

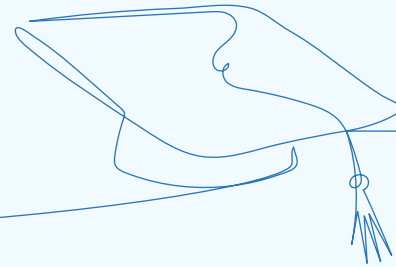
## THE CASE FOR PRINCIPAL BLUE CHIP FUND

# Willing to be different

## A natural extension

For more than 25 years Principal Aligned has successfully managed the Principal MidCap strategy. Since the MidCap Fund was inception (March '01), its performance has beat all other mid-cap funds.<sup>(1)</sup>

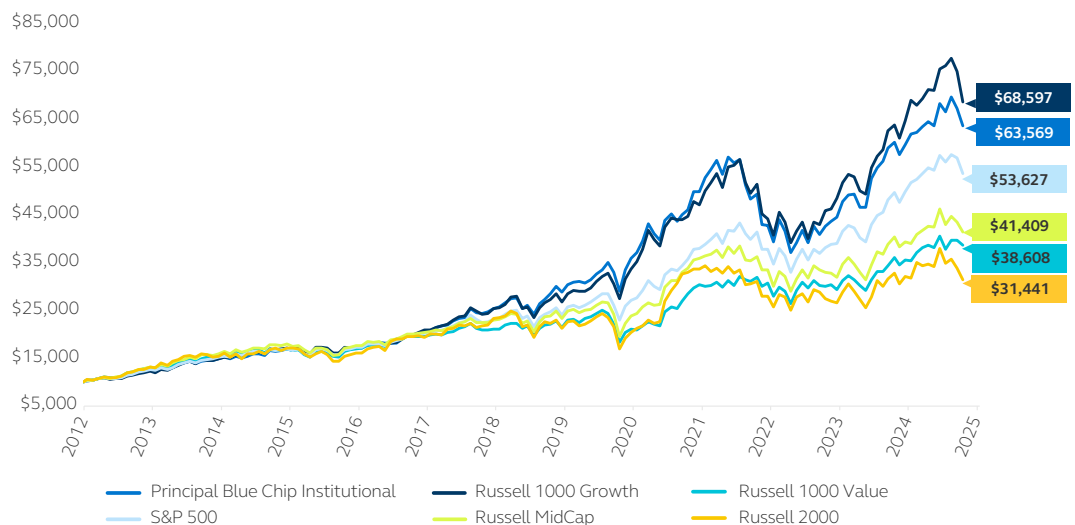
There's one unfortunate aspect of managing a MidCap portfolio: we occasionally must sell our most successful investments. They graduate, and we let them go... even when confident they're going on to even bigger success.



So, in 2012, we launched Blue Chip—a large cap portfolio of our best ideas. Same people and process. Same emphasis on owner-operators. Just bigger companies that fit the 'Aligned' mold: firms that we believe have competitive advantages, owner-operator management, and attractive valuations.

The last decade plus since we started Blue Chip have been quite a stretch for U.S. large-cap companies. One dollar into the S&P 500 turned into more than \$5. Large-growth indices were even better. The Russell 1000 Growth compounded at 16.1% annualized.

### Growth of \$10,000



As of March 31, 2025.

Source: Morningstar. Fund performance reflects I share performance. It is not possible to invest directly in an index. Data provided as supplemental information. Past performance is not a reliable indicator of future performance and should not be relied upon to make investment decisions. Please refer to the accompanying notes to performance for additional disclosures and important information.

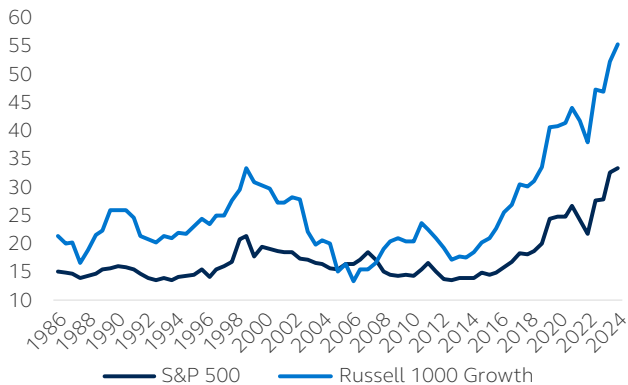
<sup>(1)</sup> Source: Morningstar. Since inception of the Principal Midcap Fund, as of December 31, 2024 among the 200 Mid-Cap Value, Mid-Cap Growth and Mid-Cap Blend category funds that consistently have been categorized as a mid-cap fund throughout the period.

