Principal Global Investors Funds

Islamic Global Responsible Equity Fund

I Class July 2026

Market Review

Global markets entered the second half of the year with an important shift in leadership. Earlier in the AI investment cycle, companies were rewarded for announcing larger capital expenditure plans and increasing exposure to AI. During July, however, investors became increasingly focused on the quality of those investments. Earnings calls and company guidance reflected a growing emphasis on whether expanding infrastructure budgets could translate into recurring revenue, stronger margins, and higher returns on invested capital. As a result, market performance became increasingly driven by execution rather than participation, rewarding businesses with the clearest path from investment to earnings.

This evolution is broadening the opportunity set across global equity markets. What began as a cycle led by semiconductor manufacturers has expanded into other areas, including electrical equipment, power generation, transmission networks, cooling systems, industrial automation, and digital infrastructure. AI is no longer simply creating demand for more computing power, it is driving investment across the physical infrastructure required to support higher electricity consumption, modernize aging grids, and improve productivity throughout the broader economy. Companies positioned within these enabling industries are becoming increasingly important beneficiaries of the next phase of the AI investment cycle.

Regional performance increasingly reflected where countries participate within this expanding ecosystem rather than differences in economic growth alone. The United States continues to capture value across multiple stages of the cycle, from financing large-scale infrastructure investment to developing AI applications that improve productivity across industries. Taiwan and South Korea remain indispensable to the production of advanced semiconductors and high-bandwidth memory, providing greater earnings visibility as capacity remains constrained by manufacturing complexity rather than demand. In contrast, Europe continues to rely more heavily on fiscal initiatives, including defense spending and energy security, to support growth. While these policies should strengthen the region's longer-term outlook, they are likely to translate into earnings over a long-term horizon rather than the technology investment cycle currently driving market leadership.

Perhaps the most notable market dynamic during July was the continued concentration of market returns. A relatively small group of companies accounted for an outsized share of performance, increasing the importance of security selection as valuation dispersion widened. In this environment, broad exposure to structural themes is becoming less valuable than identifying businesses capable of converting favorable industry dynamics into durable earnings growth, sustainable cash generation, and improving returns on capital.

The infrastructure required to support artificial intelligence extends well beyond technology hardware and software, creating opportunities across industries that have historically exhibited very different earnings drivers. As the investment cycle evolves from building capacity to improving productivity, we expect capital allocation to disperse toward companies supporting electrification, automation, and digital infrastructure rather than remaining concentrated within a narrow group of technology leaders. We remain focused on identifying businesses with durable competitive advantages, disciplined capital allocation, and the ability to convert these long-term structural trends into sustainable earnings growth and shareholder returns.

Fund Review

The portfolio posted a negative net return of -3.07% in the month of July and outperformed its respective index. From a sector perspective, IT and health care were places of strength while materials and utilities contributed to weakness. The United States and Taiwan were top contributors from a country perspective, while South Korea and the Netherlands lagged overall.

Portfolio Outlook and Strategy

Looking at the headline absolute returns, investors likely felt good about global equity markets. However, narrowness and an AI concentrated market drove the overwhelming majority of strength. Subsequently, breadth in the equity market pushed to record lows as investors chased momentum, which reached levels not seen since 2000. A tough environment for long-term fundamental managers.

Relative performance was extremely disappointing and we own it. As we dig into every holding that we underwrote, a very select few saw their investment thesis break while the rest have not witnessed any growth deceleration in free cash flow growth expectations while simply witnessing a valuation derating if not deemed an AI winner or have any exposure. Our long-term theses remain intact. While painful, this has brought opportunities to add on weakness. We remain disciplined and will not chase the momentum but rather ensure growth and value characteristics are coming together simultaneously in every investment.

What's the driver for earnings growth finally inflecting higher?

- Governments and Central Banks globally are looking internally for growth amid protectionist initiatives by President Trump and his administration. For instance, the Prime Minister of Japan, Takaichi, is instituting similar measures
- Improving sentiment surrounding the Strait of Hormuz conflict (Asia has a higher sensitivity to oil prices)
- Credit growth improving in Europe

Earnings and free cash flow growth inflecting higher paired with valuations that are still at a more than one standard deviation discount to the US should prove to be a formidable combination for equity leadership.

Where are we seeing select opportunities?

- Health care, an area that feels like it has been written off for a couple of years, is surfacing some great long-term ideas. New US administration, MFN pricing concerns, AI and lingering COVID effects have been the perfect storm pressuring much of the industry. We think most of these overhangs are beginning to subside. Spending recovery in biotech and large pharma, biotech funding and realization of AI helping drug trials to be more efficient have set the foundation for upside. We've begun to underwrite opportunities led by Haleon and DexCom.

In closing, investors are navigating a market shaped by overlapping forces. Geopolitical tensions, persistent inflation, and uneven consumer resilience are complicating the economic outlook. At the same time, artificial intelligence continues to support growth, though elevated valuations raise questions about how gains will be distributed. With fiscal and monetary policy more constrained than in the past, particularly in the US, the value of diversification is ever more important as opportunities broaden globally.

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.

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