LargeCap Blend Fund I (A)

Second Quarter 2010

Quarterly Commentary

Ticker	Investment Advisor	Benchmark	Morningstar Category	Investment Objective
PBLCX	Goldman Sachs Asset Mgt	Standard & Poor's 500 Index	Large Blend	Growth and Income

Economy & Market Overview

Following four positive quarters in a row, both U.S. and international stocks fell in the second quarter of 2010. The rally ended as investor concerns mounted about economic stability in Europe, slowing growth in China and the sustainability of the U.S. recovery. [1]

Europe's troubles, which started with the revelation of Greece's staggering deficit and debt load, broadened as it became apparent other countries (such as Spain and Portugal) faced similar issues. Markets reacted negatively to the exposure of European banks to the sovereign and corporate debt of these countries, despite the nearly $1 trillion bail-out plan put in effect by the European Union and International Monetary Fund. In China, the government's decision to reign in real estate growth weighed on international investors, as did new data indicating a slowdown in China's pace of economic growth. [2]

Negative economic data reported during the quarter pointed to slowing growth across the U.S. economy: Employers continued their reluctance to add staff; May payrolls were meager, following gains in April and March. [3] Gross Domestic Product (GDP) for the first quarter came in lower than expected; the 2.7% gain was a sharp drop from the 5.6% increase for fourth quarter 2009.[4] After rising for three consecutive months, consumer confidence fell unexpectedly in June, reflecting consumers' uncertainty about jobs and income.[5] Following expiration of the home buyer tax credit in April, new-home sales fell in May to a seasonally adjusted, annual rate of 300,000 (the lowest number since the government began tracking the figure in 1963);[6] meanwhile, existing-home sales fell 2.2% in May after gaining 8% in April.[7]

After its June meeting, the Federal Reserve reaffirmed its belief that economic recovery is proceeding, but also acknowledged that "financial conditions have become less supportive of economic growth" and restated its intention to keep the fed funds interest rate very low "for an extended period." [8]

For the quarter, the broad U.S. stock market posted a return of -11.3% as all sectors within the Russell 3000 Index delivered negative performance. The economically sensitive materials sector struggled the most. Financial stocks also were under acute pressure, as investors grappled with the changing landscape of regulatory reform and how it might impact the industry. In this environment, growth and value performed similarly among large- and mid-cap stocks, while within small-caps, value slightly underperformed growth. From a market-cap perspective, small-caps outperformed large-caps. [9]

International stocks in developed markets returned -14.0%, [10] reflecting in part the precarious financial situation in Europe. Emerging markets performed better, but still delivered -8.37%.[11]

Real estate investment trusts returned -4.0%[12] to outperform the broad U.S. stock market. Although real estate fundamentals were still unfavorable, access to capital for commercial real estate had improved, which drew investors hoping to participate in the asset class's recovery.

Within fixed income, risk aversion was apparent as many investors turned to the "safe haven" of U.S. Treasuries, which outperformed other fixed-income sectors. By quarter-end, the yield on the benchmark 10-year Treasury had fallen from 3.84% to 2.95%. (Bond prices and yields move in opposite directions.) Meanwhile, investment-grade corporate bonds fell -2.25% relative to duration-adjusted Treasuries. Returns were slightly worse in the financial segment of the corporate bond market (down 2.97% relative to duration-adjusted Treasuries), due in part to uncertainty and anxiety surrounding financial regulation reform. Commercial mortgage-backed securities and asset-backed securities also lagged Treasuries, while mortgage-backed securities managed to outperform Treasuries by 0.01%. [13] Finally, high-yield bonds returned -3.86% relative to duration-adjusted Treasuries, with the lowest-rated (highest risk) high-yield bonds performing the worst. [14]

Performance Contributors

Positive Contributors

During last quarter:

Returns to the investment themes were positive overall for the period. Profitability contributed most positively to excess returns, followed by Quality and Valuation. Sentiment also added value, albeit to a lesser extent. (Profitability assesses whether a company is earning more than its cost of capital. Quality evaluates whether a company's earnings are coming from more persistent, cash-based sources, as opposed to accruals. Valuation attempts to capture potential mispricings of securities, typically by comparing a measure of the company's intrinsic value to its market value. Sentiment reflects selected investment views and decisions of individuals and financial intermediaries.) Holdings in the energy and financial sectors outpaced their peers in the benchmark S&P 500 Index the most. Underweight positions in Anadarko Petroleum Corp. and Goldman Sachs Group, as well as an overweight position in Lorillard, Inc. were among the most successful selections for the period.

During last 12 months:

Returns to the investment themes were positive overall for the period. Profitability, Valuation and Quality contributed most positively to excess returns. Stock picks in the financial and energy sectors outpaced their peers in the benchmark the most. In individual stocks, overweight positions in Cimarex Energy Co. and Simon Property Group, Inc., as well as an underweight position in Goldman Sachs Group, were the largest contributors to excess returns.

