

Principal Morley

# Responding to U.S. and Europe bank sector events

March 16, 2023

Over the past week, markets have grappled with U.S. banking failures and the threatened collapse of a major European bank. Swift action by regulators and the broader banking industry is providing relief to the near-term impacts of these events and has proven critical to restoring liquidity in the system. Nonetheless, this stress has underscored the tensions between the global central bank's efforts to wrangle inflation and increasing concerns that further policy tightening will spark a crisis.

The Morley and Principal Stable Value Funds employ a multi-manager approach that provides additional diversification by manager, mandate, and style. Morley had no direct exposure in the underlying funds they manage to the two failed U.S. banks, Signature Bank of New York (SBNY) and Silicon Valley Bank (SVB), however, one of the sub-advisors to the Morley Stable Value Fund has a small exposure, owning a SVB bond which had a value of three basis points of the overall fund value prior to the bank's failure last week. First Republic Bank, another bank in headlines and under stress, is not held in any Morley and Principal Stable Value Funds.

Financial stresses rapidly shifted over to Europe this week, with concerns about Credit Suisse (CS) accelerating sharply and spilling over into the broader market. While the bank's issues differ significantly from those of SVB and SBNY, CS's problems are not new to markets or investors and came under renewed pressure as there was a loss of confidence in the sector at large. When the Swiss bank released its delayed annual report this week, questions arose about its internal controls when material weaknesses were identified in its financial reporting. After its largest shareholder, Saudi National Bank, announced it would not consider providing additional capital due to regulatory restrictions, the CS stock traded down more than 20% Wednesday. By end of day Wednesday, Swiss regulators announced they would provide liquidity if needed to CS and affirmed the bank currently meets necessary liquidity and capital requirements – underscoring the bank's systemic importance to the Swiss economy and European banking system.

The Morley and Principal Stable Value Funds have 45 basis points of exposure to CS as of 2/28/23. We are monitoring the situation closely as we assess the implications of the more negative sentiment on Credit Suisse's turnaround prospects. It's important to note that the majority of the Fund's position is in CS's operating company debt which we believe would have higher, if not full recoveries, during a resolution tail scenario.

We're actively assessing and managing against market and banking sector risks within our funds and client portfolios to ensure we continue to meet capital preservation objectives. We'll continue to identify and closely track areas of exposure to financial institutions that have collapsed or pose a significant threat.

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. 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.

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

The Morley Stable Value Fund and Principal Stable Value Fund (the Funds) are collective investment trusts maintained by Principal Global Investors Trust Company, (the Trust Company). Principal Morley is an investment team within Principal Global Investors LLC (the Adviser), serves as investment manager with respect to the Funds, subject to the Trust Company's supervision and review. Principal Asset Management<sup>SM</sup> is a trade name of Principal Global Investors, LLC. The Adviser is an indirect wholly owned subsidiary of Principal Financial Group<sup>®</sup> and is under common control with the Trust Company.

The Funds are not mutual funds and are not registered with the Securities and Exchange Commission. The Trust Company is regulated by the State of Oregon. **Units of the Funds are not deposits or obligations of, guaranteed by, or insured by the Trust Company or any affiliate, and are not insured by the FDIC or any other federal or state government agency.** The value of the Funds may fluctuate so that when redeemed, units may be worth more or less than the original cost.

The declaration of trust, participation agreement, and disclosure documents contain important information about investment objectives, risks, fees and expenses associated with investment in the Funds and should be read carefully before investing.

Direct investment in the Fund is limited to participating trusts (also known as investing plan/trust) that meet certain requirements described in the declaration of trust, that enter into a participation agreement with the Trust Company. The Fund cannot accept investment directly from individuals and is subject to restrictions regarding transfer and withdrawal of assets including potential deferral of withdrawal requests by up to 12 months, as defined in the applicable declaration of trust

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.

Insurance products and plan administrative services provided through Principal Life Insurance Co. Securities are offered through Principal Securities, Inc., [800-547-7754](tel:800-547-7754), Member SIPC and/or independent broker/dealers. Principal Life and Principal Securities are members of the Principal Financial Group<sup>®</sup>, Des Moines, IA 50392.

© 2023 Principal Financial Services, Inc. Principal<sup>®</sup>, Principal Financial Group<sup>®</sup>, 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.

Principal Asset Management<sup>SM</sup> is a trade name of Principal Global Investors, LLC.

MM13374 | 03/2023 | 2798448-032024