

## THE CASE FOR PRINCIPAL BLUE CHIP FUND

# Investing in quality companies led by owner-operators

Over 20 years ago, Principal Aligned launched the successful MidCap strategy. Over time, we noticed a trend. Many of our best investments grew beyond our MidCap mandate. These were companies with long runways in front of them—businesses getting better as they got bigger, with strong management teams, and still attractively valued.

So, in 2012, we launched Blue Chip—a large cap portfolio of our best ideas. Same people, process, and emphasis on quality companies led by owner-operators, but an expanded opportunity set.

Principal Blue Chip Fund's track record stands out in its own right. The same approach that has led to MidCap's long-term success has delivered attractive returns for Blue Chip.

## A simple concept with a powerful impact

We believe owner-operators—business leaders with significant personal ownership stakes in the companies they run—have many traits that benefit long-term shareholders.

Most owner-operators—especially founders—have a genuine love for the business. They are passionate about the mission, which leads to a long-term orientation that is often missing at public companies. They are willing to invest, even if it involves short-term sacrifice. They run companies that waste less money, are more efficient at operating, and less prone to making bad empire-building acquisitions.

Their leadership results in decisions, habits, practices—the stuff that defines culture—aligning with what's best for long-term shareholder value.



Analyst-Driven %: 100  
Data Coverage %: 100  
As of 11/30/2023.

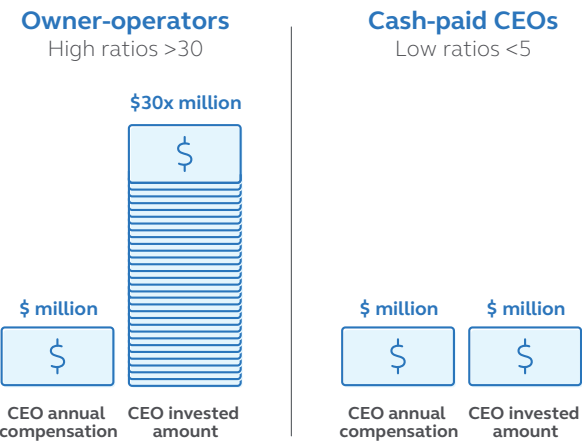


Overall Morningstar Rating<sup>™</sup>  
as of 12/31/2023 among  
1,118 Large Growth Funds.

Morningstar ratings are based  
on risk-adjusted returns.

One way to assess this alignment is by using something we call the “aligned ratio.” This measures the CEO’s ownership stake in the business relative to their annual pay. Most CEOs have single-digit aligned ratios. Owner-operators have ratios that are much larger.

ALIGNED RATIO



We’re often asked if this style of investing actually matters to returns. Several studies back this up.

- Journal of Finance**  
Found significant outperformance from high-ownership firms, delivering “abnormal” returns of >4% annualized.<sup>1</sup>
- The Founder’s Mentality**  
Credited founders’ front-line obsession and owner’s mindset for great outperformance (figure 1).<sup>2</sup>
- The Outsiders**  
Profiled eight owner-operator CEOs with some of the best multi-decade track records in history (figure 2).<sup>3</sup>

FIGURE 1: Indexed total shareholder return

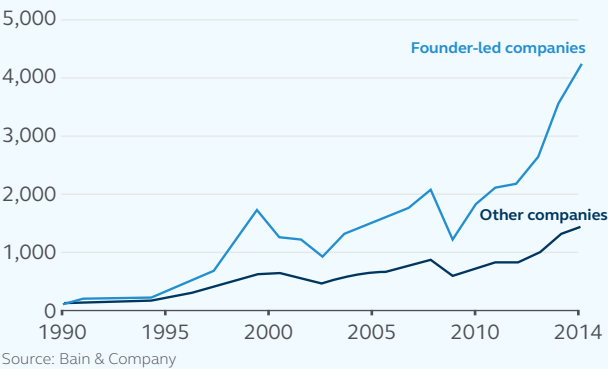
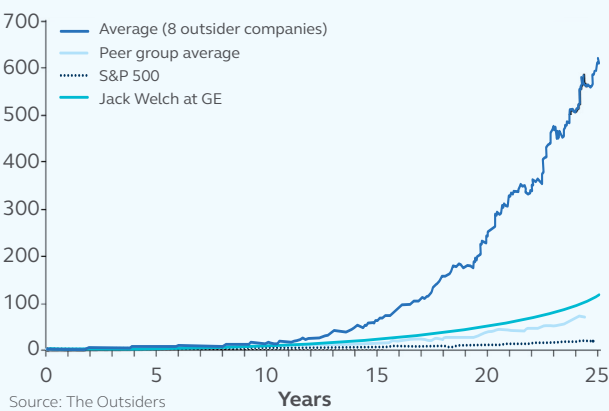


FIGURE 2: Value of \$1



Are there many owner-operators running large-cap companies?

There are more than you might think. Typically 10-15% of the Russell 1000® is founder-led. Another 10-15% has a non-founder but significant “high aligned ratio” owner-operator in charge. In short, we can still be selective when putting together a concentrated portfolio.

# Performance as of December 31, 2023

## 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>8</sup> (net/gross)	Expense limit expiration date
Class I <sup>4,5</sup>	17.71	39.85	6.62	17.79	14.35	15.85	0.66/0.0.71	12/30/2024
Russell 1000® Growth Index <sup>6,7</sup>	14.16	42.68	8.86	19.50	14.86	—	—	—
Morningstar Category Average – Large Growth	13.83	36.74	4.68	15.74	12.03	—	—	—

## 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>8</sup> (net/gross)	Expense limit expiration date
Class I <sup>4,5</sup>	14.83	25.87	6.61	15.41	11.68	11.01	0.67/0.67	—
Russell Midcap® Index <sup>6,7</sup>	12.82	17.23	5.92	12.68	9.42	—	—	—
Morningstar Category Average – Mid Cap Growth	12.38	21.37	-0.86	12.46	9.23	—	—	—

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>.



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://www.PrincipalAM.com).**

<sup>1</sup>Von Lilienfeld-Toal, Ulf and Stefan Ruenzi. (2014). "CEO Ownership, Stock Market Performance, and Managerial Discretion." The Journal of Finance. Pages 1, 3, 34, 36. Print.

<sup>2</sup>Zook, Chris. (2016). "Founder-Led Companies Outperform the Rest — Here's Why." Harvard Business Review. Retrieved from: <https://hbr.org/2016/03/founder-led-companies-outperform-the-rest-heres-why>.

<sup>3</sup>Thorndike, William. (2012). The Outsiders – Eight Unconventional CEOs and Their Radically Rational Blueprint for Success. Boston: Harvard Business Review.

<sup>4</sup>Performance assumes reinvestment of all dividends and capital gains.

<sup>5</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>6</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>7</sup>Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

<sup>8</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.

**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.

Morningstar ratings for specific time periods as of 12/31/2023 are as follows: Principal Blue Chip Fund I-share: 3-year: 3 stars/1,118 funds, 5-year: 4 stars/1,031 funds, 10-year: 4 stars/810 funds.

Morningstar ratings may vary between share classes, are based on historical risk-adjusted total returns and are subject to change.

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 Morningstar Rating™ 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.

**The Principal Blue Chip Fund received a Gold rating by Morningstar analysts.** Rating for Principal Blue Chip Fund Institutional Class as of November 30, 2023.

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