Principal Asset Management℠

LISTED INFRASTRUCTURE

Perspectives: Listed Infrastructure update

FALL 2024 EDITION

Principal
Asset Management℠

EMILY FOSHAG, CFA
Portfolio Manager,
Head of Listed Infrastructure

NINA LIU, CFA
Portfolio Specialist,
Listed Real Assets

Is it time to diversify your equity allocation?

Recent shifts in equity market leadership have begun to benefit infrastructure stocks. A string of weaker economic data and confirmation from the Federal Reserve over the summer that the risks of its dual mandate have come into better balance drove a market rotation into defensive equity sectors. The broadening out of the artificial intelligence theme has also renewed investor interest in a range of listed infrastructure companies linked to long-term growth in power demand from generative AI.

Relative valuations and a favorable macroeconomic backdrop suggests outperformance has room to run. Listed infrastructure valuations continue to screen cheaply versus equities. This is the case even as rate cuts are well understood to serve as a tailwind for listed infrastructure stocks. In addition, we expect the stable earnings and cash flow growth infrastructure companies offer will look increasingly appealing to investors as earnings growth in the more economically sensitive parts of the market slows.

Should downside risks to the economy materialize, listed infrastructure can also offer possible mitigation from sizable equity market drawdowns. While a 'soft landing' remains the consensus view, recession risks are still elevated by historical standards. Not only are infrastructure fundamentals likely to remain resilient through a recession, listed infrastructure has a historical track record of outperforming equities during large equity market drawdowns.

The long-term case for an active listed infrastructure allocation remains compelling. Listed infrastructure has delivered comparable returns to global equities at lower volatility for nearly 30 years now, while providing the capital appreciation and income growth potential that fixed income lacks. In addition, the excess returns opportunity in listed infrastructure is potentially greater than for the average global equity manager. With limited overlap with typical global equity portfolios and fundamental growth drivers such as the clean energy transition, demographic changes, and digitalization driving infrastructure demand for decades to come, we expect these characteristics of the asset class to persist.

Recent shifts in equity market leadership have begun to benefit infrastructure stocks

While equity market dynamics to start 2024 largely mirrored what we saw in 2023, a combination of moderating inflation and weaker economic data ultimately catalyzed a market rotation into defensive equity sectors over the summer. In addition, the link between rising power demand and generative AI served to refocus the market on the many structural growth drivers benefitting listed infrastructure companies. The Federal Reserve's decision to cut rates by a historic 50 bps at its September meeting drew a further line in the sand.

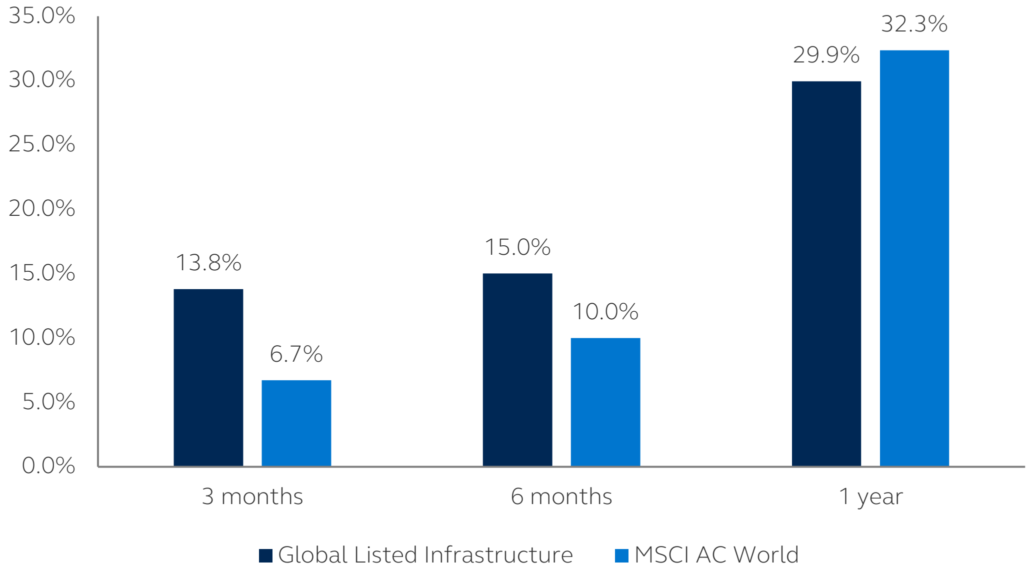
We believe the conditions that can lead to sustained outperformance of listed infrastructure are now underway.

