

## PRINCIPAL EDGE SMID EQUITY INCOME

# A closer look at the power of SMID dividends

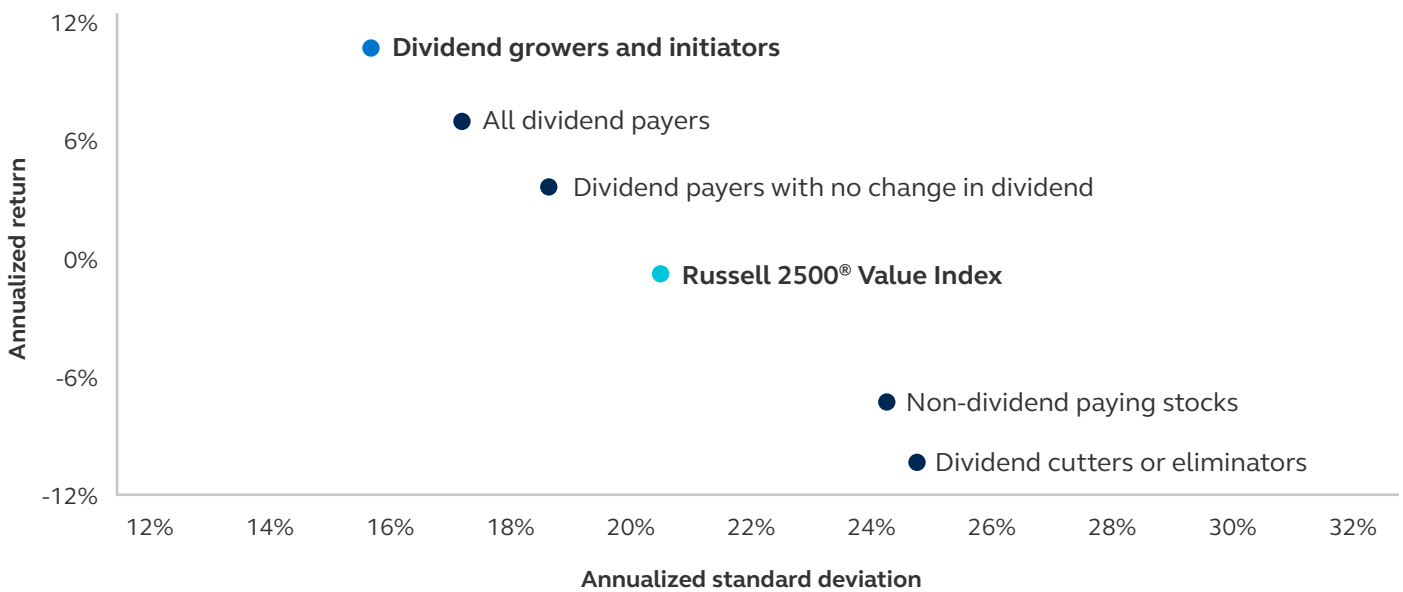
Investors typically buy small-and mid-cap (SMID) stocks for their potential to generate higher growth over time, but with the caveat that they also carry higher risk. But not all SMID caps are created equal, and, in fact, there is a subgroup within the SMID universe that has produced market leading returns at lower risk over long time periods: SMID cap dividend growers. By painting the SMID cap universe with a broad brush, many investors miss out on the capital appreciation and income generating benefits of owning these structurally advantaged compounds in their earlier stages of growth.

### KEY TAKEAWAYS

- SMID dividend payers have historically outperformed non-dividend payers with less volatility
- Companies that grow and initiate dividends have historically done the best
- Not all SMID companies are created equal as this area of the marketplace has carried higher volatility and a higher percentage of unprofitable companies

### Dividend growers: Better returns with less risk

Small- and mid-cap value stocks, January 1988 – March 31, 2025



As of March 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 dividends drive results

The outperformance of large-cap dividend payers over non-dividend payers—2.7% annually since 1975—is well-known, so it may surprise investors that the outperformance within SMID companies is even more pronounced. Dividend payers in the SMID space have outperformed non-dividend payers by over 6% annually, with only two-thirds of the volatility.

