Principal Asset Management℠

U.S. Small Cap Equity

31 December 2022

Strategy description

The strategy aims to provide long-term capital growth by investing primarily in the shares of small-cap companies domiciled in the United States. The strategy is research-driven and focused on bottom-up stock selection, not bold calls on macro or geopolitical conditions.

Strategy facts

Manager: Principal Global Equities

Inception: 1 April 2000

Index: Russell 2000 Index

Available vehicles[1]: IMA, U.S. Mutual Fund

Targeted number of holdings[2]: 100 -250

Expected turnover[2]: <75%

Key differentiators

- **We invest in businesses we believe are becoming better** as a result of positive change: innovators, renovators, and pacesetters.
- **We identify them ahead of the market** by recognizing potential underappreciated growth and improvement opportunities.
- **We isolate stock selection as the key driver of results,** delivering style consistency over time using a comprehensive system of checks and balances.

Portfolio management

Phil Nordhus, CFA
32 years' experience

Brian Pattinson, CFA
28 years' experience

Investment philosophy

We believe bottom-up stock selection is the most reliable and repeatable source of consistent performance. We also recognize that persistent behavioral biases and impediments to capital flows create market inefficiencies and opportunities. We seek to exploit these anomalies through focused fundamental research and disciplined risk management.

Composite performance (%)

	3M	1YR	3YR	5YR	10YR	Performance Start (1 April 2000)
U.S. Small Cap Equity (gross)	6.12	-19.63	6.15	6.59	11.41	8.69
U.S. Small Cap Equity (net)	5.97	-20.12	5.56	6.00	10.76	8.02
Russell 2000 Index	6.23	-20.44	3.10	4.12	9.01	6.75
Excess gross return	-0.10	0.81	3.05	2.47	2.40	1.94

Calendar year returns (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
U.S. Small Cap Equity (gross)	49.30	5.82	0.70	18.31	13.79	-10.29	28.24	22.41	21.59	-19.63
U.S. Small Cap Equity (net)	48.37	5.16	0.07	17.57	13.08	-10.84	27.62	21.82	20.89	-20.12
Russell 2000 Index	38.82	4.89	-4.41	21.31	14.65	-11.01	25.52	19.96	14.82	-20.44
Excess gross return	10.48	0.92	5.11	-3.00	-0.86	0.73	2.72	2.44	6.77	0.81

Source: Principal Global Investors.
As of December 2022. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

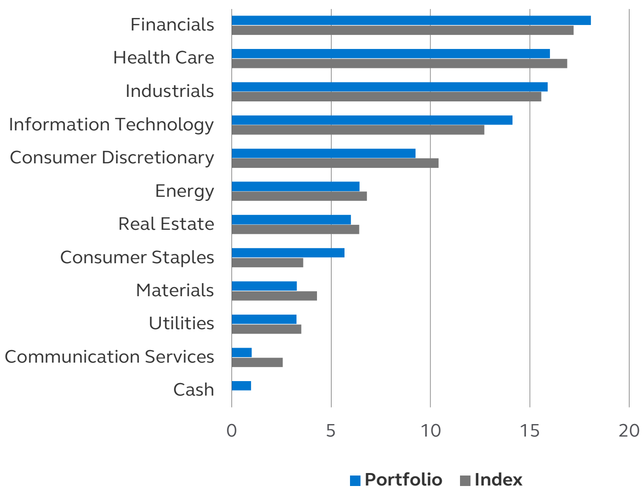
[1] Not all vehicles are available to investors in all jurisdictions.

[2] Investment guidelines are subject to change.

Top 10 holdings (%)[3]

		Sector	Portfolio	Index	Active weight[4]
1	Exlservice Holdings, Inc.	Information Technology	1.7	0.2	1.5
2	Championx Corporation	Energy	1.6	0.3	1.3
3	Agree Realty Corporation	Real Estate	1.5	0.3	1.2
4	Darling Ingredients Inc	Consumer Staples	1.5	—	1.5
5	Portland General Electric Company	Utilities	1.4	0.2	1.2
6	Dycom Industries, Inc.	Industrials	1.4	0.1	1.3
7	First Industrial Realty Trust, Inc.	Real Estate	1.3	—	1.3
8	Natera Inc	Health Care	1.3	—	1.3
9	United Community Banks, Inc.	Financials	1.3	0.2	1.2
10	Horizon Therapeutics Public Limited Company	Health Care	1.3	—	1.3

Sector allocation (%)[3]



Portfolio characteristics[3]

	Portfolio	Index
Return on equity	12.7%	9.5%
Earnings growth[5]	11.0%	11.7%
Earnings revisions[6]	54.6%	51.5%
Price/earnings[7]	13.3x	15.4x
Active share[8]	91.8%	-
Number of holdings	149	1,950
Market cap (weighted median)	$3.6B	$2.5B

Composite risk statistics (gross)[9]

	3YR	5YR
Sharpe ratio	0.21	0.22
Standard deviation	26.29	23.83
Information ratio	0.82	0.72
Tracking error	3.71	3.41

[3] Source: FactSet. Characteristics and weightings shown are of the representative portfolio. FactSet data is subject to revision over time, which may result in slight differences among data points reported during the same period.

[4] Portfolio security weight minus the benchmark security weight.

[5] Long term earnings per share (EPS Growth) - three-five year estimate.

[6] Percentage of companies with positive EPS revisions.

[7] Forward one-year price/earnings estimates.

[8] A measure of the proportion of stock weights in a manager's portfolio that differ from the index.

[9] Source: Principal Global Investors.

Due to rounding, figures and percentages shown may not add to the total or equal 100%. Figures relating to the index are shown for comparative purposes only. The two methods of calculation may not be identical and it is not possible to invest in an index.

Investment process overview

1. **Independent and objective idea generation** using powerful proprietary stock ranking framework
2. **Expert evaluation of positive change catalysts,** sustainability, and risk considerations
3. **Strong collaboration between analysts and portfolio managers** aligns high conviction company recommendations with portfolio objectives
4. **Isolating stock selection as the key driver of results,** using a comprehensive system of checks and balances to avoid unrewarded risks

Perspective and precision: a disciplined, repeatable approach for better fundamental outcomes

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. Small-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 are not available for direct investment.

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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. 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 and their noted actual or model fee tier. Actual investment advisory fees incurred by clients may vary. Composite net returns after 1 January 2011, are inclusive of performance-based fees (where applicable). Performance-based fees are accounted for on a cash basis.

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.

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