Previously out-of-favor factors such as low volatility, yield and value saw a comeback over the summer

Morningstar Factor Indexes	Q3 2024 to date return (%)	First half 2024 return (%)
Low volatility	4.73	6.32
Size	3.01	3.36
Yield	2.71	7.23
Value	1.57	6.66
Broad equity market	1.49	11.29
Quality	0.23	18.93
Momentum	-0.77	28.39

As of 15 August 2024. Source: Morningstar Direct. Gross Returns in USD for Morningstar Global Factor Indexes. Past performance does not guarantee future results. Please see important information for index descriptions.

Listed infrastructure has quietly benefitted from recent shifts in equity market leadership



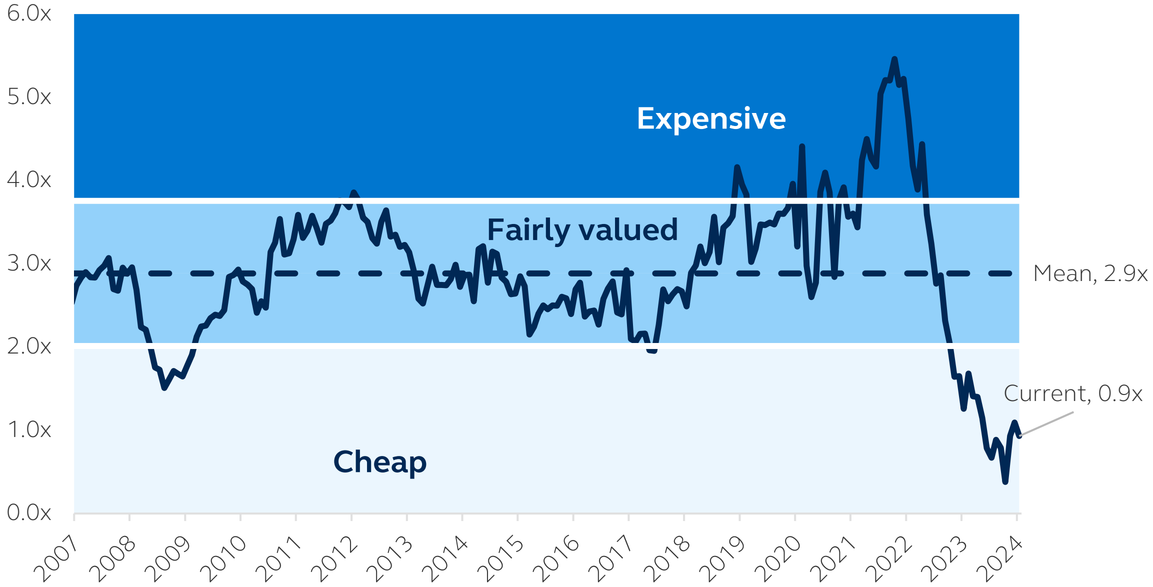
As of 30 September 2024. Source: FactSet. Returns represented by FTSE Global Core Infrastructure 50/50 Index (Global Listed Infrastructure) All Country and MSCI World Index. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

Relative valuations and the start of rate cuts in the U.S. and Europe can support further outperformance from here

Even as listed infrastructure has rebounded from its lows, trading multiples relative to global equities remain lower than levels seen even during the Global Financial Crisis. However, in absolute terms, listed infrastructure is one of the few areas of public equity markets where trading multiples have not yet disconnected from its long-term averages.

