Principal Asset Management®

PRINCIPAL DIVERSIFIED INCOME FUND

Quarterly commentary

SECOND QUARTER 2026

Market review

Income markets rebounded in the second quarter (Q2) as geopolitical tensions eased and inflation concerns moderated, allowing most fixed income sectors to recover from the volatility experienced in the first quarter (Q1). Improving risk sentiment and stabilizing interest rate expectations supported positive returns across nearly every major segment of the fixed income market.

Emerging market debt (EMD) led performance, returning 3.42% as stabilizing Treasury yields, improving global risk sentiment, and attractive carry supported both local and hard currency debt.

High yield (HY) credit followed closely, with global HY gaining 3.50% as tighter spreads, resilient corporate fundamentals, and continued investor demand for income drove strong returns.

Broad U.S. credit markets remained resilient, with preferred securities returning 2.24% and broad global credit gaining 1.72%. Attractive all-in yields and stable credit fundamentals continued to support diversified spread sectors.

Core bonds provided steady diversification, with the Bloomberg Global Aggregate (0.87%) and Bloomberg U.S. Aggregate (0.67%) posting modest gains as rate volatility eased. Elevated yields continue to create attractive income opportunities while reinforcing the role of high-quality fixed income as a portfolio stabilizer.

Market indices	Quarterly returns (%)	1-year returns (%)
Bloomberg U.S. Aggregate Bond TR USD Index	0.67	3.79
Bloomberg Global Aggregate TR USD Index	0.87	0.62
Bloomberg Global High Yield TR USD Index	3.50	7.15
Bloomberg Global Credit TR USD Index	1.72	3.32
Bloomberg EM Aggregate TR USD Index	3.42	8.03
ICE BofA US All Captl TR USD Index	2.24	5.89
Morningstar LSTA US LL 100 TR USD Index	1.20	4.34

As of June 30, 2026. Source: Morningstar. Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

TICKER:

Class I: PGDIX
Class A: PGBAX
Class C: PGDCX
Class R6: PGBLX

Portfolio commentary

For the quarter ending June 30, 2026, the Principal Diversified Income Fund (I-shares) returned 1.87%, outperforming its benchmark, the Diversified Income Blended Index (Linked), which returned 0.67%.

What helped?

- EMD was the largest positive contributor to relative results. The asset class benefited from a supportive carry backdrop, resilient emerging market (EM) fundamentals, and meaningful dispersion across countries and currencies. Principal Finisterre (Finisterre) added value through active country, rates, and foreign exchange positioning, allowing the sleeve to participate in the broader strength in EMD while also contributing through security selection.
- HY exposure was also helpful from an asset-allocation perspective. In a quarter when below-investment-grade (IG) credit outperformed core bonds, the Fund's allocation to HY provided a positive macro tailwind. Floating-rate debt added modestly as well, supported by attractive carry and limited duration sensitivity in a rate environment that remained choppy.
- IG credit also helped. Credit risk was rewarded during the quarter as spreads tightened, and the Fund's exposure to preferred securities (preferreds) and U.S. IG credit added value. Preferred securities benefited from the market's continued demand for higher-quality income, while U.S. IG credit contributed as corporate fundamentals and carry remained supportive.

What hurt?

- The main offset was HY manager selection. Although the broad HY market performed well, the Fund did not fully capture that beta because issuer-specific weakness within the HY sleeve weighed on results. This was the primary reason the positive allocation effect from HY was partially offset despite a constructive backdrop for spread sectors.
- Polen Capital Credit, LLC (Polen) was the largest detractor. Its performance continued to be driven by idiosyncratic credit issues rather than broad market beta, and some of Polen's concentrated positions did not participate in the broader HY rally. Post Advisory Group, LLC (Post) also detracted, though to a lesser extent, as its positioning lagged the HY benchmark during the quarter.
- Securitized exposure was mixed. Broader securitized credit remained supported by carry, but agency mortgage-backed securities (AMBS) faced headwinds from rate volatility, which limited the contribution from that part of the portfolio. Asset-backed securities (ABS) and commercial mortgage-backed securities (CMBS) were generally more resilient than agency mortgage-backed securities (MBS) during the period, consistent with the mixed results across securitized sectors.

What's next?

- Looking ahead, our focus remains on balancing risks and opportunities across the broader credit spectrum as market conditions evolve. All-in yields continue to offer attractive income potential but spread valuations across certain areas appear more fully priced, increasing the importance of thoughtful diversification and disciplined risk budgeting.

Allocation update

	Q2 2026 (%)	Q1 2026 (%)
Investment-grade credit	**22.2**	**23.9**
Global investment-grade credit	**6.0**	**6.6**
BlackRock Financial Management, Inc.	6.0	6.6
U.S. investment-grade credit	**16.2**	**17.3**
PineBridge Investments LLC	16.2	17.3
Securitized	**12.9**	**12.2**
Agency mortgage-backed securities	**7.9**	**7.5**
Principal Fixed Income	7.9	7.5
Opportunistic securitized	**4.9**	**4.7**
Grantham, Mayo, Van Otterloo & Co. LLC	4.9	4.7
High yield	**34.0**	**34.9**
Polen Capital Credit, LLC	14.0	13.6
Post Advisory Group, LLC	19.9	21.3
Floating rate debt	**3.6**	**3.4**
Nuveen Asset Management, LLC	3.6	3.4
Preferred and capital securities	**9.4**	**9.3**
Spectrum Asset Management, Inc.	9.4	9.3
Emerging market debt	**14.3**	**13.9**
Principal Finisterre	14.3	13.9
Liquidity	**1.6**	**0.5**
Principal Asset Allocation	1.6	0.5
Tactical asset allocation	**1.9**	**1.8**
Principal Asset Allocation	1.9	1.8

As of June 30, 2026. May not reflect current allocation or investment managers. Percentages may not add up to 100% due to rounding. A Tactical asset allocation sleeve was added in 2023 (at times, there may not be any tactical views reflected through this sleeve, so allocations may be zero).

