Principal Asset Management®

PRINCIPAL EQUITY INCOME FUND

Quarterly commentary

THIRD QUARTER 2026

TICKER:

Class I: PEIIX
Class A: PQIAX
Class C: PEUCX

The Principal Equity Income Fund underperformed the Russell 1000® Value Index on a net basis in the third quarter as stock selection was positive in only 3 out of 11 sectors.

What helped

The energy sector was the strongest performing sector within the Russell 1000® Value Index in Q3 and saw the strongest stock selection. Marathon Petroleum Corporation (MPC) was the dominant contributor to performance, as the company is largely insulated from Middle East supply constraints given that it sources primarily from the U.S. and Canada. This led to refining margins more than doubling per barrel, and net income increased to $5.1 billion amid tight global fuel supplies. The strategy also saw positive stock selection in the consumer staples sector. Not owning Walmart Inc. (WMT), a large benchmark weight, aided results as its shares fell. Additionally, owning Coca-Cola Company (KO) contributed to relative results. KO's consumer-centric marketing throughout the 2026 FIFA World Cup contributed to Trademark Coca-Cola volume growth of 5% for the quarter, its strongest volume growth in 17 years, excluding the COVID recovery.

What hurt

Stock selection within the consumer discretionary sector detracted from relative performance during the quarter. Dick's Sporting Goods, Inc. (DKS) retails an extensive assortment of authentic sports equipment, apparel, footwear, and accessories. We believe it is the best operator in the business, operating in a growing segment and gaining market share. While DKS's core business delivered positive same-store sales growth, Foot Locker, which was acquired last year, reported disappointing results, with same-store sales declining 3.6% versus the consensus estimate of a 0.5% decline. As a result of a promotional environment and weakness in legacy lifestyle shoes, management lowered its 2026 guidance. The portfolio also experienced weak stock selection in the health care sector. Owning Novartis AG (NVS), a non-benchmark name, detracted from results as back-to-back trial failures weighed on the stock.

What we did

In the quarter, we added one name to the portfolio and eliminated no positions. PulteGroup, Inc. (PHM), a leading homebuilder and residential community developer nationwide, was added during the period. We believe that PHM's leadership in residential development and homebuilding will expand as higher interest rates squeeze smaller, less financially robust homebuilders. While no names were eliminated, Marathon Petroleum Corporation (MPC) and Chevron Corporation (CVX) were both trimmed on relative strength.

PRINCIPAL EQUITY INCOME FUND

The Equity Income Fund invests predominantly in dividend-paying companies and seeks to provide a relatively high level of current income and long-term growth of income and capital. In pursuing its goal, we invest primarily in the common stocks of large-capitalization U.S. companies.

Top five contributors

Marathon Petroleum Corporation (MPC), a leading U.S. refining and energy company, outperformed during the period after beating expectations and raising revenue forecast due to a surge in refining margins tied to the Iran conflict. MPC's CEO noted that the company is largely insulated from the war's supply constraints given its sourcing comes largely from the U.S. and Canada while benefiting from the global disruption.

SAP SE (SAP), a leading provider of enterprise software and business solutions, contributed to results. An increase in cloud revenue and expansion of its cloud backlog drove results over the quarter, driven by ERP migrations and the inclusion of Reltio. In addition, investors' fear over AI disruption declined which improved sentiment for software stocks.

Not owning **Intel Corporation (INTC)** aided relative results during the quarter as AI spending fears persisted and momentum stocks underperformed.

Not owning **International Business Machines Corporation (IBM)** helped results after the company released disappointing preliminary Q2 results in July.

Merck & Co, Inc. (MRK) is a global pharmaceutical and healthcare solutions provider. Its drugs treat many conditions including cardiovascular disease, asthma, cancer, and infections. The company outperformed after announcing a major positive Phase III result in their personalized mRNA cancer therapy in melanoma, signaling a major potential new use for Keytruda if the mechanism proves transferable to other tumor types which also have trials currently underway.

Top five detractors

Dick's Sporting Goods, Inc. (DKS), a leading omnichannel sporting goods and outdoor retailer, detracted from results. The company reduced its full-year EPS guidance, citing industry-wide promotional pressures in legacy athletic footwear and higher costs at their Foot Locker retail operations.

Cummins Inc. (CMI) is a leading manufacturer of diesel and natural gas engines. A top contributor last quarter, CMI gave back some of those gains following its conservative FY2026 guidance, which highlighted macroeconomic uncertainty and potential warranty expense headwinds related to 2027 EPA regulations.

D.R. Horton, Inc. (DHI) is a leading residential homebuilder. DHI detracted from results despite beating expectations as future guidance and anticipated home closings were reduced due to lower demand as interest rates continue to rise.

An underweight to **Microsoft Corporation (MSFT)** detracted as the company benefited from strong results in Azure, Cloud and its Copilot businesses.

Morgan Stanley (MS), after a period of strong returns, lagged despite beating expectations as investors worried about the impact of higher interest rates and the impact of a flatter yield curve on bank earnings.