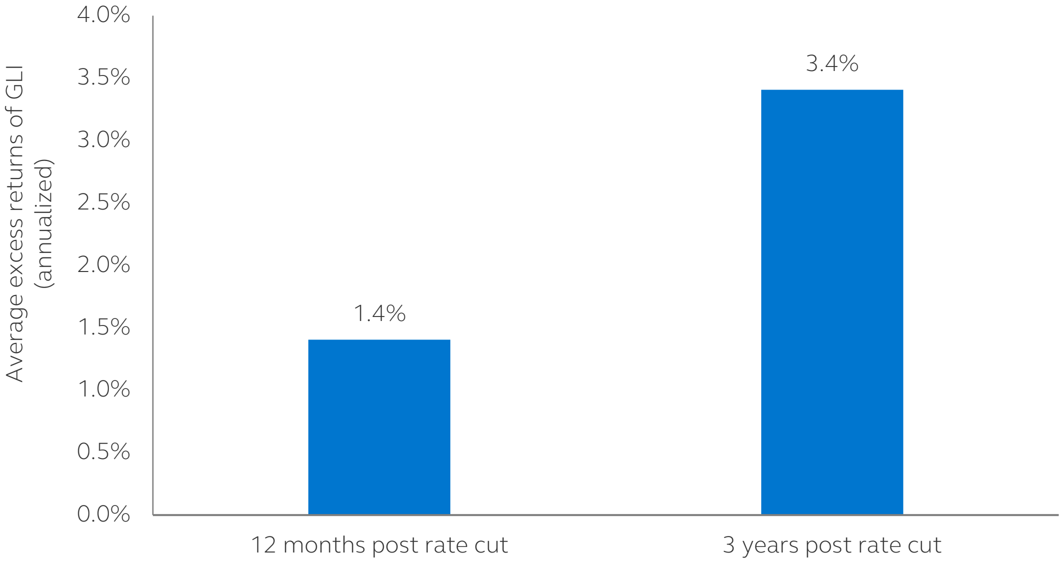
In combination with compelling relative value, we believe the start of rate cuts in most major developed markets can continue to support the outperformance of listed infrastructure. While listed infrastructure has already started to perform well as the market anticipated rate cuts, history tells us that outperformance can continue as rates decline further. We still expect listed infrastructure will offer the most pronounced relative outperformance in a recession.

Infrastructure stocks continue to screen cheaply relative to global equities



As of 30 September 2024. Source: FactSet. Weighted average enterprise value (EV) to EBITDA price multiples are used to measure valuations. The spread plotted is the EV/EBITDA of the FTSE Global Core Infrastructure 50/50 index minus the EV/EBITDA of the MSCI All Country World index. Expensive and cheap valuations are represented by spreads higher or lower than one standard deviation from the mean, respectively. Fair value is represented by valuations between one standard deviation from the mean.

Listed infrastructure has a track record of outperforming global equities after U.S. rate cuts begin