# Extreme concentration

July 2012 through 2024	Annualized return
Russell 1000 Growth	17.4%
Russell 1000 Growth ex-Mag 7	13.5%

This large-cap (and growth) dominance has really been the dominance of the Magnificent Seven. Without this small group of now giant companies, large-cap returns were less remarkable. These companies now make up an extraordinary percentage of indices.

Unprecedented Index Concentration  
% in top 7 constituents



## The risk builds

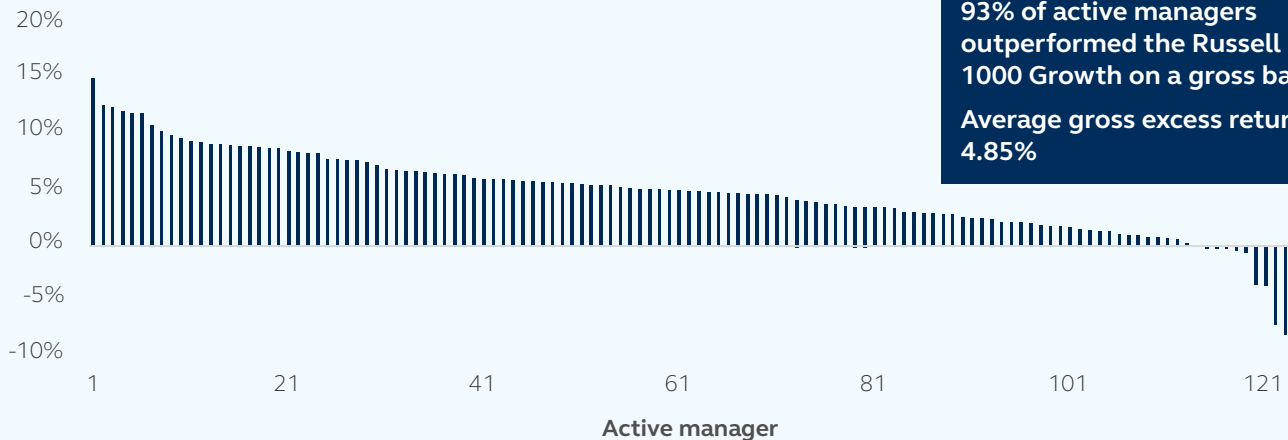
The process of *becoming concentrated* is very helpful to index returns. But concentration cuts both ways. The risk builds, especially when—like today’s situation—the companies are highly correlated with one another.

A version of this has played out before. From 1994-2000, most active large-cap strategies underperformed, as indices concentrated into that era’s exciting internet stocks. But the concentration peaked in 2000 and kept broadening out until 2008. During that broadening period, 93% of active strategies outperformed.

93% Of active managers **outperformed** the Russell 1000 Growth on a gross basis

4.85% average gross **excess return**

Annualized gross excess return of active U.S. large-cap growth managers following the last period of extreme index concentration, June 30, 2000 - March 31, 2008



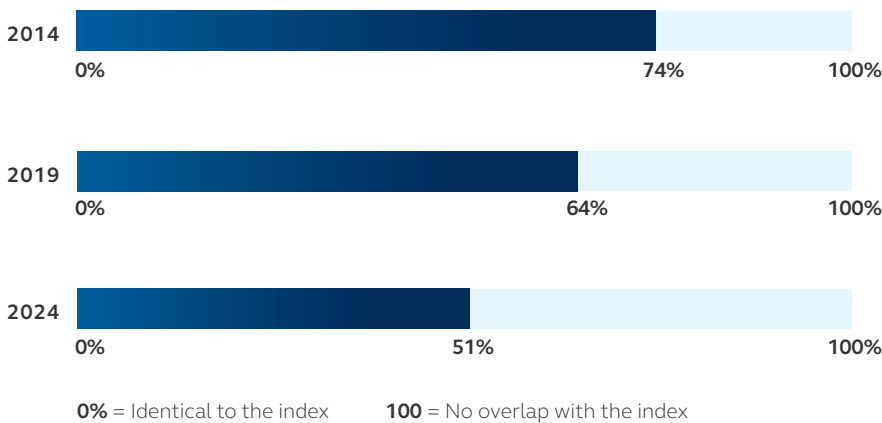
93% of active managers outperformed the Russell 1000 Growth on a gross basis  
Average gross excess return: 4.85%

Source: eVestment. Data as of December 5, 2023. Gross excess returns. Each bar represents one active manager’s annualized excess performance. 114 of the 123 active managers had positive excess return for the period. If expenses were factored in, manager results would be lower.

