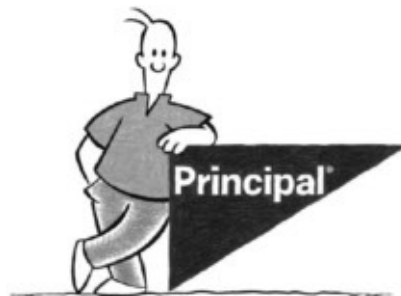


Principal Funds, Inc.

Institutional and R Class Shares Prospectus

March 1, 2014



Supplement dated July 15, 2014
to the Classes Institutional, R-1, R-2, R-3, R-4, and R-5 Shares Prospectus
for Principal Funds, Inc.
dated March 1, 2014

(As supplemented on March 7, 2014, March 14, 2014, April 28, 2014, June 3, 2014, and June 16, 2014)

This supplement updates information currently in the Prospectus. Retain this supplement with the Prospectus.

BOND & MORTGAGE SECURITIES FUND

Delete the first paragraph under Principal Investment Strategies section and substitute:

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in intermediate maturity fixed-income or debt securities rated BBB- or higher by Standard & Poor's Rating Service ("S&P") or Baa3 or higher by Moody's Investors Service, Inc. ("Moody's") at the time of each purchase, including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities; asset-backed securities or mortgage-backed securities representing an interest in a pool of mortgage loans or other assets; debt securities and taxable municipal bonds; and debt securities issued or guaranteed by foreign governments payable in U.S. dollars. The Fund also invests in foreign securities, and up to 20% of its assets in below investment grade bonds (sometimes called "high yield bonds" or "junk bonds") which are rated at the time of purchase Ba1 or lower by Moody's and BB+ or lower by S&P (if the bond has been rated by only one of those agencies, that rating will determine whether the bond is below investment grade; if the bond has not been rated by either of those agencies, the Sub-Advisor will determine whether the bond is of a quality comparable to those rated below investment grade). Under normal circumstances, the Fund maintains an average portfolio duration that is within $\pm 25\%$ of the duration of the Barclays U.S. Aggregate Bond Index, which as of December 31, 2013 was 5.55 years.

**Supplement dated June 16, 2014
to the Classes Institutional, R-1, R-2, R-3, R-4, and R-5 Shares Prospectus
for Principal Funds, Inc.
dated March 1, 2014**

(As supplemented on March 7, 2014, March 14, 2014, April 28, 2014, and June 3, 2014)

This supplement updates information currently in the Prospectus. Retain this supplement with the Prospectus.

LARGECAP VALUE FUND I

Delete all references in the Prospectus to the LargeCap Value Fund I.

Delete all references in the Prospectus to Herndon Capital Management, LLC and Thompson, Siegel & Walmsley LLC.

FUND SUMMARIES

PRINCIPAL CAPITAL APPRECIATION FUND

Effective June 30, 2014, delete references to Sarah Radecki.

MANAGEMENT OF THE FUNDS

Sub-Advisor: Edge Asset Management, Inc. (“Edge”)

Effective June 30, 2014, delete references to Sarah Radecki.

Supplement dated June 3, 2014
to the Classes Institutional, R-1, R-2, R-3, R-4 and R-5 Shares Prospectus
for Principal Funds, Inc.
dated March 1, 2014

As supplemented on March 7, 2014, March 14, 2014 and April 28, 2014

This supplement updates information currently in the Prospectus. Retain this supplement with the Prospectus.

FUND SUMMARIES

INTERNATIONAL FUND I

Delete the paragraph directly following the fund name that begins with “On March 11, 2014.”

Delete the **Annual Fund Operating Expenses** table and footnotes and the **Example** and substitute:

Annual Fund Operating Expenses
(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees ⁽¹⁾	0.89%	0.89%	0.89%	0.89%	0.89%	0.89%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.06%	0.57%	0.49%	0.36%	0.32%	0.30%
Total Annual Fund Operating Expenses	0.95%	1.81%	1.68%	1.50%	1.31%	1.19%

⁽¹⁾Management fees in the table have been restated to reflect current fees. Effective June 3, 2014, the Management Fees were reduced.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$97	\$303	\$525	\$1,166
Class R-1	184	569	980	2,127
Class R-2	171	530	913	1,987
Class R-3	153	474	818	1,791
Class R-4	133	415	718	1,579
Class R-5	121	378	654	1,443

Under the **Principal Investment Strategies** heading, delete the paragraph that begins with “Principal Management Corporation invests between...”

