Principal Asset Management℠

PRINCIPAL INTERNATIONAL EQUITY ETF

Quarterly commentary

TICKER: PIEQ

FOURTH QUARTER 2025

Notable Themes

- **IT dispersion** – ongoing AI advancements question margins and existential threat for software companies while hardware and infrastructure companies lead storage growth opportunity
- **Commodity complexity** –the U.S. Dollar having its worst year since 1973 and data center growth drives gold-related and copper equity leadership while oversupply conditions drive oil and natural gas prices lower
- **Fiscal and monetary policies** –an America First stance by President Trump and his administration has prompted other nations to focus on internal development in pursuit of economic growth including defense spending and rate cuts

Q4 Summary

Despite geopolitical shocks, policy shifts, and questions around AI-driven growth, the fourth quarter built upon already strong broad-based market gains across equities. International equity leadership remained the standout helped by valuation multiples and earnings growth trajectory as U.S. counterparts look to domesticated initiatives to reignite growth.

AI advancements and commentary remained at the forefront as investors looked to decipher potential winners and losers as we move forward. Return dispersion was stark in the IT sector on the evolving backdrop while was further accelerated by stake and capex investments from various companies and governments. Reshoring efforts are becoming ever more prevalent.

For over the past decade the software sector was a source of significant outperformance and was viewed as a consensual "overweight" at the expense of perceived less attractive sectors, such as IT Hardware. The fundamental explanation was multi-faceted: software companies possess superior sales and EPS growth prospects, software companies have significantly higher margins and return metrics, such ROE and ROIC, software companies possess wide moats and with little threat of disruption, and hardware is viewed as an inferior business given the deflationary nature of what software enables. More recently with significant improvements in AI technology, that entire viewpoint has been turned upside down, with Hardware now being viewed as a structural beneficiary from AI while software is viewed as at risk of being highly disrupted. More succinctly put, "AI is the death of software" is current market narrative.

For the Hardware sector, significant levels of AI capex investments are set to benefit the broader group on a multi-year basis. From a fundamental perspective the explanation is straightforward: AI workloads (both training and inferencing) require a significant level of computational horsepower, meaning heighted needs for GPUs, servers, networking equipment, memory, hard disk drives and the like to power the infrastructure. Conversely, AI is viewed as dismantling the foundations of software development, deployment, and consumption, rendering today's software ecosystem obsolete. This is due to the barriers to coding becoming obsolete, the need for specialized software stacks no longer needed in a world of AI agents, AI is self-sustaining and adaptive (software that self-heals), implying no more need for legacy software updates, patches, etc., and AI floods the market with abundance, meaning software's historical value proposition of scarcity and customization no longer applies.

From a sector perspective this has resulted in a significant divergence between the software and hardware space, with hardware strongly outperforming at the expense of software, which has materially underperformed.

Emerging markets and other commodity areas performed well on the back of commodity strength linked to gold and copper.

Gold has specifically benefited from the weakening of the US Dollar, which had its worst year since 1973. The political backdrop in the U.S. and a path forward of uncertainty has weighed on the dollar. The nearing end of Powell's term and speculation about his successor has pressured Fed Independence with Trump and his administration looking to remove certain representatives within the committee. The underlying gold price is trending towards 4,500 in sympathy along with the Federal Reserve's pivot to cut rates.

A significant force majeure by Freeport highlighted the increasing difficulty to get copper out of the ground. Additionally, we are seeing more and more project delays, cost overruns, accidents, and legal challenges. Meanwhile, demand is growing steadily led by data centers which should lead to supply/demand mismatch over the coming years, driving prices higher.

At its December meeting, the Federal Open Market Committee (FOMC) decided to lower its benchmark policy rate by 25 basis points to 3.50%-3.75%. Three officials voted to dissent—two preferred to keep rates unchanged, while one voted for a larger 50 basis point cut.

The decision marks the third interest rate cut this year, bringing policy rates down by 175 basis points from the start of the easing cycle in September 2024. Chair Powell emphasized that policy is now "well-positioned" to await greater clarity in the data and to carefully assess labor market conditions and inflation trends. This signals that an extended pause is likely before the Federal Reserve resumes its easing cycle and delivers a few additional cuts.