## It's warmer inside the herd

"If you can't beat them, join them" seems to be the response from many active managers. The "active share" of many large-cap growth funds has plummeted. The average for active large-cap growth managers dropped to 51% by year-end 2024. Several large funds have active shares *in the 30's*. In many cases, the active option is active in name only.

### The average active share against Russell 1000 Growth of active large-cap growth funds



Source: Morningstar. Data as of March 31, 2025. Active share is a measure of the percentage of a stock portfolio's holdings that differ from its benchmark index.

In **2024**, fewer than

# 25%

of active large-cap growth funds had active shares against the Russell 1000 Growth above 60%.

In **2014**, more than

# 90%

of active large cap growth funds did.

## The dilemma for allocators

### How to invest in this important category?

#### > PASSIVE

- Hyper-concentrated
- Majority of weight in 6-8 stocks that are highly correlated
- Recent returns outstanding, but high risk
- History shows that passive underperforms when indices broaden out

#### > SEMI-ACTIVE

- >3/4 of active funds have <60% active share
- Many of the same risks as the index, but with an active fee
- <10% of these funds outperformed the Russell 1000 Growth over the last 5 or 10 year periods

#### > ACTIVE

- Shrinking number of strategies: <1/4 of active funds have >60% active share
- Zero of these 52 funds outperformed the Russell 1000 Growth over the last 5 or 10 year periods
- **Principal Blue Chip (66% active share) had the best 10-year performance of these funds.<sup>(2)</sup>**

Source: Morningstar. As of March 31, 2025.

<sup>(2)</sup> Based on funds in the Large Growth category with at least \$100 million in assets and greater than 60% active share. See also the standardized performance comparison on page 5.

## Blue Chip: a compelling *active* solution

We knew from day one that Blue Chip would be different. It's always how we've had success in MidCap. We're not benchmark-followers. We have a north star as investors, and we don't waver from it.

Like nearly every other fund, Blue Chip has underperformed the Russell 1000 Growth over the last decade as the index has ridden the wave of concentration. But Blue Chip has continued to have strong performance compared with peers.

Blue Chip's underperformance in relation to the benchmark is more than explained by the impact of the Magnificent Seven. Successful investments elsewhere have allowed Blue Chip's performance to remain competitive, despite having far less concentration in those companies.

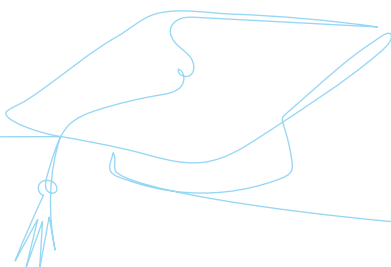
We're as confident as ever that our approach—fully active, long-term investment in advantaged businesses led by owner-operators—will work as well in large-cap as it has in mid-cap.

## Looking ahead

In our view, it's unlikely this headwind of ever-increasing concentration will continue. It's far more likely that over the next decade-plus that headwind will become a tailwind, as the index broadens out from its current extraordinary composition. The process of that unwinding will weigh on the index's returns, far more than active funds – like Blue Chip—that have remained willing to be different.

Looking ahead, we're confident that the way we've achieved returns is more reliable. Markets will not always be driven in such an extraordinary way by a handful of stocks.

If we're thinking about being roughly halfway through a 25-year race, we're excited about the back half—and how Blue Chip is positioned to finish compared to the index and peers.



**AS OF FIRST QUARTER 2025,** there were 214 active large-growth mutual funds with at least \$100 million in assets.

52 of these funds (including Principal Blue Chip) had active share stats >60%.