Under the **Performance** heading, delete the bullet point that begins “Life of Fund results...”

Under the **Performance** heading, delete the Average Annual Total Returns table and substitute:

Average Annual Total Returns			
For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	20.08%	10.84%	6.41%
Institutional Class Return After Taxes on Distributions	19.83%	10.76%	5.89%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	11.95%	8.92%	5.43%
Class R-1 Return Before Taxes	19.01%	9.90%	5.50%
Class R-2 Return Before Taxes	19.15%	10.02%	5.63%
Class R-3 Return Before Taxes	19.36%	10.24%	5.81%
Class R-4 Return Before Taxes	19.67%	10.45%	6.02%
Class R-5 Return Before Taxes	19.76%	10.59%	6.15%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
MSCI ACWI Ex-U.S. (reflects no deduction for fees, expenses, or taxes)	15.29%	12.81%	7.57%

After the paragraph that begins with “After-tax returns are calculated,” add the following:

Effective June 30, 2014, the Fund’s primary benchmark will change from the MSCI EAFE Index NDTR D to the MSCI ACWI Ex-U.S. because the MSCI ACWI Ex-U.S. more closely aligns with the Fund’s investments in developed and emerging markets than the MSCI EAFE Index NDTR D.

Delete the information under the **Management** heading and substitute:

Investment Advisor:

Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Origin Asset Management LLP

- John Birkhold (since 2014), Partner
- Chris Carter (since 2014), Partner
- Nigel Dutson (since 2014), Partner
- Tarlock Randhawa (since 2014), Partner
- Nerys Weir (since 2014), Investment Manager

ADDITIONAL INFORMATION ABOUT INVESTMENT STRATEGIES AND RISKS

In the table under the column heading “International I” and row labeled “Derivatives”, delete “Non-Principal” and substitute “Not Applicable.”

In the table under the column heading “International I” and row labeled “Hedging”, delete “Non-Principal” and substitute “Not Applicable.”

MANAGEMENT OF THE FUNDS

Under **The Manager** heading, delete the third paragraph and substitute:

Principal provides investment advisory services with respect to 10-35% of the assets of the following Funds:

LargeCap Blend Fund II, LargeCap Growth Fund I, LargeCap Growth Fund II, LargeCap Value Fund I, LargeCap Value Fund III, MidCap Growth Fund III, MidCap Value Fund I, MidCap Value Fund III, Overseas Fund, SmallCap Growth Fund I, SmallCap Growth Fund II, and SmallCap Value Fund II. The remaining assets in each of these Funds will be managed by the sub-advisor(s) named in the prospectus.

Under **The Sub-Advisors** heading, delete the information regarding Pyramis Global Advisors, LLC and Schroder Investment Management North America Inc., and add:

Sub-Advisor: Origin Asset Management LLP ("Origin"), One Carey Lane, London, EC2V 8AE, UK manages global equity securities for institutional clients.

Origin is the sub-advisor for the International Fund I.

The portfolio managers operate as a team, sharing authority and responsibility for research and the day-to-day management of the portfolio with no limitation on the authority of one portfolio manager in relation to another.

John Birkhold has been with Origin since 2009. He earned a BS and ME in Systems Engineering from the University of Virginia and an MBA in Finance from the University of Chicago.

Chris Carter has been with Origin since 2005. Mr. Carter is a graduate of Gonville & Caius College, Cambridge, with an MA Honours Degree in Economics and Philosophy.

Nigel Dutson has been with Origin since 2005. Mr. Dutson is a graduate of Surrey University with a BSc Joint Honours Degree in Mathematics & Economics.

Tarloek Randhawa has been with Origin since 2005. Mr. Randhawa is a graduate of Brunel University with a BSc Joint Honours Degree in Mathematics & Management.

Nerys Weir has been with Origin since 2008. She is a graduate of Leicester University with a BA Honours Degree in Ancient History and Archaeology.

Delete the **The Sub-Sub-Advisor** heading and the information below it.

