

Principal Edge SMID Equity Income

30 June 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 vehicles¹: CIT, IMA, Model-Only, SMA, U.S. Mutual Fund

Targeted number of holdings²: 60-90

Expected turnover²: 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	YTD	1YR	3YR	5YR	10YR	Performance Start (1 March 2007)
Principal Edge SMID Equity Income (gross)	-4.29	3.91	13.90	6.86	8.59	8.16	9.82
Principal Edge SMID Equity Income (net)	-4.46	3.55	13.12	6.11	7.87	7.47	9.03
Russell 2500 Value Index	-4.31	1.50	11.24	2.14	8.00	6.77	6.83

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.

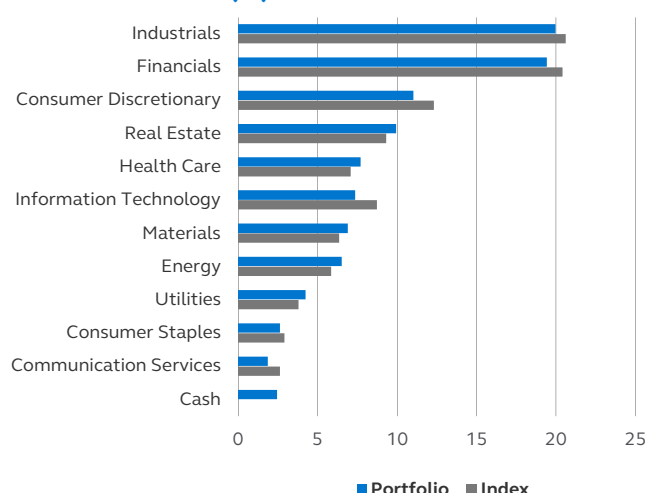
As of June 2024. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

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

²Investment guidelines are subject to change.

Top 10 holdings (%)³

		Location	Sector	Portfolio	Index	Active weight ⁴
1	Mks Instruments, Inc.	United States	Information Technology	2.8	0.2	2.5
2	East West Bancorp, Inc.	United States	Financials	2.6	0.3	2.4
3	Williams-Sonoma, Inc.	United States	Consumer Discretionary	2.5	0.4	2.1
4	Targa Resources Corp	United States	Energy	2.2	—	2.2
5	Nvent Electric Plc	United States	Industrials	2.2	0.3	1.9
6	Diamondback Energy, Inc.	United States	Energy	2.2	—	2.2
7	Leidos Holdings, Inc.	United States	Industrials	2.1	—	2.1
8	Ingredion Incorporated	United States	Consumer Staples	2.0	0.2	1.8
9	Fidelity National Financial Corp.	United States	Financials	2.0	—	2.0
10	Select Medical Holdings Corporation	United States	Health Care	1.9	—	1.9

Sector allocation (%)³Portfolio characteristics^{3,5}

	Portfolio	Index
Market cap (weighted average)	\$10.9B	\$7.9B
Sales growth (trailing 5-year CAGR)	7.83	6.77
Turnover – last 12 months ⁶	14.1%	-
Active share ⁷	90.5%	-
Number of holdings	73	1,836
Dividend yield (weighted average)	2.33	2.00
Beta	0.88	1.00
Price/earnings – last 12 months	19.75	18.28
Operating margin (trailing 5-year average)	15.82	12.83
Return on capital (trailing 5-year average)	13.02	9.56

Composite risk statistics (gross)⁶

	3YR	5YR
Sharpe ratio	0.19	0.29
Standard deviation	19.38	22.35
Information ratio	1.13	0.13
Tracking error	4.16	4.50

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 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.

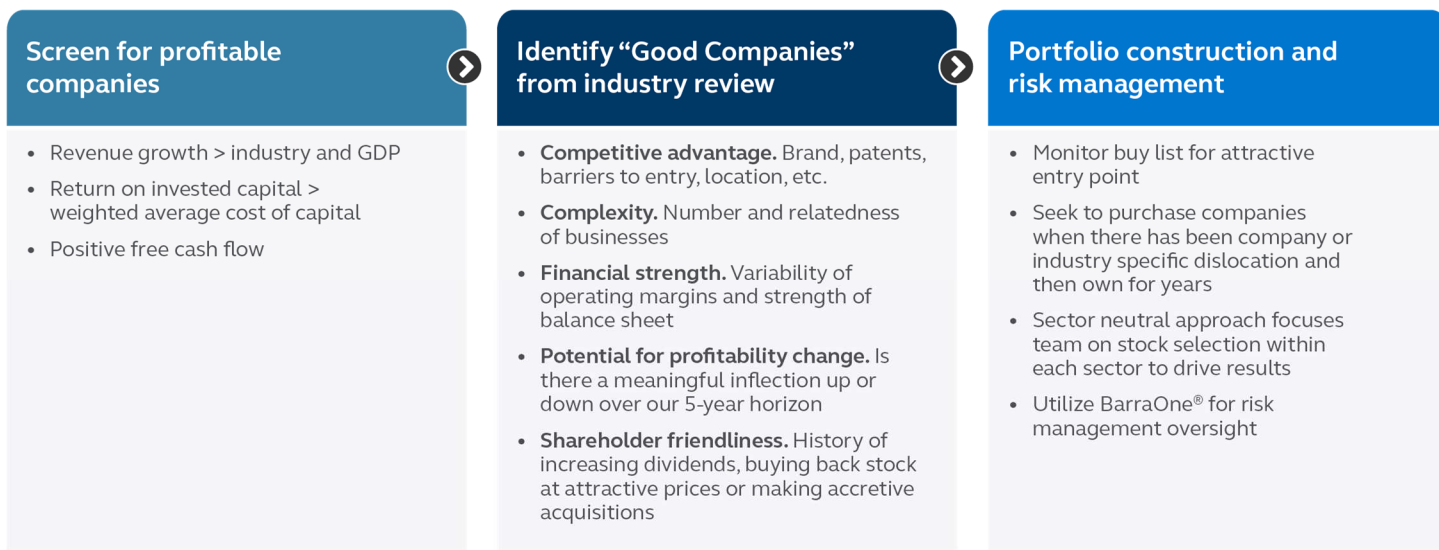
⁶ Source: Principal Global Investors.

⁷ 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



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. Equity stocks of small and mid-cap companies carry greater risks including that they may be more volatile and less liquid than equity stocks of larger, more established companies. Dividends are not guaranteed.

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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.

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. 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.

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.

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