PRINCIPAL BLUE CHIP FUND

Quarterly commentary

THIRD QUARTER 2024

The Principal Blue Chip Fund outperformed the Russell 1000® Growth Index on a net basis in the third quarter.

TICKER:

Class I: PBCKX
Class A: PBLAX
Class C: PBLCX
Class R6: PGBHX

What helped

Our financial company holdings performed well, from alternative asset managers to insurance to payment networks. Insurance carrier Progressive led the industry in profitability. They used profits to increase advertising, which pushed its flywheel to attract more new customers. Brookfield hosted an investor day in September, where it highlighted that its shares compounded 18% annualized over the last 30 years. Health care companies contributed on a relative basis, thanks both to holdings like Danaher and Zoetis and lack of exposure to underperforming pharmaceutical companies.

What hurt

The narrow market leadership from the six largest companies in the Russell 1000 Growth index paused in the third quarter. Blue Chip's most significant holdings from this group—Microsoft, Alphabet, and Amazon—each experienced small negative returns. We remain confident in their advantages and long-term growth opportunities. Charles Schwab's shares declined after its latest earnings report due to some churn from former T.D. Ameritrade customers and a delay in paying down high-cost funding. These are temporary headwinds. We appreciate that Schwab continues to focus on strengthening its competitive advantages.

What we did

We bought Vulcan Materials, the largest producer of construction aggregates in the U.S. with a coast-to-coast footprint. A temporary weather-related impact weighed on shares in the first half of the year, which provided an attractive entry-point. We bought Amphenol, the leading provider of high-technology interconnect, sensor and antenna solutions. We appreciate Amphenol's decentralized, fast-moving culture. We bought more shares of Thermo Fisher, which was a new addition to the portfolio in Q1. Thermo Fisher is a high-quality life science tools and diagnostics business. We trimmed shares of American Tower and used proceeds to fund other attractive opportunities.

Top five contributors

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. The company has a competitive advantage with its global footprint and deep capital base. Brookfield grew and scaled its insurance business over the last 18 months. Shares contributed to performance.

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.

KKR is a global asset management firm with leading capabilities in private equity, credit, and real assets. The company stands apart by aligning interests at all levels, including significant insider ownership of KKR shares. The distinctive way KKR operates allows them to focus on the most profitable opportunities. Their attractive investment track records have enabled them to continually raise larger funds, which are frequently oversubscribed. KKR spent more than a decade developing capabilities outside the U.S., with a regional approach in the Americas, Europe, and Asia. Shares increased over the quarter and contributed to portfolio 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.

Mastercard, a global payment technology company, focuses on building simple, safe, and smart solutions for consumers, issuers, merchants, governments, and businesses around the world. As consumers continue to gravitate away from cash, Mastercard stands to benefit. The barriers to entry are substantial, given the incumbents' massive scale, global reach, and network effects. Mastercard is especially well positioned in fast growing markets outside the United States. Mastercard's shares contributed to performance last quarter.

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 during the 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 detracted from performance during the quarter.

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 last quarter.

Charles Schwab is an asset gatherer that provides securities brokerage, banking, asset management, and related financial services to individuals and institutional clients. The company has a strong brand name and a long history of successfully growing its assets under management. Schwab has an owner-operator culture focused on providing an outstanding customer experience. The company was founded and built with a mission to lowering costs for the end client. Shares detracted from performance during the quarter.

Cadence is a leader in electronic design automation software for the semiconductor industry. The company provides essential software for an essential industry but is a small part of the overall cost. Breadth of products and industry partnerships are difficult to replicate. With high barriers to entry and competitive advantages, Cadence has very high customer retention. The company has a long runway for growth ahead due to major digital trends including AI and machine learning, hyperscalers, IoT, 5G, and autonomous driving. Shares detracted from performance during the quarter.

PRINCIPAL BLUE CHIP FUND as of September 30, 2024

Top 10 holdings

	% of net assets
Microsoft Corp.	11.5
Amazon.com, Inc.	8.1
Brookfield Corp.	5.4
TransDigm Group, Inc.	5.3
Alphabet, Inc.	5.2
Mastercard, Inc.	4.9
Visa, Inc.	4.3
The Progressive Corp.	4.1
Netflix, Inc.	3.9
Danaher Corp.	3.7
Total	**56.2**

May not reflect current holdings or allocations. The holdings listed do not constitute a recommendation to purchase or sell a particular security. Cash and/or derivative positions that are not part of the core investment strategy will not be reflected in the top holdings list. Due to rounding, the sum may not equal the total shown. Holdings with multiple share classes may be combined.

Performance, rankings, & ratings

Average annual total returns (%)									
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception (06/14/2012)	Expense ratio[1] (net/gross)	Expense limit expiration date
Class I[2]	4.37	17.82	38.69	6.48	16.01	15.69	16.36	0.66/0.71	12/30/2024
Russell 1000® Growth Index[3],[4]	3.19	24.55	42.19	12.02	19.74	16.52	–	–	–
Morningstar category average	3.70	21.92	38.83	7.39	16.08	13.73	–	–	–

Morningstar rankings and ratings	3-month	Year-to-date	1-year	3-year	5-year	10-year	Overall
Category and number of funds in category: Large Growth	1,167	1,154	1,141	1,076	1,005	788	1,076
Class I percentile rankings[5]	–	–	57	70	55	16	–
Class I ratings[6]	–	–	–	★★	★★★	★★★★	★★★

Calendar year returns (%)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class I[2]	10.77	5.37	8.87	28.86	2.96	38.79	34.78	25.14	-30.74	39.85
Russell 1000® Growth Index[3],[4]	13.05	5.67	7.08	30.21	-1.51	36.39	38.49	27.60	-29.14	42.68
Morningstar category average	10.00	3.60	3.23	27.67	-2.09	31.90	35.86	20.45	-29.91	36.74

Morningstar percentile rankings are based on total returns. Morningstar ratings are based on risk-adjusted returns.

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 www.PrincipalAM.com.

(1) 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.

(2) Performance assumes reinvestment of all dividends and capital gains.

(3) The 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.

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

(5) Morningstar percentile rankings are based on total returns and do not reflect the inclusion of sales charges. If sales charges were reflected, rankings could be lower.

(6) 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.

Returns shown for periods of less than one year are not annualized.

This commentary may exclude minimal security positions that the investment adviser deems of insignificant or no material impact to the portfolio.

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