Principal Asset Management®

PRINCIPAL REAL ESTATE SECURITIES FUND

Quarterly commentary

SECOND QUARTER 2026

TICKER:

Class I: PIREX
Class A: PRRAX
Class C: PRCEX
Class R6: PFRSX

Market review

During the second quarter of 2026, real estate securities rose 10.7%, trailing the broader United States equity market, as the S&P 500 Index advanced 15.2%. The quarter became increasingly eventful, opening with heightened uncertainty driven by elevated energy prices, inflation concerns, and the Iran conflict before sentiment improved as ceasefire progress, lower oil prices, and resilient economic data supported risk assets. Markets shifted away from expectations for Federal Reserve (Fed) easing and began pricing the possibility of further tightening amid above-target inflation and labor market resilience. Treasury yields were volatile throughout the period, rising sharply during May before retracing as geopolitical tensions moderated and oil prices declined, leaving the U.S. 10-year Treasury near 4.4% at quarter-end. Despite this backdrop, real estate investment trusts (REITs) delivered strong returns, supported by resilient fundamentals, improving capital markets conditions, and continued investor demand for real assets.

Outperformance was led by sectors benefiting from improving cyclical conditions and operating momentum, including lodging, office, single-family rental, malls/outlets, and apartments. Lodging REITs benefited from accelerating RevPAR growth, improving group and business travel demand, and optimism surrounding World Cup-related travel. Office REITs rebounded sharply as leasing activity improved, supported by technology-sector demand and signs that asset values may be stabilizing. Retail REITs also performed well, underpinned by healthy retailer demand, strong leasing spreads, limited new supply, and resilient consumer spending. Residential REITs generated strong absolute returns, with apartments and single-family rental REITs benefiting from early signs of better rent and occupancy trends and easing policy concerns.

Relative laggards included sectors that participated less in the rotation toward cyclical and housing-related property types. Data center REITs remained supported by robust artificial intelligence (AI)-driven demand and hyperscale leasing activity but lagged stronger-performing sectors as investors weighed AI monetization, power availability, and regulatory scrutiny. Industrial REITs also trailed the broader real estate market despite healthy operating fundamentals. Net lease REITs underperformed as investors favored higher-growth and more economically sensitive property types, while manufactured housing lagged as capital rotated toward other residential segments.

Portfolio performance

The Principal Real Estate Securities Fund lagged the index on a net basis weighed by the overweight to long duration U.S. towers, which were impacted by inflation fears arising from the Iran war. The underweight to and selection within hotels also detracted as the group performed strongly on firm earnings and resilient U.S. economic data. Contribution derived from the underweight to long duration net lease and overweight to and selection within office, which did well on strong operating updates.

Strategy and outlook

As Q2 concludes, the macro backdrop has shifted meaningfully from the acute stagflationary shock that defined the quarter. The Iran conflict has de-escalated and oil has retreated toward the low-to-mid $70s as indirect U.S.-Iran talks progress under a 60-day negotiating window. The Fed, which spent much of Q2 leaning hawkish in response to the energy shock, is now navigating a more nuanced picture: it remains on hold with markets pricing approximately a 36% probability of a July hike -- up from near zero before Kevin Warsh's debut Federal Open Market Committee --but Warsh himself acknowledged at Sintra this week that "inflation risks have come down" over his first four weeks in office, declining to pre-commit to a July move. The path into Q3 is therefore one of cautious recalibration rather than outright tightening, with the balance of risks tilting back toward growth as the deflationary impulse from demand destruction begins to assert itself.

For U.S. REITs, this evolving backdrop is incrementally constructive. The prospect of rate cuts re-entering the conversation --as growth concerns increasingly offset residual inflation risk --provides a more supportive duration backdrop for the asset class than at any point in Q2. M&A activity in the sector has been a powerful constructive signal: the AvalonBay-Equity Residential all-stock merger combining two of the largest apartment REITs, alongside continued private capital conviction in data centers and health care, underscores that private buyers continue to identify value in listed REITs at meaningful premiums to market.

Against this backdrop, our portfolio strategy remains anchored in bottom-up stock selection and company fundamentals. The higher-for-longer rate environment continues to favor quality --companies with strong balance sheets, visible earnings, and robust business models are best placed to navigate a macro environment that, while improving, remains fragile. We will continue to seek opportunities where dislocation from the conflict has created mispricing at the individual security level, while remaining disciplined on valuation and attentive to any deterioration in the diplomatic trajectory that could reverse the recent improvement in energy market conditions.

