

## PRINCIPAL ALIGNED SMA FOCUSED BLUE CHIP EQUITY

# Quarterly commentary

## FIRST QUARTER 2025

The Principal Aligned SMA Focused Blue Chip Equity portfolio outperformed the Russell 1000<sup>®</sup> Growth Index on a gross basis in the first quarter.

### What helped

The financial sector was the top contributor to Focused Blue Chip performance in the first quarter, led by insurance carrier Progressive. Progressive increased prices earlier than competitors, which allowed them to step up advertising. Progressive gained market share in a profitable way. O'Reilly contributed to performance. As a leading auto parts retailer with non-discretionary products, O'Reilly managed well through fluctuating economic conditions. Diversified technology company Roper performed well during the quarter. In March, Roper continued to deploy capital and announced the acquisition of a vertical market software company that fits well with its portfolio. On a relative basis, having less exposure to the Magnificent 7 companies helped performance.

### What hurt

Uncertainty around AI-spending plans and price sensitivity emerged during the first quarter. Alphabet, Amazon and Microsoft announced increased capex targets. They are going through a period of increased investment, that has a lag in returns. As long-term owners, we like to see our companies investing in future growth. Alternative asset manager Brookfield sold off during the first quarter, as sentiment around pace of asset monetization turned. There has been no change to the fundamental outlook of the business.

### What we did

Intuit was sold from the portfolio. Intuit has competitive advantages in its tax and accounting products, but as its business matures, we decided to use funds for other attractive opportunities. We increased shares of Airbnb and Broadcom.

Past performance is no guarantee of future results. Investing involves risk, including possible loss of principal. Securities/sectors identified as contributors and detractors that were not held during the period represented acted as contributors or detractors to the active return due to the firm's decision to not invest. The decision to not invest resulted in an increase or decrease to the active return due to the security underperforming or outperforming relative to the other constituents. Quarterly buys and sells represent all new purchases and full liquidations of securities for the model portfolio for the previous quarter. It should not be assumed that securities identified above will prove to be profitable. Any reference to a specific investment or security does not constitute a recommendation to buy, sell or hold such investment security.

## Top five contributors

**Progressive** is one of the largest insurers in America. The company's roots were in providing car insurance to people that most other companies would ignore, typically due to poor credit and accident history. Progressive saw that with enough data and analytics, they could still underwrite this group profitably. They developed an innovative, data-driven culture and effective direct-to-consumer marketing while keeping costs low to be able to offer lower prices. Today Progressive offers a full suite of insurance solutions including vehicle, homeowners, property, commercial and personal lines, while maintaining its innovative, cost-efficient culture. Progressive's shares contributed to performance.

**Visa** is a dominant global payments company, with over four billion cards and 150 million merchant locations, in more than two hundred countries and territories. The scale of Visa's global infrastructure is tough to replicate and serves as a barrier to entry. The company provides a trust layer for merchants and consumers when card payments are made. Visa benefits from the strongest network effect in the industry. Ubiquity of acceptance leads consumers to want to use Visa cards, banks to issue the cards and drives increasing acceptance for the marginal merchant. Visa's shares contributed to performance last quarter.

**O'Reilly** is a leading auto parts aftermarket retailer, serving both consumers who repair their own vehicles and professional mechanics through their more than 6,300 stores in the United States, Mexico, and Canada. O'Reilly's investments in distribution centers have put them in a position to quickly deliver a massive array of inventory in

a way that competitors cannot match. O'Reilly benefits from the owner-operator culture that is prevalent from the O'Reilly family's leadership to its distribution centers and individual stores. O'Reilly shares rose during the quarter.

**TransDigm** is a supplier of an extensive collection of airplane components led by a highly respected management team. Nearly all military and commercial aircraft have parts made by TransDigm. The business has high barriers to entry—approximately 90% of TransDigm's parts are proprietary, and TransDigm is the sole provider of about 80% of them. Its aftermarket business—selling replacement parts to the owners of aircraft—is exceptionally profitable. Demand for replacement parts was strong due to the slowdown in new aircraft manufacturing. Shares contributed to performance.

**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 rose during the quarter and contributed to performance.

Information is based upon a model (hypothetical) portfolio of the Principal Aligned SMA Focused Blue Chip Equity strategy. The holdings identified do not represent all of the securities purchased, sold or recommended for the model portfolio during the quarter. It should not be assumed that recommendations made in the future will be profitable or equal the performance of the securities listed. Past performance is no guarantee of future results. This commentary may exclude minimal security positions that the investment adviser deems of insignificant or no material impact to the portfolio.

## Top five detractors

**Alphabet** is the parent company of a collection of businesses, including Google Search and YouTube. Despite dominant share, management still highlights Search as its biggest opportunity in the future. Twenty years on, the company continues to invest billions of dollars each year into the Search business, with AI embedded into its software and infrastructure. There is also significant opportunity to increase the monetization of YouTube, the dominant video streaming platform that benefits from network effects. Alphabet's shares detracted from performance.

**Amazon** is dominant in online retail and cloud computing. The long-term growth runway is attractive at Amazon Web Services, as more computing gradually moves to the cloud. In retail, Amazon benefits from the virtuous cycle of using its scale and logistics network to offer lower prices and a better experience for customers. The company has a long runway of opportunity in advertising. Shares detracted from performance.

**Microsoft's** primary goal is to empower every person and every organization to achieve more. Their two largest businesses, Office, and cloud platform Azure, continue to gain share as they make businesses more efficient. Microsoft helps its customers do more with less thanks to productivity gains and consolidation of spend. Satya Nadella and Amy Hood (CEO and CFO respectively) ensure Microsoft is focused on large and growing opportunities. Microsoft has numerous opportunities ahead, from Teams and Azure to advertising and gaming, incorporating its AI Copilot across its platform. Shares detracted from performance during the quarter.

**Broadcom** focuses on technologies that connect our world. Led by visionary owner-operator Hock Tan, Broadcom has an extensive portfolio of category-leading products in each of its semiconductor and infrastructure software franchises, with the scale and engineering talent to lead the industry into the future. Broadcom is well positioned for the next wave of spending in AI infrastructure, making custom AI hardware for the world's largest companies. Its other businesses have significant opportunities, from integrating VMware's infrastructure software tools, to broadband solutions, industrial automation, server connectivity and cybersecurity. Broadcom's advantage is its intellectual property, talent, and track record of execution. Shares detracted from performance during the quarter.

**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. Growth is coming from private credit, AI infrastructure and energy transition. Shares detracted from performance.

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