Principal Asset Allocation

Principal Asset Management[SM]

PRINCIPAL DIVERSIFIED REAL ASSET FUND

Quarterly commentary

SECOND QUARTER 2024

Market review

TICKER:

Class I: PDRDX
Class A: PRDAX
Class R6: PDARX

The U.S. economy moderated while other developed markets enjoyed cyclical upturns. Global financial conditions were marginally tighter, driven by wider credit spreads and weaker equity momentum.

Central bank cutting cycles were delayed and are expected to be slow and shallow. A first Federal Reserve (Fed) rate cut could occur in September, provided inflation and economic surprises continue to decelerate. Other central banks already eased but their next moves will align with Fed actions.

Global inflation tentatively resumed its gradual deceleration. The inflation acceleration in the first quarter (Q1) of 2024 is now waning, but a few more months of soft-landing data are required to validate inflation moderation. Without a labor market slowdown, global inflation will unlikely reach central bank targets until late 2025.

Nominal equities outperformed real assets during the quarter and the trailing 12 months. The backdrop of solid growth, positive earnings, and prospective rate cuts fueled disinflation optimism. Core equity valuations fully priced in a soft-landing scenario.

Commodities led while commodity-sensitive equities lagged during the quarter. Commodities and global natural resource (GNR) equities have historically been highly correlated as these real assets are the first to respond to economic growth optimism.

Listed infrastructure nearly kept pace with commodities while REIT returns meaningfully lagged. The REIT market struggled in the face of rising interest rates and concerns about commercial real estate.

The market began to lean risk-off with traction behind the no-landing scenario driving a hawkish repricing of Fed pivot expectations. Geopolitical uncertainty will overhang risk appetites as we approach November elections.

Market indices	Quarterly returns (%)	1-year returns (%)
Bloomberg U.S. TIPS Index	0.79	2.71
Bloomberg Commodity Index	2.89	5.00
S&P Global Infrastructure Index	2.33	5.97
S&P Global Natural Resources Index	-1.93	7.16
FTSE EPRA/NAREIT Developed Markets Index	-2.43	4.54
S&P 500 Index	4.28	24.56
MSCI All Country World Index (ACWI)	2.87	19.38
Bloomberg U.S. Aggregate Bond Index	0.07	2.63
Bloomberg Global Aggregate Index	-1.10	0.93

As of June 30, 2024. 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.

Portfolio commentary

The Principal Diversified Real Asset Fund (I-shares) returned -0.26% for the quarter ending June 30, 2024, underperforming the Diversified Real Asset Index (Linked) (Strategic Index), which returned 0.40%.

What helped?

- Within natural resources, our active GNR strategy managed by Newton Investment Management North America LLC (Newton) drove performance with robust stock selection in metals & mining, particularly companies with exposures to gold, aluminum, and copper. Out-of-index exposure to uranium producers was another favorable contributor.
- Real estate continues to be challenged by the high interest rate environment, which benefited the portfolio's underweight position relative to the Strategic Index. Manager selection within the asset class was also favorable as the underlying portfolio benefited from an overweight to the healthcare sector, security selection within net lease, and an underweight to diversified REITs.
- Within the real return allocation, the allocation to bank loans contributed positively to performance as the asset class outpaced treasury inflation-protected securities (TIPS). Demand and supply dynamics for bank loans remain supported by the current economic backdrop.

What hurt?

- The Fund's infrastructure allocation weighed on performance. An underweight to the asset classes that topped real asset equities during the quarter was a modest hindrance, but the most significant hindrance was weak manager selection. ClearBridge Investments (North America) Pty Limited (ClearBridge) underperformance was driven by security selection within the transportation and utilities sector. Within the transportation sector, out-of-index holdings in ex-U.S. toll roads and railways were among the top detractors. Within utilities, off-benchmark exposure to U.K. water utilities weighed on performance as did selection within electric utilities where exposure in Brazil was impacted by political uncertainty. Finally, a significant underweight to the energy sector, primarily the oil & gas storage & transportation sector, hindered performance.
- Similarly, the Fund's infrastructure allocation managed by Delaware Investments Fund Advisers (Macquarie*) underperformed the benchmark during the quarter. Security selection within U.S. electric utilities, specifically not owning some of the names that enjoyed the most significant boost from the artificial intelligence (AI) power boom, and overweight to water and out-of-index exposure to U.K. water utilities, detracted from performance. An out-of-benchmark position in towers was an additional headwind.
- Within natural resources, our allocation to timber managed by Pictet Asset Management SA (Pictet) detracted from performance driven by an underweight to the containerboard sector which performed well on the back of merger and acquisition (M&A) activity. An overweight to the wood product sector hindered performance in the face of a weak market for logs, lumber, and wood products.

