Principal Asset Management℠

PRINCIPAL REAL ESTATE SECURITIES FUND

Quarterly commentary

THIRD QUARTER 2024

TICKER:

Class I: PIREX
Class A: PRRAX
Class C: PRCEX
Class R6: PFRSX

Market review

United States property stocks rallied strongly (FTSE NAREIT All Equity REITs, +16.8%) during the third quarter with lower interest rates a key driver, outperforming broader equity markets (S&P 500, 5.9%).

Markets were higher on increased confidence in monetary policy support, with the Federal Reserve's (Fed) reaction function now balanced between inflation and employment. Performance was increasingly diverse, with equal weighted returns outpacing market capitalization weighted results. Labor market data was increasingly in focus as it displayed further deceleration. While layoffs have not picked up materially, hiring activity has slowed. This has caused the Fed to view risks as more balanced between inflation and employment, the other half of its dual mandate. Away from more mixed labor markets, economic data remained supportive of market optimism for a soft-landing with retail sales and housing showing continued resiliency.

The Fed cut rates by 50 basis points (bps), which was the first since the early days of COVID-19. The updated Summary of Economic Projections calls for 50 bps more cuts in 2024 and another 100 bps in 2025 with market implied pricing predicting even more aggressive easing. Weaker employment or inflation data would trigger a faster pace and/or larger magnitude of cuts. Increased expectations for rate cuts contributed to 10-year bond yields in the U.S. moving lower by 58 bps during the quarter.

Real estate stocks outperformed driven by the start of the easing cycle and defensive investor rotation. The rally closed much of the underperformance gap year-to-date as high rates and tighter policy had acted as overhangs. All property types posted positive returns, but more rate sensitive and higher leveraged companies outperformed. Office led the way given above average leverage and upcoming refinance risk, which lower rates should help. Leasing activity has also picked up, although conditions remain nuanced by market/submarket, with East Coast and Sunbelt trends healthier than West Coast. Self-storage also outperformed as lower rates were viewed as potentially spurring greater housing turnover, an important demand driver for the property type. Health care posted strong returns too on continued healthy fundamentals and an improved investment opportunity set. On the other end, single family rental and hotel owners meaningfully lagged on concerns that lower rates make home buying more attractive (despite a still wide affordability gap), while hotels trailed on negative guidance updates that showed sluggish leisure travel.

Portfolio performance

The portfolio lagged the index on a gross basis due to negative allocation, in particular, the overweight to single family and underweight to 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 company in process of pivoting its business towards data centers also hurt. The overweight to U.S. senior housing operators which continue to benefit from occupancy improvement tailwinds was the main contributor.

Strategy and outlook

Real estate investment trusts (REITs) staged a comeback in Q3, 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 safety 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

American Healthcare REIT, Inc. - An overweight to this health care REIT contributed to performance. Management had positive meetings with investors following a very strong quarterly update. The company issued equity for accretive growth opportunities.

Ventas, Inc. - An overweight to this health care REIT contributed to performance due to better than expected Q2 report update and better than expected outcome with a lease which served as a clearing event.

Host Hotels & Resorts, Inc. - An underweight to this hotel REIT contributed to performance. Q2 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 rental REIT detracted to performance. The stock was negatively impacted by fear that lower mortgage rates are a headwind for rental housing/benefit to home purchasing. Exposure to select markets with more built for rent new supply also weighed on shares.

Iron Mountain Incorporated - An underweight to this diversified information management REIT detracted from performance. The company reported a strong Q2, 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 REAL ESTATE SECURITIES FUND as of September 30, 2024

Top 10 holdings

	% of net assets
American Tower Corp.	10.3
Equinix, Inc.	7.3
Welltower Inc.	7.1
Ventas, Inc.	6.0
Prologis, Inc.	5.9
Extra Space Storage Inc.	5.3
AvalonBay Communities, Inc.	5.0
SBA Communications Corp.	3.8
VICI Properties Inc.	3.6
Regency Centers Corp.	3.3
Total	**57.6**

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[1] (03/01/2001)	Expense ratio (net/gross)[2]	Expense limit expiration date
Class I[(3),(4),(5),(6)]	15.29	13.50	30.89	3.34	5.50	8.55	10.57	0.86/0.92	02/28/2025
U.S. REIT Linked Index*	16.79	15.17	33.60	4.78	5.35	7.70	–	–	–
Morningstar category average	15.79	13.77	32.06	2.58	4.53	6.94	–	–	–

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: real estate	240	239	238	229	210	152	229
Class I percentile rankings[(7)]	–	–	73	39	27	11	–
Class I ratings8[(8)]	–	–	–	★★★★	★★★★	★★★★★	★★★★★

Calendar year returns (%)	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Class I	32.36	4.22	5.93	9.03	-4.31	31.13	-3.23	39.64	-25.20	13.33
U.S. REIT Linked Index*	30.38	2.52	8.60	5.07	-4.57	25.84	-7.57	43.06	-24.51	13.74
Morningstar category average	28.03	2.41	6.89	6.22	-5.97	27.28	-4.49	38.73	-25.67	12.03

Morningstar percentile rankings are based on total returns. Morningstar ratings are based on risk-adjusted returns.
Indices are unmanaged and do not take into account fees, expenses, and transaction costs and it is not possible to invest in an index.

*MSCI U.S. REIT Index through 01 March 2024 and FTSE NAREIT All Equity REIT Index onward.

Returns represent past performance and do not guarantee future results. Share price, principal value, and return will vary and you may have a gainor 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)]Class I shares were first sold on 3/01/2001. Returns for these shares prior to those dates, including since-inception performance, are based on performance of R-3 shares adjusted to reflect the fees and expenses of these shares. R-3 shares were first sold 12/06/2000.

[(2)]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.

[(3)]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. Only certain investors, such as retirement plan participants, can purchase.

[(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)]These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

[(6)]This investment option is considered non-diversified, which means it, or the underlying mutual fund, can invest a higher percentage of its assets in of fewer individual issuers than a diversified investment. As a result, changes in the value of a single investment could cause greater fluctuations, gain or loss, in the net asset value than would occur if it was more diversified.

[(7)]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.

[(8)]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. 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 less than one year are not annualized.

Glossary of Indices

S&P 500 Total Return Index is an equity index that tracks both the capital gains of a group of 500 widely held stocks often used as a proxy for the stock market and assumes dividends are reinvested back into the index.

U.S. REIT Linked Index composition: For March 1, 2024 and after, the index is 100% the FTSE NAREIT All Equity REIT Index, and for the period prior to March 1, 2024, it is 100% the MSCI US REIT Index.

FTSE NAREIT All Equity REIT Index is a free-float adjusted, market capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.

MSCI U.S. REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

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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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