Negative Contributors

During last quarter:

Momentum detracted the most from relative performance, followed at a distance by Management. (Momentum predicts drift in stock prices caused by under-reaction to company-specific information. Management assesses the characteristics, policies and strategic decisions of a company's management.) Among sectors, stock selection was negative overall. Holdings in the information technology and industrial sectors were the least successful relative to their peers in the benchmark index. In individual stocks, an underweight position in Apple, Inc., as well as overweight positions in Microsoft Corp. and Seagate Technology, detracted the most from relative performance.

During last 12 months:

Momentum was the worst-performing theme, followed at a distance by Sentiment and Management. Among sectors, stock selection was negative overall. Holdings in the health care and information technology sectors were the least successful relative to their peers in the benchmark. In individual stocks, an underweight position in Apple, Inc., as well as overweight positions in Gilead Sciences and Exelon Corp., detracted the most from relative performance.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

LargeCap Blend Fund I (A)

Performance

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values 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 data shown. The gross fund expense figure does not reflect any waivers or caps on the mutual fund. Performance shown reflects the application of net expenses of the fund. For more performance information, including most recent month-end performance, visit principalfunds.com, or contact your financial representative of The Principal.

In situations where the net and gross fund expense figures are different, the investment manager has contractually agreed to limit the investment option's expense. Differences may also be shown due to the investment manager choosing to pay certain expenses that would normally be payable by the fund. The gross fund expense figure does not reflect any waivers or caps on the mutual fund. Performance shown reflects the application of net expenses of the fund.

Average Annual Total Returns (%) as of 06/30/2010	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
LargeCap Blend Fund I (A) (excl. sales charge)	-12.11	-7.61	11.43	-12.17	-2.72	-	-3.25
LargeCap Blend Fund I (A) (incl. sales charge)	-16.92	-12.68	5.31	-13.80	-3.81	-	-3.82
Standard & Poor's 500 Index	-11.43	-6.65	14.43	-9.81	-0.79	-1.59	-
Large Blend Category	-11.57	-7.07	13.43	-9.93	-0.85	-0.78	-
Morningstar Percentile Ranking	-	-	72	86	88	-	-
Total Funds in Category	2154	2140	2062	1810	1486	772	-

Inception Date	06/28/2005
Ext. Perf. Inc. Date	12/06/2000
Total Inv. Exp Gross	1.44
Total Inv Exp Net	1.43
Waiver Date	02/28/2011
Contractual Cap Date	02/28/2011
Contingent Deferred Sales Charge	-
Maximum Up-front Sales Charge	5.50

Risk and Return Statistics Summary as of 06/30/2010

	3 Year Return vs. Rank						5 Year Return vs. Risk					
	Alpha	Beta	R2	Sharpe Ratio	Info Ratio	Std Dev	Alpha	Beta	R2	Sharpe Ratio	Info Ratio	Std Dev
LargeCap Blend Fund I (A)	-2.88	0.98	99.47	-0.60	-1.52	20.38	-2.02	0.99	99.21	-0.25	-1.29	16.64

Relative to Standard & Poor's 500 Index

Risk and return statistical data is provided by Markov Processes International (MPI). Risk & Return Statistics Summary results are based on performance excluding sales charges. Percentile rankings are based on total returns in accordance with the appropriate Morningstar peer group. Please see Important Notes section for definitions of Risk and Return Statistics.

LargeCap Blend Fund I (A)

Upside/Downside Capture Ratio Summary as of 06/30/2010

	3 Year Upside/Downside Capture Ratio						5 Year Upside/Downside Capture Ratio					
	# of Months		Avg Returns %		Market Benchmark %		# of Months		Avg Returns %		Market Benchmark %	
	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down
LargeCap Blend Fund I (A)	18	18	3.63	-5.96	94.19	103.91	36	24	2.75	-5.06	95.20	104.39
Standard & Poor's 500 Index	19	17	3.85	-5.74	100.00	100.00	38	22	2.89	-4.85	100.00	100.00

Top Ten Holdings as of 05/31/2010

Security	Net Assets (%)
Microsoft Corporation	3.10
ExxonMobil Corporation	2.98
S&P FUTURE - JUNE 2010	2.46
Procter & Gamble Company	2.05
Intel Corporation	1.91
J.P. Morgan Chase & Co.	1.87
Chevron Corporation	1.79
AT&T, Inc.	1.71
Bank of America Corporation	1.71
Eli Lilly & Company	1.67
Total % in Top 10	**21.26**

Information is current as of the date noted. Keep in mind that portfolio holdings are subject to risk.

LargeCap Blend Fund I (A)

Manager(s)	Start Date	Degree	Alma Mater
Andrew Alford	12/31/2007	Ph.D.	University of Chicago
Katinka Domotorffy	03/31/2009	M.S.	London School of Economics
Kent Daniel	12/31/2009	Ph.D.	University of California, Los Angeles

Fund Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets (plus any borrowings for investment purposes) in equity securities of companies with large market capitalizations (those with market capitalizations similar to companies in the S&P 500 index) at the time of purchase. As a blend fund, the fund assets may be invested in equity securities with both growth and value characteristics.

