

Principal Global Investors Funds

Global Sukuk Fund

I Class August 2026

Market Review

US Treasury (UST) slightly weakened in August as the modest net sell-off was concentrated at the front and belly of the curve as the month looked less like a broad duration shock and more like a repricing of the Fed path against still-elevated term premium. During the month the 2-year and 5-year UST yield only rose around 5bps to 4.34% and 4.50%. The 10-year UST yield rose by around 2 bps to 4.75% at end-August, while the 20-year and 30-year yield declining by roughly 5bps and 3bps to 5.24%. The 2s10s spread narrowing from roughly 44bps to 41bps. Treasury's decision to at least double long-end bond buybacks briefly pulled the 30-year yield from 5.33% to around 5.18%, but the rally faded as fiscal supply concerns and Jackson Hole restored upward pressure on rates. For sukuk, the near-flat 10-year yield limited monthly duration drag although the sharp intra-month swings reinforced the value of carry, liquidity and disciplined entry levels.

US economic data released in August continued to point towards a resilient demand alongside a more fragile labour market, with July payrolls fell by 23k, and the prior two months were revised down by a combined 103k, although unemployment declined to 4.1% as labour-force participation slipped. Activity remained firm in the US with August composite and services PMIs rose to 56.0 and 56.8, while second-quarter consumption growth was revised up to 3.4%. Retail sales and consumer confidence were softer, leaving growth positive but increasingly dependent on services and productivity rather than broad employment gains.

Within the investment-grade sukuk universe, high-quality sovereign, government-related and bank sukuk generally outperformed lower-quality property and cyclical issuers during the month, as investors continued to prioritize liquidity, balance-sheet strength and reliable market access amid ongoing rates volatility. By end-August, the Dow Jones Sukuk Total Return Index had risen from 220.36 to 222.00, delivering an approximate return of 0.75%, supported by the relative stability of the 10-year US Treasury yield and a modest rally at the long end of the curve. Performance differentiation was most evident across property and other cyclical sectors, where issuers remained more dependent on refinancing access and regional confidence, while benchmark investment-grade paper benefited from persistent demand for quality. In contrast, sovereign-backed issuers, government-related entities and leading banks demonstrated greater resilience due to stronger liquidity profiles and recurring cash flows. Credit markets avoided a disorderly sell-off, while investor demand remained concentrated in liquid, high-quality sukuk, reinforcing a carry-focused strategy and selective additions to high-grade risk during periods of market volatility.

GCC economies remained broadly resilient in August, supported by elevated oil prices, strong sovereign cash flows and sizeable reserve buffers despite ongoing geopolitical tensions and disruption around the Strait of Hormuz. Saudi Arabia's PMI remained expansionary at 53.1, while the UAE continued to serve as the region's stronger diversified anchor, support by robust non-oil trade and deep sovereign resources. However, property activity, tourism, cargo flows and shipping traffic across the region remained below historical disruptions. Brent crude traded between USD79/bbl and USD94/bbl before ending August at USD90.49/bbl, supporting GCC fiscal revenues, sovereign cash flows and liquidity positions, while also contributing to higher global interest rates and tighter financial conditions. Within credit markets, strong sovereign, strategic government-related issuers and top tier banks are best positioned, while more leveraged property, tourism and logistics credits continued to face refinancing, transaction-volume and confidence-related risks.

Primary markets remained accessible for high-quality issuers in August, although persistent US rate volatility, geopolitical uncertainty and a more hawkish Fed backdrop continued to require disciplined pricing. Investors remained selective, favoring sovereign, government-related and top-tier bank sukuk with strong liquidity characteristics and reliable market access, while lower-quality property and cyclical issuers remained more dependent on refinancing conditions and regional confidence. Market demand stayed concentrated in liquid investment-grade securities, reinforcing a carry-focused investment approach and selective additions during periods of yield volatility. On the credit rating front, Pakistan Sovereign was upgraded by Moody's to B3 from Caa1 with a Stable outlook, reflecting sustained macroeconomic stabilization, stronger governance, improving fiscal metrics and rising foreign exchange reserves

supported by continued IMF programme implementation. Meanwhile, Benin Sovereign was upgraded to Ba3 from B1 with a Stable outlook due to resilient economic growth, improving fiscal management and a declining government debt trajectory. Additionally, Oman Telecommunications Company S.A.O.G.'s (Omantel) retained its Ba1 rating, with the outlook revised to Positive from Stable on expectations of continued deleveraging, stronger cash flow generation and improving credit metrics. These rating actions highlighted the market's continued preference for issuers demonstrating stronger fundamentals and improving financial resilience.