Digging even deeper, active managers who can identify and invest specifically in dividend growers and initiators have historically delivered even better performance with lower standard deviation over time.

### The long-term power of dividends

January 1975 – March 31, 2025

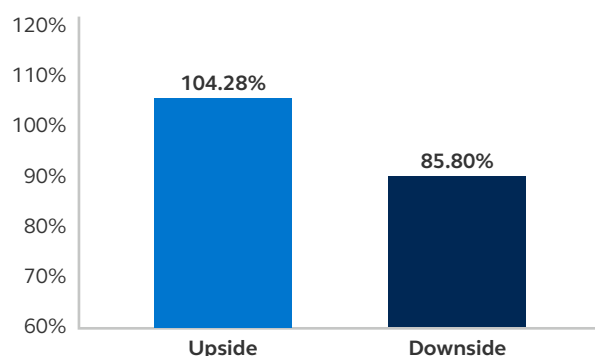
Large-cap stocks	Returns	Standard deviation
Dividend-paying stocks	13.95%	16.11%
All common stocks	13.14%	17.54%
Non-dividend paying stocks	11.27%	24.13%

Small- and mid-cap stocks	Returns	Standard deviation
Dividend-paying stocks	15.51%	17.45%
All common stocks	12.57%	20.85%
Non-dividend paying stocks	9.27%	25.79%

As of March 31, 2025 Source: Empirical Research Partners.  
Large-cap stocks: All 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.

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



Since inception (March 1, 2007) as of March 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.

## Dividends in uncertain times

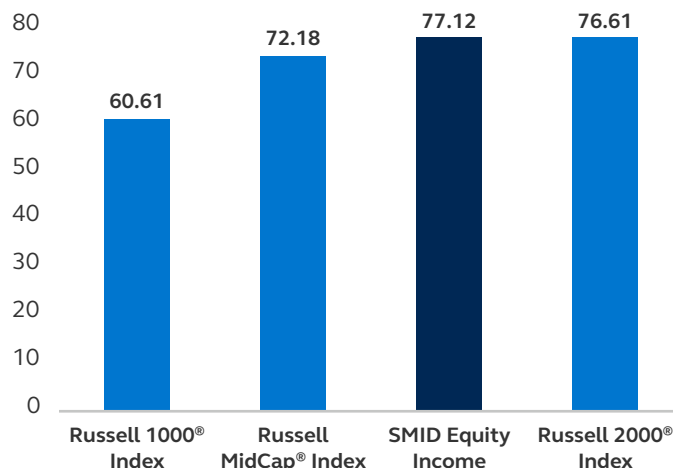
Looking back on periods where markets have been rife with stress, the SMID Equity Income strategy tends to outperform when the Russell 2500® Value Index has fallen more than 15%. We believe this is due in part to dividends providing an attractive and predictable component of total return in an uncertain world. Additionally, with tariffs aiding market volatility, small- and mid-cap stocks may be more insulated with a higher percentage of revenues being generated within the United States compared to their large cap peers.

### Cumulative max drawdowns > - 15%

Max drawdown date	Russell 2500® Value Index¹	Excess return (SMID Equity Income gross return)	Excess return (SMID Equity Income net return)
02/28/2009	-55.46%	9.39%	8.56%
09/30/2011	-24.03%	5.84%	5.56%
12/31/2018	-18.42%	0.93%	0.76%
03/31/2020	-34.64%	-1.28%	-1.38%
09/30/2022	-20.41%	1.25%	0.81%

As of March 31, 2025. Source: Principal Global Investors.

### United States revenue exposure (%)



As of March 31, 2025. Source: FactSet.

