Principal Asset Management®

PRINCIPAL SMALL-MIDCAP DIVIDEND INCOME FUND

Quarterly commentary

THIRD QUARTER 2026

TICKER:

Class I: PMDIX
Class A: PMDAX
Class C: PMDDX

The Principal Small-MidCap Dividend Income Fund underperformed the Russell 2500® Value Index on a net basis in the third quarter despite positive stock selection in 7 out of 11 sectors.

What helped

In Q3, the financials sector contributed the most to performance. Our holdings in Equitable Holdings, Inc. (EQH) and Hamilton Lane Incorporated (HLNE) were the top contributors in the sector. EQH shares benefited from growing investor confidence in the strategic and financial benefits of its pending merger with Corebridge (CRBG), as well as the resumption of share repurchases. We view the pending merger positively, as the combined entity provides better earnings stability with a favorable mix of revenues from spread, fee, and underwriting businesses. Stock selection was also strong within the industrials sector. Shares of Leidos Holdings, Inc. (LDOS) rebounded as the company secured multiple high-value contracts, with particular strength in the Homeland and Defense segments.

What hurt

Russell's semiannual reconstitution at the end of June materially altered the composition of our benchmark, the Russell 2500® Value Index. Most notably, the information technology sector weight declined from 18% at the end of March to approximately 10% following the rebalance. Four technology holdings, SanDisk (SNDK), Ciena (CIEN), Flex Ltd (FLEX), and Coherent Corp (COHR), which accounted for 32% of our index's return in the first six months, were removed from the index prior to a sharp correction in AI-related capital spending beneficiaries during the third quarter. Despite strong performance from the dividend-paying stocks of MKS Inc. (MKSI) and Amkor Technology, Inc. (AMKR) in the first half of the year, both names detracted from performance within the sector as AI-related names broadly sold off in the quarter. Stock selection was also weak within consumer discretionary. Dick's Sporting Goods (DKS) was the top detractor despite positive same-store sales growth in its core business. Investors focused instead on disappointing results at Foot Locker, which DKS acquired last year, including lower same-store sales amid a promotional environment and weakness in legacy lifestyle footwear.

What we did

In the quarter, one new name was added to the portfolio and one was eliminated. Brown-Forman Corporation (BF.B), a leading global producer of premium spirits and wines, was added during the period. We believe that the recent weakness in the spirits business provides a compelling entry point for a premier whiskey brand. The company has growth opportunities in its ready-to-drink (RTD) and international segments. Although spirits are under pressure, U.S. whiskey is performing better than the overall category, and we are optimistic that excess inventory in the U.S. whiskey market will continue to ease, creating a more balanced supply-and-demand environment. Skyworks Solutions, Inc. (SKWS) management recently announced changes to its capital allocation policy which eliminated its dividend and, as a result, we exited the company.

PRINCIPAL SMALL-MIDCAP DIVIDEND INCOME FUND

The Principal Small-MidCap Dividend Income Fund invests predominantly in dividend-paying stocks and seeks to provide a relatively high level of current income and growth of income and capital. In pursuing its goal, we invest primarily in the common stocks of small- and mid-capitalization U.S. companies.

Top five contributors

Quest Diagnostics Incorporated (DGX) is a leading provider of diagnostic testing and information services. The company outperformed following strong revenue growth which was driven by organic growth acceleration and recent acquisitions. Robust testing demand across channels, including growing adoption of consumer directed wellness and advanced diagnostics testing, appears to have also strengthened confidence in the growth outlook.

Equitable Holdings, Inc. (EQH) is a leading financial services holding company offering retirement and wealth management solutions. EQH outperformed during the period following stronger operating earnings and asset growth, with total assets under management increasing 10% annually driven by positive net flows and favorable equity markets. The shares also benefited from growing investor confidence in the strategic and financial benefits of its pending merger with Corebridge, as well as the resumption of share repurchases.

