

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

# Quarterly commentary

### SECOND QUARTER 2024

## Market review

The municipal market staged a surprisingly strong turnaround in June after two months of negative returns. With a return of 1.53%, as recorded by the Bloomberg Municipal Index, June's performance narrowed the market's year to date loss to just -0.40%, making municipals the top performing sector in investment grade fixed income through the first half of 2024. For comparison, the U.S. Treasury index returned -0.86 over the last six months. New issue sales continue to be one of the more notable themes in tax exempts thru June. With \$236 billion already issued, 2024 is running 40% above 2023's pace and the largest first half since 2007. 2024 has already recorded twenty-nine tax exempt deals worth \$1 billion or more in size-a record for any year.

Despite the glut of new issuance, demand for tax exempt has been positive, especially those seeking more risk. With a year-to-date return of 4.14% thru June, the Bloomberg High Yield Municipal Index exceeds the return of the Bloomberg Taxable Bond Index (+2.58%) while holding the top spot in any US fixed income category with respect to performance.

With economic indicators transitioning to more "bond friendly" data in late May and June, shorter dated tax exempts continued to underperform longer dated maturities, further inverting the tax-exempt yield curve. Over the three-month period since March, five-to-ten-year yields rose on average forty basis points while bonds dated twenty years or longer rose only 5 to 6 on average. Officially, two-, ten-, and thirty-year high-grade municipals ended June with yields of 3.11%, 2.84%, and 3.72%, respectively.

## Strategy review

### PRINCIPAL CALIFORNIA MUNICIPAL FUND

The Principal California Municipal Fund (PCMF) posted a return of 0.62% during the second quarter of 2024, bringing year to date returns to 1.01%. Both quarterly and year to date performance have handily bested benchmark returns (the Bloomberg California Municipal Bond Index) which were negative at -0.20% and -0.62% respectively. When measured relative to peers, the Principal California portfolio ranks favorably as well with 1st quartile rankings amongst its peers in its Morningstar category.

With the yield curve remaining inverted during the quarter, fund strategy continued to center on a "barbell" approach, tacitly taking advantage of high attractive yields in the 3-5-year maturity range while also strategically investing in 15-year area revenue bonds that have historically exhibited stable credit profiles. With air travel at record highs, the transportation sector, heavily weighted towards California airports, was the top contributor to quarterly returns. Corporate backed exempt holdings were the second-best performers, not surprisingly with a United Airlines backed credit for Los Angeles Airport the best within that group.

#### TICKER:

**California  
Municipal Fund**

**Class I: PCMF**

Class A: SRCMX

Class C: SRCCX

**Opportunistic  
Municipal Fund**

**Class I: POMF**

Class A: PMOAX

**Tax-Exempt  
Bond Fund**

**Class I: PITEX**

Class A: PTEAX

Class C: PTBCX

## PRINCIPAL OPPORTUNISTIC MUNICIPAL FUND

The Principal Municipal Opportunistic Fund (POMFX) posted a return of 1.18% exceeding the Bloomberg Municipal Index by 1.20% during the second quarter of 2024, bringing the fund's year to date total returns to 3.03%.

The fund's overweight of the transportation sector benefited its largest contributor in airports. TSA airport security checkpoint headcount set a record high on July 7. It is estimated that monthly enplanements set a record of over 89 million and a new annual record is expected. On an individual basis credits that outperformed were Port Beaumont Navigation, Oneida Indian Nation, and Suffolk Regional Off-Track Betting. Credits that experience difficulties was Last Step Recycling Project, Fulcrum Sierra Biofuels LLC Project, and GO Lab Madison LLC.

## PRINCIPAL TAX-EXEMPT BOND FUND

The Principal Tax-Exempt Bond Fund (PITEX) returned 0.34% in the second quarter of 2024, exceeding its benchmark, the Bloomberg Municipal Bond Index, by 0.36% which returned -0.02%. Additionally, the fund's year to date performance has exceeded its index by 1.34% and ranked in the top 18% with the Morningstar peer category.

Notable sector contributors to quarterly performance were holdings in tobacco, industrial revenue, and utilities. Above-average credit performers, over the quarter, were Brightline West Passenger Rail project, California Housing Finance Agency, and Port Beaumont Navigation District. Negative detractors to overall performance were Last Step Recycling Project, Atlanta Airport, and Ohio State University.

## Strategy and outlook

The Presidential election and expectations of the Federal Reserve finally loosening monetary policy will keep market volatility elevated, not only over the next quarter, but for the balance of 2024 as well. Municipal yields, both outright as well as measured on a taxable equivalent basis, are compelling now, though we suspect retail and mutual fund demand may be at times inconsistent until clarity on the election and monetary policy are known. As such, we expect carry to continue to drive asset class returns over the near term with high yield and lower investment grade municipals again outperforming. As we head into the second half of 2024, we will look to take advantage of any price correction owing to the Fed, the election, and periods of heavy supply. Targeted exposure will specifically center on more yield-oriented sectors and credits that have a demonstrated history of rating stability.