APPENDIX B- RELATED PERFORMANCE OF ORIGIN ASSET MANAGEMENT LLP

Origin Asset Management LLP ("Origin") is the sub-advisor for the International Fund I (the "Fund"). The Fund has recently changed sub-advisors. Therefore, the Fund provides you with the following Performance Results table that shows the performance results of the Origin International (ex US) Composite as well as the performance of the MSCI EAFE Index NDTR D (the Fund's primary benchmark) and the MSCI ACWI Ex-U.S. (the Fund's primary benchmark effective June 30, 2014), broad-based securities market indexes comparable to Origin's composite.

Origin's composite consists of historical information about all client accounts Origin manages that have investment objectives, policies, and strategies substantially similar to those of the Fund. The composite is provided to illustrate Origin's past performance in managing accounts with investment objectives and strategies substantially similar to those of the Fund. The composite does not represent the performance of the Fund. Origin's composite is provided for time periods during which the Fund existed and, therefore, can be compared to the past performance of the Fund.

Origin computes its composite performance based upon its asset weighted average performance with regard to accounts it manages that have investment objectives, policies, and strategies substantially similar to those of the Fund. Origin's composite performance results are net of all fees and expenses incurred by any client account in the composite. If Origin's composite performance results were to be adjusted to reflect the fees and expenses of the Fund, the composite performance results shown would be lower. Although the Fund and the client accounts comprising the Origin composite have substantially similar investment objectives, policies, and strategies, you should not assume that the Fund will achieve the same performance as the composite. For example, the Fund's future performance may be better or worse than the composite's performance due to, among other things, differences in sales charges, expenses, asset sizes, and cash flows of the Fund and those of the client accounts represented in the composite.

The client accounts in Origin's composite can change from time-to-time. None of the accounts included in the Origin composite are mutual funds registered under the Investment Company Act of 1940 ("1940 Act"). Those accounts are not subject to investment limitations, diversification requirements, and other restrictions imposed by the 1940 Act and the Internal Revenue Code. If such requirements were applicable to these accounts, the performance of the composite shown below may have been lower.

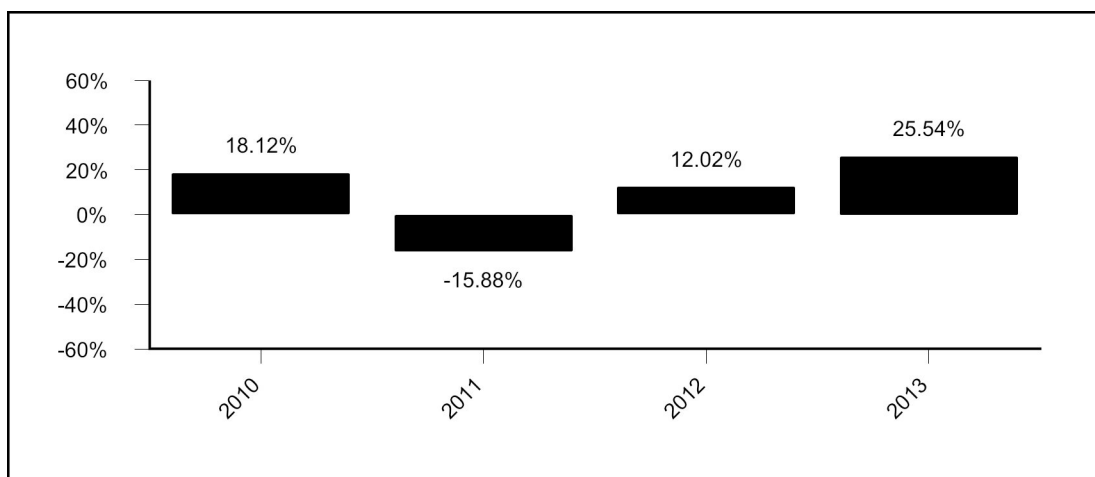
Portions of the information below are based on data supplied by Origin and from statistical services, reports, or other sources believed by Principal Management Corporation ("Principal") to be reliable. However, Principal has not verified or audited such information.

The effect of taxes is not reflected in the composite performance information below because the effect would depend on each client's tax status.

Current performance of the Origin composite may be lower or higher than the performance data shown below.