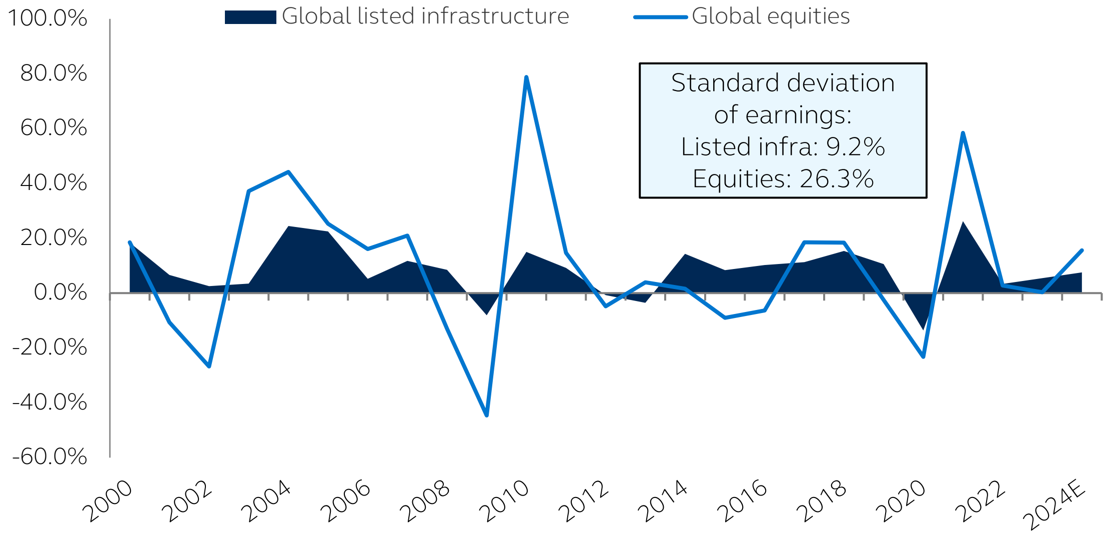
As of 30 September 2024. Source: FactSet. Listed infrastructure is represented by a 50/30/20 blend of MSCI ACWI Utilities Index, MSCI ACWI Transportation, and the Alerian MLP Index through March 2015, and the FTSE Global Core Infrastructure 50/50 Index thereafter. The FTSE index launched in March 2015. Global equities represented by MSCI All Country World Index. Average was taken from 1- and 3-year excess returns of GLI relative to equities following Fed rate cuts in 01/2001, 09/2007, and 08/2019. Past performance does not guarantee future results. Indices are unmanaged and do not take into account fees, expenses, and transaction costs. It is not possible to invest in an index.

Should downside risks to the economy materialize, listed infrastructure may offer differentiated mitigation from large equity market drawdowns

While a 'soft landing' in the U.S. remains the consensus expectation, recession risks are still elevated by historical standards. At the same time, many major market indices continue to reach new all-time highs. We believe the combination of these factors suggest equity markets will be increasingly vulnerable to negative economic surprises, including those that indicate further cooling of the U.S. labor market.

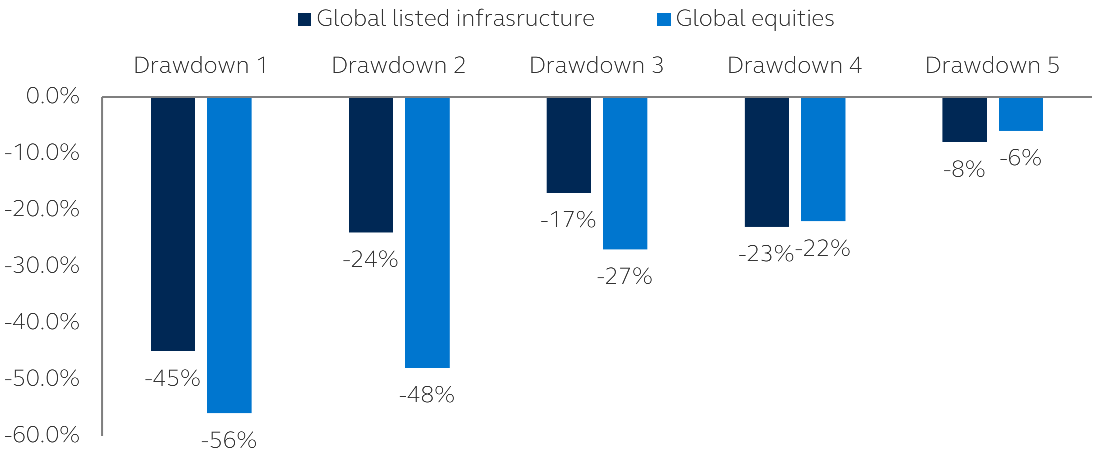
Due to the essential nature of the services infrastructure companies provide and the highly contracted or regulated revenue streams the asset class offers, business fundamentals are quite likely to remain resilient through an economic slowdown. Historically, this has translated favorably to the relative performance of listed infrastructure versus equities during large market drawdowns. In the five largest global equity market drawdown periods over the past few decades, listed infrastructure has outperformed equities by an average of around 10 percent.

