

PRINCIPAL SMID EQUITY INCOME

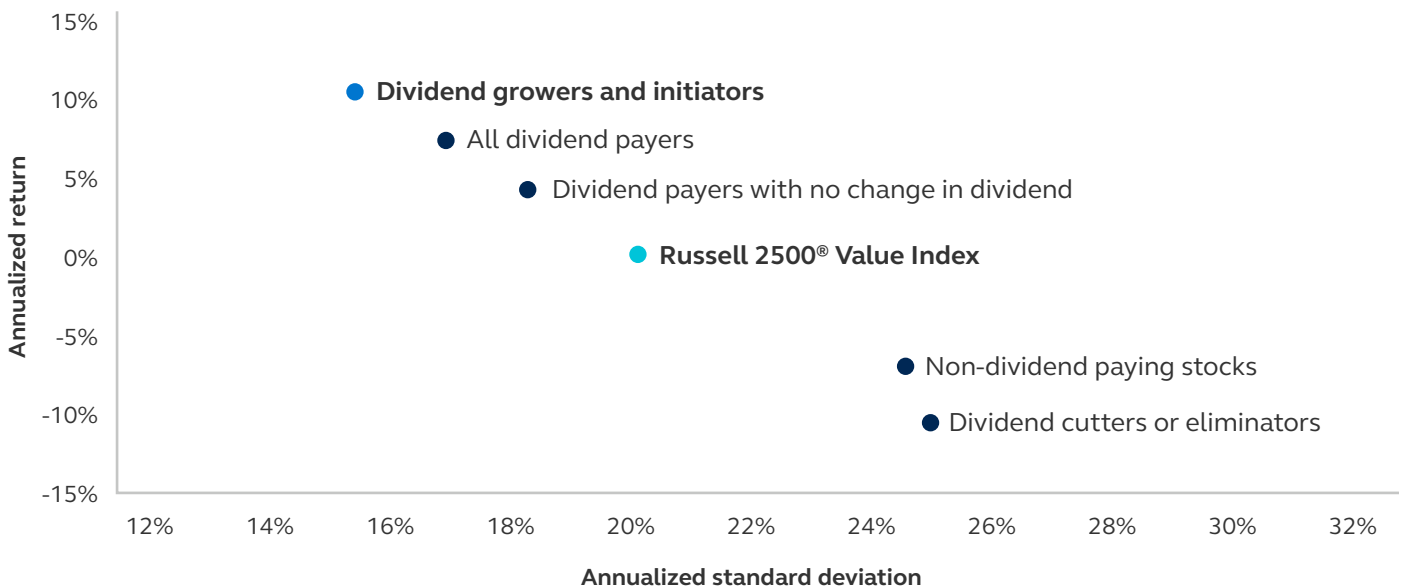
A closer look at the power of SMID dividends

SMID dividend payers - Why now?

- **Dividend quality extends beyond large caps.** Nearly two-thirds of Russell 2500[®] Value Index stocks pay dividends, many with longer track records of dividend increases, stronger balance sheets, and stronger cash flow growth than many large-cap peers.
- **Attractive entry point for SMID dividend payers.** SMID dividend payers and growers have delivered higher returns and lower volatility than non-dividend stocks over time. However, recent underperformance versus non-payers post-“Liberation Day” creates a compelling opportunity.
- **SMID Equity Income trades at a historic discount to the S&P 500.** The strategy is near its lowest relative valuation despite outperforming the S&P 490, Russell Mid Cap, and Russell 2000 over the past five years.
- **High active share with strong risk controls.** Stock selection, not sector bets, drives performance. We believe this approach leads to consistent long-term results and meaningful differentiation versus benchmark-hugging or factor-tilted peers.

Dividend growers: Better returns with less risk

Small- and mid-cap value stocks, January 1984 – December 31, 2025



As of December 31, 2025. Source: Ned Davis Research. Data represents constituents of the Russell 2500[®] Value Index and is for illustrative purposes only. Equally weighted data. Past performance does not guarantee future results. Market index has been provided for comparison purposes. Dividends are not guaranteed.

SMID dividend payers – An attractive trade-off between risk and return

Most investors overlook dividend payers in the small- and mid-cap space, mistakenly assuming all SMID companies must reinvest cash flows to fuel growth. This misperception creates an opportunity for discerning investors. As illustrated in the table below, SMID dividend stocks have historically delivered higher total returns with lower volatility (measured by standard deviation) than non-dividend payers over the long term. We believe measured and consistent dividend increases provide valuable insight, signaling management’s confidence in cash flow generation and future growth prospects.

