CHARLIE PULIRE IS AT THE RIGHT PLACE, AT THE RIGHT TIME

Charlie Pulire (Senior Portfolio Manager, Municipal Bond Strategies) is having one of those moments where you feel like everything in your life has led up to this moment. Once upon a time, he graduated college with a degree in engineering, but would eventually go to business school focusing on finance and economics. And he sees pathways and connections between those two disciplines that have shaped how he approaches the world in general, and his role as a portfolio manager of municipal bonds specifically. Charlie recently sat down to discuss his background, his career, and how everything has brought him to this point in time.

"I think when you have my foundational view of the world," he explains, "You try to solve that interaction between math and the physical world. And then you see a market like the muni market where it's this last bastion of over-the-counter-traded, old school bond market, there's a similar marriage of the qualitative and the quantitative. My background affords me a prism to view each opportunity with two sets of glasses."


Charlie Pulire, Senior Portfolio Manager

That flexibility is invaluable in a market as quirky and cumbersome as the municipal bond market. As Charlie points out, "There are 60,000 issuers in this market, and there are going to be credits that are issued and then sit in portfolios for months or years on end and never see the light of day…until they do. And the moment they do, you need to be prepared to come up with an independent assessment as to the value of those bonds."

Charlie started on the credit analysis side of the portfolio management process, an experience from which he came to understand and appreciate the value and role that credit analysis needs to play in a dynamic portfolio construction process. And that is all about identifying and quantifying the fundamental, intrinsic value of a given credit. "The analyst needs to glean from the finer details what are possible, and what are plausible, headwinds for any credit. And, once you've somehow quantified those things, assess the risk-reward trade off with regards to the interest rate and the structure of the bond. And whether or not there's the potential wherewithal on behalf of the issuer to endure and survive the risks and continue to pay," he believes.

Initially, Charlie did not intend to eventually move from the credit analysis side to the portfolio management side. But, once he saw the dynamic environment that portfolio managers operate in, he was hooked. “Early on in that period of time as a credit analyst,” he says, “Especially in the culture that we had in Rochester, where we worked so close together, and the level of collaboration that we had, I started to see first-hand what the portfolio management process and day-to-day responsibilities entailed. And it really resonated with me. I felt like it was a competitive activity that you had to really, continually, every day bring your A-game. And, for myself, to constantly be working the mental juices, to be analytical, but also to be competitive, and knowing that there was a deep responsibility as well - when people are entrusting their money, their savings to you…I think there was a portion of this that I felt was going to be personally and professionally satisfying for a long period of time.”

Having cut his teeth on the credit analysis side, Charlie was able to build on that as a portfolio manager. And he had the background to be able to establish relevant and pertinent filters for the vast amounts of information through which portfolio managers must work. But, in the municipal bond market, there is the added challenge of liquidity to deal with. As Charlie says, “Especially in this market, you are really subject to the day-to-day availability of opportunity. Unlike a well-functioning domestic equity market, that you can buy or sell any one of those securities on a given day, munis really are so lightly and thinly traded – less than 1% of that market trades any day. So, every morning you start your day not knowing what is going to be available. With that there’s a certain reliance on credit, because the depth of the market is quite vast. You need to have a strong partnership with your credit team. Because the credit team is providing that knowledge base of the credit itself, to help me assess the risks for the specific credit. So, I’d say fundamentally that credit part is a tenet that then allows the cascading waterfall of additional factors to be analyzed. Which then determines whether to trade or not to trade.”

After Charlie reflects on that last statement, he takes it a step further. “I mean relative value analysis is really, fundamentally what you’re doing. Not to beat a dead horse, but you are subject to whatever the market has available that day. How an opportunity fits in the balance of a specific portfolio, and then weighing what current opportunities the market presents against risk and return - it’s always a relative value analysis. In that same vein, everything in my portfolio is for sale. It may be for sale at a price that may not be offered in the market, but it’s for sale. So, you’re constantly looking at what is ‘this’ relative to ‘that’. ‘This’ being the market, ‘that’ being the portfolio. Or even ‘this’ being one potential buy or sell, and ‘that’ being another potential buy or sell.”