Concentra Group Holdings, Inc. (CON) is a leading provider of occupational health services. The company aided performance after beating expectations, with margins expanding as organic revenue growth increased and management raised future guidance. Free cash flow doubled and net leverage fell below 3x, positioning it well to execute accretive bolt on M&A.

Leidos Holdings, Inc. (LDOS) is a large U.S. government technology and engineering contractor with extensive capabilities in cybersecurity, big data, electronic warfare, artificial intelligence, digital modernization, and veterans' healthcare. The company aided performance as it secured multiple high-value contracts with particular strength in Homeland and Defense segments.

HF Sinclair Corporation (DINO) is a diversified independent energy company that refines and markets petroleum products. DINO outperformed after beating expectations and raising revenue forecast due to a surge in refining margins tied to the Iran conflict.

Top five detractors

MKS Instruments, Inc. (MKSI) is a supplier of instruments and subsystems that measure, monitor, analyze, power, and control critical aspects of advanced semiconductor manufacturing. Following a strong period of outperformance and despite beating expectations, MKSI sold off during the quarter as AI spending fears persisted and momentum stocks underperformed.

Amkor Technology, Inc. (AMKR) is the second largest outsourced semiconductor assembly and test supplier (OSAT) focused on advanced packaging solutions. AMKR lagged after beating earnings and announcing a strong margin outlook after revenue guidance missed in its Communications segment due to a strategic SiP migration from Korea to Vietnam, memory cost/availability constraints, and customer build plans changing.

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.

Acushnet Holdings Corp. (GOLF) is a leading designer and manufacturer of premium golf equipment. Despite beating expectations, raising its full-year 2026 sales guidance, and a record number of rounds played, GOLF underperformed as investors worried about consumer weakness and GOLF's valuation levels following a strong run.

Timken Company (TKR), a leading manufacturer of engineered bearings and power transmission products, lagged during the period. Following a beat and raise, shares were under pressure as management's guidance was conservative relative to the magnitude of the beat with high expectations pressuring the stock.

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 SMALL-MIDCAP DIVIDEND INCOME FUND as of September 30, 2026

Top 10 holdings

	% of net assets
East West Bancorp Inc	2.8
Quest Diagnostics Inc	2.7
Packaging Corp of America	2.3
MKS Inc	2.3
Wintrust Financial Corp	2.3
Cullen/Frost Bankers Inc	2.3
Littelfuse Inc	2.2
nVent Electric PLC	2.1
STERIS PLC	2.1
Federal Agricultural Mortgage Corp	2.1
Total	**23.2**

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 06/06/2011	Expense ratio*2 (gross/net)	Expense limit expiration date	30-day SEC unsubsidized/ subsidized	12-month distribution
Class I*3	-7.81	9.74	11.25	14.71	8.79	8.56	9.86	0.86/0.85	12/30/2026	1.17/1.21	1.22
Russell 2500® Value Index*4,*5	-4.36	18.75	22.49	19.12	9.76	10.12	—	—	—	—	—
Morningstar category average	-7.24	12.75	14.52	15.21	6.87	9.76	—	—	—	—	—
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: Small Blend	625	620	618	582	559	456	582	—	—	—	—
Class I percentile rankings*6	—	—	75	58	19	79	—	—	—	—	—
Class I ratings*7	—	—	—	★★★	★★★★	★★	★★★	—	—	—	—

Calendar year returns (%)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Class I(3)	30.05	13.30	-13.65	25.39	-6.31	30.41	-11.67	18.80	11.10	8.60
Russell 2500® Value Index(4),(5)	25.20	10.36	-12.36	23.56	4.88	27.78	-13.08	15.98	10.98	12.73
Morningstar category average	20.78	12.28	-12.72	23.75	10.99	24.19	-16.24	16.18	11.15	7.89

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 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.

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

*4 Russell 2500® Value Index measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values. Information regarding the comparison to the Russell 2500® 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.

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

*6 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.

*7 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.

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