

## GENERAL COMMENTS

We closed out 2019 on yet another positive note, with the Fund having benefited from the continuing backdrop of a strong fixed income market, an accommodative Federal Reserve, solid credit selections, and an increasing asset base. As a result, we close out the 4th quarter with the Fund demonstrating strong performance for both the quarter and for the year, all the while generating a very strong stream of federally tax-free income. The net result is that the Fund continues to achieve its stated goals of producing consistent monthly income and total return.

Consistency is a primary tenet for Principal Street, and this effort has translated well to the Fund in terms of both the distribution yield and total return. We continue to be pleased with our investment strategy, positioning in the market, credit selections, and the performance year-to-date. The operations of the Fund continue to run smoothly, the Fund is growing, and we have found new credits that we believe represent good value. The past year proved to be a very attractive time to own high yield tax-exempt securities, and our belief is that this favorable backdrop will continue for 2020. Indeed, the macroeconomic backdrop is largely positive – certainly regarding inflation and the direction of rates, and the credit fundamentals of both the Fund and the asset class remain strong. We also believe that the Fund’s attributes -- higher yields, the potential for capital appreciation, diversification, its low correlation\* (see disclosure) to other asset classes, and its strong relative value in the fixed income universe -- make it an attractive addition to many portfolios. This is consistent with our views since the inception of the Fund, and we discuss all of this in more detail below.

## MARKET REVIEW

Our view for some time has been that the majority of economic data that we analyze, including treasury yields, GDP growth, inflation, Fed Funds, and bond yields, is trapped in a relatively narrow trading band. Combined with the value in our market, tight supply, and voracious demand, the high yield tax-exempt market and the Fund have performed very well within these parameters. Importantly, we believe that these conditions, and the subsequent performance, should continue into 2020. Additionally, we remain resolute in our belief that our focus on high yield and project revenue debt is the right strategy at the right time.

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During the quarter, the Bloomberg Barclays High Yield Municipal Bond Index generated a return of 0.90%, following the 3rd quarter's return of 2.84%, representing a very strong year thus far. The investment grade tax-exempt market (as represented by the Bloomberg Barclays Municipal Bond Index) was up 0.74% during the same period, following the 3rd quarter's return of 1.58%. Overall, the high yield tax-exempt market was largely fueled by the accommodative interest rate environment in the period triggered by the latest moves from the Federal Reserve that resulted in three rate cuts during the year. We believe that the Fed will continue to be both deliberate and modest in its actions. The market continues to enjoy a tailwind resulting from the favorable combination of low supply and high demand. This dynamic again helped to bolster prices in our market. With these strong market technicals and solid credit selections, we have avoided any dramatic adverse swings in performance.

As we have espoused for several years, we believe that the low-yield environment is here to stay for the foreseeable future and that finding meaningful yield has become increasingly difficult. We continue to believe in the attributes of the Fund -- namely yield, the potential for total return, diversification, low correlation, and attractive relative value. In the current low-yield environment, the yield generated, both on a relative and absolute basis, is very significant in our opinion, comparing favorably to both Treasuries and Corporates. As of quarter end, the important municipal/treasury ratio is currently about 90%, an indication that tax-exempt prices remain attractive.

Certainly, an important attribute for the projects in which we invest is the low correlation to other asset classes. The majority of our investments are tangible brick and mortar, essential-need projects that are secured by senior liens and in our view have strong underlying collateral value and very solid enterprise value. These projects typically continue to operate regardless of other market, world or political events. For example, a private-pay assisted living facility in Florida is usually not influenced by global trade policy, immigration policy, or tax policy. We believe that much of our asset class's resilience can be attributed to this low correlation.

## QUARTERLY PERFORMANCE REVIEW

### AVERAGE ANNUAL TOTAL RETURNS AS OF 12/31/19

	Q3	1 YEAR	SINCE INCEPTION 9/15/17	GROSS EXPENSE RATIO: 1.84% NET EXPENSE RATIO: 0.75% <sup>1</sup>
PRINCIPAL STREET HIGH INCOME MUNICIPAL FUND (GSTAX)	0.75%	9.42%	8.28%	
BLOOMBERG BARCLAYS HIGH YIELD MUNICIPAL BOND INDEX	0.90%	10.68%	7.35%	30-DAY SEC YIELD (SUBSIDIZED): 5.62% 30-DAY SEC YIELD (UNSUBSIDIZED): 5.59%

*The performance data quoted represents past performance. Past performance does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than their original cost and current performance may be lower or higher than the performance quoted. For the most recent month end performance, please visit [principalstfunds.com](http://principalstfunds.com).*

The Principal Street High Income Municipal Fund Institutional Class returned 0.75% in the 4th quarter, while the Fund's benchmark, the Bloomberg Barclays High Yield Municipal Bond Index, returned 0.90%, an underperformance of 15 basis points (bps). This modest underperformance can be largely attributed to two broad sectors that we do not participate in, namely tobacco zero coupon bonds and a variety of Puerto Rico credits, both of which we have eschewed due to the poor credit fundamentals. We believe that the index has become skewed due to the significant percentage of Puerto Rico and Master Settlement Tobacco bonds that are represented in the Index and are reticent to overweight the Fund in any one sector, particularly a sector in which we do not have faith in the credit fundamentals. We continue to adhere to our disciplined investment approach that we believe will help us avoid problem credits and will provide solid returns over the longer term, even at the risk of temporarily underperforming during different periods in market. Although part of our portfolio management is to be aware of the index, we are in no way an index fund, instead providing active management in project revenue bonds that we believe will provide stability in the portfolio over the long term. Additionally, we do not employ leverage in the Fund, which we believe would add unwanted volatility to the equation.