Prior to that, the outcome of the December FOMC meeting remained a key source of market debate. In late September, consensus expectations indicated a likely December cut. However, a strong September employment report, combined with more hawkish commentary from several FOMC members, saw markets reduce the probability of a cut to just 20%. Ultimately, dovish communication ahead of the blackout period—without any pushback from Chair Powell—led markets to fully price in a cut, making the decision widely anticipated.

Interestingly though, there was a bit of mini quantitative easing that came out of the meeting as the Fed announced plans to begin purchasing Treasury bills on December 12 to maintain ample reserves, underscoring its ability to leverage tools beyond rate policy to ensure market stability.

Across the pond, the European Central Bank (ECB) held policy rates steady, extending its pause for a fourth straight meeting in the current easing cycle. Economic activity has continued to grow, aided by fiscal spending and increased business capex. While ECB President Christine Lagarde reiterated that they remain in a very good place with policy, given this positive backdrop, she also noted that this place is "not static."

Looking ahead, 2026 will bring new uncertainties including U.S. midterm elections, a change in Fed leadership, and ongoing labor market fragility. Though strong returns have supported many investor portfolios recently, diversification will be the key to navigating choppy markets.

To conclude, equity markets advanced further to close out the 2025 year. Despite investor resistance, international equity markets reigned supreme with the MSCI All Country World ex US Index posting a quarterly gain of 5.05% helped by Emerging Markets as well as Europe. The S&P 500 closed up 2.66%.

Performance review

Despite geopolitical shocks, policy shifts, and questions around AI-driven growth, the fourth quarter built upon already strong broad-based market gains across equities. International equity leadership remained the standout helped by valuation multiples and earnings growth trajectory as U.S. counterparts look to domesticated initiatives to reignite growth.

- The composite was up 5.44% (gross of fees) vs 5.05% for the benchmark (outperformed by 0.39%) for the quarter.
- For the quarter, the financials and IT sectors outperformed though were partially offset by relative underperformance in communication services and industrials sectors.
- Stock selection in Austria and Ireland were strong from a country perspective while Germany and the United Kingdom were notable laggards.
- Foreign Large Blend ranking in 2025 was 11th percentile

Attribution Overview

What helped performance in Q4?

Financials was the top performing sector in the 4th quarter.

AIB Group (Irish bank), Erste Group (Austrian bank), and AIA Group (Hong Kong insurance) drove much of the relative upside.

- AIB Group – loan and deposit growth outpaced expectations amid a recovering economy. Strong operating leverage led to ROTE expansion and increasing

shareholder payouts to help reduce excess capital build. Healthy position remains.

- Erste Group – shareholder returns were at the core of the upside while cash flow growth was supported by healthy volume growth. Announced acquisition of Santander Polska was a strategic fit and will be a business anchor in Poland going forward. Market reacted well to this.
    - Recent engagement with the CEO highlighted a positive outlook for 2026. Volume growth is improving, and the economic outlook is robust. ROTE and EPS set to outpace expectations.
- AIA Group – benefitted from accelerating sales growth and value of new business momentum in Hong Kong and China.
    - Latest engagement with the regional CEO highlights advancements in technology and its ability to support recruiting and sales conversion.

Samsung Electronics and ASML were key contributors to IT's performance over the quarter. All holdings were strategically added to over the period on pullbacks as well as possess structural change drivers.

- Samsung Electronics – while lagged SK Hynix, its valuation combined with exposure to a tight DRAM market led to gains of more than 100% in 2025. Heading into 2026, the memory market (DRAM and NAND) is to remain tight. For DRAM the company sees demand of 25% (in 2026) vs current market supply in high teens. NAND to remain tight the next 1-2 years. HBM4 qualification has the potential to drive further valuation improvement.
- In July, ASML sold off double-digits as the company announced a downtick to CY26 growth expectations. Management cited ongoing tariff and geopolitical uncertainty as impacting customer planning and capex decisions.
    - We took this opportunity to add to our position as its valuation, FY2 P/E of 24x sits >20% below long-term averages and a parity with peers vs. the historic premium is typically commanded. The valuation was too punitive given the company's monopolistic status in EUV and disproportionate secular nature of the business model despite operating in a cyclical industry (13 consecutive years of sales growth).
    - This proved beneficial as the following quarter highlighted better visibility due to several AI-related datacenter capacity announcements, resulting in a broadening out of leading edge WFE capex. Meanwhile the memory market is showing significant improvement, the combination of which is leading to a better CY26 outlook and sets up CY27 as a material growth year.

