Principal Asset Management℠

PRINCIPAL BLUE CHIP FUND

Quarterly commentary

FIRST QUARTER 2025

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

TICKER:

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

What helped

The financial sector was the top contributor to 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 managers KKR and Brookfield sold off during the first quarter, as sentiment around pace of asset monetization turned. There have been no changes to the fundamental outlook of these businesses. On a relative basis, having little exposure to health care, staples and energy detracted from performance.

What we did

We bought industrial gas business Air Products in the Blue Chip portfolio. Its new management team is well respected in the industry. Right from the start, they exited riskier projects and focused capex on its core business. We increased shares of Airbnb and Broadcom. 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.

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.

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.

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.

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.

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—the gold standard for IT executives to manage on-premise compute infrastructure—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.

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. Fundamentals of the business remain intact despite decline in shares price. KKR detracted from performance.

PRINCIPAL BLUE CHIP FUND as of March 31, 2025

Top 10 holdings

	% of net assets
Microsoft Corp.	11.1
Amazon.com, Inc.	8.7
TransDigm Group, Inc.	5.3
Alphabet, Inc.	5.1
Visa, Inc.	4.9
Mastercard, Inc.	4.9
Brookfield Corp.	4.9
Netflix, Inc.	4.8
The Progressive Corp.	4.5
Cadence Design Systems, Inc.	3.0
Total	**57.1**

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	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]	-4.39	5.61	8.86	16.98	14.58	15.55	0.66/0.70	12/30/2025
Russell 1000® Growth Index[3),(4]	-9.97	7.76	10.10	20.09	15.12	–	–	–
Morningstar category average	-8.49	5.01	7.76	16.99	12.61	–	–	–

Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall
Category and number of funds in category: Large Growth	1,129	1,079	1,027	949	745	1,027
Class I percentile rankings[5]	–	42	40	52	14	–
Class I ratings[6]	–	–	★★★	★★★	★★★★	★★★★

Calendar year returns (%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Class I[2]	5.37	8.87	28.86	2.96	38.79	34.78	25.14	-30.74	39.85	21.52
Russell 1000® Growth Index[3),(4]	5.67	7.08	30.21	-1.51	36.39	38.49	27.60	-29.14	42.68	33.36
Morningstar category average	3.60	3.23	27.67	-2.09	31.90	35.86	20.45	-29.91	36.74	28.96

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.