At the end of the period, the Fund had \$167 million of assets under management and 84 credits. The Fund continues to experience modest growth and we have added credits accordingly.

Our investments generated attractive income as many of the bonds we own continued to benefit from a modestly healthy economy. At the end of the period, the Fund had a 30-day SEC yield (subsidized) of 5.62%, which equates to a taxable-equivalent yield of 8.92% at the highest federal tax bracket of 37%. This distribution yield is one of the highest in the Morningstar high yield municipal bond funds universe. As stated above, we believe this yield continues to be very attractive on both a relative and absolute basis.

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We continue to overweight healthcare, especially the senior care sector. As a general rule, we love the demographics and market strength for senior care, and we take comfort that we can be overweight in the sector due to the independence of each project from one another and the private-pay model that the projects employ. The private pay component – unlike skilled nursing and hospitals – mitigates the common denominator of Medicare and Medicaid, which we believe can be detrimental in the event of reimbursement cuts. We have also added a number of industrial, manufacturing, and recycling facilities to the portfolio. This is a broad sector that we believe possesses solid value and tremendous opportunity for carefully selected credits.

The Fund realized significant gains from its investment in Gladieux Metals Recycling, a spent catalyst recycling facility that experienced a jump in price due to the facility's improving operations. This has proven to be a very strong investment that we anticipate will remain in the portfolio for years to come. Conversely, the Fund experienced its first significant issue with Windy City, a series of four Chicago area multifamily projects that experienced a significant decrease in price due to a series of events, including reporting and operational issues, and possible fraud. We are in the midst of a restructuring of the bond and possible litigation.

Windy City is certainly a reminder of some of the risks associated with the Fund and the high yield asset class. We are active portfolio managers and work hard in seeking to mitigate the risks through our thorough investment process. However, periodically a project does not work according to plan, and this is where the diversification of the Fund plays such an important role, inasmuch as the Fund has been able to absorb the infrequent loss and still generate, in our opinion, significant performance.

Overall, we believe the Fund maintains a solid foundation that has generated both tax-free income and total return.

## CORE TENETS AND POSITIONING

As always, we adhere to our core beliefs:

- In the credit fundamentals for both the portfolio and the high yield market in general;
- That the Fund is well-positioned and that our focus on project revenue debt has been and should continue to be a winning formula for generating attractive tax-exempt income and capital appreciation;
- That investors continue to search for meaningful yield, and that both the Fund and the asset class have the ability to provide that;
- That the asset class represents some of the best value in the fixed income universe, a bold claim that has been reinforced by the attractive income generated by the Fund;
- That over time, demand should continue to exceed supply on the long end of market (where the Fund invests), propelling prices higher;

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- That the Fund continues to offer low correlation to other asset classes and significant diversification, which may offer stability when other markets are more volatile.

Inherent in these core tenets is that we continue to ascribe to the following assumptions:

- The Treasury market will continue to trade in a narrow band;
- The Fed will continue to move cautiously and modestly;
- Inflation will not play a major role in 2020, remaining in the 2% -2.5% range;
- The projects in the Fund, many of which are essential need, should operate well and continue to generate a high stream of federally tax-free income.
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These views should sound very familiar, given that it has been our working thesis for some time. Taken in tandem with our stringent investment process, this has proven to be an effective combination for generating consistent and reliable federally tax-free income and capital appreciation since the Fund's inception. We believe our credit selection continues to be the engine that drives performance and have experienced few defaults.

We have the ability to analyze difficult credits that may represent good value, and to bring the expertise to work through problem credits that may develop over time. Naturally we try to avoid problems with our credits but possessing the tools to work through a problem is an important asset.

#### TAX-FREE INCOME VERSUS TOTAL RETURN

Although we are very sensitive to the fact that no investor wants to incur losses, we believe that all investors need to understand that both the Fund and asset class will fluctuate in price. Often this has little to do with the composition or fundamentals of the portfolio itself, but rather with the external factors that influence markets – politics, Federal Reserve policy, fiscal policy, and US and global growth prospects, to name only a few. We encourage our investors to focus on the consistency and high level of income that has been generated by the Fund – its primary objective – and to be calm if the Fund has moderate swings in valuation -- either up or down. These moderate swings are normal, even in a fixed income product and can be influenced by far-reaching factors.

#### LOOKING FORWARD

Our outlook remains largely unchanged. With an attractive macroeconomic environment as our backdrop, we remain positive in our outlook for the Fund and the asset class. In our opinion, the strength and value in our market, both relative and absolute, is helping to attract new investment dollars that, in turn, have bolstered prices and total return.

