

PRINCIPAL DIVERSIFIED INCOME FUND

Quarterly commentary

FIRST QUARTER 2025

Market review

The **global economy confronts upheaval as the U.S. looks to restructure international trade**. U.S. import tariffs have weakened the U.S. economy, while global economies sought to shore up their foundations to withstand the crosscurrents. Uncertainty is extraordinarily elevated and unlikely to clear immediately.

U.S. recession odds have spiked. Growth boosting policy measures are required to avoid recession. The economy is being hit from multiple directions as consumers and businesses confront rising price pressures from import tariffs and labor market cracks.

The **Federal Reserve (Fed) is biased to easy policy**, but inflation fears will constrain the number of cuts. Once the Fed has policy clarity, it will be able to focus on labor market concerns and resume rate cutting. Yet, inflation fears imply a shallow cutting cycle.

Fixed income is helping to weather the economic slowdown and market pullback. Treasury yields may fall and remain below 4% as recession fears persist. Credit spreads have widened to their approximate historical norms, and quality credit is performing its traditional role as a ballast in investment portfolios.

Interest rate risk outpaced credit rate risk during the quarter. The U.S. aggregate and global aggregate indices outperformed other fixed income due to falling rates. Although bonds started the year with a sizeable selloff, government spending cuts, tariff announcements, and recession fears prompted yields to rapidly reverse course in late January.

Although they delivered positive returns, **credit-sensitive asset classes lagged** given their shorter durations and widening credit spreads due to slowdown concerns. The deteriorating economic backdrop and rising trade frictions have led credit spreads to widen from their historic tights to more typical levels.

Market indices	Quarterly returns (%)	1-year returns (%)
Bloomberg U.S. Aggregate Bond TR USD Index	2.78	4.88
Bloomberg Global Aggregate TR USD Index	2.64	3.05
Bloomberg Global High Yield TR USD Index	1.85	8.89
Bloomberg Global Credit TR USD Index	2.69	5.07
Bloomberg EM Aggregate TR USD Index	2.34	7.43
ICE BofA US All Captl TR USD Index	0.58	5.46
Morningstar LSTA US LL 100 TR USD Index	0.45	7.06

As of March 31, 2025. 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 ended March 31, 2025, the Principal Diversified Income Fund (I-shares) returned 1.71%, underperforming its benchmark, the Diversified Income Blended Index (Linked), which returned 2.78%.

What helped?

- Manager selection within the investment-grade (IG) segment contributed positively to performance, with all five active managers outperforming their respective benchmarks. This outperformance was largely driven by strong security selection and sector positioning. Notably, Spectrum Asset Management, Inc. (Spectrum), which oversees the Fund's preferred securities exposure, delivered the strongest relative performance. Their overweight to \$1,000 par securities and underweight to the more volatile \$25 par securities—which tend to be more sensitive to retail investor behavior, proved beneficial during a period of increased market volatility.
- The Fund's allocation to agency mortgage-backed securities (AMBS), managed by Principal's Fixed Income team, generated the highest absolute return, exceeding 3% for the quarter. These securities benefited from a favorable interest rate environment, with declining yields supporting performance. With a six-year duration profile, mortgage-backed securities (MBS) typically delivers strong relative returns in periods of falling rates, making this allocation a key contributor.
- Within the Fund's opportunistic allocation, the team's tactical exposure to ultra-long bond futures was a positive contributor as long end interest rates trended lower over the quarter. The decline in interest rates was driven by a combination of slowing global growth concerns, rising geopolitical tensions, and favorable inflationary trends all impacting the Fed rate cut market expectations.

What hurt?

- The Fund's allocation to high yield (HY) credit was the largest relative detractor during the quarter, despite generating positive absolute returns. HY underperformed the Bloomberg U.S. Aggregate Bond Index as credit spreads widened, reflecting investor caution amid a more uncertain economic backdrop.
- Preferred securities detracted from a style perspective, as they were the weakest-performing asset class within the IG allocation. Due to their hybrid nature, preferreds were negatively impacted by their equity-like characteristics, particularly as investor sentiment deteriorated during the quarter in response to increased policy uncertainty and the potential impact of forthcoming tariff announcements.
- The Fund's allocation to U.S. IG credit, managed by PineBridge Investments LLC (PineBridge), also modestly detracted on a style basis. While the asset class posted positive absolute returns, supported by its long duration profile amid declining rates, it lagged securitized assets like MBS, which were more sensitive to interest rate movements and thus delivered stronger returns.

What's next?

- The portfolio management team remains focused on monitoring trade policy developments and their potential implications for global growth and financial markets. In an environment characterized by rapid change and heightened uncertainty, active management remains critical. The Fund is positioned to take advantage of evolving opportunities across global credit markets while continuing to deliver attractive yield and diversification through a well-balanced fixed income strategy.

Allocation update

	Q1 2025 (%)	Q4 2024 (%)
Investment-grade credit	25.6	25.2
Global investment-grade credit	6.3	6.1
BlackRock Financial Management, Inc.	6.3	6.1
U.S. investment-grade credit	19.3	19.1
PineBridge Investments LLC	19.3	19.1
Securitized	12.6	12.1
Agency mortgage-backed securities	7.8	7.5
Principal Fixed Income	7.8	7.5
Opportunistic securitized	4.8	4.6
Grantham, Mayo, Van Otterloo & Co. LLC	4.8	4.6
High yield	34.8	35.1
Polen Capital Credit, LLC	15.2	15.2
Post Advisory Group, LLC	19.6	19.9
Floating rate debt	5.2	5.4
Nuveen Asset Management, LLC	5.2	5.4
Preferred and capital securities	7.7	7.7
Spectrum Asset Management, Inc.	7.7	7.7
Emerging market debt	9.1	9.1
Principal Finisterre	9.1	9.1
Private credit	2.0	2.3
Cliffwater Enhanced Lending Fund	1.7	1.7
Variant Alternative Income Fund	0.6	0.6
Liquidity	1.5	1.2
Principal Asset Allocation	1.5	1.2
Tactical asset allocation	1.5	2.0
Principal Asset Allocation	1.5	2.0

As of March 31, 2025. 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 the second quarter of 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 March 31, 2025

Performance, rankings, & ratings

Average annual total returns (%)									Yields (%)	
	3-month	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	1.71	5.75	2.63	6.62	3.64	7.54	0.73/0.81	02/28/2026	5.99/6.08	6.23
DI Blended Index (Linked)	2.78	4.88	0.52	1.89	2.43	–	–	–	–	–
Morningstar category average	1.82	6.36	3.20	4.86	3.18	–	–	–	–	–
Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall				
Category and number of funds in category: Multisector Bond	380	369	340	284	198	340				
Class I percentile rankings	–	68	70	10	25	–				
Class I ratings	–	–	★★	★★★★	★★★	★★★				
Calendar year returns (%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Class I	-2.23	9.62	10.23	-5.39	13.77	1.87	8.66	-11.20	8.52	5.44
DI Blended Index (Linked)	-3.94	10.25	12.24	-5.70	9.84	7.58	0.26	-12.92	5.53	1.25
Morningstar category average	-2.18	7.52	6.07	-1.52	9.80	4.84	2.49	-9.85	8.13	5.96

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.

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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 EM 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.

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.

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