Principal Asset Management®

PRINCIPAL MIDCAP FUND

Quarterly commentary

SECOND QUARTER 2026

The Principal MidCap Fund underperformed the Russell Midcap Index on a net basis in the second quarter. Low quality leadership in the Index was a headwind to performance. Breadth of participation improved early in the quarter, but dominance of the artificial intelligence trade pushed technology higher, and away from other quality businesses.

TICKER:

Class I: PCBIX
Class A: PEMGX
Class C: PMBCX
Class R6: PMAQX

What helped

Aerospace components business HEICO recovered from share price pressure earlier this year as concerns eased over a prolonged disruption to Middle East air traffic. The company also announced several acquisitions during the quarter, reinforcing its position as the acquirer of choice for entrepreneurs. Live events promoter Live Nation contributed after reporting higher-than-expected returns on new venues and raising capital expenditure guidance to capture additional venue growth opportunities. The portfolio's lack of exposure to underperforming energy and consumer staples companies also contributed to performance relative to the Index.

What hurt

Technology selection detracted from performance, driven by limited exposure to select component suppliers and weakness among certain software holdings. Tyler Technologies, which provides software to state and local governments, weighed on results; however, feedback from the team's attendance at Tyler's annual user conference reinforced the company's role as an essential partner to government customers. In financials, KKR lagged the Index amid continued concerns around private credit and technology exposure, despite strong first quarter asset growth and the launch of Helix Digital, a platform focused on financing AI infrastructure. Construction aggregates business Martin Marietta sold off when they announced a large acquisition at the end of the quarter.

What we did

We added more shares of KKR, Moody's, Toast, and CB Richard Ellis whose share prices have been pressured on potential AI-disruption fears. Our research points to these companies as being winners in the AI era, with proprietary data and essential partnerships with customers. We sold Copart, due to increased competitive pressure from RB Global and ongoing cyclical pressure. We sold Ryan Specialty and CCC Intelligent Solutions to use proceeds for other opportunities and trimmed HEICO and Vulcan on valuation to manage position size in the portfolio.

Top five contributors

Entegris plays a critical role in the semiconductor manufacturing process as a pick-and shovels provider to the industry. The company supplies ultra-clean materials, filtration systems, chemicals, and containers that semi capital equipment companies and foundries rely on to manufacture chips without contamination. In an industry that is constantly pushing performance forward, Entegris collaborates with customers years before new technologies reach commercialization, embedding its products deep into the manufacturing process. With high barriers to entry and meaningful switching costs, customers are reluctant to change suppliers, with the cost of contamination or product failure far exceeding the cost of Entegris' filters and chemicals. Shares contributed to performance.

HEICO Corp. is a leading manufacturer of FAA-approved replacement parts for jet engines and aircraft components. Its specialized design and manufacturing processes allow the company to offer high-quality alternatives at lower costs than many OEMs, while intellectual property developed through reverse engineering and acquisitions creates meaningful barriers to competition. Led by the Mendelson family, HEICO's strong ownership culture includes broad employee stock incentives that reinforce an owner-operator mindset. Shares contributed during the quarter.

Hyatt Hotels is a global hospitality operator focused on serving the high-end traveler, with over 1,500 hotels and all-inclusive properties. The company benefits from a culture that is focused on the wellbeing of the customer, instilled by the founding Pritzker family, who remain on the Board today. Over the last decade, Hyatt transitioned to an asset light business, by significantly increasing the number of franchised hotels while opportunistically reducing the number that are owned by the corporation. Hyatt has a robust room growth pipeline, and they continue to expand its all-inclusive properties. Hyatt contributed to performance.

Live Nation Entertainment is the largest live music promoter and ticketing company in the world. The company is vertically integrated, covering artist management, venue operation, corporate sponsorship, and event ticketing. Live Nation's ability to earn money from different sources such as sponsorships allows the company to give artists a greater share of concert revenue while still earning better margins than competitors. This flywheel has made Live Nation the dominant leader in the industry. Live Nation continues to add new venues and festivals, as demand for live entertainment increases.

Perimeter Solutions develops solutions that save lives. It is a leading provider of mission-critical fire safety solutions, supplying firefighting chemicals such as retardants and foams alongside a comprehensive suite of equipment, personnel, logistics, and services. The company is the only approved supplier to major wildfire fighting agencies throughout the United States including the US Forest Service, Bureau of Land Management, and CalFire. Perimeter Solutions is also a leading supplier to other foreign government agencies. In 2025, the company strengthened its competitive moat through a five-year agreement with the U.S. Department of Agriculture (USDA) supporting forest fire management. Beyond its core business, Perimeter Solutions is expanding into adjacent secular growth markets, supported by its 2026 acquisition of Medical Manufacturing Technologies. Shares contributed to performance during the quarter.