The long-term power of dividends

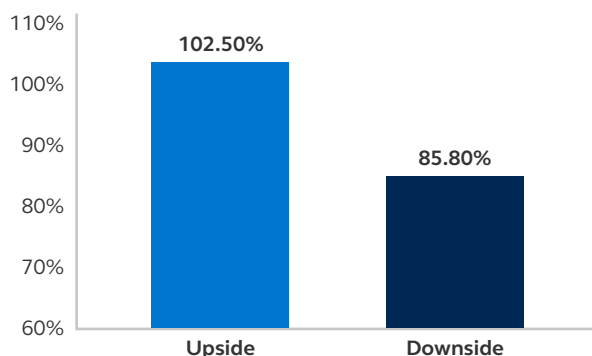
January 1975 – December 31, 2025

Large-cap stocks	Returns	Standard deviation
Dividend-paying stocks	14.03%	16.02%
All common stocks	13.27%	17.43%
Non-dividend paying stocks	11.47%	23.98%

Small- and mid-cap stocks	Returns	Standard deviation
Dividend-paying stocks	15.54%	17.37%
All common stocks	12.90%	20.74%
Non-dividend paying stocks	9.82%	25.66%

As of December 31, 2025. Source: Empirical Research Partners. Large-cap stocks: The largest 1,000 stocks. Small- and mid-cap stocks: Next 2,500 stocks after the largest 500 by market capitalization, rebalanced annually. Returns: Monthly returns compounded and annualized. Equally weighted data. Past performance does not guarantee future results.

SMID Equity Income vs. Russell 2500® Value Index since inception capture ratios

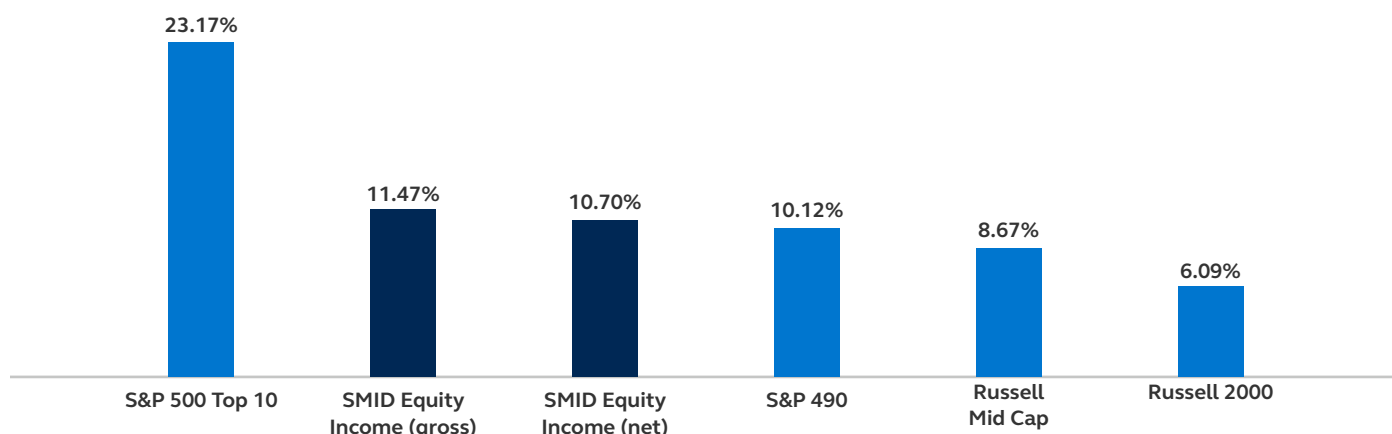


Since inception (March 01, 2007) as of December 31, 2025. Source: Principal Global Investors. Capture ratios and gross returns. Capture ratios: Shows the relationship of the composite’s performance to the performance of an index during a specific timeframe, as a percentage of that index’s position (upside capture) and negative (downside capture) performance. Represents quarterly returns.

High-quality SMID stocks at an inflection point

2025 presented a stark contradiction in U.S. equity markets. High-quality, dividend-oriented stocks outperformed in the first quarter as DeepSeek fears and tariff uncertainties drove the market lower. Following “Liberation Day” in early April, the market reversed course—speculative fervor pushed lower-quality stocks ahead of high-quality dividend payers through year-end. Notably, despite capitalization-based headwinds, the SMID Equity Income strategy outpaced most market indices not dominated by mega-cap stocks.