Fund Review

The Fund outperformed the Dow Jones Sukuk index by 48bps in August, with returns of 0.83% compared to the benchmark return of 0.35%. As of Year to date, the Fund outperformed the benchmark by 196bps, with returns of -0.41% versus index returns of -2.37%. Much of the performance was mostly driven by spread compression in the global sukuk segment, and in particular long duration issuers as well as the real estate sector, despite the US Treasury curve rising higher.

Portfolio Outlook and Strategy

August reinforced a higher-for-longer global backdrop rather than a recessionary one. Inflation moderated slightly across emerging markets but remained persistent in developed economies, keeping monetary policy expectations restrictive. Renewed Middle East disruption kept energy and supply chain risks elevated, while Brent traded between USD79/bbl and USD94/bbl before ending the month near USD90/bbl. US growth became less balanced but remained positive. Within the sukuk universe, GCC economies continued to benefit from fiscal buffers and elevated oil revenues, while ASEAN divergence persisted, with Malaysia supported by broad-based strength and Indonesia showing improving domestic activity despite a weaker external position.

In the US, growth has become more uneven. July payrolls declined by 23k and earlier months were revised down by 103k, although unemployment fell to 4.1% as labor-force participation declined. Business activity remained resilient, with August composite and services PMIs rising to 56.0 and 56.8, while second-quarter consumption growth was revised higher to 3.4%. Inflation improved at the margin, but headline and core PCE remained elevated at 3.7% and 3.3% y/y. At Jackson Hole, Fed Chair Warsh reaffirmed the 2% inflation target, identified interest rates as the primary policy tool and indicated that financial conditions were not materially restrictive. This strengthened confidence in the Fed's commitment to price stability but raised the probability of a September or fourth-quarter hike. Separately, the Treasury doubled its planned 10–30-year bond buybacks to at least USD4bn per operation, effectively implementing a limited Operation Twist. This may contain long end yields temporarily but does not address the fiscal deficit. The 10-year yield ended in August at 4.75%, supporting a balanced-to-short duration position in USD denominated assets, with a preference for the belly over the long end.

In the GCC, the macro backdrop became less comfortable as formal US-Iran talks ended without progress leading to a rise in Brent prices. On this backdrop, regional logistics and activity did not normalize further from previous month. The Dubai property transactions remained below pre-conflict levels and Hormuz tanker traffic stayed constrained. Saudi Arabia was less disrupted than its peers, with a 53.3 PMI and 1.8% inflation, although second-quarter GDP contracted 4.8% (oil -24.7%) and the budget remained in deficit (1H26 deficit at 97% of 2026 budget). The UAE and stronger sovereign-related issuers continued to benefit from policy capacity and balance sheet strength. The region is not yet facing a broad solvency shock, but renewed energy, logistics and real-estate uncertainty sustained the dispersion between high-quality issuers and more cyclical or leveraged property credits.

In ASEAN, Malaysia remained preferred. Second-quarter GDP growth was revised to 6.0% yoy, exports rose 38%, industrial production expanded 6.5%, PMI stayed above 50 and inflation eased to 1.8%. BNM kept the OPR at 2.75%, although robust growth preserved the risk of a fourth-quarter hike. Indonesia's data also improved, with GDP growing 5.29%, PMI recovering to 50.2 and inflation easing to 2.88%. However, uncertainty rose after Governor Perry Warjiyo's surprise resignation, raising concerns over BI independence and possible political pressure to prioritize growth. These concerns parred down after President Prabowo nominated Acting Governor Destry Damayanti, the long-serving Senior Deputy Governor, as sole candidate. The choice signals monetary policy continuity, with rupiah stability and inflation control remaining central while macroprudential tools support growth.