Top five detractors

KKR is a global asset management firm with leading capabilities in private equity, credit, and real assets. The company stands apart by aligning interests at all levels, including significant insider ownership of KKR shares. The distinctive way KKR operates allows them to focus on the most profitable opportunities. Their attractive investment track records have enabled them to continually raise larger funds. KKR spent more than a decade developing capabilities outside the U.S., with a regional approach in the Americas, Europe, and Asia. Despite reporting significant fund-raising activity during the quarter, shares detracted from performance.

CBRE is one of the world's largest commercial real estate services companies, supporting owners and tenants across the full property lifecycle. Over the past 15 years, the company has broadened its business beyond transaction-based commissions by adding services such as facilities management and sustainability solutions. Its scale and comprehensive service offering have created durable network effects in transactions while supporting investment in recurring revenue businesses. Critical infrastructure services are an important growth driver, with recurring and transaction-based revenue tied to data centers, life sciences, manufacturing, and energy infrastructure. Shares detracted from performance.

O'Reilly is a leading auto parts aftermarket retailer, serving both consumers who repair their own vehicles and professional mechanics through their more than 6,600 stores in the United States, Puerto Rico, Mexico, and Canada. O'Reilly's investments in distribution centers have put them in a position to quickly deliver a massive array of inventory in a way that competitors cannot match. O'Reilly benefits from the owner-operator culture that is prevalent from the O'Reilly family's leadership to its distribution centers and individual stores. Shares detracted from relative performance.

Martin Marietta is a leading supplier of aggregates and other building materials in North America. Aggregates are a critical component of every infrastructure, residential, and non-residential project. The company enjoys high barriers to entry stemming from their substantial market share in high-growth geographies where a combination of scarce land, permitting challenges, and high transportation costs nearly eliminates the threat of new entrants. Under CEO Ward Nye, management has expanded the company's footprint through strategic acquisitions, strengthening its competitive position and securing access to attractive markets. Martin Marietta sees a multi-decade runway to continue to allocate capital into M&A in this highly fragmented industry. Shares detracted from performance.

Tyler Technologies is a leading provider of software solutions for state and local governments, supporting essential operations such as court case management, emergency dispatch, and school bus routing. The scale and breadth of Tyler's offerings are difficult to replicate, positioning the company to benefit from long-term demand as governments continue to modernize their digital infrastructure. Its strong brand and broad customer endorsement further reinforce its competitive position, as agencies often look to peers for validation and best practices when selecting technology partners. Shares detracted from performance during the quarter.

PRINCIPAL MIDCAP FUND as of June 30, 2026

Top 10 holdings

	% of net assets
HEICO Corp. - Class A	5.5
Live Nation Entertainment, Inc.	5.4
TransDigm Group, Inc.	5.0
Brookfield Corp.	4.9
Vulcan Materials Co.	4.7
CBRE Group, Inc.	4.1
KKR & Co., Inc.	4.1
Hilton Worldwide Holdings, Inc.	4.0
Martin Marietta Materials, Inc.	3.6
O'Reilly Automotive, Inc.	3.4
Total	**44.7**

May not reflect current holdings or allocations. 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. Due to rounding, the sum may not equal the total shown. Holdings with multiple share classes may be combined.

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[2] (net/gross)
Class I[3]	6.51	-5.28	-9.04	7.86	4.34	11.33	10.50	0.67/0.67
Russell Midcap Index[4,5]	13.83	15.30	21.63	16.51	8.50	12.00	–	–
Morningstar category average	17.39	12.72	16.06	14.29	4.30	12.12	–	–

Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall
Category and number of funds in category: Mid Cap Growth	483	478	459	441	377	459
Class I percentile rankings[6]	–	97	78	47	61	–
Class I ratings[7]	–	–	★★	★★★	★★★	★★★

Calendar year returns (%)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Class I[3]	10.25	25.32	-6.69	42.91	18.26	25.32	-23.18	25.87	19.98	1.56
Russell Midcap Index[4,5]	13.80	18.52	-9.06	30.54	17.10	22.58	-17.32	17.23	15.34	10.60
Morningstar category average	6.03	23.91	-6.65	32.52	39.26	13.05	-27.79	21.37	16.47	7.67

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] Class I shares were first sold on 03/01/2001. Returns for I shares prior to inception dates, including since inception performance, are based on performance of the R3 Class shares adjusted to reflect the fees and expenses of respective share classes. Class R3 shares were first sold on 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] Performance assumes reinvestment of all dividends and capital gains.

[4] Russell Midcap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000® Index.

[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. 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.

Contributors/detractors were determined based on relative impact, rather than absolute contribution.

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