5-year total return (annualized)

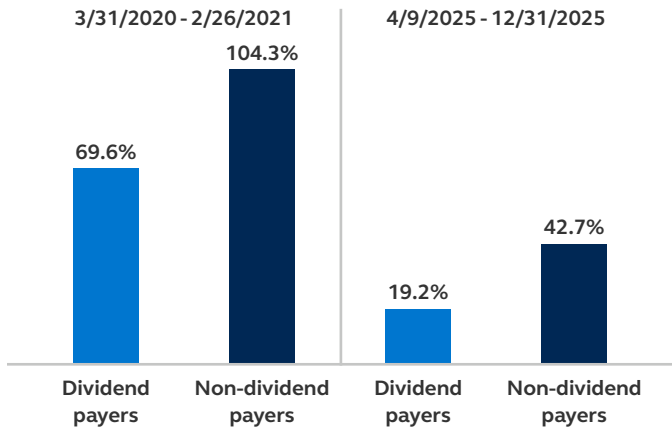


As of December 31, 2025. Source: FactSet. The S&P 500 Top 10 refers to the 10 largest stocks in the S&P 500. The S&P 490 refers to the S&P 500 index excluding the 10 largest stocks.

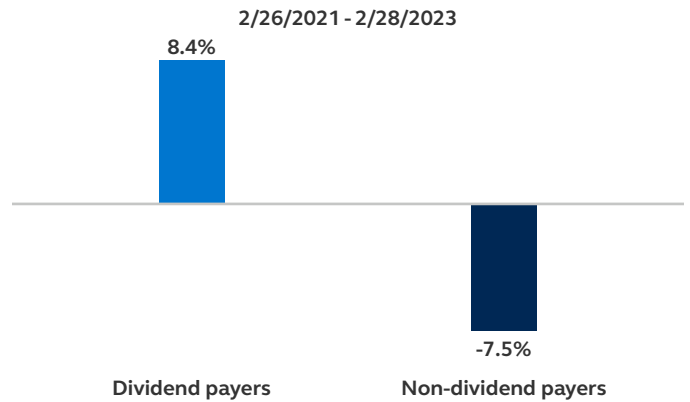
2025's market pattern is reminiscent of 2020's, with a sharp drawdown followed by a strong recovery led by lower-quality companies. In 2020, low-quality outperformance created a buying opportunity in higher-quality SMID dividend payers, which dramatically outperformed non-dividend payers over the subsequent two years. We believe a similar opportunity may exist today.

Russell 2500® Value Index: Dividend payers vs non-dividend payers

Low quality rebounds



Back to fundamentals: Two years following rebound



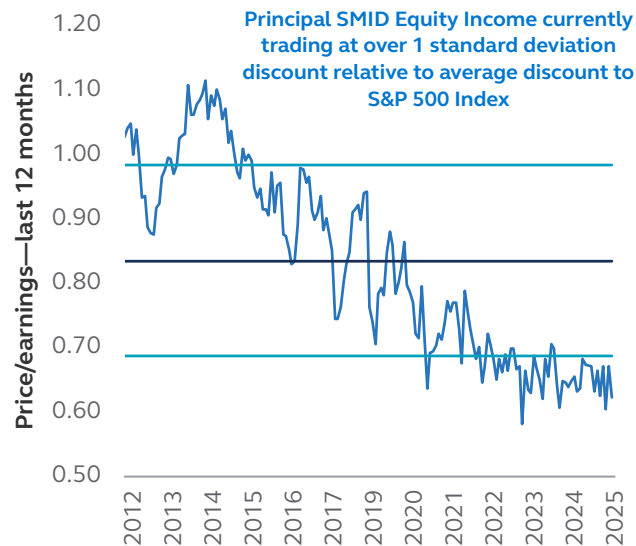
As of December 31, 2025. Source: FactSet.

Selectivity matters as markets broaden

Investors seeking diversification beyond large-cap companies with lofty valuations can find relative value in SMID stocks. However, selectivity is critical. As shown in the chart below, the percentage of unprofitable SMID companies has risen significantly. This underscores why we focus on businesses with strong top- and bottom-line growth prospects and well-covered, growing dividends.

