

## Investment Strategy

The investment seeks to provide long-term growth of capital. The fund normally invests at least 80% of net assets (plus any borrowings for investment purposes) in the common stocks of small, medium, and large-capitalization companies. It may invest up to 20% of assets in both REIT securities and below-investment-grade fixed-income securities.

## Portfolio Managers

### Philip M. Foreman, CFA

Since 03/01/2002, M.B.A., University of Puget Sound

### Daniel R. Coleman

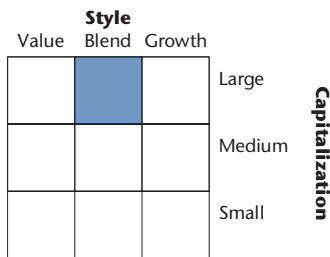
Since 05/19/2010, M.B.A., New York University



## Morningstar Category & Style Box™

as of 05/31/2010

Category: Large Blend



## Average Annual Total Returns<sup>1</sup> as of 06/30/2010

|                                      | Year-to-Date | 1-Year | 3-Year | 5-Year | 10-Year | Since Inception |
|--------------------------------------|--------------|--------|--------|--------|---------|-----------------|
| <b>Capital Appreciation Fund (A)</b> |              |        |        |        |         |                 |
| Excluding Sales Charge               | -7.04%       | 14.18% | -6.20% | 1.23%  | 2.56%   | 11.66%          |
| Including Sales Charge               | -12.15%      | 7.92%  | -7.95% | 0.09%  | 1.98%   | 11.39%          |
| Morningstar Percentile Rankings      | –            | 34     | 9      | 13     | 11      | –               |
| Number of Funds in Category          | 2140         | 2062   | 1810   | 1486   | 772     | –               |
| <b>Capital Appreciation Fund (C)</b> |              |        |        |        |         |                 |
| Excluding Sales Charge               | -7.45%       | 13.03% | -7.11% | 0.29%  | 1.63%   | 10.68%          |
| Including Sales Charge               | -8.38%       | 12.03% | -7.11% | 0.29%  | 1.63%   | 10.68%          |

Investment results shown represent historical performance and do not guarantee future results. Your investment's returns and principal values will fluctuate with changes in interest rates and other market conditions so the value, when redeemed, may be worth more or less than original costs. Current performance may be lower or higher than the performance shown. For more information, including the most recent month-end performance, visit [principalfunds.com](http://principalfunds.com), call your financial professional, or call 800-222-5852. A sales charge may apply as follows: Class A shares: maximum up-front sales charge of 5.50% and Class C shares: contingent deferred sales charge of 1% on redemptions made during the first 12 months. See the prospectus for details. Performance listed with sales charge reflects the maximum sales charge.

Where gross and net expense ratios differ, Principal Management Corporation has contractually agreed to limit the investment option's expenses. Differences also may be due to Principal Management Corporation's decision to pay (through the same dates) certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

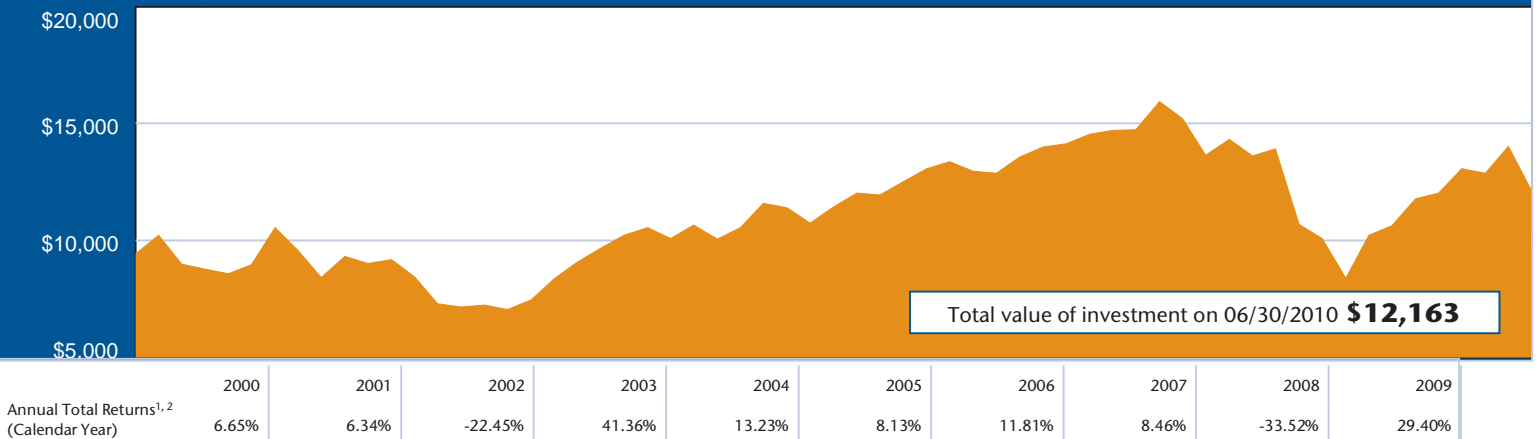
## Operations

|                                     |            |
|-------------------------------------|------------|
| Total Net Assets (mil.)             | \$878.29   |
| Class A Inception Date              | 11/24/1986 |
| Class C Inception Date              | 03/01/2002 |
| Extended Performance Inception Date | 11/24/1986 |