PERFORMANCE RESULTS

Total Returns as of December 31 each year



Highest return for a quarter during the period of the bar chart above: Q3 '10 19.07%
 Lowest return for a quarter during the period of the bar chart above: Q3 '11 -21.16%

	Average Annual Total Returns (through December 31, 2013)	
	1 YR	Since Inception of Composite (11/1/2009)
Origin International Equity Composite	25.54%	9.95%
MSCI EAFE Index NDTR D	22.78%	8.62%
MSCI ACWI Ex-U.S Index	15.29%	7.61%

**Supplement dated April 28, 2014
to the Classes Institutional, R-1, R-2, R-3, R-4, and R-5 Shares Prospectus
for Principal Funds, Inc.
dated March 1, 2014**

(as supplemented on March 7, 2014 and March 14, 2014)

This supplement updates information currently in the Prospectus. Retain this supplement with the Prospectus.

FUND SUMMARIES

GLOBAL DIVERSIFIED INCOME FUND

Delete the **Objective** and substitute:
The Fund seeks income.

SMALLCAP GROWTH FUND I

Under the **Management** and **Sub-Advisors** headings, add the following:

Emerald Advisers, Inc.

SMALLCAP GROWTH FUND II

As of April 25, 2014, delete references to the SmallCap Growth Fund II from the Prospectus.

MANAGEMENT OF THE FUNDS

The Sub-Advisors

In the section for **Emerald Advisers, Inc. (“Emerald”)**, delete the information and substitute:

Sub-Advisor: Emerald Advisers, Inc. (“Emerald”), 3175 Oregon Pike, Leola, PA 17540, is a wholly owned subsidiary of Emerald Asset Management incorporated in 1991.

Emerald is the sub-advisor for a portion of the assets of the SmallCap Growth Fund I.

**Supplement dated March 14, 2014
to the Classes Institutional, R-1, R-2, R-3, R-4, and R-5 Shares Prospectus
for Principal Funds, Inc.
dated March 1, 2014**

(as supplemented on March 7, 2014)

This supplement updates information currently in the Prospectus. Retain this supplement with the Prospectus.

FUND SUMMARIES

INTERNATIONAL FUND I

On March 11, 2014, the Board of Directors of Principal Funds, Inc. approved hiring Origin Asset Management LLP (“Origin”) as the sub-advisor for the Fund. This proposal will be submitted for shareholder vote at a Special Meeting of Shareholders of International Fund I tentatively scheduled for May 16, 2014. Additional information about this proposal will be provided in the Proxy Statement that is expected to be mailed in April 2014 to International Fund I shareholders of record as of March 31, 2014. If shareholders approve the proposal, it is anticipated that Origin will replace Pyramis Global Advisors, LLC and Schroder Investment Management North America Inc. (including sub-sub-Advisor Schroder Investment Management North America Limited) as sub-advisor to the fund effective June 2014.

INFLATION PROTECTION FUND

Under the **Sub-Advisor(s) and Portfolio Manager(s)** heading, delete the information regarding Brian Weinstein and substitute:

- Gargi Chaudhuri (since 2014), Director
-

MANAGEMENT OF THE FUNDS

The Sub-Advisors

In the section for **BlackRock Financial Management, Inc. (“BlackRock”)**, delete references to Brian Weinstein and substitute:

Gargi Chaudhuri has been with BlackRock since 2010. Prior to joining the firm, she served as a Vice President at Jefferies & Co. Ms. Chaudhuri earned a BA degree in accounting from Ohio Wesleyan University.

Supplement dated March 7, 2014
to the Classes Institutional, R-1, R-2, R-3, R-4, and R-5 Shares Prospectus
for Principal Funds, Inc.
dated March 1, 2014

This supplement updates information currently in the Prospectus. Retain this supplement with the Prospectus.

FUND SUMMARY

GLOBAL DIVERSIFIED INCOME FUND

Under the **Investment Advisor and Portfolio Managers** heading for Principal Management Corporation, delete the information and substitute:

- Jake S. Anonson (since 2014), Senior Portfolio Strategist
- Jessica S. Bush (since 2014), Investment Strategist
- Marcus W. Dummer (since 2014), Senior Portfolio Strategist
- James W. Fennessey (since 2014), Vice President
- Kelly A. Grossman (since 2010), Senior Product Manager
- Benjamin E. Rotenberg (since 2014), Senior Portfolio Strategist

MANAGEMENT OF THE FUNDS

Under **The Manager** heading, delete the paragraph about Mr. Fennessey and substitute the following:

James W. Fennessey joined the Principal Financial Group in 2000. He is the Head of the Manager Research Team that is responsible for analyzing, interpreting and coordinating investment performance data and evaluation of the investment managers under the due diligence program that monitors investment managers used by the Principal Funds and is a member of Principal Funds Investment Committee. Mr. Fennessey earned a B.S. in Business Administration, with an emphasis in Finance, and a minor in Economics from Truman State University. He has earned the right to use the Chartered Financial Analyst designation.