Contributors

Realty Income Corporation - An underweight to this net lease REIT contributed to performance. There was profit taking during the quarter in this defensive sector as macroeconomic risks were lowered. Also, too-big-to-grow became an increasing concern as its beat and raise results were driven by non-core line items.

Cousins Properties Incorporated (CUZ) - An overweight to this office REIT contributed to performance. Office REITs bounced back strongly after a very weak Q1 as leasing momentum remain healthy while AI-fears (weak white-collar job growth) faded. CUZ also delivered a beat and raise quarter with strong operating performance and sensible capital recycling.

VICI Properties Inc. - An underweight to this net lease REIT contributed to performance. Gaming fundamentals were not improving, and a tenant rent coverage issue is in risk of lingering longer.

Detractors

American Tower Corporation - An overweight to this tower REIT detracted from performance. The tower group was pressured by post-IPO investor focus on SpaceX/Starlink's potential ambitions in domestic wireless and the risk that satellite direct-to-device services could eventually disrupt terrestrial carrier economics and tower demand.

Simon Property Group, Inc. - An underweight to this mall/outlet REIT detracted from performance. Malls/outlets benefited from healthy fundamentals, consumer spending resiliency, and increased risk appetite on ceasefire progress.

Public Storage (PSA) - An underweight to this self-storage REIT detracted from performance. Investor sentiment has warmed up to PSA given recent board changes and messaging around more aggressive external growth.

PRINCIPAL REAL ESTATE SECURITIES FUND as of June 30, 2026

Top 10 holdings

	% of net assets
Welltower Inc.	10.8
Equinix, Inc.	9.7
American Tower Corp.	6.9
Ventas, Inc.	5.9
Prologis, Inc.	5.6
Extra Space Storage Inc.	4.3
AvalonBay Communities, Inc.	3.5
American Homes 4 Rent	3.3
Digital Realty Trust, Inc.	3.2
Essex Property Trust, Inc.	3.1
Total	**56.4**

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 (%)									
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception*1 (03/01/2001)	Expense ratio (net/gross)*2	Expense limit expiration date
Class I*3,*4,*5,*6	10.14	13.76	12.13	9.35	3.68	6.12	10.10	0.86/0.90	02/28/2027
U.S. REIT Linked Index*	10.73	14.90	15.43	10.27	4.62	5.47	–	–	–
Morningstar category average	11.21	13.75	14.97	9.75	3.52	5.22	–	–	–

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: real estate	215	209	207	199	191	149	199
Class I percentile rankings*7	–		79	49	42	22	–
Class I ratings*8	–		–	★★★	★★★	★★★★	★★★★

Calendar year returns (%)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Class I	5.93	9.03	-4.31	31.13	-3.23	39.64	-25.20	13.33	5.45	1.20
U.S. REIT Linked Index*	8.60	5.07	-4.57	25.84	-7.57	43.06	-24.51	13.74	5.79	2.27
Morningstar category average	6.89	6.22	-5.97	27.28	-4.49	38.73	-25.67	12.03	5.90	1.60

Morningstar percentile rankings are based on total returns. Morningstar ratings are based on risk-adjusted returns.
Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

*MSCI U.S. REIT Index through 01 March 2024 and FTSE NAREIT All Equity REIT Index onward.

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 principalfunds.com.

*1 Class I shares were first sold on 3/01/2001. Returns for these shares prior to those dates, including since-inception performance, are based on performance of R-3 shares adjusted to reflect the fees and expenses of these shares. R-3 shares were first sold 12/06/2000.

*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 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. Performance assumes reinvestment of all dividends and capital gains. Only certain investors, such as retirement plan participants, can purchase.

*4 Real Estate investment options are subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Property values can decline due to environmental and other reasons. In addition, fluctuation in interest rates can negatively impact the performance of real estate investment options.

*5 These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

*6 This investment option is considered non-diversified, which means it, or the underlying mutual fund, can invest a higher percentage of its assets in of fewer individual issuers than a diversified investment. As a result, changes in the value of a single investment could cause greater fluctuations, gain or loss, in the net asset value than would occur if it was more diversified.

*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. 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.

Returns shown for periods less than one year are not annualized.

Glossary of Indices

S&P 500 Total Return Index is an equity index that tracks both the capital gains of a group of 500 widely held stocks often used as a proxy for the stock market and assumes dividends are reinvested back into the index.

U.S. REIT Linked Index composition: For March 1, 2024 and after, the index is 100% the FTSE NAREIT All Equity REIT Index, and for the period prior to March 1, 2024, it is 100% the MSCI US REIT Index.

FTSE NAREIT All Equity REIT Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

MSCI U.S. REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

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