Top overall contributor was AstraZeneca.

- Strong quarterly results coupled with positive trials from Enhertu (oncology), Datroway (oncology), and baxdrostat (kidney disease). Latest engagement with AstraZeneca was very positive. There is a clear commitment to a mid-30% margin while they expressed confidence in camizestrant (oral SERD) especially after Roche's giredestrant hit in adjuvant HR+. AZN remains a preferred global pharma with an extremely deep and diversified pipeline, extensive 2026 readouts, and underappreciated commercial opportunities.

What hurt performance in Q4?

Communication services holdings were pressured in the fourth quarter culminating in a tough 2025 overall. Deutsche Telekom, Spotify Technology and Nintendo drove much of the relative weakness.

- Deutsche Telekom - Germany's incumbent telecom operator. 50.4% equity stake in T-Mobile US. During the quarter, the company reported solid results but magnitude of the recent beats from TMUS are becoming smaller than they used to be driving share price weakness. Verizon has a new CEO and thus far their strategy looks to take market share at all costs, i.e. lowering pricing plans. Valuation premium remains warranted to TMUS given network and ongoing postpaid phone adds while we continue to see them generating a mid-teens FCF/sh. CAGR through 2030 versus consensus at low-teens.
- Spotify, the digital music service provider, reported strong 3Q results but in-line 4Q guidance on margins and premium subs left investors disappointed. Shares now trade at ~36x EV/EBITDA, which is below SPOT's average of ~41-42x over the last couple of years and compares to NFLX at ~28x. The company should see at least a 20% FCF CAGR over the next few years on pricing tailwinds flowing through to gross margins while generating operating leverage to the bottom line (additional upside to margins on non-music categories like audiobooks/ video podcasts where content and user engagement is growing rapidly).
- Nintendo's stock price dropped more than -20% since reporting earnings in early November, mostly driven by concerns on rising component costs for Switch 2 along with uncertainty around year-end sales. Shares now trade

at ~27x NTM P/E (in-line with 3yr avg) despite what was a solid quarter and guidance that still looks conservative for FY26 (we anticipate better software sales, particularly for Switch 1 compatible titles, along with higher Switch 2 hardware sales, to drive positive revisions going forward).

BAE Systems was a top detractor overall.

- There was nothing fundamentally wrong for the aerospace & defense company that drove the weakness but rather profit taking on the back of peace talks between Russia-Ukraine though quite unlikely. Our latest meeting with the CEO increased our confidence in long-term revenue growth compared to prior meetings; The 5-7% growth target is too low. Escalating tensions and evolving warfare puts the company in a position to see significant growth. Drones are becoming in use more and more and BAE's Advanced Precision Kill Weapon System is designed to take them down. A ramp in orders is set. Further upside will come from their best-in-class Hagglund (tanks) as well as the Typhoon fighter jet which they're in process of doubling its production.

Outlook and portfolio positioning

Looking ahead – views from our CIO

U.S. stocks have outperformed global counterparts, buoyed by superior free cash flow, earnings growth, and higher valuation multiples. However, 2025 brought a normalization of this exceptionalism and leads to the question, is there staying power for international equity leadership? The answer appears to be yes, as international fiscal policy initiatives coupled with structural changes are broadening out and increasing earnings and cash flow growth.

U.S. earnings growth and valuation multiples reached extraordinary levels, largely led by mega-cap companies, and concentration risk in the U.S. has never been more prevalent. As we head into 2026, there is a resounding case for diversification, not diworsification, to international equities and a more normal allocation to the U.S.

A decade of strong earnings growth has led the United States to be at its largest weighting in the MSCI World Index in over 30 years at >70%. Notably, 5 stocks make up a quarter of the index highlighting the efficiency of the US market and reduced opportunity for differentiated alpha. It is no longer just an innovation and earnings growth story in the U.S. as "America First" policies have prompted other nations to focus on internal development in pursuit of economic growth.

This shift is fostering a more conducive environment for local businesses. A prime example is Germany's renewed commitment to invest in physical and digital infrastructure to stimulate short-term economic growth and enhance Berlin's long-term competitiveness. Let's not forget defense spending which isn't in isolation to Germany as global counterparts, led by NATO countries, are ratcheting up this initiative to be at least 2% of GDP.

Structural change opportunities like these are driving earnings growth higher internationally and have hit an inflection point to keep pace with the U.S. Broadening earnings growth of double-digits lays the foundation for international equity leadership to stay.