¹ Periods since inception of the SMID Equity Income Strategy that the Russell 2500® Value Index has had a cumulative drawdown of negative return of more than 15%. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

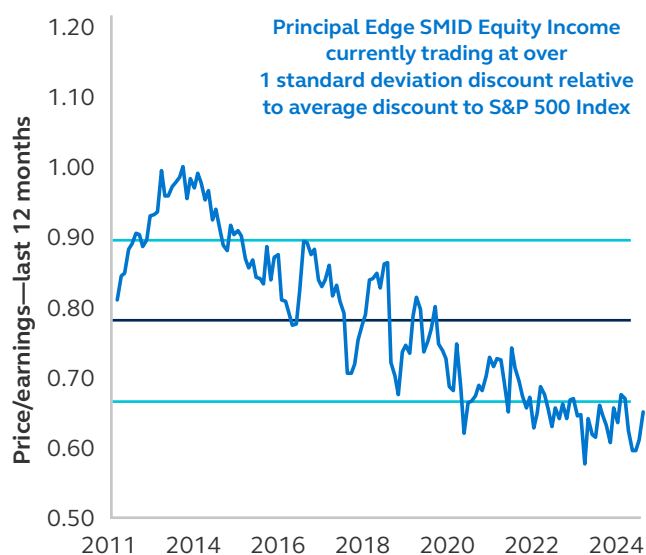
## Valuations offer opportunity and risk

Investors looking to diversify beyond large-cap companies with lofty valuation can find relative value within small- and mid-cap companies. Selectivity remains key as the macro environment is far from certain, and many small- and mid-cap companies lack the balance sheet strength should economic stresses mount.

The Russell 2500® Value Index—which measures the performance of the small- to mid-cap value segment of U.S. equities—currently includes nearly one in four unprofitable companies. From Red Lobster to Joann, bankruptcies remain higher than post-Global Financial crisis, providing opportunities for active managers that can successfully identify winners and losers.

### Attractive SMID relative valuations

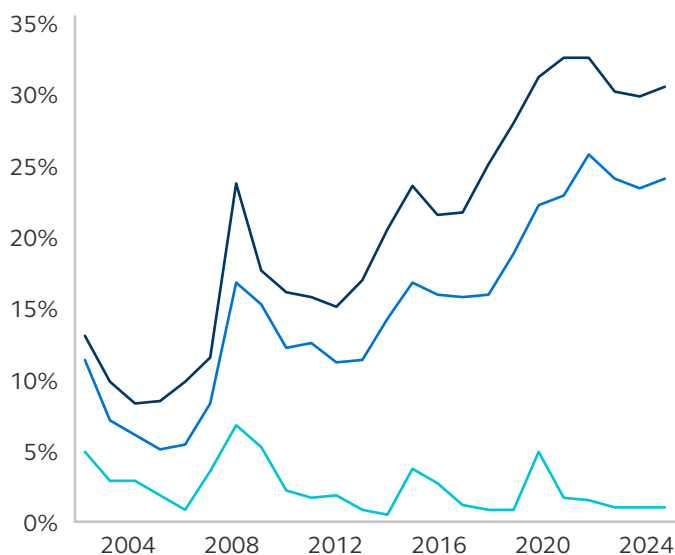
- SMID premium/discount vs. S&P 500 Index
- Average SMID discount
- +/- 1.5 standard deviation



As of March 31, 2025. Source: FactSet. Data is for representative account.

### % Unprofitable companies within indices

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



As of March 31, 2025. Source: FactSet, unprofitable companies measured by Price/Earnings Next 12 months.

## Why Principal Edge for SMID

Choosing the right manager is critical for investors who want to take advantage of current SMID opportunities. Principal Edge uses a simple but powerful approach, focusing on high-quality companies with durable competitive advantages, strong balance sheets, and excellent management teams.

The Edge SMID Equity Income strategy invests in companies that pay a dividend, with a preference for companies that can consistently grow their dividend. In general, these companies have produced a consistent return profile, performing best in down, flat, and modestly positive environments.

*“We believe the best companies can do it all—operate profitably, invest in their business, and return capital to shareholders.”*

**DAN COLEMAN,**  
Co-Chief Investment Officer, Principal Edge

## A history of outperformance

### SMID Equity Income vs. Russell 2500® Value Index since inception 3/1/2007

	Annualized return	Cumulative return	Alpha (annualized)
Edge SMID Equity Income (gross)	9.64%	428.97%	2.94%
Russell 2500® Value Index	6.71%	223.70%	—
Edge SMID Equity Income (net)	8.86%	364.72%	2.15%