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

### Top 10 holdings<sup>1</sup>

	% of net assets
Nuveen California AMT-Free Quality Municipal Income Fund	2.3
California Municipal Finance Authority	1.9
California Educational Facilities Authority	1.9
California Pollution Control Financing Authority	1.9
San Diego County Regional Airport Authority	1.8
California Pollution Control Financing Authority	1.8
California Health Facilities Financing Authority	1.8
California Municipal Finance Authority	1.7
California Infrastructure & Economic Development Bank	1.6
California Pollution Control Financing Authority	1.5
<b>Total</b>	<b>18.2</b>

### Performance, rankings, and ratings

	Average annual total returns (%)							Yields (%) <sup>9</sup>			
	3-month	YTD	1-year	3-year	5-year	10-year	Since inception <sup>7</sup> (02/27/2015)	Expense ratio <sup>8</sup> (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution
Class I <sup>2</sup>	0.62	1.01	4.11	-1.36	1.09	2.72	4.63	0.63/0.67	02/28/2025	3.41/3.45	3.18
Bloomberg California Municipal Index <sup>3,4</sup>	-0.20	-0.62	3.05	-0.85	1.11	2.37	—	—	—	—	—
Morningstar category average	0.14	0.16	3.29	-0.55	0.88	1.80	—	—	—	—	—
Morningstar rankings and ratings	3-month	YTD	1-year	3-year	5-year	10-year	Overall				
Category and number of funds in category: Muni California Intermediate	63	62	60	58	58	45	58	—	—	—	—
Class I percentile rankings <sup>5</sup>	—	13	16	86	26	3	—	—	—	—	—
Class I ratings <sup>6</sup>	—	—	—	★★★	★★★★	★★★★★	★★★★★	—	—	—	—

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](http://principalfunds.com).**

### Top 10 holdings<sup>1</sup>

	% of net assets
Mobile County Industrial Development Authority	2.4
Oneida Indian Nation of New York	2.2
Parish of St James LA	2.2
Buckeye Tobacco Settlement Financing Authority	2.2
Suffolk Regional Off-Track Betting	2.1
Florida Development Finance Corp	2.1
California Educational Facilities Authority	2.0
Mizuho Floater/Residual Trust	1.9
Florida Development Finance Corp	1.8
Port of Beaumont Navigation District	1.7
<b>Total</b>	<b>20.6</b>

### Performance, rankings, and ratings

	Average annual total returns (%)							Yields (%) <sup>9</sup>			
	3-month	YTD	1-year	3-year	5-year	10-year	Since inception <sup>7</sup> (03/10/2015)	Expense ratio <sup>8</sup> (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution
Class I <sup>2</sup>	1.18	3.03	6.71	-1.92	1.52	3.81	3.87	0.77/0.83	12/30/2024	4.18/4.23	4.43
Bloomberg Municipal Bond Index <sup>3,4</sup>	-0.02	-0.40	3.21	-0.88	1.16	2.39	—	—	—	—	—
Morningstar category average	1.65	3.19	6.66	-1.41	1.35	3.12	—	—	—	—	—
<b>Morningstar rankings and ratings</b>	<b>3-month</b>	<b>YTD</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>Overall</b>				
Category and number of funds in category: High Yield Muni	203	193	193	185	178	118	185	—	—	—	—
Class I percentile rankings <sup>5</sup>	—	58	55	71	41	14	—	—	—	—	—
Class I ratings <sup>6</sup>	—	—	—	★★★	★★★	★★★★	★★★	—	—	—	—

Morningstar percentile rankings are based on total returns. Morningstar ratings are based on risk-adjusted returns.

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# PRINCIPAL TAX-EXEMPT BOND FUND as of June 30, 2024

## Top 10 holdings<sup>1</sup>

	% of net assets
City of Atlanta GA Airport Passenger Facility Charge	1.9
Massachusetts Development Finance Agency	1.7
Texas Municipal Gas Acquisition and Supply Corp I	1.6
Sports & Exhibition Authority of Pittsburgh & Allegheny County	1.4
State of Illinois	1.4
New York Transportation Development Corp	1.4
California Infrastructure & Economic Development Bank	1.4
Kentucky Turnpike Authority	1.4
California Housing Finance Agency	1.3
Buckeye Tobacco Settlement Financing Authority	1.3
<b>Total</b>	<b>14.5</b>

## Performance, rankings, and ratings

	Average annual total returns (%)							Yields (%) <sup>9</sup>				
	3-month	YTD	1-year	3-year	5-year	10-year	Since inception <sup>7</sup> (05/18/2015)	Expense ratio <sup>8</sup> (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/ subsidized)	12-month distribution	
Class I <sup>2</sup>	0.34	0.94	4.14	-1.42	1.23	2.64	4.89	0.57/0.64	02/28/2025	3.60/3.68	3.58	
Bloomberg Municipal Bond Index <sup>3,4</sup>	-0.02	-0.40	3.21	-0.88	1.16	2.39	—	—	—	—	—	
Morningstar category average	0.25	0.37	3.68	-0.78	1.01	1.90	—	—	—	—	—	
<b>Morningstar rankings and ratings</b>	<b>3-month</b>	<b>YTD</b>	<b>1-year</b>	<b>3-year</b>	<b>5-year</b>	<b>10-year</b>	<b>Overall</b>					
Category and number of funds in category: Muni National Intermediate	301	297	294	266	243	180	266	—	—	—	—	
Class I percentile rankings <sup>5</sup>	—	18	33	87	36	7	—	—	—	—	—	
Class I ratings <sup>6</sup>	—	—	—	★★	★★★★★★	★★★★★★	★★★	—	—	—	—	

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](http://principalfunds.com).**

<sup>1</sup> 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.

<sup>2</sup> Performance assumes reinvestment of all dividends and capital gains.

<sup>3</sup> 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.

<sup>4</sup> Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

<sup>5</sup> 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.

<sup>6</sup> 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.

<sup>7</sup> 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.

<sup>8</sup> 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.

<sup>9</sup> 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.

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.

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Past performance does not guarantee future results.

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MM6169-47 | 08/2024 | 3698961-112024



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