Principal Asset Management℠

Equity Income

30 September 2022

Strategy description

The strategy seeks a relatively high level of current income and long-term growth of income and capital by investing primarily in the common stocks of U.S. large-cap companies.

Strategy facts

Manager: Edge Asset Management

Inception: 1 August 2000

Index: Russell 1000 Value Index

Available vehicles[1]: CIT, IMA, Model-Only, SMA, U.S. Mutual Fund

Targeted number of holdings[2]: 60-90

Expected turnover[2]: 15-25%

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 approach.** Helps mitigate risk and relies on stock selection not sector bets to drive excess returns.

Portfolio management

Daniel R. Coleman
43 years' experience

Nedret E. Vidinli, CFA
26 years' experience

Sarah E. Radecki, CFA
26 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 August 2000)
Equity Income (gross)	-6.27	-19.72	-11.55	3.97	7.01	10.02	9.22
Equity Income (net)	-6.39	-20.03	-12.00	3.50	6.54	9.56	8.70
Russell 1000 Value Index	-5.62	-17.75	-11.36	4.36	5.28	9.17	7.79
Excess gross return	-0.66	-1.97	-0.19	-0.39	1.72	0.85	1.43

Calendar year returns (%)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Equity Income (gross)	13.55	27.84	13.24	-3.38	16.16	21.61	-4.55	29.61	7.03	22.97
Equity Income (net)	13.08	27.32	12.79	-3.77	15.69	21.12	-4.93	29.09	6.59	22.38
Russell 1000 Value Index	17.51	32.53	13.45	-3.83	17.34	13.66	-8.27	26.54	2.80	25.16
Excess gross return	-3.96	-4.69	-0.21	0.45	-1.18	7.94	3.72	3.07	4.23	-2.19

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

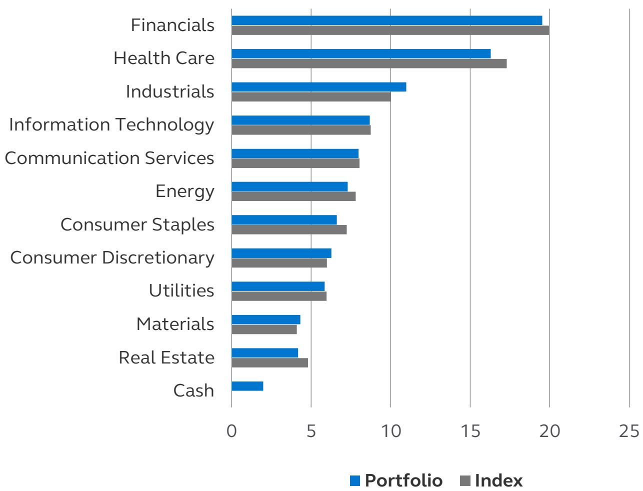
[1]Not all vehicles are available to investors in all jurisdictions.

[2]Investment guidelines are subject to change.

Top 10 holdings (%)[3]

		Location	Sector	Portfolio	Index	Active weight[4]
1	Morgan Stanley	United States	Financials	2.7	0.6	2.1
2	Paccar Inc	United States	Industrials	2.5	0.2	2.4
3	Verizon Communications Inc.	United States	Communication Services	2.5	1.0	1.5
4	Bce Inc.	United States	Communication Services	2.5	—	2.5
5	Jpmorgan Chase & Co.	United States	Financials	2.4	1.8	0.5
6	Hormel Foods Corporation	United States	Consumer Staples	2.4	0.1	2.3
7	Blackrock, Inc.	United States	Financials	2.3	0.5	1.8
8	Merck & Co., Inc.	United States	Health Care	2.3	0.8	1.6
9	Deere & Company	United States	Industrials	2.3	—	2.3
10	Roche Holding Ltd	Switzerland	Health Care	2.3	—	2.3

Sector allocation (%)[3]



Portfolio characteristics[3]

	Portfolio	Index
Market cap (weighted average)	$163.0B	$135.4B
Turnover – last 12 months[5]	16.1%	-
Active share[6]	81.4%	-
Number of holdings	61	855
Dividend yield (weighted average)	2.88	2.46
Beta	0.94	1.00
Price/earnings – last 12 months	17.44	18.87
Operating margin (trailing 5-year average)	20.77	19.20
Return on capital (trailing 5-year average)	11.30	10.17
Sales growth (trailing 5-year CAGR)	6.72	5.90

Portfolio risk statistics[5]

	3YR	5YR
Sharpe ratio	0.18	0.34
Standard deviation	19.33	17.26
Information ratio	-0.11	0.55
Tracking error	3.51	3.16

[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] Source: Principal Global Investors. Portfolio information is based on the strategy's composite.

[6] 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%. 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

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

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 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values. Information regarding the comparison to the Russell 1000 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. Prior to 26 October 2010 the composite was measured against the S&P 500/Citigroup Value Index. The benchmark was changed to be more representative of the composite strategy. Information regarding the comparison to the benchmarks is available upon request.

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.