As if to prove his belief in a bottom-up perspective, Charlie then considers the opposite – a top-down analysis of the market. "I think the market struggles with a sometimes-heavy reliance on top-down analysis. It is predicated on the ability to forecast things like interest rates, or forecast things like broad economic changes that could happen. The municipal market, the US economy, these are extremely complicated systems. And I have never observed anyone have the ability to accurately predict, time in and time out, what the nature of that market is going to be, driven by those top-down factors. To ignore top-down analyses is not responsible. Because you have to at least be aware of some of the current sentiment and the behavior that is impacting the market from the top-down. But, to rely on top-down analyses as a driving factor for how you're going to position a portfolio's duration, or its exposure to certain sectors, I think is using a blunt instrument where you really need much a greater level of precision."

When it comes to executing a strategy, or even ensuring you have access to all the pertinent information you may need, the key is relationships. Portfolio managers like Charlie lean heavily on long-standing relationships that they have forged with sell side coverage, the rewards for which are numerous. "The relationships that are held in this market are sometimes paramount to your ability to execute," he says. "The market can be very opaque. And the ability to have partnerships, long-standing ones, with the sell side that are predicated not just on professional, transaction-based relationships, but personal relationships built over many, many years, provides an additional level of information flow that can be very valuable."

As Charlie warms to this subject you can almost see his mind start working through the permutations and types of interactions with the street that may come to pass. He continues, "Because, again, you're operating on a day-to-day basis, executing this economic activity of bond trading, there's a certain level of discretion that your counterparties have. When it comes to how many bonds are being allocated to you versus a peer or competitor. Or you're maybe taking a portion of a deal. Or you're the catalyst that helps get something finished. A partnership of providing feedback to the investment bankers when there are deals that struggle. And often peers don't know, or don't have an opinion as to, what is going to improve that credit. We certainly do, and I think having a long history of experience of knowing that that's opportunity. A deal getting hung up is opportunity for us to provide the types of proposals and solutions that will make it a better credit for our portfolio. But then also require potentially above-market yields, because it seems to be an out of favor or undesired opportunity."

And there's the key: to Charlie and the Principal Street Partners Municipal Bond Strategies Team, it's ultimately about providing value for the shareholder. Something that's easy to speak to, but harder to make manifest. That's perhaps better illustrated on the other side of a transaction – when trying to sell a bond. "When you're selling, you're essentially demanding liquidity from the market," Charlie explains. "And liquidity in the muni market is an enigma that is often chased, and attempts to measure and quantify it are made. But it differs. Perhaps you're attempting to sell a large block of bonds, and your reputation that you're going to act in a way that is equitable to the counterparties, or even the intermediary, is paramount. If there's fear that you're going to turn around and sell even more of those same bonds to a competitor, then you're going to build a reputation that will be scrutinized and there will be skepticism from the sell side about providing support or liquidity. So again, having a strong reputation, having existing, long-lasting relationships, are the external factors that can help with the goal of achieving best execution for our shareholders."

It may seem paradoxical, but size is not necessarily a leading indicator of effectiveness or efficiency where the end goal is to maximize value to shareholders. As Charlie says, "The fewer interruptions, the fewer barriers, the fewer frictions you have in a well-thought-out, well-designed process, the better and more robust that process is. And I've seen this first-hand. Like all things systematic, the more complicated it is, the tougher it is for that system to operate without issues. Or loss, if you want to talk about it from an engineering standpoint. You want to talk about thermodynamic loss, mechanical loss, then things start to get interesting because there are a lot of corollaries there. But it's always about making sure you're getting the most efficient harnessing of whatever power you're generating, and not having it somehow bog down."

The launch of the Principal Street Short Term Municipal Fund marks the second time Charlie has launched a short term municipal bond fund in his career. And again, his cumulative past experience will come to bear on his next actions. He has a very clear image of the place in which this new short fund will exist. "From a business standpoint, I think it will play an important role of rounding out our product mix, pairing really well with our high yield offering. Because we'll have an additional product and exposure to the market that is not really provided through the high yield product. But it's really easy for a hybrid combination of those two opportunities to be built by an advisor, to provide the appropriate solution for any client. So, I think, first and foremost, it is going to provide exposure to our process to a different part of this market. And still provide real yield and performance."