### Gross Performance as of March 31, 2025

	3-month	1-year	3-year	5-year	10-year	Since inception (03/01/2007)
Edge SMID Equity Income	-3.33	-0.26	6.57	17.47	8.45	9.64
Russell 2500® Value Index	-5.83	-1.47	2.27	16.64	6.84	6.71
Excess return	2.50	1.21	4.30	0.83	1.62	2.94

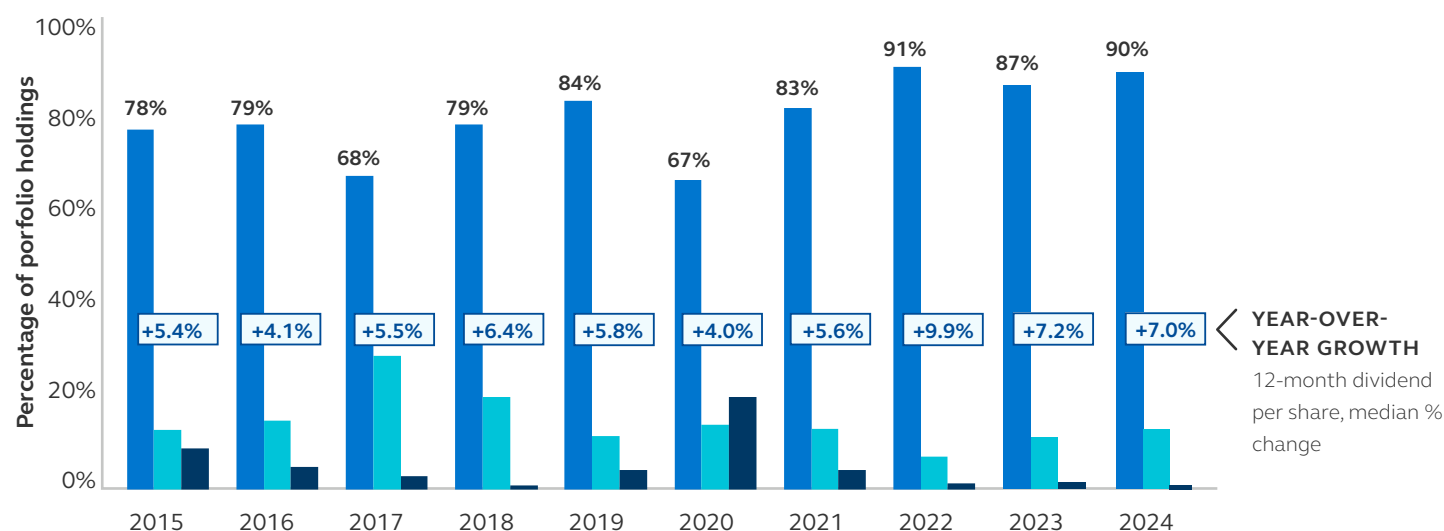
### Net Performance as of March 31, 2025

	3-month	1-year	3-year	5-year	10-year	Since inception (03/01/2007)
Edge SMID Equity Income	-3.50	-0.95	5.83	16.68	7.76	8.86
Russell 2500® Value Index	-5.83	-1.47	2.27	16.64	6.84	6.71
Excess return	2.33	0.52	3.56	0.03	0.92	2.15

Periods over one year are annualized. As of March 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



SMID Equity Income Institutional Composite representative portfolio. As of March 31, 2025. Source: FactSet. Dividends are not guaranteed.



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

This strategy is only provided through separately managed accounts program sponsors. Check with your financial advisor for availability. Clients should consult their financial advisors before making any investment decisions. Financial advisors should consider the suitability of the manager, strategy and program for its clients on an initial and ongoing basis.

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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 Edge 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.

Representative accounts utilized to illustrate SMA portfolio characteristics are selected on non-performance-based criteria that may include institutional, model or sponsor portfolio that is most representative of the SMA strategy and is shown for illustrative purposes. Actual client portfolios holdings may differ because of account size, client-imposed investment restrictions, the timing of client investments and market, economic and individual company consideration.

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 1000® Index is an index of approximately 1,000 of the largest companies in the U.S. equity market. The Russell 1000® is a subset of the Russell 3000 Index. It represents the top companies by market capitalization.

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 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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