Principal Asset Management℠

CALIFORNIA MUNICIPAL FUND, OPPORTUNISTIC MUNICIPAL FUND, AND TAX-EXEMPT BOND FUND

Quarterly commentary

SECOND QUARTER 2026

Market review

Municipal bonds were the best performing major U.S. fixed income sector in the second quarter of 2026. The Bloomberg Municipal Bond Index returned +2.50%, easily surpassing its prior quarter's negative return of -0.18% as well as the quarterly returns for the U.S. Treasury (Bloomberg US Treasury TR USD) of +0.32% and Investment Grade Corporate Debt (Bloomberg U.S. Corporate Investment Grade Bond Index) of +1.40%. Despite the geopolitical and economic environment generating excess volatility in financial assets, municipals benefited from strong market technicals, especially heightened investor demand, driving municipal yields lower while Treasury yields rose.

Benchmark ten-year yields fell twenty-seven basis points to end the quarter at 2.95% while Treasury rates rose to 4.47%, a rise of sixteen basis points. The disparity in rate movements drove ratios, the relationship of municipal yields relative to Treasury yields, to levels considered rich by historical standards. The ten-year Muni/Treasury ratio fell to 64% in June from 72% in March, reflecting municipal's considerable outperformance.

Outsized flows to mutual funds, ETFs, and separately managed accounts along with direct purchases by retail investors more than offset the continued record rise in tax exempt supply. Record reinvestment cash from maturities and coupon income further supported prices, narrowing credit spreads along the way, generating incremental performance to lower investment grade and high yield municipals.

Strategy review

PRINCIPAL CALIFORNIA MUNICIPAL FUND

The Principal California Municipal Fund (PCMFX) posted a return of +2.59% for the second quarter of 2026. In yet another extremely volatile period for financial markets, the portfolio was able to exceed the return of its benchmark, the Bloomberg California Exempt Index, which recorded a return of +2.26%. Similar outperformance was recorded in its Morningstar Category as well, with a first quartile ranking relative to other California tax exempt portfolios. Year to date, the portfolio exceeds its benchmark by forty-three basis points while also ranking in the first quartile of its peer group. Sector and security selection drove the absolute as well as relative outperformance, less so yield curve and duration positioning.

Though all sectors within the portfolio recorded positive returns, performance across each was far from uniform. Transportation, tax backed, and higher education were outliers in terms of top quarterly contributors, whereas utilities and housing were the least positive contributors.

With respect to individual securities, an allocation to a senior living facility in Orange County was the top individual performer. Its credit spread tightened considerably in an environment where investors sourced for yield. Additionally, the collective exposure to Stanford University in the higher education category realized outsized price gains as well due to the positively convex structure of these holdings that are more sensitive to interest rate changes. The portfolio also benefitted from exposure to alternative minimum tax bonds whose spreads contracted notably.

PRINCIPAL OPPORTUNISTIC MUNICIPAL FUND

The Principal Opportunistic Fund (POMFX) returned 3.77% during the second quarter of 2026. The fund outperformed the Bloomberg Municipal Bond Index by 127 basis points and the Morningstar category peer group by 47 basis points.

The sectors with the largest contributions to performance were CCRC, IDR/PCRs and student housing. Sectors that had difficulty over the quarter were housing, charter school, and student loans. Individual credits that performed well were New Hope Surface-CCRC, The James Senior Living-CCRC, and Lower Alabama Gas. Positions that struggled were Buckeye Tobacco, AZ IDA Great Lakes Senior Living and Illinois Highway Tolls.

PRINCIPAL TAX-EXEMPT BOND FUND

The Principal Tax-Exempt Bond Fund (PITEX) generated net returns of 2.68% over the second quarter. The fund's performance exceeds Bloomberg Municipal Bond Index by 18 basis points. Amongst its Morningstar peer group, the fund ranked in the top 8% during the quarter.

