

# SMID Equity Income

30 June 2023

## 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>:** 25-35%

## 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**

44 years' experience

**Sarah E. Radecki, CFA**

27 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)
SMID Equity Income (gross)	6.77	9.32	14.86	16.41	5.71	9.18	9.57
SMID Equity Income (net)	6.58	8.94	14.07	15.63	5.03	8.47	8.79
Russell 2500 Value Index	4.37	5.83	10.37	16.07	5.32	8.01	6.56

## Calendar year returns (%)

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
SMID Equity Income (gross)	31.19	8.50	-2.54	31.27	14.30	-12.90	26.41	-5.58	31.51	-11.00
SMID Equity Income (net)	30.19	7.67	-3.12	30.48	13.61	-13.43	25.65	-6.15	30.63	-11.63
Russell 2500 Value Index	33.32	7.11	-5.49	25.20	10.36	-12.36	23.56	4.88	27.78	-13.08

Source: Principal Global Investors.

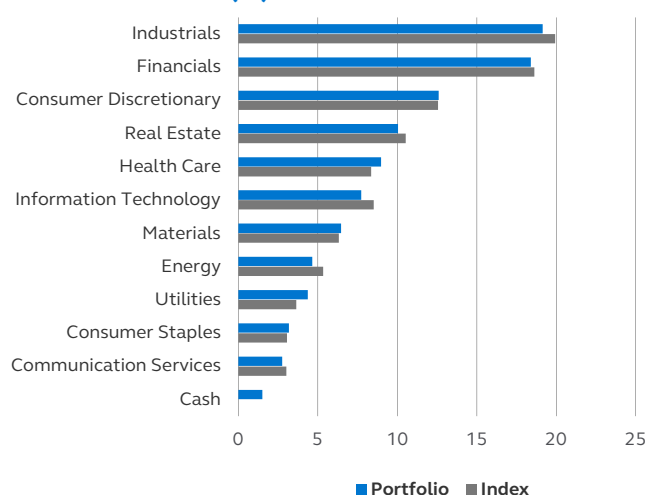
As of June 2023. Investing involves risk, including possible loss of principal. Periods over one year are annualized. Please see disclosures for additional information on performance.

<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 Mks Instruments, Inc.	United States	Information Technology	2.5	0.2	2.3
2 Amdocs Limited	United States	Information Technology	2.5	0.3	2.1
3 M.D.C. Holdings, Inc.	United States	Consumer Discretionary	2.4	0.1	2.3
4 Brunswick Corporation	United States	Consumer Discretionary	2.3	0.2	2.2
5 Bank Ozk	United States	Financials	2.2	0.1	2.1
6 Interpublic Group Of Companies, Inc.	United States	Communication Services	2.2	0.4	1.8
7 Lincoln Electric Holdings, Inc.	United States	Industrials	2.1	—	2.1
8 East West Bancorp, Inc.	United States	Financials	2.1	0.2	1.9
9 Nordson Corporation	United States	Industrials	2.0	0.4	1.6
10 Conmed Corporation	United States	Health Care	2.0	—	2.0

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

	Portfolio	Index
Market cap (weighted average)	\$8.5B	\$6.5B
Sales growth (trailing 5-year CAGR)	7.73	7.83
Turnover – last 12 months <sup>5</sup>	28.6%	-
Active share <sup>6</sup>	92.1%	-
Number of holdings	69	1,895
Dividend yield (weighted average)	2.40	2.14
Beta	0.88	1.00
Price/earnings – last 12 months	19.32	16.54
Operating margin (trailing 5-year average)	15.94	12.83
Return on capital (trailing 5-year average)	13.97	9.10

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

	3YR	5YR
Sharpe ratio	0.78	0.18
Standard deviation	19.30	22.91
Information ratio	0.06	0.09
Tracking error	5.30	4.41

<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> Source: Principal Global Investors.

<sup>6</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

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.

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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. 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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