Principal Asset Management℠

PRINCIPAL GLOBAL REAL ESTATE SECURITIES FUND

Quarterly commentary

THIRD QUARTER 2024

TICKER:

Class I: POSIX
Class A: POSAX
Class R6: PGRSX

Market review

Global real estate investment trusts (REITs) (FTSE EPRA NAREIT Developed +16.1%) staged a comeback in the third quarter, strongly outperforming both broader equities (MSCI World +6.5%) and fixed income (BARCAP Global Aggregate +1.7%). This has come amidst growing signs of economic deceleration around the world, moderating inflation, and the start of rate cuts from many developed market central banks, including the United States Federal Reserve (Fed). Indeed, Fed rhetoric suggests that it has now shifted its focus away from inflation to the employment side of its dual mandate. This increasingly dovish skew from global central banks helped equity markets shrug off the volatility in August triggered by the Bank of Japan (BoJ) rate hike—the BoJ is the sole G7 central bank shifting to a tightening bias.

Europe was the best performing region. Weaker economic data and the raft of rate cuts from European central banks spurred a rally in rate sensitive REITs with the more highly leveraged Continental European bond proxies in Germany, France, and the Nordics leading. The United Kingdom fell behind as the market anticipates a slower pace of rate cuts here on stickier inflation. The Americas was the laggard amidst currency headwinds as the advent of rate cuts and prospect of more to come pressured the U.S. dollar. Cyclical office stocks in both the U.S. and Canada were amongst the best performers together with U.S. self-storage as the market anticipates falling rates will drive an uptick in home purchases. Residential stocks lagged, with single-family the weakest as the prospect of more rate cuts improves affordability to purchase homes as opposed to renting. Asia was supported by strong rallies in Hong Kong and Singapore --both regions with more exposure to China and hence direct beneficiaries of the China stimulus announced toward quarter end. Japan was the weakest performer, dragged by Japanese developers, which took a first hit following the BoJ's rate hike and a second on concern that incoming Premier Shigeru Ishiba would push for more aggressive rate hikes.

Portfolio performance

The portfolio lagged the index on a gross basis due to negative allocation and selection, in particular, the overweight to U.S. single-family and underweight to U.S. self-storage. Self-storage outperformed as the market anticipates falling rates will drive an uptick in home purchases. Meanwhile single-family lagged as the prospect of more rate cuts improves affordability to purchase homes as opposed to renting. The underweight to a U.S. company in process of pivoting its business towards data centers also hurt. Contribution came from the overweight to U.S. health care where senior housing operators continue to benefit from occupancy improvement tailwinds.

Strategy and outlook

REITS staged a comeback in 3Q, strongly outperforming both broader equities and fixed income. This has come amidst growing signs of economic deceleration around the world, moderating inflation, and the start of rate cuts from many developed market central banks, including the U.S. Fed. Indeed, Fed rhetoric suggests that it has now shifted its focus away from inflation to the employment side of its dual mandate.

We continue to believe that the defensive REIT sector offers an attractive investment opportunity with valuations looking very cheap both when measured against public equities and private real estate. Heightened geopolitical risk amidst rising tensions in the Middle East and uncertainty as we approach the U.S. elections could also drive investors to seek shelter in the relative stability of REITs, given their better cashflow visibility.

While the jury is still out on whether the U.S. will see a soft landing or recession, some sort of “landing” now appears likely given the recent economic and inflation data. A soft-landing should provide the best possible outcome of positive absolute and relative returns for REITs. Rate cuts drive expectations of lower borrowing costs and discount rates which inordinately benefit capital intensive asset classes; meanwhile improving growth helps bolster the topline. Admittedly a recession may mean negative absolute returns for both broader equities and REITs; however, REITs have historically tended to be relatively defensive during such periods. Historical evidence suggests that REITs have delivered strong positive returns in the 12 months after real yields peaked.