What's next?

- We reduced our defensive positioning during the period in the face of resilient economic data, led by a particularly robust labor market in the U.S. The Fed's rate cut trajectory will be a headwind, as inflation data remains sticky. We still remain cautious given the likelihood for volatility and an uneven (albeit, soft) landing for the economy.
- We further reduced our allocation to infrastructure, which could suffer in a more cyclically-biased, rate-sensitive market. We favor GNR and commodities within real assets. We increased our allocation to our active GNR manager, as they are best positioned to benefit from strong fundamentals within the asset class. Within commodities, we increased our allocation to Wellington Management Company LLP† (Wellington), as we believe their positioning within precious & industrials metals and energy will be rewarded.

*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.

Allocation update

	Diversified Real Asset Index (Linked) (%)	Q2 2024 (%)	Q1 2024 (%)
Infrastructure	**30**	**24.9**	**27.0**
ClearBridge Investments (North America) Pty Limited		7.1	8.2
Delaware Investments Fund Advisers (Macquarie*)		15.8	16.7
*Global X U.S. Infrastructure Development ETF (PAVE)***		2.1	2.1
Real estate investment trusts	**25**	**20.1**	**20.4**
Principal Real Estate		19.4	19.7
*Vanguard Real Estate ETF (VNQ)***		0.7	0.7
Commodities	**15**	**18.8**	**16.1**
CoreCommodity Management, LLC		6.5	6.0
Wellington Management Company LLP†		12.3	10.1
Natural resources	**15**	**17.5**	**17.1**
Climate change		**3.5**	**3.6**
Impax Asset Management Limited		3.5	3.6
Global natural resources		**12.0**	**11.3**
Newton Investment Management North America LLC		10.0	9.2
Principal Asset Allocation		2.0	2.1
Timber and forestry		**2.0**	**2.1**
Pictet Asset Management SA		2.0	2.1
Real return	**15**	**18.0**	**17.1**
Treasury inflation-protected securities		**12.9**	**12.5**
BlackRock Financial Management, Inc.		12.9	12.5
Floating rate debt		**5.1**	**4.6**
Nuveen Asset Management, LLC		5.1	4.6
Liquidity	**–**	**0.8**	**2.3**
Principal Asset Allocation		0.8	2.3

As of June 30, 2024. 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 June 30, 2024

Performance

	Average annual total returns (%)									Yields (%)	
	3-month	Year-to-date	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	-0.26	1.31	4.12	1.37	4.53	1.93	4.03	0.84/0.89	12/30/2024	3.58/3.61	2.67
Diversified Real Asset Index (Linked)	0.40	1.07	5.54	1.73	4.13	2.43	—	—	—	—	—
Morningstar category average	0.55	4.99	10.38	1.39	5.01	3.95	—	—	—	—	—

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 Allocation	360	360	351	338	320	240	338
Class I percentile rankings	—	—	95	50	61	94	—
Class I ratings	—		—	★★★	★★	★	★★

Calendar year returns (%)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Class I	2.52	-12.40	5.86	10.17	-7.90	15.01	3.97	17.34	-6.16	3.24
Diversified Real Asset Index (Linked)	0.22	-11.75	12.40	10.38	-7.27	14.86	2.08	15.87	-5.12	4.31
Morningstar category average	1.54	-4.15	6.04	14.79	-8.26	16.10	6.18	11.31	-12.34	10.72

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.

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 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 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 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 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 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 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 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 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 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.

Principal Asset Allocation is an investment team within Principal Global Investors.

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