

PRINCIPAL DIVERSIFIED REAL ASSET 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.

The **real asset universe outpaced nominal equities** during the quarter. Every major real asset posted positive returns for the quarter. In contrast, U.S. equities (S&P 500) and global equities (MSCI ACWI) fell during the quarter as inflation and recession concerns weighed on nominal equities.

Commodities and commodity sensitive equities (global natural resources (GNR)) were the best performing real asset during the quarter as U.S. tariff impacts were reflected in rising inflation expectations. Inventory for many commodities across industrial metals remained near multi-year low levels. Fundamentals for gold improved as global central banks diversified their reserves away from the U.S. dollar.

Global infrastructure stocks benefited from the trends toward digitalization and the accompanying boom in power consumption. **U.S. TIPS** benefited from falling rates and rising inflation expectations.

Although positive during the quarter, **real estate securities** lagged other real assets due to their sensitivity to growth concerns. A positive start to the quarter gave way to more volatility to finish the quarter. However, real estate securities held up better than broad equities due to the increase in inflation expectations.

Market indices	Quarterly returns (%)	1-year returns (%)
Bloomberg U.S. TIPS TR USD Index	4.17	6.17
Bloomberg Commodity TR USD Index	8.88	12.28
S&P Global Infrastructure NR USD Index	4.41	17.76
S&P Global Natural Resources NR USD Index	6.93	-4.45
FTSE EPRA/NAREIT Developed Markets NR USD Index	1.59	3.90
S&P 500 TR USD Index	-4.27	8.25
MSCI All Country World NR USD Index (ACWI)	-1.32	7.15
Bloomberg U.S. Aggregate Bond TR USD Index	2.78	4.88
Bloomberg Global Aggregate TR USD Index	2.64	3.05

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: PDRDX
 Class A: PRDAX
 Class R6: PDARX

Portfolio commentary

The Principal Diversified Real Asset Fund (I-shares) returned 3.23% for the quarter ending March 31, 2025, underperforming the Diversified Real Asset Index (Linked) (Strategic Index), which returned 4.73%.

What helped?

- After a tough 2024, manager selection within global listed infrastructure came back strong to boost results. ClearBridge Investments (North America) Pty Limited (ClearBridge) led the way as its more defensive, value-based posture was rewarded. ClearBridge benefited from high conviction exposures in wireless towers, European utilities, and an underweight to and strong stock selection within transportation. A dedicated allocation to gold (via SPDR Gold MiniShares Trust ETP (GLDM)) was a further benefit. The commodity enjoyed strong demand from central banks and a safe haven bid amidst growing risk aversion.
- Manager selection within REITs was also helpful. Principal Real Estate benefited most from an overweight to and favorable stock selection within healthcare REITs as well as from stock selection within retail REITs.

What hurt?

- Manager selection within GNR was a hindrance. Newton Investment Management North America LLC (Newton) was under pressure as its high conviction exposure to energy stocks fell in concert with energy commodity prices. A lack of exposure to gold miners and weak stock selection within fertilizers and agriculture were further detractors. Our tactical exposure to Global X U.S. Infrastructure Development ETF (PAVE) weighed on performance within

infrastructure. PAVE was added to the portfolio to offset the structurally defensive bias of our active managers. However, during the period, risk sentiment shifted sharply, and the defensive bias came back into favor at the expense of the more cyclical exposure in PAVE.

- Style selection within GNR was not rewarded as both climate change and timber portfolios lagged the broader asset class considerably.

What's next?

- Markets shifted to risk-off mode following the worse-than-expected reciprocal tariffs announcement. The impact remains highly uncertain, as does the direction of future policy developments. Recession risks have elevated considerably as the new quarter begins. With this backdrop, our portfolio has been shifting to a more defensive posture by adding to gold, reducing our tactical cyclical exposure within infrastructure in favor of our more defensive managers, cutting GNR and commodities, and adding to TIPS.

Allocation update

	Diversified Real Asset Index (Linked) (%)	Q1 2025 (%)	Q4 2024 (%)
Infrastructure	30	28.8	28.3
ClearBridge Investments (North America) Pty Limited		7.1	7.1
Delaware Investments Fund Advisers (Macquarie*)		15.2	15.8
iShares Global Infrastructure ETF (IGF)**		2.1	2.1
Global X U.S. Infrastructure Development ETF (PAVE)**		3.4	3.3
Global X MLP & Energy Infrastructure ETF (MLPX)**		1.0	-
Real estate investment trusts (REITs)	25	24.6	25.0
Global REITs		19.6	19.8
Principal Real Estate		19.6	19.8
U.S. REITs		4.9	5.2
Principal Asset Allocation		4.9	5.2
Commodities	15	19.1	16.7
CoreCommodity Management, LLC		7.2	4.1
Wellington Management Company LLP†		7.8	10.5
SPDR Gold MiniShares Trust ETP (GLDM)**		4.1	2.2
Natural resources	15	12.6	14.9
Climate change		0.0	2.0
Impax Asset Management Limited		0.0	2.0
Global natural resources		10.7	10.9
Newton Investment Management North America LLC		7.7	8.8
Principal Asset Allocation		3.0	2.0
Timber and forestry		2.0	2.0
Pictet Asset Management SA		2.0	2.0
Real return	15	12.8	13.4
Treasury inflation-protected securities		8.6	8.8
BlackRock Financial Management, Inc.		8.6	8.8
Floating rate debt		4.1	4.6
Nuveen Asset Management, LLC		4.1	4.6
Liquidity	-	2.2	1.7
Principal Asset Allocation		2.2	1.7

