Principal Asset Management®

PRINCIPAL EQUITY INCOME FUND

Quarterly commentary

TICKER:

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

SECOND QUARTER 2026

The Principal Equity Income Fund underperformed the Russell 1000® Value Index on a net basis in the second quarter despite positive stock selection in 7 out of 11 sectors. Within the Russell 1000® Value Index, non-dividend payers returned +30% while dividend payers returned 11%, which was a meaningful headwind for the fund.

What helped

In the Energy sector, not holding Exxon Mobil Corporation (XOM) and ConocoPhillips (COP), two large benchmark weights, aided relative results as their shares fell during the second quarter. The strategy also saw strong stock selection from the Industrials sector. Owning Cummins Inc. (CMI) aided results in the quarter after raising guidance, projecting revenue of $45-50 billion, and an EBITDA margin above 20%. Also, within the sector, not owning several defense companies including RTX Corporation (RTX), Northrop Grumman Corp. (NOC), and Lockheed Martin Corporation (LMT) contributed to relative results as Mideast tensions eased.

What hurt

The Information Technology sector accounted for all the strategy's underperformance during the quarter. At the end of May, Micron Technology, Inc. (MU) was the largest weight within the Russell 1000 Value Index and with only a 0.05% yield was not held the portfolio. Following Russell's now semi-annual reconstitution, MU was removed from our benchmark, but not before it subtracted 271bps of performance in the quarter and 396bps of performance over the trailing one year. Not owning Intel Corporation (INTC), Advanced Micro Devices, Inc. (AMD), and SanDisk Corporation (SNDK), which do not pay dividends, hurt relative performance. Like MU, these companies also exited the Russell 1000 Value Index following the reconstitution. Stock selection was weak in the Health Care sector with HCA Healthcare Inc (HCA) and Abbott Laboratories (ABT) detracting from results.

What we did

In the second quarter of 2026, we added one new name to the portfolio and eliminated four. Following the Russell reconstitution, the strategy was underweight Consumer Discretionary and overweight Communications Services and Industrials. We added Dick's Sporting Goods, Inc. (DKS) within Discretionary due to our belief that the purchase of Footlocker will provide access to lifestyle customers that are not already reached through Dick's, adding another lever to its growth. Within Communication Services, Comcast Corporation (CMCSA) and Omnicom Group, Inc. (OMC) were sold. Carrier Global Group (CARR) was eliminated in favor of other Industrials with better growth prospects as the Industrials weight in the Russell indexes fell. Additionally, we sold out of Realty Income Corporation (O) in favor of other REITs with better growth prospects.

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

Taiwan Semiconductor Manufacturing Co., Ltd. (TSMC), a leading global contract chipmaker and semiconductor foundry, outperformed during the period after beating expectations and raising revenue forecast due to AI demand. The company also increased gross and operating margins during the period as its mix shifted towards more complex semiconductor production and scaling at lower modes.

Not owning **Exxon Mobil Corporation (XOM)** aided relative results during the quarter as oil prices declined.

Cummins Inc. (CMI) is a leading manufacturer of diesel and natural gas engines. CMI aided results in the quarter after raising guidance, projecting revenue of $45-50 billion and an EBITDA margin above 20%. CMI also announced an agreement with Circe Energy to supply natural gas generator sets for a Texas data center microgrid, with deliveries planned from 2026 to 2030.

Not owning **Walmart Inc. (WMT)** aided relative results during the quarter as investors worried about consumer weakness.

Not owning **Berkshire Hathaway Inc. (BRK.B)** aided relative results during the quarter.

Top five detractors

An underweight to **Micron Technology, Inc. (MU)** detracted from relative performance. Micron reported fiscal third-quarter 2026 revenue of $41.5 billion, representing 74% sequential growth and 346% year-over-year growth. DRAM and NAND contributed $31.3 billion and $9.9 billion of revenue, respectively, while gross margin improved to 84.9%.