### Of these 52 funds:

**Blue Chip had the best 10-year performance, 13<sup>th</sup> best 5-year performance, and 10<sup>th</sup> best 3-year performance.<sup>(3)</sup>**

**Blue Chip (I-share) is the only Gold-medal rated fund by Morningstar.<sup>(4)</sup>**

**Blue Chip was one of only 4 funds with >\$10 billion in assets.**

Source: Morningstar. Data as of March 31, 2025.

<sup>(3)</sup> Based on funds in the Large Growth category with at least \$100 million in assets and greater than 60% active share. See also the standardized performance comparison on page 5.

<sup>(4)</sup> As of 3/31/2025. Ratings vary by share class. Category: Large Growth; Analyst-driven %: 100; Data Coverage %: 100. See disclosure section for details about the Rating.

*Highly active does not mean high risk. Against this benchmark, we'd argue it's the opposite.*

- **Our process** has historically had its best relative returns in lower-return markets.
- **Our MidCap strategy** has been through 30 “down” quarters, where the benchmark had a negative return. Our fund has outperformed in 25 of them. Its downside capture since inception is 80%.
- **Blue Chip** has been outperformed in 7 out of 9 down quarters, with a downside capture of 90%.

As of March 31, 2025.

## Performance as of March 31, 2025

### Principal Blue Chip Fund (PBCKX)

Average annual total returns (%)								
	3-month	1-year	3-year	5-year	10-year	Since inception (06/14/2012)	Expense ratio <sup>(5)</sup> (net/gross)	Expense limit expiration date
Class I <sup>(6), (7)</sup>	-4.39	5.61	8.86	16.98	14.58	15.55	0.66/0.70	12/30/2025
Russell 1000® Growth Index	-9.97	7.76	10.10	20.09	15.12	–	–	–
Morningstar Category Average – Large Growth	-8.49	5.01	7.76	16.99	12.61	–	–	–

### Principal MidCap Fund (PCBIX)

Average annual total returns (%)							
	3-month	1-year	3-year	5-year	10-year	Since inception (03/01/2001)	Expense ratio <sup>(5)</sup> (net/gross)
Class I <sup>(6), (7)</sup>	-0.40	7.69	9.34	17.60	11.64	11.23	0.67/0.67
Russell Midcap® Index <sup>(8), (9)</sup>	-3.40	2.59	4.62	16.28	8.82	–	–
Morningstar Category Average – Mid Cap Growth	-8.18	-2.39	1.17	12.37	8.56	–	–

**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 <http://www.PrincipalAM.com>.** 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>(5)</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>(6)</sup> Performance assumes reinvestment of all dividends and capital gains.

<sup>(7)</sup> These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

<sup>(8)</sup> Russell 1000® Growth Index is a market-capitalization weighted index of those firms in the Russell 1000® with higher price-to-book ratios and higher forecasted growth values. The Russell Midcap® Index is a market capitalization weighted index that represents the smallest 800 companies in the Russell 1000® Index.

<sup>(9)</sup> Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

Want to learn more about the owner-operator led companies of the Principal Blue Chip Fund?  
**Contact your Principal representative and visit [PrincipalAM.com](http://PrincipalAM.com).**

Index definitions:

Russell 1000 Growth Index TR: An index that tracks the performance of Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index TR: An index that tracks the performance of the 1000 largest of the 3000 largest US-domiciled companies (based on total market capitalization) with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap Index TR: An index that tracks performance of the Russell 1000 Index's 800 smallest companies (roughly 26% of the Russell 1000 Index's total market capitalization).

Russell 2000 Index TR: An index that tracks performance of the Russell 3000's 2000 smallest firms.

S&P 500 Index TR: A market-value-weighted index that contains 500 U.S. stocks selected on the basis of liquidity, size and representativeness of industry sector.

**Carefully consider a fund's objectives, risks, charges, and expenses. Contact your financial professional or visit [www.PrincipalAM.com](http://www.PrincipalAM.com) for a prospectus, or summary prospectus if available, containing this and other information. Please read it carefully before investing.**

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Investing involves risk, including possible loss of principal. Small and mid-cap stocks may have additional risks including greater price volatility.

Class I shares are available only to eligible investors, including various institutional investors and investors in certain mutual fund wrap or asset allocation programs.

**Past performance does not guarantee future results.**

**The Principal Blue Chip Fund received a Gold rating by Morningstar analysts.** Rating for Principal Blue Chip Fund Institutional Class as of March 31, 2025.

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