Infrastructure businesses are fundamentally less volatile than their global equity counterparts



As of 30 September 2024. Source: FactSet. Earnings growth from the FTSE Global Core Infrastructure 50/50 and MSCI ACWI indices. Hypothetical back-tested weights were used prior to the start of the FTSE Global Core Infrastructure 50/50 index in 2015 and held steady back to 2000.

Listed infrastructure drawdowns have typically been less than equities



	Date range
Drawdown 1	October 2007–February 2009
Drawdown 2	March 2000–September 2002
Drawdown 3	December 2021–September 2022
Drawdown 4	November 2019–March 2020
Drawdown 5	February 2018–December 2018

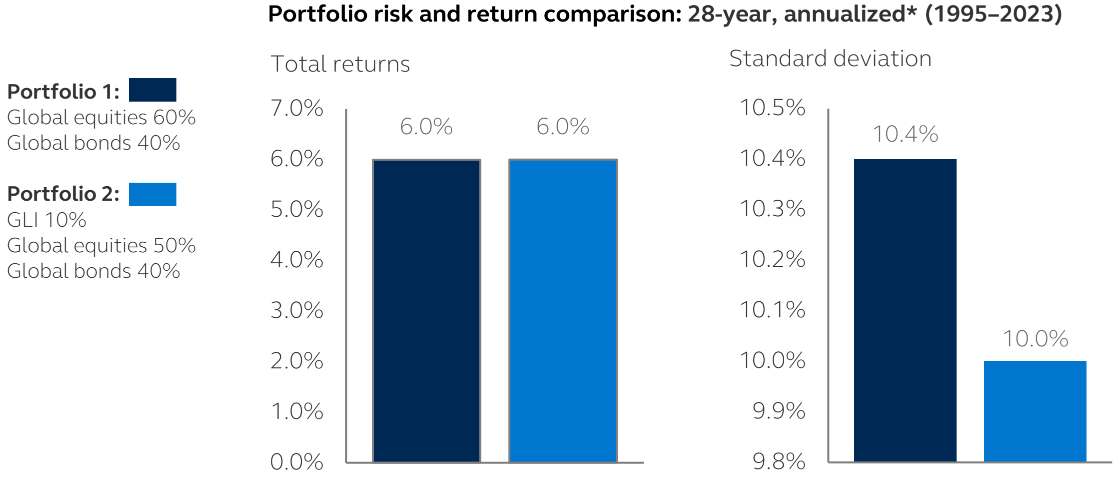
As of 31 December 2023.Source: FactSet. Top 5 drawdown periods going back to the earliest available data across asset classes (1995). Listed infrastructure is represented by a 50/30/20 blend of MSCI ACWI Utilities Index, MSCI ACWI Transportation, and the Alerian MLP Index through March 2015, and the FTSE Global Core Infrastructure 50/50 Index thereafter. The FTSE index launched in March 2015. Global equities represented by MSCI All Country World Index. Past performance is not indicative of future performance and should not be relied upon to base an investment decision. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

Longer term, the case for an active listed infrastructure allocation remains compelling

Investing in listed infrastructure results in unique investment characteristics that can diversify your portfolio across market cycles. Indeed, integrating GLI into a traditional 60/40 portfolio by substituting 10 percent of equities holds the potential to provide similar returns while lowering overall portfolio risk.

