Principal Asset Management℠

PRINCIPAL SHORT-TERM INCOME FUND

Quarterly commentary

THIRD QUARTER 2026

TICKER:

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

Market review and outlook

The United States economy continued to expand during the third quarter. Second-quarter GDP growth was revised upward to an annualized 2.2%, with strong productivity growth supporting economic output despite muted hiring. Consumer spending benefited earlier in the year from larger tax refunds associated with the One Big Beautiful Bill, with that support fading as the year progressed. Private investment continued across AI-related data centers, semiconductors, and electrical infrastructure. Government spending contributed little to second-quarter growth, while sizable fiscal deficits sustained federal borrowing needs. Energy prices remained elevated, and inflation outpaced wage growth, reducing real wage gains.

The labor market remained characterized by low hiring and low firing, with subdued employment growth and limited layoffs. September nonfarm payrolls increased by 29,000, which was weaker than expected, while the unemployment rate edged up to 4.2%, reinforcing the cooling in labor market conditions. An aging workforce and reduced immigration continued to constrain labor supply, limiting workforce growth and helping keep unemployment relatively stable despite slower hiring. Through July, announced job cuts were down 41% year over year, with broader layoff indicators also showing limited firing activity. Strong corporate profitability and elevated productivity supported continued economic output despite muted employment growth.

While core PCE inflation has eased to 3.0% YoY from its spring highs and core CPI has declined to 2.4% YoY, its lowest level since 2021, headline CPI has risen to 3.4% YoY, up from 2.75% YoY in December 2025. The pickup in headline inflation has been largely driven by higher energy prices following the Iran conflict. Against this backdrop, and with its commitment to price stability, the Fed raised rates by 25 bps in September, while markets have priced in one additional hike this year.

U.S. treasury yields have risen significantly as markets priced in a more hawkish monetary policy and an increasing neutral rate, with long-term rates reaching post-GFC highs driven by expanding fiscal deficits, massive infrastructure and AI capital expenditures, and intensifying inflationary pressures from the conflict with Iran. The two-year yield rose by 0.72% to 4.89%, the five-year yield increased by 0.86% to 5.09%, the ten-year yield climbed by 0.82% to 5.29%, and the thirty-year yield increased by 0.68% to 5.63%.

Fixed-income markets faced headwinds in the third quarter of 2026 as rising interest rates and widening spreads weighed on performance. The Bloomberg U.S. Aggregate Index, a proxy for the overall fixed-income market, underperformed similar-duration U.S. Treasury securities, posting an excess return of -0.31%. The best-performing sector was asset-backed securities (ABS) with an excess return of 0.14%. Commercial mortgage-backed securities (CMBS), investment-grade corporate bonds, and emerging market debt underperformed similar-duration U.S. Treasury securities but outperformed the Bloomberg U.S. Aggregate Index, with excess returns of -0.02%, -0.14% and -0.24%, respectively. Mortgage-backed securities (MBS), and below investment-grade corporate bonds underperformed the Bloomberg U.S. Aggregate Index, with excess returns of -1.16% and -0.68% respectively.

All data sourced to Bloomberg, unless footnoted.

Commentary reflects the opinions of Principal Asset Management, is believed to come from reliable sources, and reflects the opinions of the investment advisor at the time of publication. The opinions may not come to pass.

Strategy review

THIRD QUARTER 2026

The Short-Term Income Fund (I) underperformed the Bloomberg Credit 1-3 Years Index benchmark by -0.17% during the quarter. Sector allocation contributed to performance, while changes in the yield curve detracted.

Key positive contributors include:

- Overweight position in Non-Agency CMBS
- Overweight position in ABS Student Loan
- Issuer selection in Finance Companies
- Underweight position in Supranational
- Overweight position in ABS Auto Backed

Key negative detractors include:

- Overweight position in Whole Loan CMO
- Issuer selection in Banking
- Issuer selection in Technology
- Underweight position in Finance Companies
- Overweight position in ABS Other

TRAILING YEAR AS OF 09/30/2026

The Short-Term Income Fund (I) underperformed the benchmark by -0.17% over the last 12 months. Sector allocation contributed to performance while changes in the yield curve detracted.

Key positive contributors include:

- Overweight position in Non-Agency CMBS
- Overweight position in Whole Loan CMO
- Overweight position in ABS Student Loan
- Overweight position in ABS Other
- Overweight position in Electric Utilities

Key negative detractors include:

- Underweight position in Consumer Cyclical
- Underweight position in Banking
- Overweight position in ABS Auto Backed
- Issuer selection in Banking
- Underweight position in Finance Companies

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

Top 10 holdings*1

	% of net assets
United States Treasury Note/Bond	2.7
United States Treasury Note/Bond	2.2
United States Treasury Note/Bond	1.6
United States Treasury Note/Bond	1.3
Vistra Operations Co LLC	0.6
SBA Tower Trust	0.6
Life 2022-BMR Mortgage Trust	0.6
Trafigura Securitisation Finance PLC	0.5
MED Commercial Mortgage Trust 2024-MOB	0.5
Fortis Inc/Canada	0.5
Total	**11.1**

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	-0.36	0.88	1.97	4.83	2.54	2.43	–	0.39/0.39	–	4.50/4.50	4.10
Bloomberg Credit 1-3 Years Index*6 *7	-0.19	0.92	2.14	4.96	2.58	2.49	–	–	–	–	–
Morningstar category average	-0.73	0.32	1.47	4.86	2.25	2.29	–	–	–	–	–

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	553	549	543	522	493	389	522
Class I percentile rankings*8	–	23	29	47	30	37	–
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. © 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.

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

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