Market technicals remained broadly supportive in August, underpinned by resilient investor demand for sukuk and broader EM fixed income assets despite higher US Treasury yields. The global sukuk index gained approximately 0.75%, with carry and spread compression more than offsetting losses from the underlying rates market, reflecting investors' continued preference for yield opportunities. EM hard-currency bond funds recorded strong inflows, while Asia credit continued to benefit from negative net issuance and structural institutional demand, supporting scarce and liquid sukuk. However, technical support was not uniform, as potential sovereign issuance from Saudi Arabia and heavy US investment-grade supply may increase competition for investor demand. As a result, while investment-grade sovereign, quasi-sovereign and high-quality financial issuers remain well supported, a selective approach is warranted given increasingly tight USD sukuk spreads and evolving primary market dynamics.

Looking ahead, our investment approach remains centered on quality, selectivity and carry generation. While the risk of additional Federal Reserve tightening has increased following Jackson Hole, we continue to favour high-quality sukuk in the three-to-seven-year segment and remain cautious on ultra-long maturities. Potential sovereign and government-related issuance from the GCC, particularly Saudi Arabia, may provide opportunities to add exposure at more attractive levels through new-issue concessions. Portfolio strategy therefore continues to favour sovereign, quasi-sovereign, government-related issuers and top-tier banks, while maintaining a selective stance towards lower-rated credits. Indonesia's recent market weakness has improved valuations, although a more constructive overweight position would require further improvement in macroeconomic fundamentals.

For the Fund's strategy, we intend to maintain a selective carry-and-quality approach with duration positioned slightly below benchmark at around 0.95x, while retaining flexibility to increase duration should US Treasury yields become more attractive. We favour high-quality sovereigns, government-related entities, top-tier banks and resilient corporates, with a preference for the front and belly of the curve. Exposure to Indonesia will remain broadly neutral pending clearer signs of strengthening reserves, fiscal execution and external balances. SGD hedging will be maintained at approximately 70% as the base level, balancing portfolio protection against potential near-term USD strength while reflecting a constructive medium-term outlook for SGD.

Risk Considerations

Investing involves risk, including possible loss of principal. Past Performance does not guarantee future return. All financial investments involve an element of risk. Therefore, the value of the investment and the income from it will vary and the initial investment amount cannot be guaranteed.

Important Information

This material covers general information only and does not take account of any investor's investment objectives or financial situation and should not be construed as specific investment advice, a recommendation, or be relied on in any way as a guarantee, promise, forecast or prediction of future events regarding an investment or the markets in general. The opinions and predictions expressed are subject to change without prior notice. The information presented has been derived from sources believed to be accurate; however, we do not independently verify or guarantee its accuracy or validity. Any reference to a specific investment or security does not constitute a recommendation to buy, sell, or hold such investment or security, nor an indication that the investment manager or its affiliates has recommended a specific security for any client account. Subject to any contrary provisions of applicable law, the investment manager and its affiliates, and their officers, directors, employees, agents, disclaim any express or implied warranty of reliability or accuracy and any responsibility arising in any way (including by reason of negligence) for errors or omissions in the information or data provided.

This material may contain 'forward-looking' information that is not purely historical in nature and may include, among other things, projections and forecasts. There is no guarantee that any forecasts made will come to pass. Reliance upon information in this material is at the sole discretion of the reader.

The interest rate used is a general economic indicator that will have an impact on the management of the Fund regardless whether it is a Shariah-compliant Fund or otherwise. It does not in any way suggest that the Fund will invest in conventional financial instruments. All the investments carried out for the Fund are in accordance with Shariah requirements.

Proprietary model output is based upon certain assumptions that may change, are not guaranteed and should not be relied upon as a significant basis for an investment decision. Forecasts for each asset class can be conditional on economic scenarios; in the event a scenario comes to pass, actual returns could be significantly higher or lower than forecasted. Because of the inherent limitations of all models, potential investors should not rely exclusively on the model when making an investment decision. Forecasts of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice.

Indices are unmanaged and do not consider fees, expenses and transaction costs are not available for direct investment. The information provided here is neither tax nor legal advice. Investors should speak to their tax professional for specific information regarding their tax situation.

This material is not intended for distribution to or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

This document is intent for use in:

- **The United States** by Principal Global Investors, LLC, which is regulated by the U.S. Securities and Exchange Commission.