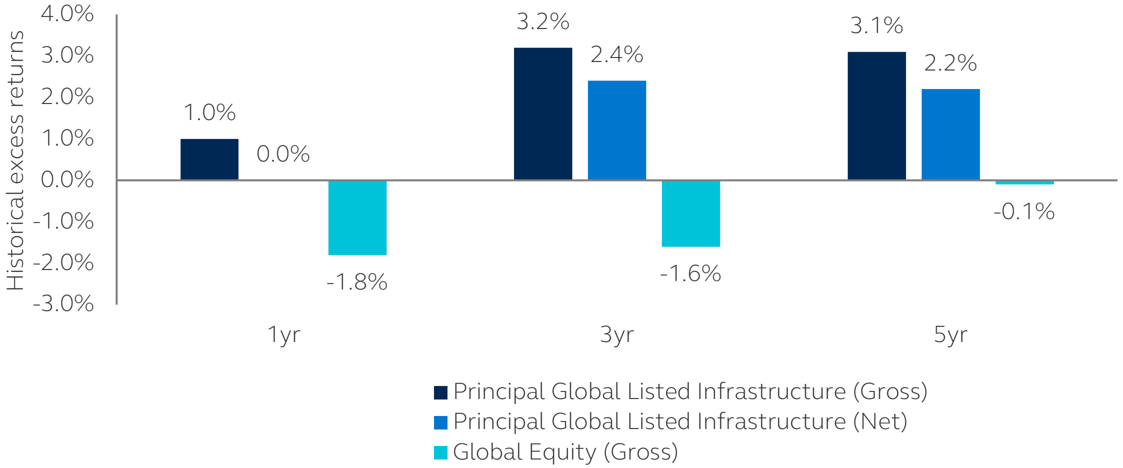
Looking beyond index level returns, listed infrastructure remains one area of the public equity markets where investors have historically been rewarded for pursing active management. There remains limited overlap between broader equity indices and the listed infrastructure market in terms of market capitalization, and typical generalist equity investment teams simply do not prioritize deep fundamental work on infrastructure companies. We believe our specialist listed infrastructure team at Principal has the experience and skill required to identify and capture opportunities for compelling excess returns, as we have done since the inception of our strategy.

Substituting a portion of an equity allocation with listed infrastructure has historically improved portfolio outcomes by providing similar returns at lower risk



As of 31 December 2023. Source: FactSet. *Time period providing earliest available data across asset classes. Listed infrastructure is represented by a 50/30/20 blend of MSCI ACWI Utilities Index, MSCI ACWI Transportation, and the Alerian MLP Index from December 31, 2005 through March 2015, and the FTSE Global Core Infrastructure 50/50 Index thereafter. The FTSE index launched in March 2015. Global equities represented by MSCI All Country World Index. Global bonds represented by Bloomberg Global Aggregate Index. Past performance is not indicative of future performance and should not be relied upon to base an investment decision. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

Principal's track record of excess returns generation in listed infrastructure suggests the alpha opportunity may be greater than in global equities



As of 30 September 2024. Source: Principal Asset Management, eVestment. Returns presented in USD. Excess returns over one year are annualized. Principal Global Listed Infrastructure performance is represented by the strategy's composite performance. Global Equity performance is represented by the average excess returns of the eVestment All Global Equity category. See important information section for further details.[1]

Important information

[1]As of September 30, 2024. Source: Principal Asset Management, eVestment. Principal Global Listed Infrastructure performance is represented by the strategy's composite performance for 1 year, 3 years and 5 years ending September 30, 2024. Global Equity performance is represented by the average excess returns of the eVestment All Global equity category for 1 year, 3 years and 5 years ending September 30, 2024. eVestment provides excess returns by manager from those time frames, and then we calculate average excess returns using a simple average. eVestment collects excess returns relative to a manager's preferred benchmark, and when no preferred benchmark is indicated excess returns are displayed relative to the default benchmark, MSCI All Country World Index. The comparisons provided above have been prepared as a guide and they are not intended to be exhaustive. Comparisons are based on the available information and Principal Global Investors disclaims any and all express or implied warranties of reliability or accuracy arising out of any for error or omission attributable to any third-party representation, example, or data provided herein.