The top sector contributors were CCRC's, tobacco, and IDR/PCRs. Sectors that were challenged were hospitals, charter school, and student loan exposure. Individual credits that performed exceptionally were Harvard University (Private University,) Tender Option Bond Trust/Columbia University (Private University,) and The James Senior Living (CCRC.) Positions that suffered, over the quarter, were Buckeye Tobacco Settlements (Other, Southminster Obligated Group (CCRC,) and Louisville Gas and Electric (Utility).

Strategy and outlook

Owing to municipal's superior tax adjusted yields and stable credit fundamentals, we see demand remaining at its elevated pace, further supporting prices while maintaining the asset classes relative outperformance.

With credit spreads having tightened over the prior quarter, targeted investments will be directed to more high-quality obligors. We will continue to favor revenue backed debt at the expense of traditional general obligation municipal bonds. Essential service allocation bonds continue to be our favorite areas due to dedicated revenue streams, transparency of data and substantial moat characteristics. Most general obligation credits have seen Covid aid subside, less flexibility, budget deficits and political shifts.

Yield curve preference remains in the 15-year maturity range to capture the potential total return via "roll down" a steep curve provides. Due to spread compression bottom-up credit is more important now than ever before. Not from the perspective of getting every basis point in yield but to properly define risk to avoid sizeable pitfalls.

Asset allocation and diversification do not ensure a profit or protect against a loss.

PRINCIPAL CALIFORNIA MUNICIPAL FUND as of June 30, 2026

Top 10 holdings[*1]

	% of net assets
California Public Finance Authority	2.4
California Pollution Control Financing Authority	1.9
California Housing Finance Agency	1.8
California Educational Facilities Authority	1.7
California Educational Facilities Authority	1.7
San Diego County Regional Airport Authority	1.6
Los Angeles County Public Works Financing Authority	1.6
County of Sacramento CA Airport System Revenue	1.6
California Health Facilities Financing Authority	1.6
Golden State Tobacco Securitization Corp	1.6
Total	**17.5**

Performance, rankings, and ratings

	Average annual total returns (%)									Yields (%)[*2]	
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception[*3] (02/27/2015)	Expense ratio[*4] (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution
Class I[*5]	2.59	2.36	6.62	3.93	0.69	2.01	4.58	0.60/0.64	02/28/2027	3.58/3.62	3.72
Bloomberg California Municipal Index[*6,*7]	2.26	1.93	6.77	3.59	1.01	2.05	–	–	–	–	–
Morningstar category average	1.84	1.67	5.66	3.45	1.09	1.62	–	–	–	–	–
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: Muni California Intermediate	55	55	55	50	48	42	50				
Class I percentile rankings[*8]	–	12	19	21	71	20	–				
Class I ratings[*9]	–		–	★★★★	★★★	★★★★	★★★★				

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 principalfunds.com.

PRINCIPAL OPPORTUNISTIC MUNICIPAL FUND as of June 30, 2026

Top 10 holdings*1

	% of net assets
California Public Finance Authority	2.6
California Public Finance Authority	2.1
Atlanta Development Authority/The	2.0
Lower Alabama Gas District/The	1.9
New York State Dormitory Authority	1.8
Oneida Indian Nation of New York	1.8
Parish of St James LA	1.8
New Hope Cultural Education Facilities Finance Corp	1.7
Suffolk Regional Off-Track Betting Corp	1.7
Tuscaloosa County Industrial Development Authority	1.5
Total	**19.0**

Performance, rankings, and ratings

	Average annual total returns (%)									Yields (%)*2	
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception*3 (03/10/2015)	Expense ratio*4 (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution
Class I*5	3.77	3.56	8.29	5.06	0.50	2.80	3.92	0.80/0.85	12/30/2026	4.22/4.24	4.73
Bloomberg Municipal Bond Index*6, *7	2.50	2.32	7.03	3.76	1.05	2.15	–	–	–	–	–
Morningstar category average	3.30	3.41	7.66	4.94	0.75	2.50	–	–	–	–	–
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: High Yield Muni	188	187	184	167	160	120	167				
Class I percentile rankings*8	–	49	42	53	67	30	–				
Class I ratings*9	–		–	★★★	★★★	★★★★	★★★★				

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 principalfunds.com.

