Principal Asset Management℠

PRINCIPAL GLOBAL REAL ESTATE SECURITIES FUND

Quarterly commentary

FIRST QUARTER 2025

TICKER:

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

Market review

Tariff uncertainty has driven a rotation into defensives, driving a comeback for global real estate investment trusts (REITs) (FTSE EPRA NAREIT Developed +1.6%) against broader equities (MSCI World -1.7%). The potential stagflationary implications of tariffs have weighed on United States consumer sentiment and manufacturing activity driving a 36-basis points pullback in U.S. 10-year bond yields. With neither a Federal Reserve (Fed) put nor a Trump put forthcoming, fixed income (Barclays Global Aggregate +2.6%) was the clear outperformer. Currency was a meaningful driver of returns with the U.S. dollar index (DXY) depreciating 4% over the quarter.

Consistent with the trends in the broader global equity universe, the Americas was the laggard as concerns over how the first phase of Trump policies (cost cutting and tariffs) would impact growth called into question the theme of U.S. exceptionalism, driving fund flows away from the U.S. Within the Americas, defensive sectors such as health care, net lease, and towers led whilst cyclical property types such as office and hospitality trailed. Data centers were also under pressure in line with the de-rating of the Magnificent 7. Asia was the best performer, lifted by the performance of Japanese developers which benefitted from news of an activist investor taking a position in one of the developers. Hong Kong also fared well, lifted by China's "Deep Seek moment" and the Chinese Communist Party's re-embracing of tech entrepreneurship. Australia lagged, weighed down by a mega fundraising by an industrial stock and the ongoing weakness in data center exposed stocks. Europe also saw strength in property stocks with cyclical sectors such as retail leading on the back of the push to increase defense and infrastructure spending, particularly Germany's 500 billion Euro investment plan. Bond proxies such as German residential lagged as Eurozone yield curves steepened on the prospects of fiscal stimulus.

Portfolio performance

The portfolio outperformed the index on a gross basis due to strong U.S. stock selection, offset by poor selection in Asia. Within the U.S., the tilt toward defensive structural growth sectors such as health care and towers paid off whilst the underweight to data center exposed themes and cyclical retail also contributed. Detraction came principally from Australia where the portfolio was overweight stocks exposed to technology/data centers, which suffered from a large equity fund raise conducted by one of the companies for expansion purposes.

Strategy and outlook

The macroeconomic and political landscape is shifting towards a more uncertain and potentially bearish outlook to start 2025. Rising geopolitical tensions, trade war fears, and concerns about slowing economic growth are increasing volatility across financial markets. The Trump administration's recent sweeping tariff announcement is likely to depress growth whilst stoking inflation. Bond markets have voted with their feet with long bond yields tumbling and yield curves flattening, suggesting the market is more concerned over the negative growth implications of tariffs than the one-off impact on inflation. Clearly, the risks of a marked economic slowdown, if not recession, have risen.

Whilst the Fed is for now more concerned about sticky inflation, it also has to juggle its dual mandate of maintaining employment. Given the view that tariffs have a transitory impact on inflation, the Fed is likely to respond to weakness in the labor market with rate cuts, vindicated by longer term market driven measures of inflation expectations which remain anchored. This biases real interest rates downwards and should continue to be supportive for defensive asset classes like REITs, which have outperformed year-to-date. We continue to believe that the defensive REIT sector offers an attractive investment opportunity with valuations looking very cheap when measured against public equities. REITs are also relatively insulated from any direct impact on tariffs and any potential de-risking away from America. With steady fundamentals and durable cash flows, they provide a compelling way to diversify risk in portfolios today, but a prolonged stagflationary environment poses a risk.

Our portfolio strategy will continue to emphasize bottom-up stock selection and company fundamentals to drive excess returns. With a preference for quality and overweights to key positions that offer resilient long-term growth in earnings, we expect the portfolio to be positioned well for economic weakness and lower yields ahead. If markets pivot back to risk-on, then we could expect some headwinds to relative performance.

Contributors

Ventas, Inc. - An overweight to this U.S. health care REIT contributed to performance following a better-than-expected earnings update that showcased strong operating portfolio performance and continued momentum in external investment activity.

Iron Mountain Incorporated - An underweight in this U.S. storage and information management REIT hurt performance as earnings fell short of high expectations. Stock performance was further impacted by concerns over hyperscale data center demand following the release of open-source artificial intelligence (AI) models and reports of a major technology company pulling back on data center leases and slowing leasing activity.

Welltower Inc. - An overweight in this U.S. health care REIT boosted performance due to strong results with strong operating portfolio performance, and ongoing momentum in external investments, highlighted by a large acquisition announcement.

Detractors

Goodman Group - An overweight to this Australian industrial stock detracted as news of a lower cost open-source AI model caused concerns around future data center demand. The stock was also weighed down during the quarter by a surprise equity raising (~6% market cap).

Equinix, Inc. - An overweight to this U.S. data center REIT detracted from our performance as the data center group remained pressured by the release of open-source AI news and reports that a major technology company is scaling back its leasing activity.

Realty Income Corporation - An underweight to this U.S. net lease REIT detracted from performance. As a bellwether of a defensive sector, the stock benefited from the concern of overall economy uncertainty.

Top 10 holdings

	% of net assets
Welltower Inc.	6.9
Equinix, Inc.	5.7
Prologis, Inc.	4.4
Ventas, Inc.	4.2
AvalonBay Communities, Inc.	3.7
Extra Space Storage Inc.	3.5
Goodman Group	3.1
VICI Properties Inc.	2.9
Invitation Homes, Inc.	2.8
American Homes 4 Rent	2.5
Total	**40.0**

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	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)]	1.97	4.48	-4.14	5.88	2.90	3.32	0.95/1.01	02/28/2026
FTSE EPRA/NAREIT Developed Index NR	1.59	3.90	-4.28	6.22	1.99	–	–	–
Morningstar category average	1.66	2.77	-4.22	5.86	2.42	–	–	–

Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall
Category and number of funds in category: Global Real Estate	168	168	165	161	123	165
Class I percentile rankings[(5)]	–	38	54	55	41	–
Class I ratings[(6)]	–	–	★★★	★★★	★★★	★★★

Calendar year returns (%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Class I	1.52	0.45	14.73	-3.33	24.50	-3.90	23.44	-26.73	10.85	0.69
FTSE EPRA/NAREIT Developed Index NR	-0.79	4.06	10.36	-5.63	21.91	-9.04	26.09	-25.09	9.67	0.94
Morningstar category average	-0.92	1.97	15.12	-7.11	23.45	-5.43	22.90	-25.15	10.24	0.23

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 www.PrincipalAM.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 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. ©2025 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.

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.

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