Slide 3 Index Descriptions:
Value: The Morningstar Global Factor Indexes define value in accordance with the Morningstar Style Box™ methodology, which is robust and incorporates historical and forward-looking value and growth metrics. Lower-growth characteristics also translate into higher-value style scores.
Quality: This is measured as the equally weighted z-score of a company's profitability (trailing 12-month return on equity) and the z-score of its financial leverage (trailing 12-month debt/capital).
Yield: This is measured as the trailing 12-month shareholder yield, which includes dividends and net buybacks. Total shareholder yield offers a more complete picture of shareholder distributions than dividend yield alone.
Size: The normalized value of the logarithm of a firm's market capitalization, where smaller stocks are favored.
Low Volatility: Weighted average of idiosyncratic volatility over the past six months (50%), total volatility over the past six months (25%), MAX5/lottery factor (25%), which is based on the highest five day returns over the past month where lower values are favored. This composite provides a more complete view of risk than a security's total volatility alone.
Momentum: This factor is measured as the trailing 12-month return (in local currency), excluding the most recent month, minus the local risk-free rate. This definition aligns with the momentum factor as defined by the academic literature.

Performance Summary

GLOBAL LISTED INFRASTRUCTURE COMPOSITE

Average annual total returns (%)	3M	YTD	1YR	3YR	5YR	Performance Start[1]
Global Listed Infrastructure (gross)	14.38%	15.21%	29.76%	9.89%	8.33%	8.64%
FTSE Global Core Infrastructure 50/50 Index	13.59%	16.20%	28.80%	6.70%	5.24%	5.61%
Excess return (gross)	0.79%	-0.99%	0.96%	3.19%	3.09%	3.02%
Tracking error (gross)	-	1.00	3.49	3.00	2.81	2.77
Information ratio (gross)	-	-0.99	0.27	1.06	1.10	1.10
Sharpe ratio (gross)	-	3.00	1.82	0.38	0.36	0.38
Global Listed Infrastructure (net*)	14.18%	14.57%	28.81%	9.05%	7.49%	7.82%
Excess return (net*)	0.58%	-1.62%	0.01%	2.35%	2.25%	2.20%

As of 30 September 2024. Source: Principal Asset Management. Returns presented in USD. Returns over one year are annualized.
*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. Actual investment advisory fees incurred by clients may vary. [1]Principal Global Listed Infrastructure Composite Performance Start Date: 01 August 2019. Past performance is not a reliable indicator of future performance and should not be relied upon to make investment decisions.

Important information

Risk Considerations

Investing involves risk, including possible loss of Principal. Past Performance does not guarantee future return. Infrastructure issuers may be subject to regulation by various governmental authorities and may also be affected by governmental regulation of rates charged to customers, operational or other mishaps, tariffs and changes in tax laws, regulatory policies and accounting standards. Foreign securities involve special risks, including currency fluctuations, lower liquidity, political and economic uncertainties and differences in accounting standards. Some international securities may represent small and medium-sized companies, which may be more susceptible to price volatility and may be less liquid than larger companies. Equity investments involve greater risk, including heightened volatility, than fixed income investments. The strategy's objective of downside risk reduction/protection may or may not be successful and as a result investors must be prepared to bear capital losses, including a loss of capital invested.

Important information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account.

Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided. All figures shown in this document are in U.S. dollars unless otherwise noted.

This material may contain 'forward looking' information that is not purely historical in nature. Such information may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is intended for use in:

- The United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.
- Europe by Principal Global Investors (Ireland) Limited, 70 Sir John Rogerson's Quay, Dublin 2, D02 R296, Ireland. Principal Global Investors (Ireland) Limited is regulated by the Central Bank of Ireland. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (Ireland) Limited ("PGII") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGII, PGIE or PGII may delegate management authority to affiliates that are not authorised and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland. In Europe, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID).
- United Kingdom by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA").
- United Arab Emirates by Principal Investor Management (DIFC) Limited, an entity registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as an Authorised Firm, in its capacity as distributor / promoter of the products and services of Principal Asset Management. This document is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organisation.
- Singapore by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act 2001. This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.
- Australia by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission and is only directed at wholesale clients as defined under Corporations Act 2001.
- This document is marketing material and is issued in Switzerland by Principal Global Investors (Switzerland) GmbH.
- Hong Kong SAR (China) by Principal Asset Management Company (Asia) Limited, which is regulated by the Securities and Futures Commission. This document has not been reviewed by the Securities and Futures Commission.
- Other APAC Countries/Jurisdictions, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

MM14202-01 | 10/2024 | 3961078-122025