• **Germany, Austria and the Netherlands** by Principal Global Investors (EU) Limited, Sobo Works, Windmill Lane, Dublin D02 K156, Ireland. Principal Global Investors (EU) Limited is regulated by the Central Bank of Ireland. **For all other European countries**, this document is issued by Principal Global Investors (Europe) Limited, Level 1, 1 Wood Street, London, EC2V 7 JB, registered in England, No. 03819986, which is authorized and regulated by the Financial Conduct Authority ("FCA"). **In Europe**, this document is directed exclusively at Professional Clients and Eligible Counterparties and should not be relied upon by Retail Clients (all as defined by the MiFID). The contents of the document have been approved by the relevant entity. Clients that do not directly contract with Principal Global Investors (Europe) Limited ("PGIE") or Principal Global Investors (EU) Limited ("PGI EU") will not benefit from the protections offered by the rules and regulations of the Financial Conduct Authority or the Central Bank of Ireland, including those enacted under MiFID II. Further, where clients do contract with PGIE or PGI EU, PGIE or PGI EU may delegate management authority to affiliates that are not authorized and regulated within Europe and in any such case, the client may not benefit from all protections offered by the rules and regulations of the Financial Conduct Authority, or the Central Bank of Ireland.

• **In Dubai** by Principal Global Investors LLC, a branch registered in the Dubai International Financial Centre and authorized by the Dubai Financial Services Authority as a representative office and is delivered on an individual basis to the recipient and should not be passed on or otherwise distributed by the recipient to any other person or organization. This document is intended for sophisticated institutional and professional investors only.

• **Singapore** by Principal Global Investors (Singapore) Limited (ACRA Reg. No. 199603735H), which is regulated by the Monetary Authority of Singapore and is directed exclusively at institutional investors as defined by the Securities and Futures Act (Chapter 289). This advertisement or publication has not been reviewed by the Monetary Authority of Singapore.

• **Australia** by Principal Global Investors (Australia) Limited (ABN 45 102 488 068, AFS Licence No. 225385), which is regulated by the Australian Securities and Investments Commission. This document is intended for sophisticated institutional investors only.

• **Switzerland** by Principal Global Investors (Switzerland) GmbH.

• **Hong Kong SAR (China)** by Principal Global Investors (Hong Kong) Limited, which is regulated by the Securities and Futures Commission and is directed exclusively at professional investors as defined by the Securities and Futures Ordinance.

• **Other APAC Countries**, this material is issued for institutional investors only (or professional/sophisticated/qualified investors, as such term may apply in local jurisdictions) and is delivered on an individual basis to the recipient and should not be passed on, used by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

• **India** by Principal Asset Management Private Limited (PAMC). PAMC offers only the units of the schemes of Principal Mutual Fund, a mutual fund registered with SEBI.

© 2026 Principal Financial Services, Inc. Principal, Principal and symbol design and Principal Financial Group are registered trademarks and service marks of Principal Financial Services, Inc., a Principal Financial Group company. Principal Global Investors leads global asset management at Principal®. Principal Global Asset Allocation is a specialized investment management group within Principal Global Investors.

Disclosures

The information in this document has been derived from sources believed to be accurate. It contains general information only on investment matters and should not be considered as a comprehensive statement on any matter and should not be relied upon as such. The information it contains does not take account of any investor's investment objectives, particular needs or financial situation. You should consider whether an investment fits your investment objectives, particular needs and financial situation before making any investment decision.

The data presented is for information purposes only and is not a recommendation to buy or sell any securities or adopt any investment strategy. This material is not intended to be relied upon as a forecast, research, or investment advice regarding a particular investment or the markets in general, nor is it intended to predict or depict performance of any investment.

All expressions of opinion and estimates in this report are subject to change without notice. This report is not intended to be, nor should it be relied upon in any way as a forecast or guarantee of future events or investment advice regarding a particular investment or the markets in general.

Persons wishing to rely upon this information should consult directly with the source of information or obtain professional advice.

All figures shown in this document are in US dollars unless otherwise noted. The information in this document has been derived from sources believed to be accurate as at 31 August 2026. This advertisement had not been reviewed by the Securities Commission Malaysia.