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Active Muni-Bond Funds for the Core of Your Portfolio.

These mutual funds and ETFs receive top ratings from Morningstar's analysts.

Morningstar's Guide to Active Fixed-Income Investing lays out the case for active bond funds. In short, the complexity and inefficiencies of the bond market spell opportunity for skilled portfolio managers.

While most investors focus on taxable bonds, the argument for active investing applies to the municipal-bond market as well. In "How to Use Municipal-Bond Funds in a Portfolio," Amy Arnott and Margaret Giles provide a primer on the asset class, part of Morningstar's portfolio basics series. Muni bonds are issued by state or local governments to raise money for day-to-day operations and public projects. The interest paid on these bonds is usually exempt from federal income taxes and may also be exempt from state and local taxes for investors who live in the state or municipality where the bond was issued.

Investors, particularly those in higher tax brackets, can therefore benefit from holding municipal-bond funds in their taxable accounts. Strategies in the muni national intermediate Morningstar Category are appropriate holdings for a core portfolio, as Morningstar's Role in Portfolio framework explains. To home in on worthwhile actively managed offerings, the Morningstar Medalist Rating is a good place to start, as it identifies funds that are likely to outperform over a market cycle.

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morningstar.com

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