Looking back at his prior experience launching and building a short term municipal bond fund, Charlie sees the value of real-world experience come into play. "Yeah, that was almost twelve years of experience, right from the very infancy of a fund to being a couple billion dollars (assets under management). And that happened over quite a few economic and credit-driven cycles. And I think really the confidence of executing the same strategy layered on those years of additional experience and wisdom, will probably yield a product that's a better version than the first time – which was pretty darn successful. Like anything, you take that first hike on a trail or whatever, the first time you do it it's arduous and you never know where the next turn's going to lead you. But the next time you do it, you're better prepared. So, I think that's the part that I look forward to, is being able to leverage all of that knowledge and wisdom that will facilitate making this an even better version of that first fund."

So, what should potential investors expect from the Principal Street Short Term Municipal Fund? "By nature, this strategy is going to attempt to combine low volatility with compelling yield. Often people will ask what I'm doing to make it less volatile but higher yielding. The simplistic view in our market is you have to take on more default risk to get more yield. But that's not necessarily the case. There are certain structures of bonds in the muni market that are still very high quality in credit but that have other risks that can be diversified quite easily in a fund. They're risks of uncertainty. Risks of the cash flow. Will these bonds be called, for example, sometime this month? Or will they remain outstanding for another three years until they mature? And that is sometimes a risk that portfolio managers aren't willing to take because it's laborious. You have to constantly be on top of your portfolio. Knowing that some portion of it may be redeemed and you'll have capital to put back to work at prevailing market rates."

Charlie smiles as he's about to get to the payoff: "But the interesting part is, in this market, you're able to charge a high premium from the market for taking on those risks. So, I think that the unique part of this fund will be a tenet that existed in my first fund, where you dig, you find, you provide liquidity for small odd-lots. You buy unique structures, things that are a little unusual, and you diversify them across many holdings. And then you end up with this organic entity, if you will, that just acts differently. You find yourself sometimes almost the contrarian. You are the benefactor of that defensive structure. And you're able to get back to this other idea of providing liquidity to the market. And when you provide liquidity to a market that demands it, like any product, if you are providing a solution or a service where there's high demand, you get to charge higher rents for it, so to speak. So, I think it will be unique."

Finally, this type of strategy should be particularly valuable during periods of adverse volatility in the market. Being in a position to be able to provide liquidity to the market during such periods is extremely powerful. “There have been several times, whether it was comments by Meredith Whitney that had market impacts, Detroit’s bankruptcy in 2013, or Puerto Rico bankruptcy announcements, Trump Tantrum, just time and time again there’s been an event. And, if you look like everyone else in the field, then you’re going to be subjected to the same exact forces in that field, that require you to behave the same. And the last thing you want to be is in the boat and everyone’s all shifting to one side together. You don’t want to be with that group. When everyone’s running for the exit you want to find the other door, or the other place to stand, not be forced to stay with that crowd. So, by building portfolios that are different than the crowd, you are often afforded the ability to remain independent of the crowd behavior.”

The Principal Street Short Term Municipal Fund is a new offering with limited operating history. The Fund’s inception date was April 27, 2022.

You should consider the Fund’s investment objectives, risks, and charges and expenses carefully before you invest. This and other important information is contained in the Fund’s summary prospectus and prospectus, which can be obtained by calling 1.877.914.7343 or visiting our website at principalstreetfunds.com. Read carefully before you invest.

Mutual Fund investing involves risk. Principal loss is possible. The Fund’s value investments are subject to the risk that their intrinsic values may not be recognized by the broad market or that their prices may decline. Fixed-income securities are or may be subject to interest rate, credit, liquidity, prepayment and extension risks. Interest rates may go up resulting in a decrease in the value of the fixed-income securities held by the Fund. High-yield fixed income securities or “junk bonds” are fixed-income securities held by the Fund that are rated below investment grade are subject to additional risk factors such as increased possibility of default, illiquidity of the security, and changes in value based on public perception of the issuer. The municipal market is volatile and can be significantly affected by adverse tax, legislative or political changes and the financial condition of the issuers of municipal securities. The Fund is new with no operating history ax, legislative or political changes and there can be no assurance that the Fund will grow to or maintain an economically viable size.

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