

## PRINCIPAL MIDCAP FUND

# Quarterly commentary

### THIRD QUARTER 2024

The Principal MidCap Fund outperformed the Russell Midcap Index on a net basis in the third quarter.

### What helped

The financial sector was the top contributor to performance. Alternative asset managers Brookfield and KKR grew assets under management, reported good investment performance, and accelerated asset monetization. CBRE got a tailwind from interest rates in the transaction side of its business, buying and selling commercial real estate. Management is most excited about growing its real estate management services. In the utilities sector, Brookfield Infrastructure was a top contributor. At its investor day in September, management highlighted a record backlog for U.S. semiconductor facilities and global data centers.

### What hurt

Domino's Pizza was weak during the quarter. The company's initiatives to help franchisees grow sales coincided with a general slowdown in consumer discretionary spending at quick service restaurants. We view this as a temporary headwind and see strong competitive advantages at the company. Vehicle salvage and auction business Copart sold off after reporting its most recent quarter. The company went through a higher investment period in two nascent businesses --selling whole cars and heavy equipment. Both businesses grow faster than the core business, setting the foundation for future growth. Microchip sold off during the quarter, as the broader analog semiconductor industry worked through an inventory correction. Long-term fundamentals are intact.

### What we did

We added five new companies to the portfolio in the third quarter. Arthur J. Gallagher is one of the world's largest insurance brokerage, risk management and consulting firms. It is a family run business with a unique culture focused on 25 shared values called "The Gallagher Way". Graco is a fluid handling business, with a leading position in fluid materials, sprays and coatings for residential and non-residential construction. The other three new companies are smaller positions, including filtration company Entegris, water quality business Veralto, and property and casualty insurance broker Ryan Specialty. We sold Aon and Agilent, due to fundamental changes at the company, including executive management turn-over. We exited small positions in Enovis, Cognex, and Howard Hughes.

#### TICKER:

**Class I: PCBIX**

Class A: PEMGX

Class C: PMBCX

Class R6: PMAQX

## Top five contributors

**Brookfield Corporation** is a global investor and asset manager, focused on real estate, infrastructure, renewable power and energy transition, private equity, and venture capital. The company's terrific management team, led by CEO Bruce Flatt, owns more than 18% of the company. They are long-term investors that seek opportunities to deploy capital counter-cyclically. Brookfield has a competitive advantage with its global footprint and deep capital base. The company continues to have both investing and fundraising success. Shares contributed to performance.

**KKR** is a global asset management firm with leading capabilities in private equity, credit, and real assets. The company stands apart by aligning interests at all levels, including significant insider ownership of KKR shares. The distinctive way KKR operates allows them to focus on the most profitable opportunities. Their attractive investment track records have enabled them to continually raise larger funds, which are frequently oversubscribed. KKR spent more than a decade developing capabilities outside the U.S., with a regional approach in the Americas, Europe, and Asia. Shares increased over the quarter and contributed to portfolio performance.

**CBRE** is one of the largest commercial real estate services companies in the world. Its services span the full lifecycle of commercial real estate, making the company a one-stop-shop for owners and tenants. Over the past decade, CBRE transformed its business from being reliant on commissions from real estate transactions, by adding services such as facilities management and sustainability solutions. Its scale and depth of services have created durable network effects on the transactional side of the business and allowed it to invest in and grow its recurring revenue businesses. The company has a long runway

for growth in its Global Workforce Solutions business, offering facilities and project management services to large companies, including 95% of Fortune 100 companies. Shares contributed to performance during the quarter.

**HEICO Corp.** is one of the largest manufacturers of FAA-approved jet engine and aircraft component replacement parts. With a unique owner-operator culture, HEICO has developed design and manufacturing processes that allow the company to offer aircraft component replacement parts below the cost of many OEMs. In addition, the company has significant intellectual property either through reverse engineering or acquisitions, thus creating barriers for meaningful competition to enter. Recent acquisitions have increased visibility into future growth of the business. Shares contributed to performance.

**Brookfield Infrastructure** was established in May 2007 by Brookfield Asset Management as its primary vehicle to own and operate infrastructure assets on a global basis. Brookfield Infrastructure operates billions of dollars of assets on four continents in four segments (Utilities, Transport, Midstream and Data). About 90% of its cash flow is from regulated or contracted operations, indexed to both inflation and gross domestic product (GDP) growth. Brookfield Infrastructure has a significant project backlog, in both U.S. semiconductor facilities and global data centers. Shares contributed during the quarter.

## Top five detractors

**Domino's Pizza** is one of the world's largest pizza restaurant chains with more than 20,000 stores in 90+ different markets. The company has been willing to invest heavily in innovative ways to serve customers and franchisees and over time this has led to a brand recognized for value and reliable service. Domino's has industry-leading unit economics, leveraging its national and global scale, with a significant runway for future growth. Shares detracted from performance, as short-term headwinds weighed on the share price.

**Microchip** is well known in the semiconductor industry for being among the largest producers of microcontrollers and for having a unique culture. Their microcontrollers perform simple functions in a wide range of products including industrial applications, automobiles, and more. Microchip is a frugal company with an eye towards reducing unnecessary cost while delivering value to the customer. Shares lagged during the quarter, as Microchip and the broader industry worked through an inventory correction due to over-ordering by their customers during the pandemic.