PRINCIPAL TAX-EXEMPT BOND FUND as of June 30, 2026

Top 10 holdings*1

	% of net assets
Massachusetts Development Finance Agency	2.5
Black Belt Energy Gas District	2.1
City of Atlanta GA Airport Passenger Facility Charge	2.0
Permanent University Fund - University of Texas System	2.0
Tobacco Settlement Financing Corp	1.7
California Public Finance Authority	1.5
Permanent University Fund - University of Texas System	1.5
State of Illinois	1.5
Kentucky Turnpike Authority	1.5
Los Angeles Department of Water & Power Water System Revenue	1.4
Total	**17.7**

Performance, rankings, and ratings

	Average annual total returns (%)									Yields (%)*2	
	3-month	Year-to-date	1-year	3-year	5-year	10-year	Since inception*3 (05/18/2015)	Expense ratio*4 (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution
Class I*5	2.68	2.13	6.75	3.84	0.59	2.12	4.84	0.64/0.72	02/28/2027	3.65/3.74	4.09
Bloomberg Municipal Bond Index*6, *7	2.50	2.32	7.03	3.76	1.05	2.15	–	–	–	–	–
Morningstar category average	2.11	1.99	6.18	3.86	1.09	1.86	–	–	–	–	–
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: Muni National Intermediate	286	286	276	256	239	177	256				
Class I percentile rankings*8	–	34	27	50	88	28	–				
Class I ratings*9	–		–	★★★★	★★★	★★★★★	★★★★				

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 principalfunds.com.

[*1] 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.

[*2] 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.

[*3] California Municipal Fund: Class I shares were first sold on 02/27/2015. Returns for Class I shares prior to 02/27/2015, including since inception performance, are based on performance of the Class A shares adjusted to reflect the fees and expenses of Class I shares. Class A shares were first sold 07/25/1989. Opportunistic Municipal Fund: Class I shares were first sold on 03/10/2015. Effective January 11, 2019, class C shares were converted to the respective class A shares. Returns for Class I shares prior to 03/10/2015, including since inception performance, are based on performance of the Class A shares adjusted to reflect the fees and expenses of Class I shares. Class A shares were first sold 06/14/2012. Tax-Exempt Bond Fund: Class I shares were first sold on 05/18/2015. Returns for Class I shares prior to 5/18/2015, including since inception performance, are based on performance of the Class A shares adjusted to reflect the fees and expenses of Class I shares. Class A shares were first sold 01/03/1977.

[*4] 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.

[*5] Performance assumes reinvestment of all dividends and capital gains.

[*6] California Municipal Fund: Bloomberg California Municipal Index tracks the California part of the Bloomberg Municipal Bond Index. The Bloomberg Municipal Bond represents the long-term, investment-grade tax-exempt bond market. Opportunistic Municipal Fund: Bloomberg Municipal Bond Index represents the long-term, investment-grade tax-exempt bond market. Tax-Exempt Bond Fund: Bloomberg Municipal Bond Index represents the long-term, investment-grade tax-exempt bond market.

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

[*8] 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.

[*9] 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.

Returns shown for periods of less than one year are not annualized.

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.

Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline.

Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. A portion of the Fund's income may be subject to state and/or local taxes, and it may be subject to federal alternative minimum tax (AMT) for certain investors.

Principal Fixed Income is an investment team within Principal Global Investors.

The commentary represents the opinions of the manager and may not come to pass.

The company names listed are for illustrative purposes only and do not constitute a recommendation to buy, hold, or sell any security product.

Past performance does not guarantee future results.

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.

Subject to any contrary provisions of applicable law, no company in the Principal Financial Group nor any of their employees or directors gives any warranty of reliability or accuracy nor accepts any responsibility arising in any other way (including by reason of negligence) for errors or omissions in this document.

All figures shown in this document are in U.S. dollars unless otherwise noted.

Principal
Asset Management℠

PrincipalAM.com

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.

Investing involves risk, including possible loss of principal.

Principal Funds are distributed by Principal Funds Distributor, Inc.

MM6169-57 | 08/2026 | 5816871-112026