Contributors

Ventas, Inc. - An overweight to this health care REIT contributed to performance as a result of better than expected 2Q report, update, and better than expected outcome with a lease which served as a clearing event.

Stockland Australia - An overweight to this diversified REIT contributed as it outperformed on the back of expected lower interest rates which will be supportive of a residential cycle recovery.

Host Hotels & Resorts, Inc. - An underweight to this hotel REIT contributed to performance. 2Q earnings came in mixed with operations weaker than expected, leisure trends and Maui disappointing versus expectations, and a guidance cut.

Detractors

Public Storage - An underweight to this storage REIT detracted from performance. The stock outperformed on the back of lower interest rates and hopes this would lead to a pickup in housing transactions/storage demand.

Invitation Homes, Inc. - An overweight to this single-family REIT detracted from performance. The stock was negatively impacted by fear that lower mortgage rates may move out renters for home purchasing and higher exposure to selected markets under peaking built for rent new supply.

Iron Mountain Incorporated - An underweight from this diversified information management REIT detracted from performance. The company reported a strong 2Q, better than expected business update, and a dividend hike. Sell side commentary on the stock continues to be positive with positive management/investor meetings.

PRINCIPAL GLOBAL REAL ESTATE SECURITIES FUND as of September 30, 2024

Top 10 holdings

	% of net assets
Equinix, Inc.	5.6
Welltower Inc.	5.4
Prologis, Inc.	4.7
Ventas, Inc.	4.1
Extra Space Storage Inc.	4.0
AvalonBay Communities, Inc.	3.7
Goodman Group	3.4
VICI Properties Inc.	2.8
Invitation Homes, Inc.	2.6
Vonovia SE	2.4
Total	**38.8**

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.

Performance, rankings, & ratings

Average annual total returns (%)									
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception (10/01/2007)	Expense ratio (net/gross)[1]	Expense limit expiration date
Class I[2),(3),(4]	14.97	11.63	29.30	-0.23	2.00	5.12	3.93	0.94/1.01	02/28/2025
FTSE EPRA/NAREIT Developed Index NR	16.07	11.77	28.86	0.39	1.39	4.06	–	–	–
Morningstar category average	15.57	11.55	28.32	0.08	2.13	4.32	–	–	–

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: Global Real Estate	187	187	187	179	172	118	179
Class I percentile rankings[5]	–	–	44	65	54	33	–
Class I ratings[6]	–	–	–	★★★	★★★	★★★★	★★★★

Calendar year returns (%)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class I	16.27	1.52	0.45	14.73	-3.33	24.50	-3.90	23.44	-26.73	10.85
FTSE EPRA/NAREIT Developed Index NR	15.02	-0.79	4.06	10.36	-5.63	21.91	-9.04	26.09	-25.09	9.67
Morningstar category average	11.67	-0.92	1.97	15.12	-7.11	23.45	-5.43	22.90	-25.15	10.24

Morningstar percentile rankings are based on total returns. Morningstar ratings are based on risk-adjusted returns.

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

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 principalfunds.com.

(1) 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.

(2) 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. Performance assumes reinvestment of all dividends and capital gains.

(3) International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

(4) Real Estate investment options are subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Property values can decline due to environmental and other reasons. In addition, fluctuation in interest rates can negatively impact the performance of real estate investment options.

(5) 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.

(6) The Morningstar RatingTM 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.

Glossary of Indices

The FTSE EPRA/NAREIT Global Real Estate Index Series is designed to represent general trends in eligible listed real estate stocks worldwide. The index series is designed to reflect the stock performance of companies engaged in specific aspects of the major real estate markets/regions of the world.

The MSCI World Index is a broad global equity index that represents large and mid-cap equity performance across all 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country.

Principal Asset Management℠

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Carefully consider a fund's objectives, risks, charges, and expenses. Contact your financial professional or visit www.PrincipalAM.com for a prospectus, or summary prospectus if available, containing this and other information. Please read it carefully before investing.

Investing involves risk, including possible loss of principal.

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