As of March 31, 2025. May not reflect current allocation or investment managers. Percentages may not add up to 100% due to rounding. *Delaware Investments Fund Advisers, a series of Macquarie Investment Management Business Trust. †Wellington Management Company LLP is a SEC-registered investment advisor and an independent and unaffiliated investment manager to Principal Funds. **A Tactical asset allocation sleeve was added in the fourth quarter of 2023. At times, there may not be any tactical views reflected through this sleeve, so allocations may be zero. Tactical asset allocations will reflect under their respective asset classes.

PRINCIPAL DIVERSIFIED REAL ASSET 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 (03/16/2010)	Expense ratio (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/subsidized)	12-month distribution
Class I	3.23	4.75	-0.83	9.33	3.17	4.17	0.85/0.90	12/30/2025	3.10/3.16	2.15
Diversified Real Asset Index (Linked)	4.73	8.42	0.39	9.51	4.14	-	-	-	-	-
Morningstar category average	2.12	5.31	3.49	9.33	4.61	-	-	-	-	-

Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall
Category and number of funds in category: Global Allocation	359	349	336	320	243	336
Class I percentile rankings	-	56	97	47	88	-
Class I ratings	-	-	★	★★★	★	★★

Calendar year returns (%)	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Class I	-12.40	5.86	10.17	-7.90	15.01	3.97	17.34	-6.16	3.24	3.08
Diversified Real Asset Index (Linked)	-11.75	12.40	10.38	-7.27	14.86	2.08	15.87	-5.12	4.31	4.21
Morningstar category average	-4.15	6.04	14.79	-8.26	16.10	6.18	11.31	-12.34	10.72	7.57

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.

Diversified Real Asset Index (Linked) benchmark description: January 1, 2022 and after, 15% Bloomberg U.S. Treasury TIPS Index (includes publicly issued U.S. Treasury inflation-protected securities that meet the index criteria), 30% S&P Global Infrastructure Index (designed to track 75 companies from around the world chosen to represent the listed infrastructure industry, covering energy, transportation, and utilities), 15% S&P Global Natural Resources Index (includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, covering three primary commodity-related sectors: agribusiness, energy, and metals & mining), 15% Bloomberg Commodity Index (a broadly diversified commodity price index), and 25% FTSE EPRA/NAREIT Developed Markets Index (designed to represent general trends in eligible real estate equities worldwide). Before January 1, 2022, 35% Bloomberg U.S. Treasury TIPS Index, 20% S&P Global Infrastructure Index, 20% S&P Global Natural Resources Index, 15% Bloomberg Commodity Index, and 10% FTSE EPRA/NAREIT Developed Markets Index.

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. TIPS TR USD Index: The index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have \$250 million or more of outstanding face value.

Bloomberg Commodity TR USD Index: The index is made up of 22 exchange-traded futures on physical commodities and currently represents 20 commodities, which are weighted to account for economic significance and market liquidity. Weighting restrictions on individual commodities and commodity groups promote diversification.

S&P Global Infrastructure NR USD Index: The index is designed to track 75 companies from around the world chosen to represent the listed infrastructure industry while maintaining liquidity and tradability. To create diversified exposure, the index includes three distinct infrastructure clusters: energy, transportation, and utilities.

S&P Global Natural Resources NR USD Index: The index includes 90 of the largest publicly traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across three primary commodity-related sectors: agribusiness, energy, and metals & mining.

FTSE EPRA/NAREIT Developed Markets NR USD Index: The index is a free-float adjusted, market capitalization-weighted index designed to track the performance of listed real estate companies in developed countries worldwide. Constituents of the index are screened on liquidity, size, and revenue.

S&P 500 TR USD Index: The index is a market-capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

MSCI All Country World NR USD Index (ACWI): The index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The ACWI consists of developed and emerging market country indices and covers approximately 85% of the global investable equity opportunity set.

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.

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.

Real assets include but not limited to precious metals, commodities, real estate, land, equipment, infrastructure, and natural resources. Each real asset is subject to its own unique investment risk and should be independently evaluated before investing. As an asset class, real assets are less developed, more illiquid, and less transparent compared to traditional asset classes.

Infrastructure companies are subject to risk factors including high interest costs, regulation costs, economic slowdown, and energy conservation policies. REITs are subject to declines in real estate values, risks to physical property, and instability/creditworthiness of management. Investment in natural resource industries and commodity related derivatives can be affected by political/economic developments, market shocks/natural disasters, and other factors. TIPS are subject to interest rate risk and may be unsuccessful at mitigating inflation.

Equity investments involve greater risk, including higher volatility, than fixed-income investments.

International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards.

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. Credit risk refers to an issuer's ability to make interest and principal payments when due.

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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