in the excess and surplus lines segment. We added the name at the end of 2021 as we believed that the company had an advantaged business model

Past performance is no guarantee of future results, including possible loss of principal. Dividends are not guaranteed. 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 a decrease to the active return due to the security outperforming relative to the other constituents.

including core competencies in underwriting and claims handling. Our investment thesis proved out and we exited the growthy name in favor of more attractively valued companies in the financial sector. TD SYNNEX Corporation (SNX) was added to the portfolio as we believe that the company's leading market share and consolidation opportunities, cost discipline, and strong free cash flow generation focus make it an attractive investment. SNX is the largest global technology distributor which operates in the enterprise IT ecosystem that supplies both resellers and OEM suppliers. The company has a broad range of 1500+ vendors and a large customer set including 150K+ customers. WD-40 Company (WDFC) was sold from the due to its high valuation and in favor of other companies with better relative valuation.

Top five contributors

Targa Resources Corp (TRGP) is an energy services company involved in natural gas gathering/processing and logistics/marketing throughout Texas, Oklahoma, and neighboring states. We like TRGP's exposure to growing Permian gas production and rising demand for Permian takeaway/pipelines. During the quarter, the company beat expectations driven by strong volume growth with several projects tracking ahead of initial timelines. In addition, investors looked to a positive free cash flow growth inflection in 2025 despite a slight increase in capex guidance versus prior expectations. While the uptick in capex guidance implies a slightly less positive free cash inflection near term, the growth investments should lead to even higher cash generation than previously expected in the out years. Finally, TRGP announced it is raising its dividend 33% in 2025, indicating management's confidence in the company's free cash flow acceleration story.

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 shares rallied as management presented a more constructive outlook for its core title business in 2025 driven by an expectation for modest purchase volume growth and a sharp improvement in residential refi activity off of a trough-like base.

Equitable Holdings, Inc. (EQH) is a financial services company specializing in retirement solutions and advice. We believe that the company has one of the strongest variable annuity platforms. EQH also has a majority stake in asset manager Alliance Bernstein. The company contributed to results during the quarter as investors believed it is well positioned to benefit from demographic shifts as assets move from 401(K) plans to asset protection/income for life solutions. The interest rate environment has also been supportive of its RILA variable annuity business.

Quest Diagnostics Incorporated (DGX) is a leading U.S. lab testing company providing a wide range of lab services to individual and healthcare providers with scaled operations throughout the U.S. We believe that the company will benefit from share gains as hospitals and doctors' offices outsource lab services, long-term volume growth in in-vitro diagnostics, and emerging genetic and specialty testing. During the quarter, DGX beat expectations and raised its dividend 6.7%. DGX also saw strong lab utilization with strong volume and revenue growth from Medicare Advantage plans.

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 as the company saw strong growth in services and consumables along with an improving order outlook for capital equipment.

Source: FactSet. Information is based upon a Model (hypothetical) portfolio of the Edge SMA SMID Dividend Income 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

Jeffries Financial Group, Inc. (JEF) is a financial services company that operates through investment banking and capital markets and asset management divisions. The company's revenue growth improved as investment banking activity has begun to rebound from recent lows. JEF has repositioned the company in recent years by selling non-core assets and growing its strategic alliance with SMBC which expands its offerings to larger clients and gives the company more international reach. While investment banking activity has rebounded meaningfully from post-Covid lows, the rebound stalled in the quarter as companies paused deal making activity in light of heightened policy uncertainty in the U.S.

MKS Instruments, Inc. (MKSI) is a supplier of instruments and subsystems that measure, monitor, analyze, power, and control critical aspects of advanced semiconductor manufacturing. MKSI has core competencies in pressure measurement and control, flow measurement/control, gas and vapor delivery, gas composition analysis, residual gas analysis, and leak detection. Despite beating expectations during the quarter, management's margin guidance was perceived as light and MKSI lagged as investor enthusiasm about artificial intelligence slowed and investors refocused on shorter-term cyclical softness in demand.

Amkor Technology, Inc. (AMKR) is the second largest outsourced semiconductor assembly and test supplier (OSAT) focused on advanced packaging solutions. We like that demand for advanced packaging solutions is accelerating and that advanced packaging carries higher margins than traditional semiconductor packaging given its higher value add services. We believe that advanced packing has become a key accelerator (higher level of chip integration) for unlocking semi compute performance and power efficiency. While earnings beat during the quarter, revenue and guidance were light as end market headwinds persisted and their factory utilization remains low as a result.