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Overall, we continue to be pleased with the Fund's performance and positioning within the market. Many of the indicators that we monitor suggest a positive outlook for the bond market, and in our opinion for yield, in particular:

- On a relative basis the high yield tax-exempt market has some of the best value / yields available in the fixed income universe, without much of the volatility that the corporate market, for instance, is experiencing;
- As of the quarter end, treasury rates remained low, with the 30-year bond at 2.39% and the 10-year bond at 1.92%; All eyes seem to be focused on the specter of a global economic slowdown, mitigating the idea of inflationary pressures and a making fixed income products more desirable;
- All eyes seem to be focused on the specter of a global economic slowdown, mitigating the idea of inflationary pressures and a making fixed income products more desirable;
- The Federal Reserve has adopted a dovish stance towards interest rate increases. In our opinion, this stance should favor the Fund and fixed income products;
- The muni / treasury ratio is about 90%, suggesting that muni bonds remain cheap relative to other asset classes;
- The supply / demand imbalance remains in place, suggesting that our market may experience lower yields rather than higher, which could generate positive performance.

## OUR PHILOSOPHY

Our philosophy remains a constant. Our goal is to provide a quality product for our investors and to provide quality service, as well. As we continue to grow, we look forward to more conversations about your investment in the high yield tax-exempt asset class, our investment process and goals, our efforts to find yield and generate income in a difficult environment and to add diversification to your portfolios. This dialogue is an integral part of our philosophy, and consistent with the theme of transparency and accessibility that governs the way we manage the Fund. As always, we adhere to the four cornerstones of our strategy and investment philosophy at all times:

- **Credit** - applying a rigorous top down / bottom up credit-driven investment process that seeks to mitigate risk, preserve capital, enhance income and increase the potential for capital gains;
- **Value** - finding and unlocking value in a selective asset class;
- **Transparency** - providing transparency in our investment process and outlook; and
- **Accessibility** - working directly with you, our clients, to answer a variety of questions, offer advice where we are able and help enhance your portfolio.

***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 [www.principalstreetfunds.com](http://www.principalstreetfunds.com). Read carefully before you invest.***

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*Opinions expressed are subject to change at any time, are not guaranteed and should not be considered investment advice.*

*Fund holdings and sector allocations are subject to change and are not recommendations to buy or sell any security. Current and future portfolio holdings are subject to risk.*

*The Principal Street High Income Municipal Fund's primary investment objective is to provide current income exempt from regular federal income tax. Income may be subject to state or local tax.*

*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. Investments in larger companies are subject to the risk that they are sometimes unable to attain the high growth rates of successful, smaller companies, especially during extended periods of economic expansion. Variable and floating rate securities provide for a periodic adjustment in the interest rate paid on the obligations. ETNs are subject to the credit risk of the issuer. 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, tax, legislative or political changes and there can be no assurance that the Fund will grow to or maintain an economically viable size.*

*Tax Equivalent Yield is the interest rate which must be received on a taxable security to provide the bondholder the same after-tax return as that earned on a tax-exempt security. The tax rate used to calculate the Taxable Equivalent Yield is the 37% marginal federal income tax bracket.*

*SEC 30-Day Yield is based on a 30-day period ending on the last day of the previous month. It is computed by dividing the net investment income per share earned during the period by the maximum offering price per share on the last day of the period. The yield figure reflects the dividends and interest earned during the period, after the deduction of the funds expenses. A subsidized yield takes into consideration the expenses paid by the advisers.*

*Bloomberg Barclays High Yield Municipal Bond Index: The US Municipal Index covers the high yield portion of the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds.*

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*Bloomberg Barclays Municipal Bond Index: Unmanaged Index that is considered representative of the broad market for investment grade, tax-exempt bonds (generally, bonds rated BBB by Standard & Poor's and Fitch or Baa and better by Moody's are considered Investment Grade), with a maturity of at least one year.*

*The Municipal/Treasury Ratio is a comparison of the current yield of municipal bonds to U.S. Treasuries. It aims to ascertain whether or not municipal bonds are an attractive buy in comparison.*

*Correlation: A statistical measure that determines how assets move in relation to each other. It is measured on a scale of -1 to +1. A perfect positive correlation between two assets has a reading of +1. A perfect negative correlation has a reading of -1.*

*A basis point is one one-hundredth of one percent.*

*Diversification does not guarantee a profit, nor does it protect against a loss in a declining market.*

*High yield bonds, investment grade municipal bonds, tax-exempt bonds, and other asset classes have different risk profiles, which should be considered when investing. All investments contain risk and may lose value.*

*<sup>1</sup>The contractual Operating Expenses Limitation Agreement is indefinite but cannot be terminated through at least December 29, 2020.*

*Principal Street Partners is the Investment Advisor to the Principal Street High Income Municipal Fund, which is distributed by Quasar Distributors, LLC.*

## CONTACT INFORMATION

61 Fletcher Street  
Winchester, MA 01890  
781-729-0962