Not owning **Intel Corporation (INTC)** detracted from relative performance as the company reported strong earnings and highlighted server CPU demand that continues to outpace supply due to agentic AI workloads. Intel also projected double-digit industry growth through 2026 and continued momentum into 2027.

T-Mobile US, Inc. (TMUS) serves more than 100 million customers and, in our view, is the best-positioned U.S. wireless carrier due to its network capacity, pricing flexibility, and focus on cost discipline. Shares detracted from relative performance despite the company reporting more than 217,000 postpaid account net additions, ahead of expectations.

Not owning **Sandisk Corporation (SNDK)** detracted from performance as shares rallied meaningfully along with other memory-related names as demand continues to grow.

Not owning **Advanced Micro Devices, Inc. (AMD)** weighed on results as the stock moved higher during the quarter following first-quarter 2026 revenue of $10.3 billion, representing 38% year-over-year growth, led by strength in its Data Center segment.

Outlook

U.S. equity markets rebounded in the quarter with the S&P 500 posting an 18.5% total return bringing YTD performance to +10%. While U.S. equity market strength was broad based outside of the energy sector that posted a small decline, the predominant market narrative in the quarter was Artificial Intelligence (AI) infrastructure spending. This narrative also led to an unparalleled Russell reconstitution driving over $300 billion of index-driven trading at the end of June and resulting in a dramatic change to sector weightings in the Russell Growth and Value Indexes. In this high-charged, momentum driven environment, quality compounding dividend paying companies have participated, but have been left behind. Dividend payers in the Russell 1000 Value and Russell 2500 Value underperformed non-payers by a whopping 1900bps and 2400bps, respectively in the quarter. The size of this headwind is staggering, making it tempting for investors to say it's different this time, but high-quality dividend payers have history on their side. Our data continues to show that over long periods, dividend payers outperform non-payers (with less volatility) making this a tremendous buying opportunity for long term focused investors that appreciate upside participation and downside mitigation.

Given the massive scale of the AI buildout and the promise it brings for speed and efficiency gains, it's no surprise that investors (us included) are excited about the prospects. But this transition is creating both opportunities and challenges such that a company's ability to adapt will be increasingly put under the microscope. We've seen previously sleepy tech stocks transform from deep value to large cap growth, seemingly overnight, as names like SanDisk, Western Digital and Micron suddenly gained tremendous pricing power (and stock price appreciation at a scale we have never seen), but ultimately, the laws of supply and demand will triumph. Strong cash generators with forward thinking management teams and defensible moats are likely the long-term winners. While we acknowledge the exceptional earnings growth that has come for some of these AI infrastructure companies in the near term, we also believe there is an increasing number of great investment opportunities in areas where the market isn't focused. Many companies across sectors are quietly investing in AI tools to improve productivity and position themselves for long-term share gains. We are focused on building portfolios for the long term, and while that may mean some underperformance in heady markets like we've seen, we firmly believe slow and steady ultimately wins the race.

PRINCIPAL EQUITY INCOME FUND as of June 30, 2026

Top 10 holdings

	% of net assets
Apple Inc	4.4
Taiwan Semiconductor Manufacturing Co Ltd	4.0
JPMorgan Chase & Co	3.0
Morgan Stanley	2.9
Microsoft Corp	2.8
Costco Wholesale Corp	2.8
DR Horton Inc	2.8
Chubb Ltd	2.8
The Coca-Cola Co	2.7
PNC Financial Services Group Inc	2.7
Total	**31.0**

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]	7.89	9.89	20.23	16.14	9.44	11.71	9.14	0.54/0.52	02/28/2027	1.16/1.19	1.48
Russell 1000® Value Index[*5,*6]	13.87	16.26	27.12	17.79	11.17	11.52	—	—		—	—
Morningstar category average	9.64	11.30	21.21	16.13	10.48	11.47	—	—		—	—
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	1,141	1,132	1,106	1,054	991	830	1,054	—		—	—
Class I percentile rankings[*7]	—	—	57	48	75	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.

MM10394-31 | 07/2026 | 5758189-112026