**Copart** is a global leader in providing online auction and vehicle remarketing services for salvage vehicles. Founded in 1982 by Willis Johnson (now chairman) as a single salvage yard in California, Copart gradually expanded through organic growth, to over 250 locations in eleven countries. Benefitting from its scale, network effect, barriers to entry, and relationships with major insurance companies, Copart continues to post impressive results and profitably grow market share. Copart detracted from performance, as the company worked through a higher investment period.

**Roper Technologies** owns a diversified group of about 30 companies, many of which are software businesses. While each business serves a different market—from cashless campus software to insurance technology to water meters—they tend to be a leader in a niche industry, with high recurring revenues and gross margins. Roper is very decentralized, with few people at headquarters. The company benefits from a culture focused on accountability and continual improvement. The management team at Roper has a history of effective capital allocation. Shares slightly declined during the quarter.

**Vail Resorts** owns some of the highest rated ski resorts in North America and Australia, including the top four visited ski resorts in North America by skier volume. Opening new ski resorts is very difficult due to lack of new supply, which serves as a barrier from new competition. Vail's profitability has enabled it to reinvest at industry-leading levels to create an unparalleled owned ski resort network in North America. Vail is growing its subscription model through its Epic Pass—which not only provides extraordinary value for skiers, but also gives Vail steadier, up-front revenue and more information about its consumer base, to better manage capacity and unlock ancillary revenue. Shares declined during the quarter, as the industry was faced with higher wage costs and unfavorable weather conditions.

## Top 10 holdings

	% of net assets
Brookfield Corp.	5.2
HEICO Corp.	5.0
TransDigm Group, Inc.	4.8
KKR & Co., Inc.	4.8
Hilton Worldwide Holdings, Inc.	4.5
Copart, Inc.	4.4
O'Reilly Automotive, Inc.	4.2
Brown & Brown, Inc.	3.5
Vulcan Materials Co.	3.1
CoStar Group, Inc.	3.0
<b>Total</b>	<b>42.6</b>

May not reflect current holdings or allocations. The holdings listed do not constitute a recommendation to purchase or sell a particular security. Cash and/or derivative positions that are not part of the core investment strategy will not be reflected in the top holdings list. Due to rounding, the sum may not equal the total shown. Holdings with multiple share classes may be combined.

## Performance, rankings, & ratings

	Average annual total returns (%)							Expense ratio <sup>2</sup> (net/gross)
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception <sup>1</sup> (03/01/2001)	
Class I <sup>3</sup>	10.88	19.74	37.49	8.41	12.75	13.11	11.49	0.68/0.68
Russell Midcap Index <sup>4,5</sup>	9.21	14.63	29.33	5.75	11.30	10.19	-	-
Morningstar category average	6.46	12.68	26.45	-0.04	10.48	10.35	-	-

Morningstar rankings and ratings	3-month	Year-to-date	1-year	3-year	5-year	10-year	Overall
Category and number of funds in category: Mid Cap Growth	533	531	531	511	476	378	511
Class I percentile rankings <sup>6</sup>	-	-	8	5	17	6	-
Class I ratings <sup>7</sup>	-	-	-	★★★★★	★★★★	★★★★★	★★★★★

Calendar year returns (%)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class I <sup>3</sup>	12.69	1.47	10.25	25.32	-6.69	42.91	18.26	25.32	-23.18	25.87
Russell Midcap Index <sup>4,5</sup>	13.22	-2.44	13.80	18.52	-9.06	30.54	17.10	22.58	-17.32	17.23
Morningstar category average	7.00	-0.95	6.03	23.91	-6.65	32.52	39.26	13.05	-27.79	21.37

Morningstar percentile rankings are based on total returns. Morningstar ratings are based on risk-adjusted returns.

**Returns represent past performance and do not guarantee future results. Share price, principal value, and return will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For the most recent month-end performance, visit [PrincipalAM.com](http://PrincipalAM.com).**

<sup>1</sup> Class I shares were first sold on 03/01/2001. Returns for I shares prior to inception dates, including since inception performance, are based on performance of the R3 Class shares adjusted to reflect the fees and expenses of respective share classes. Class R3 shares were first sold on 12/06/2000.

<sup>2</sup> The net expense ratio reflects contractual expense limits, if any, which may lower net expenses and cause the gross and net expense ratios to differ. In such cases a date is listed through which expense limits are expected to apply; however, Principal Funds and the investment adviser may mutually agree to terminate the expense limits prior to the end of the period. Returns displayed are based on net total investment expense.

<sup>3</sup> Performance assumes reinvestment of all dividends and capital gains.

<sup>4</sup> Russell Midcap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000<sup>®</sup> Index.

<sup>5</sup> Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

<sup>6</sup> Morningstar percentile rankings are based on total returns and do not reflect the inclusion of sales charges. If sales charges were reflected, rankings could be lower.

<sup>7</sup> The Morningstar Rating<sup>™</sup> for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Morningstar ratings do not reflect the inclusion of sales charges. If sales charges were reflected, ratings could be lower. © 2024 Morningstar, Inc. All rights reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

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MM5702-53 | 10/2024 | 3925249-022025