Attractive SMID relative valuations

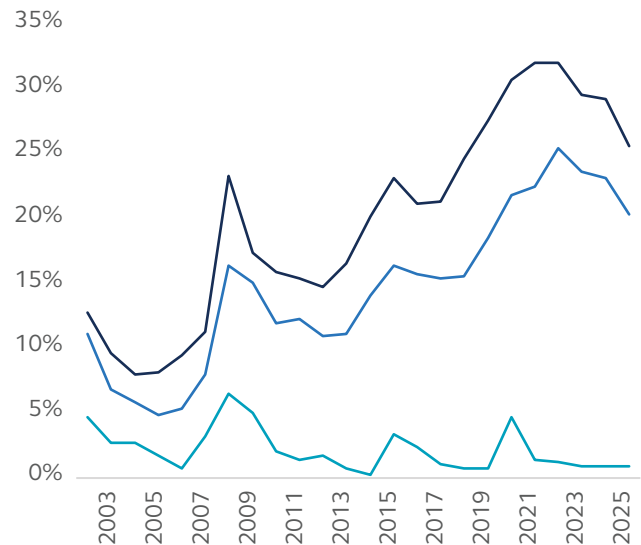
- SMID premium/discount vs. S&P 500 Index
- Average SMID discount
- +/- 1.0 standard deviation



As of December 31, 2025. Source: FactSet. Data is for the representative account of the SMID Equity Income Composite.

% Unprofitable companies within indices

- Russell 2500® Value Index
- Russell 2000® Value Index
- S&P 500 Index



As of December 31, 2025. Source: FactSet, unprofitable companies measured by price/earnings next 12 months.

Picks and shovels behind the AI build

While many active managers crowded into high-multiple large-cap AI beneficiaries, lesser-known opportunities exist down the cap spectrum. The SMID Equity Income strategy has identified AI build-out beneficiaries in liquid cooling, hard disk drive, and advanced packaging manufacturers. One such holding is Comfort Systems (FIX), which provides comprehensive mechanical contracting services, including HVAC and plumbing, and is experiencing unprecedented demand for data center builds.

We originally purchased FIX in 2020, believing HVAC demand would benefit as air quality became an increasing focus post-COVID. We liked the commercial focus and viewed them as a share gainer and well-run company as its ability to provide skilled labor for major commercial, institutional, and industrial markets was a clear competitive advantage. The company also benefited from a roll-up strategy that created both organic and inorganic growth opportunities.

This positioning has been well-rewarded as Comfort Systems continues to benefit as its size, scope, and skilled labor force remain in high demand while industrial construction, particularly in data centers, chip manufacturing, and increasingly pharmaceutical manufacturing, is built or re-shored in the U.S.

Principal SMID Equity Income: Finding value others miss

Selecting the right manager is essential to capitalizing on current SMID opportunities. We employ a disciplined approach, focusing on high-quality companies with durable competitive advantages, strong balance sheets, and excellent management teams. Importantly, all holdings must pay a dividend with a preference for consistent dividend growers and initiators.

Active managers who specifically identify these companies have historically delivered attractive performance with lower volatility. We believe highly active management need not carry outsized risk; our results are bottom-up stock selection, not sector bets. This approach has produced a resilient return profile, performing best in down, flat, and modestly rising markets.

With SMID dividend payers trading at historic discounts following a period of speculative outperformance, we believe the current environment presents a compelling entry point for long-term investors seeking quality, income, and diversification beyond large-cap exposure.

“SMID dividend stocks provide an attractive tradeoff between risk and return, with the potential for relatively high total return, low volatility, and predictable growth of income.”

SARAH RADECKI,
Managing Director, Portfolio Manager
Principal Equities

A history of outperformance

SMID Equity Income vs. Russell 2500® Value Index since inception March 01, 2007

	Annualized return	Cumulative return	Alpha (annualized)
SMID Equity Income (gross)	9.97%	499.49%	2.52%
Russell 2500® Value Index	7.45%	287.52%	—
SMID Equity Income (net)	9.18%	423.95%	1.73%

Gross performance (%) as of December 31, 2025

	3-month	1-year	3-year	5-year	10-year	Since inception (03/01/2007)
SMID Equity Income	1.56	9.56	13.71	11.47	10.37	9.97
Russell 2500® Value Index	3.15	12.73	13.20	10.01	9.71	7.45
Excess return	-1.59	-3.18	0.51	1.46	0.66	2.52

