

# Principal Edge SMID Equity Income

31 March 2024

## Strategy description

The strategy seeks 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.

## Strategy facts

**Manager:** Principal Edge

**Inception:** 1 March 2007

**Index:** Russell 2500 Value Index

**Available vehicles<sup>1</sup>:** CIT, IMA, Model-Only, SMA, U.S. Mutual Fund

**Targeted number of holdings<sup>2</sup>:** 60-90

**Expected turnover<sup>2</sup>:** 15-35%

## Key differentiators

- **Growers, not just payers.** Dividend growers and payers have historically had higher returns with less risk than non-dividend paying stocks.
- **Powered by great companies.** A quality-first mentality removes subpar operators, helping to avoid value traps.
- **Sector neutral to help mitigate risk.** We are focused on selecting great companies, not timing sectors.

## Portfolio management

**Daniel R. Coleman**

45 years' experience

**Sarah E. Radecki, CFA**

28 years' experience

**Lauren C. Choi**

21 years' experience

## Investment philosophy

We invest in companies that we believe are high-quality with competitive advantages, financial strength, shareholder-oriented management teams, and a strong or improving profitability. We focus on quality first, have the patience to invest at attractive valuations, and maintain a long-term investment horizon.

## Composite performance (%)

	3M	1YR	3YR	5YR	10YR	Performance Start (1 March 2007)
Principal Edge SMID Equity Income (gross)	8.57	27.06	10.11	10.16	9.32	10.25
Principal Edge SMID Equity Income (net)	8.38	26.19	9.34	9.44	8.61	9.46
Russell 2500 Value Index	6.07	21.33	5.35	9.36	7.68	7.20

## Calendar year returns (%)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Principal Edge SMID Equity Income (gross)	8.50	-2.54	31.27	14.30	-12.90	26.41	-5.58	31.51	-11.00	19.84
Principal Edge SMID Equity Income (net)	7.67	-3.12	30.48	13.61	-13.43	25.65	-6.15	30.63	-11.63	19.01
Russell 2500 Value Index	7.11	-5.49	25.20	10.36	-12.36	23.56	4.88	27.78	-13.08	15.98

Source: Principal Global Investors.

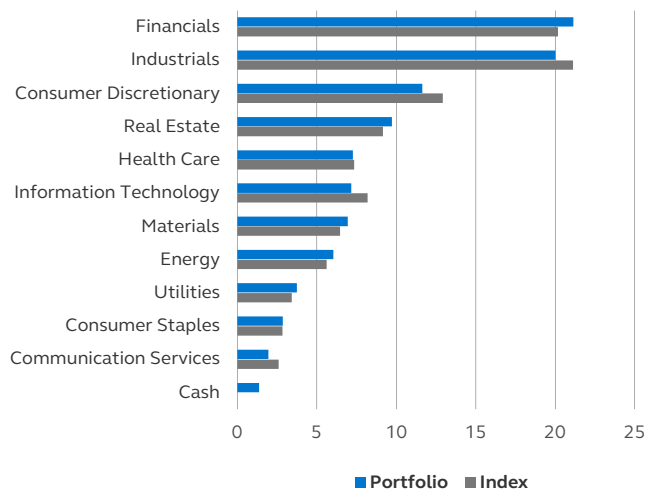
As of March 2024. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

<sup>1</sup>Not all vehicles are available to investors in all jurisdictions.

<sup>2</sup>Investment guidelines are subject to change.

Top 10 holdings (%)<sup>3</sup>

	Location	Sector	Portfolio	Index	Active weight <sup>4</sup>
1 Williams-Sonoma, Inc.	United States	Consumer Discretionary	2.8	0.4	2.3
2 East West Bancorp, Inc.	United States	Financials	2.8	0.3	2.5
3 Mks Instruments, Inc.	United States	Information Technology	2.6	0.2	2.4
4 Fidelity National Financial Corp.	United States	Financials	2.4	—	2.4
5 Brunswick Corporation	United States	Consumer Discretionary	2.3	0.1	2.1
6 Diamondback Energy, Inc.	United States	Energy	2.1	—	2.1
7 Nvent Electric Plc	United States	Industrials	2.1	0.3	1.8
8 Bank Ozk	United States	Financials	2.1	0.1	2.0
9 Assured Guaranty Ltd.	United States	Financials	2.0	0.1	1.9
10 Amdocs Limited	United States	Information Technology	2.0	0.3	1.7

Sector allocation (%)<sup>3</sup>Portfolio characteristics<sup>3,5</sup>

	Portfolio	Index
Market cap (weighted average)	\$10.7B	\$8.1B
Sales growth (trailing 5-year CAGR)	8.07	6.76
Turnover – last 12 months <sup>6</sup>	12.2%	-
Active share <sup>7</sup>	90.8%	-
Number of holdings	74	1,851
Dividend yield (weighted average)	2.22	1.90
Beta	0.88	1.00
Price/earnings – last 12 months	22.05	19.23
Operating margin (trailing 5-year average)	15.82	12.78
Return on capital (trailing 5-year average)	14.34	9.72

Composite risk statistics (gross)<sup>6</sup>

	3YR	5YR
Sharpe ratio	0.39	0.36
Standard deviation	19.13	22.61
Information ratio	1.14	0.18
Tracking error	4.18	4.48

<sup>3</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>4</sup> Portfolio security weight minus the benchmark security weight.

<sup>5</sup> Yields and yield related characteristics shown are only one component of performance or expected performance and are not and should not be viewed as a statement of the current or future performance of the strategy. See the gross and net performance of the strategy.

<sup>6</sup> Source: Principal Global Investors.

<sup>7</sup> A measure of the proportion of stock weights in a manager's portfolio that differ from the index.

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

Seek quality companies at attractive valuations

### Screen for profitable companies

- Revenue growth > industry and GDP
- Return on invested capital > weighted average cost of capital
- Positive free cash flow

### Identify “Good Companies” from industry review

- **Competitive advantage.** Brand, patents, barriers to entry, location, etc.
- **Complexity.** Number and relatedness of businesses
- **Financial strength.** Variability of operating margins and strength of balance sheet
- **Potential for profitability change.** Is there a meaningful inflection up or down over our 5-year horizon
- **Shareholder friendliness.** History of increasing dividends, buying back stock at attractive prices or making accretive acquisitions

### Portfolio construction and risk management

- Monitor buy list for attractive entry point
- Seek to purchase companies when there has been company or industry specific dislocation and then own for years
- Sector neutral approach focuses team on stock selection within each sector to drive results
- Utilize BarraOne® for risk management oversight

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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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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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