Hubbell Inc. (HUBB) is a manufacturer of quality electrical and electronic products for a broad range of construction, industrial, and utility applications. We like HUBB's niche businesses and the company continues to make tangential acquisitions where they can expand their product line and improve efficiencies. The company has also benefited from increasing investment in the electrical grid over time. Despite these attributes, the company detracted from performance during the quarter as top line revenues missed expectations in its utilities segment. In addition, Deepseek's announcement led investors to question underlying U.S. utility power demand assumptions driving the shares of perceived beneficiaries like HUBB lower.

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.

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Buys

Domino's Pizza, Inc. (DPZ) is a pizza company with about 19,800 locations in over 90 markets and operates two distinct service models within its stores with a significant business in both delivery and carryout. Founded in 1960, its roots are in convenient pizza delivery, while a significant amount of its retail sales also come from carryout customers. The company has industry leading new store economics with one of the lowest new build costs. We believe that DPZ's scale will enable further share gains while repurchasing shares and growing dividend will allow the investment to compound over time.

Service Corporation International (SCI) is the largest provider of deathcare services in the U.S. operating funeral service locations, cemeteries, and crematoria. SCI also sells prearranged funeral services in most service markets. We believe the company provides a steady, long-term investment in the U.S. aging demographics and that SCI will be able to consistently grow the dividend and shrink its float while building a pipeline of revenue growth through preneed sales.

TD SYNNEX Corporation (SNX) is the largest global technology distributor which operates in the enterprise IT ecosystem that supplies both resellers and OEM suppliers. The company has a broad range of 1500+ vendors and a large customer set including 150K+ customer. In December 2021, Synnex purchased Tech Data to form a dominant player in the US with 40%+ market share and low 20's market share in Europe. The APAC region is very fragmented which presents an opportunity for consolidation over time. We believe that the company's leading market share and consolidation opportunities, cost discipline, and strong free cash flow generation focus make it an attractive investment.

Sells

Diamondback Energy, Inc. (FANG) is an independent oil and gas E&P operating exclusively in the Permian Basin in West Texas. FANG is one of the largest Permian operators and has benefited from its acreage footprint in the core of the Permian, and by the early adoption of innovations like high intensity completions resulting in more production for each dollar spent. The company is also committed to returning 75% of free cash to shareholders via a base dividend, variable dividend, and share repurchases. FANG was sold during the period as its market cap had increased beyond the SMID universe following the announcement that it would merge with Endeavor Energy Resources, a transaction we expect to be highly accretive.

Kinsale Capital Group, Inc. (KNSL) is a property and casualty insurance company that operates in the excess and surplus lines segment. We believe that the company had an advantaged business model including core competencies in underwriting and claims handling. Our investment thesis proved out and we exited the growthy name in favor of more attractively valued companies in the financial sector.

WD-40 Company (WDFC) develops and sells products that solve problems in workshops, factories, and homes. The company reports in two segments: Multi-purpose Maintenance Products and Homecare & Cleaning. During the quarter, WDFC was sold due to its high valuation and in favor of other companies with better relative valuation.

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 (3/1/2007)
Edge SMA SMID Dividend Income	-3.44	-0.03	6.40	17.02	8.23	9.72
Russell 2500® Value Index	-5.83	-1.47	2.27	16.64	6.84	6.71
Excess return	2.39	1.44	4.13	0.38	1.39	3.01

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 (3/1/2007)
Edge SMA SMID Dividend Income	-4.17	-2.99	3.26	13.60	5.04	6.49
Russell 2500® Value Index	-5.83	-1.47	2.27	16.64	6.84	6.71
Excess return	1.66	-1.52	1.00	-3.04	-1.79	-0.21

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 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.

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The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower forecasted growth values.

Hypothetical/Model Portfolio Objectives The Model Portfolio has been designed to seek a relatively high level of current income & long-term growth of income & capital by investing primarily in small and mid-cap U.S. companies. The portfolio is benchmarked to the Russell 2500 Value 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. Individual cannot invest directly in the index.

Hypothetical/Model Portfolio Construction The Model Portfolio has been constructed by selecting companies that have a capacity to pay dividends, consistently grow dividends over time, and/or demonstrate commitment of shareholders.

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. Dividends are not guaranteed. Small- and mid-cap stocks may have additional risks including greater price volatility.

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