Principal Asset Management®

PRINCIPAL SHORT-TERM INCOME FUND

Quarterly commentary

SECOND QUARTER 2026

TICKER:

Class I: PSHIX
Class A: SRHQX
Class C: STCCX

Market review and outlook

Inflation reaccelerated in the first half of 2026, driven primarily by a surge in energy prices following the conflict with Iran. Additional upward pressure came from rising costs in computer equipment tied to the ongoing AI buildout, as well as residual seasonality in the data that has led to hotter inflation prints. In May, headline inflation rose to an annual rate of 4.2%, the highest level in two years. As tensions appear to be easing, oil prices have fallen to their pre-conflict levels. Inflation is therefore expected to moderate as lower energy costs work their way through the economy. Beyond energy, the disinflation outlook is supported by some relief on tariffs following the IEEPA ruling and a continued easing in housing inflation as rent growth slows, partly reflecting weaker demand pressures due to reduced immigration. This should ease pressure on households and businesses while giving the Federal Reserve (Fed) greater flexibility to maintain its current policy stance, even though inflation pressures remain persistent.

Despite temporary inflationary pressures, economic activity has remained resilient. First-quarter GDP growth was revised upward to 2.1%, supported by continued investment in AI, fiscal stimulus from the One Big Beautiful Bill, and deregulation that has encouraged business investment and entrepreneurial activity. The massive AI spending boom drove a 10.4% increase in business investment in the first quarter, as hyperscaler AI capex ripples through a wide supply chain, from construction firms and utilities to semiconductor manufacturers, fiber-optic and networking providers, and electrical grid infrastructure.

United States payroll growth slowed markedly in June, with just 57,000 jobs added and downward revisions reducing the three-month average to 111,000. Despite weaker hiring, the unemployment rate declined to 4.2% as the labor force contracted sharply, pushing the labor force participation rate to its lowest level in decades outside the pandemic. These trends suggest that labor market tightness is increasingly being driven by structural labor supply constraints, primarily population aging and reduced immigration, rather than robust labor demand.

Looking ahead, economic growth continues to be shaped by demographic constraints and accelerating technological progress. An aging population and slower immigration are limiting growth in the working-age population and constraining long-term labor supply, while rapid advances in AI and increased investment in technology and R&D are boosting productivity. Job growth is likely to remain subdued despite moderate economic expansion, underscored by both a smaller pool of available workers and higher productivity that allows firms to meet demand with fewer employees.

Bond yields moved higher during the second quarter of 2026, reflecting a temporary inflation shock from elevated oil prices, concerns over the fiscal outlook, and a more hawkish shift in Fed expectations. However, the backdrop is now evolving. Energy prices have eased, rent inflation remains subdued, tariff pressures have moderated, and wage growth is contained. If disinflation continues through the rest of the year, it may be enough to keep the Fed on hold rather than prompt additional tightening.

The second quarter of 2026 also saw a bear flattening of the U.S. Treasury curve, as short-term rates rose more sharply in response to hawkish Fed expectations and reduced prospects for policy easing amid persistent inflation and resilient economic data. Long-term yields also moved higher, but at a slower pace, anchored by longer-term growth expectations. As a result, the

All data sourced to Bloomberg, unless footnoted.

spread between the 10-year and 2-year Treasury yields narrowed to approximately 23 basis points at the end of June, compared with the end of the previous quarter. The two-year yield rose by 0.38% to 4.17%, the five-year increased by 0.28% to 4.22%, the ten-year climbed by 0.15% to 4.47%, and the thirty-year edged up by 0.04% to 4.95%.

Markets delivered positive returns in the second quarter of 2026 as underlying economic strength and a decline in volatility countered the rising interest rates. The Bloomberg U.S. Aggregate Index, a proxy for the overall fixed-income market, outperformed similar-duration U.S. Treasury securities, posting an excess return of 0.38%. The best-performing sectors were emerging market debt, below investment-grade corporate bonds, and investment-grade corporate bonds with excess returns of 3.19%, 2.21%, and 1.17%, respectively. Commercial mortgage-backed securities (CMBS), asset-backed securities (ABS), and mortgage-backed securities (MBS) outperformed similar-duration U.S. Treasury securities but underperformed the Bloomberg U.S. Aggregate Index, with excess returns of 0.37%, 0.36%, and 0.30%.

Strategy review

SECOND QUARTER 2026

The Short-Term Income Fund (I) underperformed the Bloomberg Credit 1-3 Years Index benchmark by -0.02% during the quarter. Sector allocation and changes in the yield curve contributed to performance, while issuer sector allocation detracted.

Key positive contributors include:

- Overweight position in Supranational
- Overweight position in Non-Agency CMBS
- ssuer selection in Banking
- Overweight position in Government Guarantee
- Issuer selection in Technology

Key negative detractors include:

- Overweight position in Treasurys
- Overweight position in ABS Other
- Overweight position in ABS Auto Backed
- Underweight position in Finance Companies
- Issuer selection in Finance Companies

TRAILING YEAR AS OF 06/30/2026

The Short-Term Income Fund (I) underperformed the benchmark by -0.14% over the last 12 months. Sector allocation detracted while issuer selection contributed.

Key positive contributors include:

- Overweight position in Non-Agency CMBS
- Underweight position in Supranational
- Overweight position in ABS Student Loan
- Overweight position in Whole Loan CMO
- Issuer selection in Banking

Key negative detractors include:

- Overweight position in ABS Other
- Overweight position in ABS Auto Backed
- Overweight position in Treasurys
- Underweight position in Consumer Cyclical
- Underweight position in Banking

PRINCIPAL SHORT-TERM INCOME FUND as of June 30, 2026

Top 10 holdings[*1]

	% of net assets
United States Treasury Note/Bond	3.4
United States Treasury Note/Bond	2.9
United States Treasury Note/Bond	2.8
United States Treasury Note/Bond	2.0
Vistra Operations Co LLC	0.6
SBA Tower Trust	0.6
Oaktree CLO 2019-4 Ltd	0.6
Nissan Auto Receivables 2025-B Owner Trust	0.5
Life 2022-BMR Mortgage Trust	0.5
JP Morgan Mortgage Trust Series 2025-HE1	0.5
Total	**14.3**

Performance, rankings, and ratings

	Average annual total returns (%)									Yields (%)[*2]	
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception[*3] (07/25/1996)	Expense ratio[*4] (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution
Class I[*5]	0.77	1.24	3.61	5.27	2.62	2.52	–	0.39/0.39	–	4.15/4.15	3.99
Bloomberg Credit 1-3 Years Index[*6 *7]	0.79	1.11	3.75	5.29	2.64	2.53	–	–	–	–	–
Morningstar category average	0.85	1.05	3.70	5.35	2.42	2.42	–	–	–	–	–

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: Short-Term Bond	548	546	538	517	488	379	517
Class I percentile rankings[*8]	–	23	52	51	33	39	–
Class I ratings[*9]	–		–	★★★	★★★	★★★	★★★

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 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.

*2 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.

*3 Class I shares were first sold on 07/25/1996. Returns for Class I shares prior to 07/25/1996, including since-inception performance (if shown), 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 11/01/1993.

*4 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.

*5 Performance assumes reinvestment of all dividends and capital gains.

*6 Bloomberg Credit 1-3 Years Index is composed of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

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

*8 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.

*9 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.

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

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All figures shown in this document are in U.S. dollars unless otherwise noted.

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