

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

# Quarterly commentary

### FIRST QUARTER 2025

## Market review

The first quarter witnessed noticeable strength in the 10-year Treasury with a drop in yields of 36 basis points. Meanwhile, the 10-year Municipal Market Data (MMD) rate rose 20 basis points during the quarter. March displayed a precipitous drop in municipal performance as 10-year Treasuries rose just 2 basis points while 10-year MMD jumped 40 basis points.

Ratios to Treasuries approached their cheapest levels in three years. The 10-year Municipal Bond to Treasury ratio cheapened to 76.7% from 66.7% and the 30-year Municipal Bond to Treasury ratio cheapened to 91.9% from 81.3% during the quarter. The AAA curve steepened, and credit spreads changed little. First time payment defaults totaled \$210 million in the month of March bring year to date defaults to \$746 million, an 81% increase year over year. Additional credit news demonstrated negative trends with downgrades exceeding upgrades coupled with unfavorable outlooks doubling favorably.

## Strategy review

### PRINCIPAL CALIFORNIA MUNICIPAL FUND

The Principal California Municipal Fund (PCMFX) generated a -0.15% return over the opening three months of 2025. The fund outperformed its benchmark, the Bloomberg California Municipal Bond Index, by 0.43%. Over the last 10 and 15 years, the fund has ranked in the top 13% and 4% respectively within its Morningstar peer group.

For the quarter, the largest sector contributors were IDR/PCR, transportation, and utilities, while the largest individual contributors were California IFA Brightline West, CA Waste Management Inc, and CA PCR Channelside Water Resources. The largest sector detractors were education, tender option bonds and tax backed, while the largest individual detractors were CA ED Stanford University, Tender Option Security, and Foothill/ Eastern Toll Road.

#### TICKER:

**California  
Municipal Fund**

**Class I: PCMFX**

Class A: SRCMX

Class C: SRCCX

**Opportunistic  
Municipal Fund**

**Class I: POMFX**

Class A: PMOAX

**Tax-Exempt  
Bond Fund**

**Class I: PITEX**

Class A: PTEAX

Class C: PTBCX

## PRINCIPAL OPPORTUNISTIC MUNICIPAL FUND

The Principal Opportunistic Fund (POMFX) generated a 0.01% return over the opening three months of 2025. The fund outperformed its benchmark, the Bloomberg Municipal Bond Index, by 0.23%. The Principal Municipal Opportunistic Fund ranks in the top quartile within its Morningstar category over the 5-year and 10-year time periods.

For the quarter, the largest sector contributors were transportation, IDR/PCR, and healthcare, while the largest individual contributors were California MFA Sunrise Senior Living, California IFA Brightline West, and Florida Brightline Passenger Rail. The largest sector detractors were education, tax backed, and tender option bonds, while the largest individual detractors were Illinois Toll Highway Authority, Puerto Rico General Obligation, and Bay Area Toll Authority.

## PRINCIPAL TAX-EXEMPT BOND FUND

The Principal Tax-Exempt Fund (PITEX) returned -0.26% over the opening three months of 2025. The fund underperformed the Bloomberg Municipal Bond Index by -0.14%. Over the last 10 and 15 years, the fund has ranked in the top 13% and 9% respectively within its Morningstar peer group.

For the quarter, the largest sector contributors were IDR/PCR, transportation, and utilities, while the largest individual contributors were California IFA Brightline West, California MFA Sunrise Senior Living, and New York City Water Revenue. The largest sector detractors were tax backed, education, and tender option bonds, while the largest individual detractors were Allegheny PA US Steel Corp, AZ Great Lakes Senior Living, and Atlanta Airport Passenger Facility Charge.

## Strategy and outlook

Initially both Treasuries and municipals appreciated noticeably with a flight to safety to mitigate tariff-fueled risk. However, policy uncertainty has resulted in global upheaval and risk has bled into most asset classes. Therefore, liquidity has become the priority opposed to risk aversity.

The heavy municipal bond issuance during the quarter is expected to slow until some stability returns to the market. The Federal Reserve (Fed) put, nowhere to be found, disappointed both institutional and retail investors. The Fed is in a difficult position. On the one hand, growth is certainly slowing but a proactive approach to short-term rates is being curtailed by stubborn inflation. The risk of losing tax-exempt statuses for some sectors in the municipal market is still a wild card. Going forward, the financial climate continues to be hypersensitive to daily disclosures. The funds' strategy will be to outweigh essential service credits whose attributes prosper in either economic scenario.