## Total Investment Expense

|         | Gross Expense Ratio | Net Expense Ratio | Expiration Date Contractual Cap | Waiver |
|---------|---------------------|-------------------|---------------------------------|--------|
| Class A | 1.07%               | 1.07%             | N/A                             | N/A    |
| Class C | 2.15%               | 2.15%             | N/A                             | N/A    |

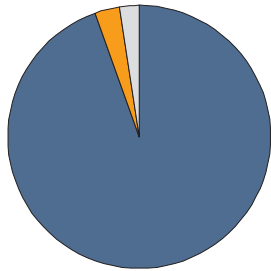
## Value of a \$10,000 Investment<sup>1</sup> (Represents performance for Class A shares adjusted for the maximum sales charge and assumes the reinvestment of distributions)



<sup>1</sup> Performance assumes reinvestment of all dividends and capital gains. Extended performance is calculated based on the historical performance of the fund's oldest share class, adjusted for the fees and expenses of the share class shown. Periods of less than one year are not annualized. Morningstar percentile rankings are based on total returns.

<sup>2</sup> The annual total returns shown above represent performance for Class A shares (not adjusted for sales charge) and any extended annual performance is based on the fund's oldest share class (not adjusted for sales charge). Annual total returns for other share classes will differ.

## Portfolio Information *as of 05/31/2010*



| Composition        | % of Assets |
|--------------------|-------------|
| U.S. Stocks        | 94.52       |
| Non-U.S. Stocks    | 3.06        |
| Cash               | 2.42        |
| Analysis           |             |
| Number of Holdings | 174         |
| Turnover Ratio     | 24%         |
| P/E Ratio          | 15.48       |

| Top Ten Holdings                                 | % of Net Assets |
|--|-----------------|
| 1. Chevron Corporation                           | 3.05            |
| 2. Microsoft Corporation                         | 2.63            |
| 3. Occidental Petroleum Corporation              | 2.11            |
| 4. Wells Fargo Company                           | 2.08            |
| 5. Costco Wholesale Corporation                  | 1.92            |
| 6. Charles Schwab Corporation                    | 1.73            |
| 7. Boeing Company                                | 1.64            |
| 8. Hewlett-Packard Company                       | 1.57            |
| 9. McKesson, Inc.                                | 1.55            |
| 10. Expeditors International of Washington, Inc. | 1.55            |
| % of net assets in top ten holdings*             | 19.83           |

\*Values may exceed 100% if both long and short positions are included in the portfolio.

## Stock Sector Breakdown *as of 05/31/2010*

| Information          | 23.73% | Service            | 41.68% |
|----------------------|--------|--------------------|--------|
| Software             | 5.92   | Healthcare         | 8.91   |
| Hardware             | 11.77  | Consumer Services  | 11.89  |
| Media                | 1.59   | Business Services  | 6.10   |
| Telecom              | 4.45   | Financial Services | 14.78  |
| Manufacturing        | 34.59% |                    |        |
| Consumer Goods       | 9.91   |                    |        |
| Industrial Materials | 11.20  |                    |        |
| Energy               | 10.42  |                    |        |
| Utilities            | 3.06   |                    |        |

## Risk & Return Statistics *as of 06/30/2010*

### Class A Shares

Relative to Russell 3000 Index

|                    | 3-Year | 5-Year |
|--------------------|--------|--------|
| Alpha              | 3.29   | 1.65   |
| Beta               | 0.98   | 0.98   |
| R-Squared          | 97.48  | 96.30  |
| Standard Deviation | 21.37  | 17.41  |

Risk and return statistical data is provided by Markov Processes International (MPI).

The full name of this investment option is *Principal Capital Appreciation Fund*.

Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit [principalfunds.com](http://principalfunds.com).

Principal Funds Class B shares closed to new investors and new assets effective March 1, 2010.

Small-cap and mid-cap stocks may have additional risks, including greater price volatility.

Formerly known as *West Coast Equity Fund*.

The Russell 3000 Index is constructed to provide a comprehensive barometer of the broad market and accounts for nearly 98% of the total value of all equity traded on the U.S. exchanges. It measures the stocks that are also members of either the Russell 1000 or the Russell 2000 indexes.

Alpha: The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta).

Beta: An investment's sensitivity to market movements.

R-Squared: Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index.

Standard Deviation: Measures how much an investment's returns are likely to fluctuate.

Web Site: [principalfunds.com](http://principalfunds.com)

Before investing, you should carefully consider a fund's investment objectives, risks, charges, and expenses. Contact your financial professional, visit [principalfunds.com](http://principalfunds.com), or call 800-222-5852 to obtain a prospectus containing this and other information. Read the prospectus carefully before investing.

A mutual fund's share price and investment return will vary with market conditions, and the principal value of an investment when you sell your shares may be more or less than the original cost.

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May Lose Value • Not a Deposit • No Bank or Credit Union Guarantee  
Not Insured by any Federal Government Agency