

# Principal Aligned MidCap Equity

31 March 2024

## Strategy description

The strategy invests for the long-term in high-quality companies led by owner-operators. The strategy uses a highly active approach to U.S. mid-cap equities that aims for long-term outperformance with less risk.

## Strategy facts

**Manager:** Principal Aligned  
**Inception:** 1 April 2000  
**Index:** Russell MidCap Index  
**Targeted number of holdings<sup>1</sup>:** 70-100  
**Expected turnover<sup>1</sup>:** 15-30%

## Key differentiators

- A wide latitude to depart from index weights results in **higher active share and more concentrated top holdings than peers.**
- **Aligned incentives:** Owner-operators tend to be passionate and cost conscious; We believe they have longer-term outlooks and are better capital allocators.
- **An experienced team** with a history of delivering excess risk-adjusted returns over market cycles.

## Portfolio management

**K. William Nolin, CFA**  
 35 years' experience  
**Thomas Rozycki, CFA**  
 24 years' experience

## Investment philosophy

We are long-term, completely fundamental investors. We invest in owner-operator management teams and companies we believe have sustainable competitive advantages. We're constantly focused on valuation and reducing risk.

## Composite performance (%)

	3M	1YR	3YR	5YR	10YR	Performance Start (1 April 2000)
Principal Aligned MidCap Equity (gross)	11.17	33.27	9.87	14.54	13.48	11.69
Principal Aligned MidCap Equity (net)	11.01	32.49	9.22	13.92	12.91	11.16
Russell MidCap Index	8.60	22.35	6.06	11.09	9.94	8.87

## 12-month rolling returns (%)

	Apr 19 - Mar 20	Apr 20 - Mar 21	Apr 21 - Mar 22	Apr 22 - Mar 23	Apr 23 - Mar 24
Principal Aligned MidCap Equity (gross)	-8.16	61.93	7.71	-7.58	33.27
Principal Aligned MidCap Equity (net)	-8.57	61.18	7.07	-8.14	32.49
Russell MidCap Index	-18.31	73.64	6.92	-8.78	22.35

Source: Principal Global Investors.

As of March 2024. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

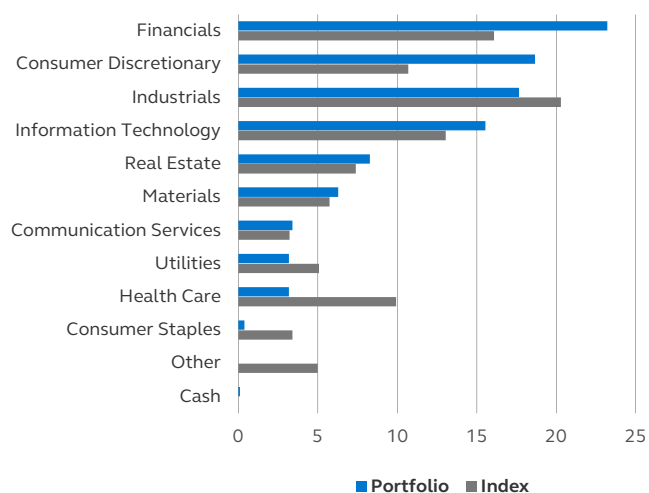
## Risk Considerations

- The potential for profit is accompanied by the possibility of loss.
- 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.
- There is a risk that an investment will decline in value.
- Equity stocks of mid-cap companies carry greater risks including that they may be more volatile and less liquid than equity stocks of larger, more established companies.

<sup>1</sup>Investment guidelines are subject to change.

Top 10 holdings (%)<sup>2</sup>

	Sector	Portfolio	Index	Active weight <sup>3</sup>
1 Transdigm Group Incorporated	Industrials	5.6	0.6	5.0
2 Copart, Inc.	Industrials	5.4	0.4	5.0
3 Brookfield Corporation	Financials	4.8	—	4.8
4 O'reilly Automotive, Inc.	Consumer Discretionary	4.7	—	4.7
5 Kkr & Co Inc	Financials	4.6	0.6	4.0
6 Heico Corporation	Industrials	4.4	0.2	4.2
7 Hilton Worldwide Holdings, Inc.	Consumer Discretionary	4.3	0.5	3.9
8 Costar Group, Inc.	Real Estate	4.3	0.3	4.0
9 Vulcan Materials Company	Materials	3.6	0.3	3.3
10 Brown & Brown, Inc.	Financials	3.3	0.2	3.2

Sector allocation (%)<sup>2</sup>Portfolio characteristics<sup>2</sup>

	Portfolio	Index
Number of holdings	72	808
Operating margin	22.1%	17.2%
Active share <sup>4</sup>	89.8%	-
Market cap (weighted average)	\$43.5B	\$27.8B
Turnover – last 12 months	10.7%	-

Composite risk statistics (gross)<sup>5</sup>

	3YR	5YR
Sharpe ratio	0.35	0.58
Standard deviation	20.22	21.54
Information ratio	0.64	0.56
Tracking error	5.92	6.13

<sup>2</sup> 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.

<sup>3</sup> Portfolio security weight minus the benchmark security weight.

<sup>4</sup> A measure of the proportion of stock weights in a manager's portfolio that differ from the index.

<sup>5</sup> Source: Principal Global Investors.

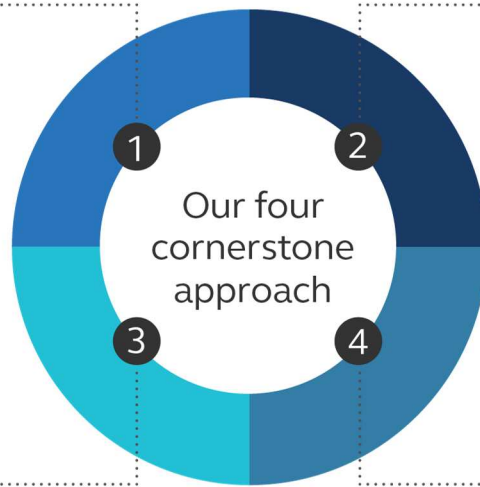
Due to rounding, figures and percentages shown may not add to the total or equal 100%. The index benchmarks are referred to for comparative purposes only and are not necessarily intended to parallel the risk or investment approach of the portfolios included in the composites and the methods of calculating performance of the composite and the index may not be identical.

## Investment process overview

High-quality companies led by owner-operators

High-quality businesses with a sustainable competitive advantage

Businesses with owner-operator management or culture



Focused on risk reduction throughout the entire process

Valuation discipline builds in a margin of safety

- Long horizon (5-10 years) shapes what we look for
- All efforts focused on fundamental analysis of individual companies
- Quality companies, led by owner-operators, trading at a discount

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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.

The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index. In reports issued prior to 1 January 2001, the S&P 500 Index was used for comparison purposes. The benchmark was changed to be more representative of the composite strategy. Information regarding the comparison to the benchmarks is available upon request. Russell Investment Group is the source and owner of the trademarks, service marks & copyrights related to the Russell indexes. Russell® is a trademark of Russell Investment Group.

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