

PRINCIPAL ALIGNED SMA FOCUSED BLUE CHIP EQUITY

Quarterly commentary

FIRST QUARTER 2024

The Principal Aligned SMA Focused Blue Chip Equity portfolio underperformed the Russell 1000[®] Growth Index on a gross basis in the first quarter.

What helped

Consumer discretionary was the top performing sector, led by Amazon. In February, Amazon reported accelerating revenue growth in both its Retail and AWS Cloud segments. Company selection in the industrial sector also contributed to performance. Aerospace components business TransDigm was a top contributor. During a meeting at TransDigm's headquarters in the quarter, founder Nick Howley said a simple and focused strategy is the key to its success. Progressive continued to post impressive results, beating profitability targets. In February, the company released its annual letter to shareholders and attributed success to its people and culture. Not owning any companies in the consumer staples and energy sectors, both which underperformed the index, contributed on a relative basis.

What hurt

Adobe sold off in March when their near-term guidance fell short of Wall Street's hopes, which were based on recent AI-related excitement. Adobe's results were strong. It's clear when talking with Adobe's management they're focused on positioning the company for the long-term AI opportunity, rather than going for, as their CFO puts it, a 'sugar rush'. Also in information technology, not owning Nvidia in the portfolio hurt performance relative to the benchmark. Credit ratings company Moody's sold off after giving conservative guidance for the year. Moody's management has experience managing the cyclicity of the Ratings business and is focused on growing its Moody's Analytics business of compliance and risk-management tools.

What we did

We bought Copart in the Focused Blue Chip portfolio. Copart is a vehicle salvage and auction business that benefits from global scale and high barriers to entry. We sold S&P Global from the portfolio to allocate capital to other opportunities. The biggest weight increase was in Charles Schwab.

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

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 contributed to performance last quarter.

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 contributed to performance during the quarter.

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 positively to performance.

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. Shares increased during the quarter and contributed to performance.

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 contributed to performance during the quarter.

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

Adobe is the market leader in software for creative professionals worldwide. Its primary software, referred to as Creative Cloud, is necessary for creative professionals to do their jobs, such as website design, video editing, or the well-recognized Photoshop. Document Cloud, which includes the Acrobat PDF products, continues to transform document sharing capabilities for the hybrid work environment. The demand for digital marketing is growing into a significant opportunity for Adobe as businesses realize having a commerce and marketing presence on the web is critically important. Adobe's shares detracted from performance.

American Tower is an owner and operator of multitenant communications real estate. They own approximately 225,000 cell phone towers and communication sites globally and lease antenna space on these towers to wireless service providers. These long-term contracts make for a very attractive business, with steadily growing cash flow. American Tower also operates 28 data centers across the U.S. The company benefits from global growth in mobile data usage. With American Tower's unmatched scale, the company is the natural provider of choice for global telecom firms. Shares detracted from performance.

Zoetis is a leading animal health company, with vaccines, medicines and diagnostics for companion animals and livestock. The company's operating philosophy of "first to know and fast to market", drives the innovative culture and attracts the best talent. Zoetis' consistency in bringing innovative products to market has led to market share gains and pricing power. This allows Zoetis to invest more in animal health research and development and develop closer customer relationships than its competitors. Zoetis has a strong pipeline of products in development to add to its Pain, Dermatology and Parasiticide franchises. Zoetis detracted during the quarter.

S&P Global is a global information services company providing credit ratings, benchmarks, analytics and workflow solutions. The S&P Global Credit Ratings business, where S&P has roughly 40% global market share, has high barriers to entry, with a concentrated industry structure. The S&P Dow Jones Indices offerings serve as the basis for ETFs, futures, options, and other investable products around the world. Last year, S&P Global surpassed its synergy target from the 2022 merger with IHS Markit, bringing complementary assets together, adding financial market data and analytics capabilities. Shares declined during the quarter.

Moody's is a global risk assessment company that helps organizations make better, faster decisions. Moody's Investor Services is one of the three major credit rating agencies and benefits from oligopolistic industry fundamentals such as high margins, returns on capital, and pricing power. The company continues to benefit from the value proposition it can offer clients, where a relatively modest fee to Moody's for a rating earns its clients a meaningful reduction in interest costs. Moody's Analytics provides financial intelligence tools that help customers manage risk, including ESG and Know-Your-Customer (KYC) data. Both businesses benefit from being deeply embedded in their customers' systems. Moody's detracted from 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.

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. The strategy may have an increased potential for loss because its portfolio includes a relatively small number of holdings. Movements in the prices of the individual assets may have a magnified effect on the portfolio.

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.

Information is based upon a hypothetical model portfolio of the strategy and is shown for illustrative purposes. Actual client portfolios holdings may differ because of account size, client-imposed investment restrictions, the timing of client investments and market, economic and individual company consideration. Actual holdings will vary for each client and there is no guarantee that a particular client's account will hold any or all the securities presented. The specific securities identified herein do not represent all the securities purchased, sold, or recommended to advisory clients and there is no assurance that investments in the securities identified and discussed will be profitable.

This strategy is only provided through separately managed accounts program sponsors. Clients should consult their financial professional before making any investment decisions. Financial professionals should consider the appropriateness of the manager, strategy and program for their clients on an initial and ongoing basis.

Principal Global Investors ("PGI") acts as a discretionary investment manager or non-discretionary model provider in a variety of separately managed account or wrap fee programs ("SMA Program") sponsored by either broker-dealers or another financial services firm ("Sponsor"). When acting as a discretionary investment manager, PGI is responsible for implementing trades in SMA Program accounts. When acting as a non-discretionary model provider, PGI's responsibility is limited to providing non-discretionary investment recommendations of model portfolios to the SMA Program Sponsor who may utilize such recommendations in connection with its management of SMA Program accounts. In such model SMA Programs ("Model Programs"), it is the Sponsor, and not PGI, which serves as the investment manager to, and has trade implementation responsibility for, the Model Program accounts.

This document is issued in The United States by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.

Principal Global Investors, LLC (PGI) is registered with the U.S. Commodity Futures Trading Commission (CFTC) as a commodity trading advisor (CTA), a commodity pool operator (CPO) and is a member of the National Futures Association (NFA). PGI advises qualified eligible persons (QEPs) under CFTC Regulation 4.7.

Principal Aligned is an investment team within Principal Global Investors.

Principal Asset ManagementSM is a trade name of Principal Global Investors, LLC.

©2024 Principal Financial Services, Inc. Principal®, Principal Financial Group®, Principal Asset Management, and Principal and the logomark design are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company, in various countries around the world and may be used only with the permission of Principal Financial Services, Inc.