About Goldman Sachs Asset Mgt

Building on Goldman Sachs' tradition of excellence since 1869, Goldman Sachs Asset Management, L.P. serves the investment management needs of preeminent institutions and individual investors worldwide. Goldman Sachs Asset Management offers the resources of a large, global firm and the specialization of a boutique with independent investment teams, while seeking to deliver strong performance over full market cycles through a team-driven, research-intensive approach to investing. As of December 31, 2009, Goldman Sachs Asset Management, L.P.'s (GSAM L.P.) assets under management were over $753.4 billion.

You're in good company with Principal Funds

GLOBAL INVESTMENT MANAGEMENT

- A wide range of mutual funds in all core asset classes and investment styles, as well as several niche funds to help you explore new investment opportunities for your clients.
- The extensive asset management capabilities of a number of leading sub-advisors including Principal Global Investors and its boutique affiliates.

ASSET ALLOCATION EXPERTISE

- Turnkey assets allocation solutions--including target-risk and target-date funds--to help deepen your client relationships and simplify your life.
- Asset allocation strategies powered by our risk-managed fund, including alternative asset classes.

RETIREMENT LEADERSHIP

- Training, advanced strategies, and dedicated retirement specialists to help you capture a great share of the rollover IRA market.

principalfunds.com

Principal Funds is a leading provider of mutual fund solutions for individual investors and retirement plans, with approximately $55.1 billion in mutual fund assets under management (as of June 30, 2010). Principal Funds has special expertise in providing asset allocation solutions, and is the 5th largest manager of lifecycle funds in the nation based on target-date and target-risk mutual fund assets under management (according to Financial Research Corporation, as of March 31, 2010). Principal Funds are distributed through a nationwide network of independent financial professionals affiliated with brokerage and financial planning firms.

Important Notes

Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc., member of the Principal Financial Group®. Principal Funds Distributor, Principal Shareholder Services, Principal Management Corporation and its affiliates, and Principal Funds, Inc. are collectively referred to as Principal Funds.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be downloaded from our site, by visiting principal.com, or by contacting us at 1.800.222.5852. Please read the prospectus carefully before investing.

The value of the investment options will fluctuate so that when redeemed, shares or units may be worth more or less than the original cost.

Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Any operating expenses of a mutual fund or underlying mutual fund that are part of net Total Investment Expense are obtained from the mutual fund's most recent prospecuts. The operating expenses shown as part of the Total Investment Expense include voluntary expense limits and fee credit.

Effective November 13, 2006, this portfolio is sub-advised by Goldman Sachs Asset Management. From November 18, 2002, to November 16, 2006, the portfolio was sub-advised by Goldman Sachs Asset Management and Wellington Management Company, LLP. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

Formerly known as Partners LargeCap Blend Fund I.

Effective July 23, 2010, the Principal LargeCap Blend I Fund will merge into the Principal LargeCap S&P 500 Index Fund.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

principalfunds.com

Principal® Funds

Principal Life Insurance Company, Des Moines, Iowa 50392-0001, principal.com   06/2010
#T10071201mi

Important Notes

Risk and Return Statistics:
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.
Sharpe Ratio - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance.
Information Ratio - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

[1] Source: On the Other Hand: Economic Insights, Second Quarter 2010, by Bob Baur and the Principal Global Investors Economic Committee

[2] Source: The Conference Board Leading Economic Index® (LEI) for China, measuring economic activity, increased 0.3% in April following increases of 1.2% in March and 0.4% in February.

[3] Source: U.S. Bureau of Labor Statistics: Employment Situation Summary 6/4/2010 (available at www.bls.gov)

[4] Source: Bureau of Economic Analysis, US Dept of Commerce (data available at www.bea.gov)

[5] Source: Data available at www.conference-board.org

[6] Source: National Association of Home Builders (data available at www.nahb.com)

[7] Source: National Association of Realtors (data available at www.realtor.org)

[8] Source: Federal Reserve press release dated 6/23/10 (available at www.federalreserve.gov)

[9] Source: As measured by Russell family of indexes

[10] Source: As measured by the MSCI EAFE Index

principalfunds.com

Principal Life Insurance Company, Des Moines, Iowa 50392-0001, principal.com 06/2010
#T10071201mi

Important Notes

[11] Source: As measured by the MSCI EM Index

[12] Source: As measured by the MSCI U.S. REIT Index

[13] Source: As measured by components of Barclays Capital Aggregate Bond Index

[14] Source: As measured by components of Barclays Capital High Yield Index

This report is not complete unless all pages, as noted below, are included.

Principal Life Insurance Company, Des Moines, Iowa 50392-0001, principal.com 06/2010
#T10071201mi