Principal Asset Management®

PRINCIPAL SMALL-MIDCAP DIVIDEND INCOME FUND

Quarterly commentary

SECOND 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 second quarter das stock selection was positive only in 4 out of 11 sectors. Within the Russell 2500® Value Index, non-dividend payers returned 34.5% while dividend payers returned 10.1%, which was a meaningful headwind for the strategy.

What helped

In Q2, the materials sector contributed the most to performance, specifically within the metals and mining industry. Not owning several mining companies, including Royal Gold, Inc., Hecla Mining Company, and Coeur Mining, Inc. aided relative performance as precious metals largely retreated from recent highs earlier in the year. Additionally, owning Reliance, Inc. (RS) contributed to results as the company topped expectations and signed a new DHS contract. The energy sector also contributed to results and saw the strongest stock selection in the quarter. Energy was the best performing sector in Q1 but was the only sector within the Russell 2500 Value Index to post a negative return in Q2, and names not owned contributed positively to performance.

What hurt

Information Technology gained 78% in Q2 within our benchmark, and despite owning three stocks that rose more than 90%, the sector drove most of the strategy's underperformance. Over the past year, Sandisk Corporation (SNDK), a non-dividend payer, grew to be the largest position within our benchmark, and with shares of SNDK increasing dramatically in the quarter, it was the top detractor in terms of relative performance. The strategy's performance was also hampered by the Real Estate sector. Agree Realty Corporation (ADC) and Essential Properties Realty Trust, Inc. (EPRT) are single-tenant properties that are net leased on a long-term basis. Both companies topped expectations, but their shares moved little in the quarter and detracted from relative performance.

What we did

In the quarter nine new names were added to the portfolio while three were eliminated. Bio-Techne Corporation (TECH) was taken over during the period and marked the 43rd takeover overall within the strategy. TECH was sold from the portfolio following the takeover news with QIAGEN NV (QGEN) and Royalty Pharma Class A (RPRX) being purchased in its place within health care. Within the Information Technology sector, Western Digital Corporation (WDC) has been a greater performer but was sold as its market cap grew too large for our strategy. NetApp, Inc. (NTAP), Roper Technologies, Inc. (ROP), and Skyworks Solutions, Inc. (SKWS) were purchased within the IT sector. Additional purchases included Albemarle Corporation (ALB), American Healthcare REIT, Inc. (AHR), Coca-Cola Consolidated, Inc. (COKE), and The Hanover Group Inc. (THG). Magnolia Oil and Gas (MGY) was sold as the Energy sector was reduced during the recent Russell index reconstitution.

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

MKS Instruments, Inc. (MKSI) is a supplier of instruments and subsystems that measure, monitor, analyze, power, and control critical aspects of advanced semiconductor manufacturing. MKSI has core competencies in pressure measurement and control, flow measurement/control, gas and vapor delivery, gas composition analysis, residual gas analysis, and leak detection. MKSI beat expectations during the quarter and guided ahead of expectations. The company continues to deliver following its acquisition of Atotech and is benefiting from strong demand for semiconductor capital equipment subsystems and advanced packaging chemistries due to artificial intelligence and data center growth.

Amkor Technology, Inc. (AMKR) is the second largest outsourced semiconductor assembly and test supplier (OSAT) focused on advanced packaging solutions. AMKR outperformed following earnings that beat expectations and a gross margin increase nicely above expectations. The company is seeing strong demand across premium tier smartphones, especially iOS with key partner Apple. Additionally, management stated that the profitability in its new Arizona facility will be meaningfully higher than its corporate average, which should start to impact earnings as early as 2028.

Western Digital Corporation (WDC) develops, manufactures, and sells data storage devices and solutions and is one of only two major pure-play hard disk drive (HDD) manufacturers. As inferencing and storage demand continued to ramp, memory and storage-related names posted another strong quarter, including WDC. The company expanded margins by 50.5% as an industry supply and demand imbalance drove pricing higher and customers increasingly adopted high-density drives and new HAMR technologies.

nVent Electric PLC (NVT) is an electrical equipment company that sells enclosures for electrical and tech equipment, fasteners/connectors, and thermal management equipment. NVT outperformed following a beat and raise which saw sales in the quarter up 34% and earnings per share up 63%. The company continues to benefit from broad-based data center growth and greater investment in grid infrastructure.

Comfort Systems, USA, Inc. (FIX) provides comprehensive mechanical and electrical contracting services, including HVAC, plumbing, piping and controls and other electrical components. Projects are for commercial, industrial, and institutional buildings and tend to be more geared toward HVAC. During the period, FIX handily beat expectations with organic revenues growing 51% in the quarter and earnings per share more than doubling. Ongoing demand remains robust with a backlog totaling over $12b.

Top five detractors

Not owning **Sandisk Corporation (SNDK)** detracted from performance as shares rallied meaningfully along with other memory-related names as massive demand growth and limited supply have driven unprecedented pricing power.

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 lagged despite beating expectations and raising guidance as investors became concerned about new competition in its highly profitable veterans' health business.

Hamilton Lane Incorporated (HLNE) lagged during the period. The global private markets investments solutions provider detracted despite strong earnings as investors grew increasingly concerned about the impact of AI on private credit and equity portfolios as well as growing redemption requests across competitors' products.

Ingredion Incorporated (INGR) is a consumer staples company that refines corn and produces sweeteners and starches. The company lagged after missing earnings due to weaker food and industrial ingredients demand, partly due to operational disruptions at its Argo division.

Not owning **Flex Ltd (FLEX)** detracted from relative results.

Outlook

The 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.

Top 10 holdings

	% of net assets
MKS Inc	3.6
Amkor Technology Inc	3.2
East West Bancorp Inc	2.7
nVent Electric PLC	2.5
Wintrust Financial Corp	2.4
Littelfuse Inc	2.3
Packaging Corp of America	2.2
Quest Diagnostics Inc	2.2
Williams-Sonoma Inc	2.1
Cullen/Frost Bankers Inc	2.1
Total	**25.2**

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]	14.50	19.04	28.14	16.18	10.57	10.21	10.63	0.86/0.85	12/30/2026	1.03/1.06	1.11
Russell 2500® Value Index[*4,*5]	18.50	24.16	38.54	19.41	10.28	11.28	—	—	—	—	—
Morningstar category average	19.68	21.59	33.88	16.49	8.03	11.34	—	—	—	—	—
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	631	626	620	585	563	448	585	—	—	—	—
Class I percentile rankings[*6]	—	—	76	54	14	76	—	—	—	—	—
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.

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