

PRINCIPAL SMALL-MIDCAP DIVIDEND INCOME FUND

Quarterly commentary

SECOND QUARTER 2024

Market review

The Federal Reserve last increased rates on July 26, 2023, to 5.25-5.50% and ever since, investors have debated at length when the first rate cut might occur. Six months into the year, investors are still debating and waiting. Despite this uncertainty, markets have charged ahead with the S&P 500 hitting more than 30 record highs led by U.S. mega-caps.

Performance was negative across small and mid-cap U.S. equities during the second quarter with the Russell 2500 Value Index falling -4.31%, while the Russell 2500 and Russell 2500 Growth Indexes did not fare much better, each falling -4.27% and -4.22% respectively. Within the Russell 2500 Value Index, dividend payers fared better falling -3.44% vs -6.27% for non-dividend payers. From a sector standpoint, only 1 out of 11 sectors in the Russell 2500 Value Index posted a positive return in the quarter with the utilities sector posting a return of +5.82%. Information technology (-0.42%) and real estate (-1.19%) rounded out the top 3 sectors. The consumer discretionary sector (-8.61%) was the worst performing sector in the quarter.

As the economy has started to show signs of slowing with Q1 GDP coming in notably lighter than projected, we expect mixed macroeconomic data and political noise to make forecasting sector-level outperformance extremely challenging in the near-term. While the start of 2024 brought double digit returns across U.S. equities, we believe that investors will become more discerning by refocusing on fundamentals and higher-quality, dividend-paying companies in 2024.

TICKER:**Class I: PMDIX**

Class A: PMDAX

Class C: PMDDX

PRINCIPAL SMALL-MIDCAP DIVIDEND INCOME FUND

The Principal Small-MidCap Dividend Income Fund invests predominantly in dividend-paying stocks and seeks to provide a relatively high level of current income and growth of income and capital. In pursuing its goal, we invest primarily in the common stocks of small- and mid-capitalization U.S. companies.

Top five contributors

Targa Resources Corp (TRGP) is an energy services company involved in natural gas gathering/processing and logistics/marketing throughout Texas, Oklahoma, and neighboring states. We like TRGP's exposure to growing Permian gas production and rising demand for Permian takeaway/pipelines. During the quarter, the company beat expectations driven by strong volume growth. In addition, investors looked to a positive free cash flow growth inflection in 2025 as capex is reduced and the benefits of recent growth investments flow through. The company reiterated its 50% year over year dividend increase, indicating management's confidence in the company's free cash flow acceleration story.

Select Medical Holdings Corporation (SEM) provides medical rehabilitation services, operating critical illness recovery hospitals, rehab hospitals, outpatient rehab clinics, and occupational health centers in the U.S. We like the diversified business mix and relatively lower Medicare/Medicaid exposure vs. peers. With market share gains and tuck in acquisitions, we believe there is opportunity for revenue growth and margin expansion. In addition, the upcoming spin-off of Concentra, its higher margin occupational health business, should unlock additional value for shareholders.

Leidos Holdings, Inc. (LDOS) provides services and solutions in the defense, intelligence, civil, and health markets. It's the largest government services company with extensive capabilities in high demand fields like cyber, big data, software development, enterprise IT, and

health. The company also makes baggage and cargo screening products. LDOS outperformed during the quarter after beating expectations and raising guidance. Higher than expected medical exams volume and sales within defense systems helped results during the quarter. The company also expects to benefit as it helps customers integrate AI solutions.

Jefferies Financial Group Inc. (JEF) is a financial services company that operates through investment banking and capital markets and asset management divisions. The company helped results after beating expectations. Its investment banking pipeline continues to strengthen, and investors are enthusiastic about increased M&A activity after an extended period of softness.

Monolithic Power Systems, Inc. (MPWR) designs, develops, and markets integrated power semiconductor solutions and power delivery architectures for computing and storage, automotive, industrial, communications, and consumer applications markets. We like MPWR's technological differentiation and believe the company will continue to gain share. During the quarter, the company beat and raised guidance due to artificial intelligence tailwinds. MPWR also raised its dividend 25%.

Top five detractors

Brunswick Corporation (BC) designs, manufactures, and markets recreational marine products, including marine engines, boats, and parts and accessories for those products. The propulsion segment manufactures boat engines mostly under the Mercury brand. We believe BC is a leading marine pureplay with a durable and growing engine franchise as well as a more stable recurring revenue parts and services business. During the quarter, although the company met expectations and maintained full year guidance, investor sentiment weakened as the marine industry is in the midst of an inventory correction driven by higher interest rates and softening boat demand.

Lincoln Electric Holdings, Inc. (LECO) designs and manufactures welding and cutting products. The company's products include arc welding power sources, wire feeding systems, robotic welding packages, fume extraction equipment, consumable electrodes, fluxes, and regulators and torches used in oxy-fuel welding and cutting. LECO lagged during the period as investors reevaluated the size of the company's opportunity in electric vehicle charging stations. Additionally, although earnings beat expectations, sales were lighter than expected with weakness in equipment, automation, and consumables. We continue to believe LECO is well-positioned given the shortage of skilled welders, labor inflation, reshoring, civil and energy infrastructure investments in electrification.

DENTSPLY SIRONA, Inc. (XRAY) engages in the design, manufacturing, sales and distribution of professional dental products and technologies. The company produces both equipment and consumables. We like the diverse

and market leading product portfolio and believe that restorative dentistry is undergoing a transformation away from multi-visit procedures. During the quarter, the company detracted from relative performance due to soft sales, particularly in Germany. Overall, large ticket items such as imaging equipment continue to be under pressure in the higher rate environment.