PRINCIPAL DIVERSIFIED INCOME FUND as of June 30, 2026

Performance, rankings, & ratings

	Average annual total returns (%)									Yields (%)	
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception (12/15/2008)	Expense ratio (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution
Class I	1.87	0.31	2.89	5.87	2.25	3.94	7.28	0.73/0.82	02/28/2027	5.74/5.86	6.35
DI Blended Index (Linked)	0.67	0.62	3.79	4.16	0.10	2.74	–	–	–	–	–
Morningstar category average	1.90	1.65	5.31	6.86	2.75	3.77	–	–	–	–	–

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: Multisector Bond	387	382	368	347	311	228	347
Class I percentile rankings	–	–	96	82	65	44	–
Class I ratings	–	–	–	★★	★★★	★★★	★★★

Calendar year returns (%)	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Class I	9.62	10.23	-5.39	13.77	1.87	8.66	-11.20	8.52	5.44	6.49
DI Blended Index (Linked)	10.25	12.24	-5.70	9.84	7.58	0.26	-12.92	5.53	1.25	7.30
Morningstar category average	7.52	6.07	-1.52	9.80	4.84	2.49	-9.85	8.13	5.96	7.75

Morningstar percentile rankings are based on total returns. Morningstar rankings 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 www.PrincipalAM.com.

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 advisor may mutually agree to terminate the expense limits prior to the end of the period. Returns displayed are based on net total investment expense.

Performance assumes reinvestment of all dividends and capital gains.

DI Blended Index (Linked) benchmark description: March 1, 2022 and after, 100% Bloomberg U.S. Aggregate Bond Index (covers the U.S. investment-grade fixed rate bond market and represents securities that are domestic, taxable, and dollar denominated), for the period prior to March 1, 2022, 80% Bloomberg Global Aggregate Index (a broad-based measure of global investment-grade fixed income) and 20% MSCI World Value Index NTR (includes large- and mid-cap securities across developed markets that exhibit overall value style), and for the period prior to January 1, 2019, 40% Bloomberg Global Credit Index (represents global investment-grade, fixed-rate, taxable corporate and government-related bonds), 30% Bloomberg Global High Yield Index (represents the global high yield bond market), and 30% MSCI ACWI Value Index NTR (a market cap weighted index that is a broad measure of global equity markets).

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

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

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.

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.

Bloomberg U.S. Aggregate Bond TR USD Index: The index is the most widely followed broad market U.S. bond index. It measures the investment-grade, U.S. dollar-denominated, fixed-rate taxable bond market.

Bloomberg Global Aggregate TR USD Index: The index measures global investment-grade debt from 24 local currency markets. This multi-currency benchmark includes treasury, government-related, corporate, and securitized fixed-rate bonds from both developed and emerging markets issuers.

Bloomberg Global High Yield TR USD Index: The index is a multi-currency flagship measure of the global high yield debt market. The index represents the union of the U.S. High Yield, the Pan-European High Yield, and Emerging Markets Hard Currency High Yield indices. The high yield and emerging markets sub-components are mutually exclusive.

Bloomberg Global Credit TR USD Index: The index measures the credit sector of the global investment-grade fixed-rate bond market, including corporate, government, and agency securities.

Bloomberg Emerging Markets Aggregate TR USD Index: The index is a flagship hard currency emerging market debt benchmark that includes fixed- and floating-rate U.S. dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate emerging markets issuers.

ICE BofA US All Captl TR USD Index: The index represents investment-grade and below- investment-grade instruments in both the retail $25 par market and the institutional $1,000 par market.

Morningstar LSTA US LL 100 TR USD Index: The index measures the performance of the 100 largest facilities in the U.S. leveraged loan market. Index constituents are market-value weighted, subject to a single loan facility weight cap of 2%.

Not authorized for distribution unless preceded or accompanied by a current prospectus, or a summary prospectus if available, that includes information about the fund's objectives, risks, charges, and expenses. Please read it carefully before investing.

Commentary reflects the opinions of Principal Global Investors, 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.

Past performance is no guarantee of future results and should not be relied upon to make an investment decision. Investing involves risk, including possible loss of principal.

Asset allocation and diversification do not ensure a profit or protect against a loss.

Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. Lower-rated securities are subject to additional credit and default risks, as are mortgage-backed securities, which carry pre-payment risk and increased risk due to real estate exposure. Risks of preferred securities differ from risks inherent in other investments. In particular, in a bankruptcy preferred securities are senior to common stock but subordinate to other corporate debt. International investing involves greater risks such as currency fluctuations, political/social instability, and differing accounting standards. These risks are magnified in emerging markets, which have increased liquidity risk. Floating rate debt instruments are subject to credit risk, interest rate risk, and impaired collateral risk, which means that the value of the collateral used to secure a loan held by the fund could decline over the course of the loan. Private credit involves an investment in non-publicly traded securities which are subject to illiquidity risk. Portfolios that invest in private credit may be leveraged and may engage in speculative investment practices that increase the risk of investment loss. Investing in derivatives entails specific risks relating to liquidity, leverage, and credit, which may reduce returns and/or increase volatility. Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

Liquidity allocation may not be held as cash and may be invested on a short- term basis in ETFs that represent asset classes in the Fund, seeking to align with the target weights in the Fund's index.

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.

Principal Asset Allocation, Principal Fixed Income, and Principal Finisterre are investment teams within Principal Global Investors.

Post Advisory Group, LLC and Spectrum Asset Management, Inc. are affiliates of Principal Global Investors.

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