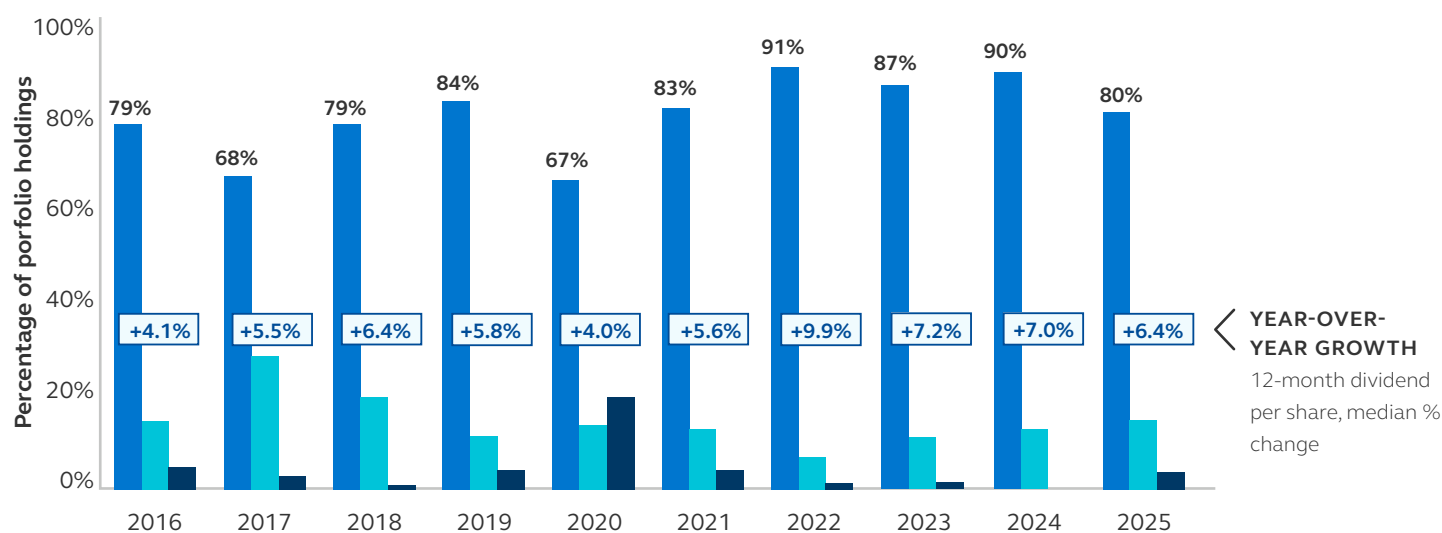
Net performance (%) as of December 31, 2025

	3-month	1-year	3-year	5-year	10-year	Since inception (03/01/2007)
SMID Equity Income	1.38	8.80	12.92	10.70	9.66	9.18
Russell 2500® Value Index	3.15	12.73	13.20	10.01	9.71	7.45
Excess return	-1.77	-3.94	-0.28	0.69	-0.06	1.73

Periods over one year are annualized. As of December 31, 2025. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

SMID Equity Income Institutional Composite representative portfolio dividend growth

■ Increase ■ No change ■ Decrease



As of December 31, 2025. Source: FactSet. Dividends are not guaranteed.



Want to learn more? Contact your Principal representative or visit [PrincipalAM.com](https://www.principal.com).

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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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. The methods of calculating performance of the composite and the index may not be identical and it is not possible to invest in an index.

The SMID Equity Income composite contains all fully discretionary fee paying accounts that seek a relatively high level of current income and long-term growth of income and capital by investing primarily in common stocks of small and mid-cap U.S. companies and specifically does not invest in master limited partnerships. For comparison purposes, the benchmark is the Russell 2500[®] Value Index. The composite inception date is March 01, 2007.

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.

Russell 2500[®] Value Index measures the performance of those Russell 2500[®] companies with lower price-to-book ratios and lower forecasted growth values. Information regarding the comparison to the Russell 2500[®] Value Index is available upon request.

The Russell Midcap Index is a market capitalization-weighted index comprised of 800 publicly traded U.S. companies with market caps of between \$2 and \$10 billion. The 800 companies in the Russell Midcap Index are the 800 smallest of the 1,000 companies that comprise Russell 1000 Index.

Russell 2000[®] Index consists of the smallest 2,000 companies in the Russell 3000[®] Index, representing approximately 10% of the Russell 3000[®] total market capitalization.

The S&P 490 refers to the S&P 500 index excluding the 10 largest stocks.

The S&P 500 is a market-capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

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