Furthermore, the earnings growth of ACWI ex. US is similar to ex. Mag 7. So what? International stocks are a better diversifier than the S&P 493 for those looking to reduce Mag 7. Why? Similar growth rate but 30% lower multiple.

New Positions

British American Tobacco

- One of the largest tobacco companies in the world by revenues with the second highest new generation product (NGP) exposure. BAT is the market leader in legal sales of vapor (Vuse brand) and Modern Oral ex-US (Velo), and the second largest in heated tobacco (glo).
- Tobacco is in a paradigm shift as consumers focus on next generation products (NGP), less tobacco/cigarettes. The company is second to only PMI in NGP exposure though carries a significantly lower valuation.
- Modern oral is shifting tobacco landscape; BAT is the leader ex-US and gaining share fast in US. Modern oral has 10/20% higher gross margin than other NGPs, higher incremental gross profit per stick vs. combustibles, increases consumption occasions and will likely be more successful in EMs than vapor/HTB given lower price points.

Obayashi

- General contractor and real estate developer. It is one of the four construction majors in Japan. Building Construction accounts for around 75% of sales, Civil Engineering 20% and Real Estate Development 5%.
- Very positive on the outlook for Japanese construction margins due to favorable S/D conditions (tight industry capacity) and improving mix (growing share from higher margin factories, power, DC etc.).
- Obayashi have their Y1tn equity level target and have started buying back shares, while continuing to sell down

their substantial cross-shareholdings. There is plenty of unrealized value in their real estate business too which will be realized over the mid/long-term.

Gaztransport & Technigaz

- French company operating with four key segments: vessels under construction, services, digital and hydrogen.
- GTT has a monopoly on cryogenic membrane containment systems, which are 84% of the current LNG transportation fleet and represent 100% of new orders for LNG carriers. Through decades of innovation and advances in their own technology, GTT has monopolized the market due to its efficient design and low boil-off rates (tech loses less LNG to vaporization that results from atmospheric temperature differences, sloshing during transport, and pressurization).

Eliminated Positions

Unilever

- One of the largest consumer staples companies globally focusing on beauty (22%), personal care (22%), home care (20%), food (22%) and ice cream (14%).
- Restructuring opportunities through spinning off non-core businesses has largely been fulfilled likely capping margin expansion.
- Valuation has become fuller relative to opportunity set.

Daimler Truck

- A German truck manufacturer that was spun out of Daimler (now Mercedes-Benz) in October 2021.
- Huge uncertainty remains over tariff impact on North America margin.
- No sign of improvement in US truck orders, expecting a weak H126.

Top 10 holdings

	% of net assets
Samsung Electronics Co. Ltd.	5.7
AIB Group Plc	4.9
Haleon Plc	4.4
ASML Holding NV	4.3
Erste Group Bank Ag	4.2
Taiwan Semiconductor SP ADR	4.2
Suncor Energy Inc	4.0
Astrazeneca Plc	3.9
Deutsche Telekom Ag Reg	3.6
Airbus SE	3.5
Total	**42.6**

As of December 31, 2025. Source: State Street.

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.

PRINCIPAL INTERNATIONAL EQUITY ETF as of December 31, 2025

Performance

	Average annual total returns (%)							
	3-month	1-year	3-year	5-year	10-year	Since inception (11/05/2024)	Expense ratio (gross/net)*1	Expense limit expiration date
Net asset value (NAV) return	5.41	37.55	—	—	—	28.18	0.48/0.48	—
Market price return	5.35	37.84	—	—	—	28.44	—	—
MSCI ACWI Ex-USA Index*2*3	5.05	32.39	17.32	7.90	8.41	23.19	—	—

Source: State Street, Principal Global Investors, Morningstar.

Performance data quoted represents past performance. Past performance is no guarantee of future results and investment returns, and principal value of the Fund will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be higher or lower than the performance quoted. Visit www.PrincipalAM.com/ETF for current month-end performance.

*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 The MSCI ACWI Ex-USA Index is a free float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the U.S.

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

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Investor shares are bought and sold at market price (not NAV) and are not individually redeemed from the Fund. Ordinary brokerage commissions apply.

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Companies may at any time choose not to pay a dividend, or dividends paid may be less than anticipated.

The commentary represents the opinions of the sub-advisor and may not come to pass.

This Fund is new and has limited operating history.

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