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

Top 10 holdings<sup>(1)</sup>

	% of net assets
California Infrastructure & Economic Development Bank	2.3
California Housing Finance Agency	1.9
California Educational Facilities Authority	1.9
California Public Finance Authority	1.9
California Pollution Control Financing Authority	1.8
California Pollution Control Financing Authority	1.8
California Health Facilities Financing Authority	1.8
San Diego County Regional Airport Authority	1.8
California Municipal Finance Authority	1.7
Los Angeles Unified School District/CA	1.5
<b>Total</b>	<b>18.3</b>

Performance, rankings, and ratings

	Average annual total returns (%)						Yields (%) <sup>(2)</sup>			
	3-month	1-year	3-year	5-year	10-year	Since inception <sup>(3)</sup> (02/27/2015)	Expense ratio <sup>(4)</sup> (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/subsidized)	12-month distribution
Class I <sup>(5)</sup>	-0.15	2.06	1.47	1.42	2.28	4.57	0.62/0.65	02/28/2026	3.60/3.64	3.42
Bloomberg California Municipal Index <sup>(6),(7)</sup>	-0.48	0.96	1.60	0.96	2.07	-	-	-	-	-
Morningstar category average	-0.06	1.61	1.58	1.17	1.63	-	-	-	-	-
Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall				
Category and number of funds in category: Muni California Intermediate	64	61	58	57	46	58				
Class I percentile rankings <sup>(8)</sup>	-	14	59	19	13	-				
Class I ratings <sup>(9)</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
California Public Finance Authority	2.7
California Infrastructure & Economic Development Bank	2.5
Atlanta Development Authority/The	2.4
Atlanta Development Authority/The	2.3
New Hope Cultural Education Facilities Finance Corp	2.3
California Public Finance Authority	2.1
Lower Alabama Gas District/The	2.0
Parish of St James LA	1.9
Puerto Rico Sales Tax Financing Corp Sales Tax Revenue	1.9
Oneida Indian Nation of New York	1.8
<b>Total</b>	<b>21.8</b>

## Performance, rankings, and ratings

	Average annual total returns (%)						Yields (%) <sup>(2)</sup>			
	3-month	1-year	3-year	5-year	10-year	Since inception <sup>(3)</sup> (03/10/2015)	Expense ratio <sup>(4)</sup> (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/subsidized)	12-month distribution
Class I <sup>(5)</sup>	0.01	2.91	1.23	2.81	3.26	3.78	0.80/0.85	12/30/2025	4.34/4.36	4.71
Bloomberg Municipal Bond Index <sup>(6),(7)</sup>	-0.22	1.22	1.53	1.07	2.13	-	-	-	-	-
Morningstar category average	-0.03	3.36	1.28	2.28	2.73	-	-	-	-	-
Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall				
Category and number of funds in category: High Yield Muni	198	195	180	174	118	180				
Class I percentile rankings <sup>(8)</sup>	-	68	55	24	21	-				
Class I ratings <sup>(9)</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 March 31, 2025

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

	% of net assets
Massachusetts Development Finance Agency	2.4
City of Atlanta GA Airport Passenger Facility Charge	1.9
California Infrastructure & Economic Development Bank	1.9
New York Transportation Development Corp	1.4
State of Illinois	1.4
Kentucky Turnpike Authority	1.4
Louisiana Local Government Environmental Facilities & Community Development Authority	1.3
California Housing Finance Agency	1.3
Maricopa County Industrial Development Authority	1.2
City of Houston TX Airport System Revenue	1.1
<b>Total</b>	<b>15.5</b>

## Performance, rankings, and ratings

	Average annual total returns (%)						Yields (%) <sup>(2)</sup>			
	3-month	1-year	3-year	5-year	10-year	Since inception <sup>(3)</sup> (05/18/2015)	Expense ratio <sup>(4)</sup> (net/gross)	Expense limit expiration date	30-day SEC (unsubsidized/subsidized)	12-month distribution
Class I <sup>(5)</sup>	-0.26	1.25	1.26	1.72	2.23	4.83	0.60/0.67	02/28/2026	3.71/3.80	3.85
Bloomberg Municipal Bond Index <sup>(6),(7)</sup>	-0.22	1.22	1.53	1.07	2.13	-	-	-	-	-
Morningstar category average	-0.08	1.70	1.58	1.22	1.74	-	-	-	-	-
Morningstar rankings and ratings	3-month	1-year	3-year	5-year	10-year	Overall				
Category and number of funds in category: Muni National Intermediate	292	283	260	241	174	260				
Class I percentile rankings <sup>(8)</sup>	-	71	78	17	13	-				
Class I ratings <sup>(9)</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).**

- (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. © 2025 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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