PRINCIPAL SHORT-TERM INCOME FUND

Quarterly commentary

FIRST QUARTER 2025

TICKER:

Class I: PSHIX
Class A: SRHQX
Class C: STCCX

Market review and outlook

The U.S. economy entered 2025 with stable momentum, but the market grew increasingly concerned with prospects of a potential recession and stubborn inflation due to tariffs, a stock market correction, and softening economic data. Consumption, which accounts for almost 70% of the economy, continued to drive economic growth but showed signs of slowing in the first quarter as both consumer spending and confidence declined. While inflation remains below its cycle peak, recent progress has stalled with core PCE rising back to 2.8% year-over-year in February after reaching 2.6% in June. Moreover, uncertainty surrounding the scope and duration of tariffs, immigration policies, and the impact of the Department of Government Efficiency (DOGE) on the federal workforce continues to weigh on both consumer and business sentiment, adding risks to the economy and financial markets.

After cutting interest rates by 100 basis points in 2024, the Federal Reserve (Fed) maintained the federal funds rate within a range of 4.25% to 4.50% due to stalled progress on inflation and fiscal policy uncertainty. The Fed also kept its expectations for future rate cuts unchanged as outlined by its Summary of Economic Projections (SEP), with the median member still forecasting two rate cuts in 2025 and 2026, and one in 2027. While the Fed aims to continue easing policy toward a neutral stance, the pace of rate cuts is dependent on the trajectory of incoming economic data.

The unemployment rate stabilized near 4% for most of 2024. At 4.1% in February, it sits above its cycle low of 3.4% set in April 2023 but is still lower than it has been for most of the past 50 years. After falling sharply during the pandemic, U.S. labor supply staged an impressive recovery, partly due to increased immigration. This increase in immigrant workers allowed employers to fill job openings without putting upward pressure on wages. However, restrictive immigration policies could hinder labor force growth, potentially driving higher inflationary pressures through increased wages and slower economic growth.

During the first quarter, U.S. Treasury yields experienced a significant rally, primarily driven by concerns over impending tariffs and its potential impact on economic growth. The two-year yield declined 0.36% to 3.88%, the five-year yield fell 0.43% to 3.95%, and the ten-year yield dropped 0.36% to 4.21%. Meanwhile, the thirty-year yield declined 0.21% to 4.57%.

Risk assets came under pressure during the quarter due to elevated interest rate volatility and an uncertain economic outlook. The Bloomberg U.S. Aggregate Index, a proxy for the overall fixed-income market, underperformed similar-duration U.S. Treasury securities, posting an excess return of -0.23%. Mortgage-backed securities (MBS) and commercial mortgage-backed securities (CMBS) also underperformed similar-duration U.S. Treasury securities, but outperformed the Bloomberg U.S. Aggregate Index, with each sector having an excess return of -0.07%. Asset-backed securities (ABS), emerging market debt, investment-grade corporate bonds, and below investment-grade corporate bonds all underperformed similar-duration U.S. Treasury securities, with excess returns of -0.29%, -0.63%, -0.85%, and -1.13%, respectively.

All data sourced to Bloomberg, unless footnoted.

Commentary reflects the opinions of Principal Asset Management, 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.

Strategy review

FIRST QUARTER 2025

The Short-Term Income (I) underperformed the Bloomberg Credit 1-3 Years Index benchmark by -0.03% during the quarter driven by sector allocation and issuer selection. Changes in the yield curve throughout the quarter had a positive impact on performance.

Key positive contributors include:

- Underweight position in Consumer Cyclical
- Overweight position in Student Loans
- Underweight position in Consumer Non-Cyclical
- Underweight position in REITs
- Underweight position in Technology

Key negative detractors include:

- Overweight position in Auto Backed
- Overweight position in Other Asset-Backed
- Overweight position in Non-Agency CMBS
- Overweight position in whole loan commercial obligation (CMO)
- Underweight position in Banking

TRAILING YEAR AS OF 03/31/2025

The Short-Term Income Fund (I) underperformed the benchmark by -0.36 over the last 12 months driven by sector allocation and issue selection.

Key positive contributors include:

- Issuer selection in Banking
- Overweight position in Whole Loan Commercial Obligation (CMO)
- Overweight position in Student Loans
- Underweight position in Supranational
- Overweight position in Non-Agency CMBS

Key negative detractors include:

- Overweight position in Auto Backed
- Overweight position in Treasurys
- Underweight position in Banking
- Issuer selection in Transportation
- Underweight position in Finance Companies

PRINCIPAL SHORT-TERM INCOME FUND as of March 31, 2025

Top 10 holdings[1]

	% of net assets
United States Treasury Note/Bond	4.1
United States Treasury Note/Bond	3.3
United States Treasury Note/Bond	2.2
CF Hippolyta Issuer LLC	0.9
United States Treasury Note/Bond	0.8
HCA Inc	0.6
Bank of America Corp	0.6
Oaktree CLO 2019-4 Ltd	0.6
JPMorgan Chase & Co	0.6
Vistra Operations Co LLC	0.6
Total	**14.3**

Performance, rankings, and ratings

	Average annual total returns (%)								Yields (%)[2]	
	3-month	1-year	3-year	5-year	10-year	Since inception[3] (07/25/1996)	Expense ratio[4] (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution
Class I[5]	1.61	5.70	3.74	2.49	2.23	–	0.40/0.40	–	4.07/4.07	3.77
Bloomberg Credit 1-3 Years Index[6][7]	1.64	6.06	3.66	2.52	2.24	–	–	–	–	–
Morningstar category average	1.68	5.91	3.41	2.70	2.07	–	–	–	–	–

Morningstar rankings and ratings						
	3-month	1-year	3-year	5-year	10-year	Overall
Category and number of funds in category: Short-Term Bond	564	558	529	485	365	529
Class I percentile rankings[8]	–	66	28	57	35	–
Class I ratings[9]	–	–	★★★★	★★★	★★★	★★★

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] 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.

[2] 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.

[3] Class I shares were first sold on 07/25/1996. Returns for Class I shares prior to 07/25/1996, including since-inception performance (if shown), are based on performance of the Class A shares adjusted to reflect the fees and expenses of Class I shares. Class A shares were first sold 11/01/1993.

[4] 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.

[5] Performance assumes reinvestment of all dividends and capital gains.

[6] Bloomberg Credit 1-3 Years Index is composed of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

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

[8] 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.

[9] 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.

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

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