LCI Industries (LCII) manufactures, supplies, and distributes components for recreational vehicles and manufactured homes. The company lagged during the quarter as investors worried about continued dealer inventory reduction and stagnant sales in light of higher interest rates.

Bank OZK (OZK) is a full-service bank focused on short-term construction loans. OZK has a niche focus, strong credit quality, and stringent underwriting standards. Despite beating expectations, management's outlook for positive EPS growth in 2024, and low net charge offs, investors remained concerned about the commercial real estate market and increased funding costs, which could decrease net interest margins. In addition, a short report was published during the quarter which raised concerns about two properties which had outstanding loans. We exited the position during the quarter as we were concerned about the company's exposure to commercial construction projects with deteriorating return characteristics in the higher rate environment which could pressure the sponsors ability to get permanent funding and pay off OZK.

Outlook

U.S. equity performance in the second quarter of 2024 was once again dominated by the mega-cap technology leaders, pushing the S&P 500 close to all-time highs despite only 26% of index constituents outperforming the index itself. Artificial Intelligence and its effect on future power needs was top of mind as investors contemplated its tangible applications as well as the resulting implications for the viability and profitability of companies. Investors also continued to agonize over the outlook for interest rates and inflation as economic signals remained mixed and once again pushed out the timing of a much-anticipated Fed rate cut.

While we don't believe that the tremendous relative outperformance of the magnificent seven will continue unchecked, we do believe their strong outperformance illustrates an important point that best-of-breed businesses can capitalize on new technologies and secular trends to become increasingly valuable over time. And we don't think this phenomenon is limited to just seven large companies. We believe there are competitively advantaged businesses across sectors and the market cap spectrum that are positioned to expand margins, gain market share, and become increasingly valuable investments. From a valuation standpoint, reversion

to the mean is not a foregone conclusion as best-of-breed companies can compound their advantages over time. This is the power of fundamental research and a long-term approach. Money can be made trading around momentum and technical indicators in the short run, but the most lucrative investments tend to be structurally advantaged compounders that can grow into increasingly valuable companies over time. We know firsthand that fundamental research isn't easy and best-of-breed companies can be out of favor or face operational challenges for sustained periods, but we have also seen firsthand that consistently applying a disciplined fundamental approach focused on quality cash generating business and holding for the long-term greatly increases the odds of success.

As we move into the back half of 2024, we expect mixed macroeconomic data and political noise to make forecasting sector-level outperformance extremely challenging. But regardless of the near-term dynamics, we expect bottom-up identification of quality businesses to endure the test of time.

PRINCIPAL SMALL-MIDCAP DIVIDEND INCOME FUND as of June 30, 2024

Top 10 holdings

	% of net assets
MKS Instruments Inc	2.8
East West Bancorp Inc	2.6
Williams-Sonoma Inc	2.5
Principal Government Money Market Fund - Class R-6	2.2
Targa Resources Corp	2.2
nVent Electric PLC	2.2
Diamondback Energy Inc.	2.2
Leidos Holdings Inc	2.1
Ingredion Inc	2.0
Fidelity National Financial Inc	2.0
Total	22.8

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 (%)								Yield (%) ³		
	3-month	YTD	1-year	3-year	5-year	10-year	Since inception 06/06/2011	Expense ratio ¹ (gross/net)	Expense limit expiration date	30-day SEC unsubsidized/ subsidized	12-month distribution
Class I ²	-4.47	3.52	13.03	6.00	7.73	7.28	9.58	0.89/0.85	12/30/2024	1.51/1.52	1.61
Russell 2500 [®] Value Index ^{4,5}	-4.31	1.50	11.24	2.15	8.01	6.77	—	—	—	—	—
Morningstar category average	-3.78	3.72	11.73	4.97	9.26	7.35	—	—	—	—	—
Morningstar rankings and ratings	3-month	YTD	1-year	3-year	5-year	10-year	Overall				
Category and number of funds in category: Mid Cap Value	396	396	392	374	360	281	374	—	—	—	—
Class I percentile rankings ⁶	—	—	40	34	72	53	—	—	—	—	—
Class I ratings ⁷	—	—	—	★★★	★★	★★★	★★★	—	—	—	—
Calendar year returns (%)	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	
Class I ²	7.62	-3.26	30.05	13.30	-13.65	25.39	-6.31	30.41	-11.67	18.80	
Russell 2500 [®] Value Index ^{4,5}	7.11	-5.49	25.20	10.36	-12.36	23.56	4.88	27.78	-13.08	15.98	
Morningstar category average	9.31	-5.41	18.06	13.22	-12.86	25.18	2.63	29.32	-8.02	13.94	

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 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 Performance assumes reinvestment of all dividends and capital gains. Returns shown for periods of less than one year are not annualized.

³ 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.

⁴ Russell 2500[®] Value Index measures the performance of those Russell 2500 companies with lower price-to-book ratios and lower forecasted growth values. Information regarding the comparison to the Russell 2500[®] Value Index is available upon request. Russell Investment Group is the source and owner of the trademarks, service marks and copyrights related to the Russell Indexes. Russell[®] is a trademark of Russell Investment Group.

⁵ Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

⁶ 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.

⁷ 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. © 2024 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.

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

Small and mid-cap stocks may have additional risks including greater price volatility.

Companies may at any time choose not to pay a dividend, or dividends paid may be less than anticipated.

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