Outlook

U.S. equities advanced during the third quarter, but headline returns masked considerable divergence beneath the surface. The energy and technology sectors led performance, while defensive sectors generally lagged. Enthusiasm for artificial intelligence and the associated investment cycle continued to shape market leadership, while higher energy costs and interest rates created challenges for other businesses. Year-to-date, dividend-paying stocks have trailed nonpayers, underscoring a market that has recently favored anticipated growth over current income. AI's far-reaching impact on business models demands increasing selectivity: some companies face the erosion or obsolescence of their competitive advantages, while others stand to benefit from substantial productivity gains, improved profitability, and new growth opportunities. We are evaluating both a company's ability to capture these benefits and their capacity to defend their economics as competition evolves.

Looking ahead, we remain focused on businesses with sustainable competitive advantages, sound balance sheets, and the ability to grow both earnings and dividends over time. Volatility and uneven market participation can create opportunities to purchase these companies at valuations that better reflect their long-term prospects. Our approach requires careful assessment of whether a company's challenges are temporary or reflect a lasting deterioration in its business model. We also see opportunities to participate in AI's expanding influence through dividend-growing businesses that supply essential infrastructure or that can use the technology to strengthen their competitive position, operations, and customer relationships. Ultimately, we favor companies that can translate innovation into durable cash flow, reinvest profitably and sustain growing shareholder distributions. By maintaining valuation discipline, we seek to turn periods of uncertainty into opportunities for long-term income growth and capital appreciation.

PRINCIPAL EQUITY INCOME FUND as of September 30, 2026

Top 10 holdings

	% of net assets
Apple Inc	5.3
Microsoft Corp	4.1
Taiwan Semiconductor Manufacturing Co Ltd	3.8
JPMorgan Chase & Co	3.2
Costco Wholesale Corp	2.8
Morgan Stanley	2.7
The Coca-Cola Co	2.7
DR Horton Inc	2.7
Chubb Ltd	2.6
Hilton Worldwide Holdings Inc	2.6
Total	**32.6**

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.

Performance, rankings, & ratings

	Average annual total returns (%)									Yield*1 (%)	
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception*2	Expense ratio (gross/net)*3	Expense limit expiration date	30-day SEC unsubsidized/ subsidized	12-month distribution
Class I*4	-0.11	9.77	13.48	17.52	9.89	11.44	9.11	0.54/0.52	02/28/2027	1.16/1.20	1.42
Russell 1000® Value Index*5,*6	2.61	19.27	23.81	20.07	11.92	11.43	—	—		—	—
Morningstar category average	0.64	12.01	15.60	17.37	10.84	—	—	—		—	—

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 Value	1,138	1,126	1,117	1,055	994	842	1,055	—		—	—
Class I percentile rankings*7	—	—	64	48	71	45	—	—		—	—
Class I ratings*8	—	—	—	★★★	★★	★★★	★★★	—		—	—

Calendar year returns (%)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Class I*4	15.58	21.03	-5.06	28.95	6.54	22.33	-10.51	11.11	15.46	15.60
Russell 1000® Value Index*5, *6	17.34	13.66	-8.27	26.54	2.80	25.16	-7.54	11.46	14.37	15.91
Morningstar category average	14.81	15.94	-8.53	25.04	2.91	26.22	-5.90	11.63	14.28	14.97

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 PrincipalAM.com.

*1 30-Day SEC yield represents net investment income earned by a fund over a 30-day period, stated as an annual percentage. Unsubsidized yield reflects the SEC yield when some fund expenses are not waived. Subsidized yield reflects a fund's yield when all expense waivers are included. 12-month yield is based on actual distributions paid over a trailing 12-month period, stated as an annual percentage.

*2 Class I shares were first sold on 08/01/2000. Returns for Class I shares prior to 08/01/2000, including since-inception performance, are based on performance of the Class A shares adjusted to reflect the fees and expenses of Class I shares. Class A shares were first sold on 05/31/1939.

*3 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.

*4 Performance assumes reinvestment of all dividends and capital gains. Returns shown for periods of less than one year are not annualized.

*5 Russell 1000® Value Index is a market-capitalization weighted index of those firms in the Russell 1000® with lower price-to-book ratios and lower forecasted growth values. Information regarding the comparison to the Russell 1000® Value Index is available upon request. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell® is a trademark of Russell Investment Group.

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

*7 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.

*8 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. © 2026 Morningstar, Inc. All rights reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Although information in this material has been developed internally and or obtained from sources deemed to be reliable, neither Principal Global Investors nor its affiliates can guarantee the accuracy, adequacy, or completeness of such information. This material provides economic and investment commentary that represents the opinions of Principal Equities and such opinions should not be considered investment advice or an offer to buy or sell securities. No forecast based on the opinions expressed can be guaranteed; opinions may be subject to change without notice.

Principal Equities is an investment team within Principal Global Investors.

The company names listed are for illustrative purposes only and do not constitute a recommendation to buy, hold, or sell any security product.

Equity investments involve greater risk, including higher volatility, than fixed-income investments.

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.

Class I shares are available only to eligible investors, including various institutional investors and investors in certain mutual fund wrap or asset allocation programs. See the prospectus for eligibility requirements.

PrincipalAM.com

Not authorized for distribution unless preceded or accompanied by a current prospectus, or a summary prospectus if available, that includes information about the fund's objectives, risks, charges, and expenses. Please read it carefully before investing.

Investing involves risk, including possible loss of principal.

Principal Funds are distributed by Principal Funds Distributor, Inc.

© 2026 Principal Financial Services, Inc. Principal®, Principal Financial Group®, 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® is a trade name of Principal Global Investors, LLC.

MM10394-32 | 10/2026 | 5951396-022027