Under **The Sub-Advisors** heading, delete the paragraph that begins “The Global Diversified Income Fund,” and substitute the following:

The Global Diversified Income Fund has multiple Sub-Advisors and a team at Principal, consisting of Jake Anonson, Jessica Bush, Marcus Dummer, James Fennessey, Kelly Grossman, and Benjamin Rotenberg, determines the portion of the Fund’s assets each Sub-Advisor will manage and may, from time-to-time, reallocate Fund assets among the Sub-Advisors. This team shares day-to-day portfolio management, sharing authority, with no limitation on the authority of one portfolio manager in relation to another. The decision to reallocate Fund assets between the Sub-Advisors may be based on a variety of factors, including but not limited to: the investment capacity of each Sub-Advisor, portfolio diversification, volume of net cash flows, fund liquidity, investment performance, investment strategies, changes in each Sub-Advisor’s firm or investment professionals or changes in the number of Sub-Advisors. Ordinarily, reallocations of Fund assets among Sub-Advisors occur as a Sub-Advisor liquidates assets in the normal course of portfolio management or with net new cash flows; however, at times existing Fund assets may be reallocated among Sub-Advisors.

Delete the paragraphs about Mr. Finnegan, Ms. Grossman, and Mr. Reichart and add the following:

Jake S. Anonson joined the Principal Financial Group in 2012. He worked at Miles Capital from 2010 – 2012. Prior to that, Mr. Anonson worked at Principal Financial Group. Mr. Anonson is a Senior Portfolio Strategist for Principal and a member of the Principal Funds Investment Committee. He is responsible for conducting research, assessing risk, and making relative value recommendations relating to the equity component of the Principal Portfolio Construction StrategiesSM (Global Diversified Income Fund, Diversified Real Asset Fund, and Global Multi-Strategy Fund). Mr. Anonson earned a BA and BS from the University of Northern Iowa and a MBA from Iowa State University. Mr. Anonson has earned the right to use the Chartered Financial Analyst.

Jessica S. Bush joined the Principal Financial Group in 2006. Ms. Bush is an Investment Strategist for Principal and a member of Principal Funds Investment Committee. She is responsible for the manager selection, oversight, and asset allocation decisions for the Principal Portfolio Construction StrategiesSM (Global Diversified Income Fund, Diversified Real Asset Fund, and Global Multi-Strategy Fund). Previously Ms. Bush was a Sr. Research Analyst responsible for analyzing, interpreting and coordinating investment performance data and evaluation of the investment managers under the due diligence program that monitors investment managers used by the Principal Funds. Ms. Bush earned a B.A. in Business Administration from the University of Michigan. She has earned the right to use the Chartered Financial Analyst designation.

Marcus W. Dummer joined the Principal Financial Group in 2003. Mr. Dummer is a Senior Portfolio Strategist for Principal and a member Principal Funds Investment Committee. He is responsible for conducting research, assessing risk, and making relative value recommendations relating to the fixed-income component of the Principal Portfolio Construction StrategiesSM (Global Diversified Income Fund, Diversified Real Asset Fund, and Global Multi-Strategy Fund). Mr. Dummer earned a Bachelor's degree in Finance and an M.B.A. from the University of Utah.

Kelly A. Grossman joined the Principal Financial Group in 1991. She is Senior Product Manager at Principal and a member Principal Funds Investment Committee. Prior to that, she was a Managing Director within the Capital Markets and Structured Products Group at Principal Global Investors. Ms. Grossman earned a B.A. in mathematics and computer science from the University of Northern Iowa. She is a fellow of the Society of Actuaries and a member of the American Academy of Actuaries.

Benjamin E. Rotenberg joined the Principal Financial Group in 2014. Prior to that, he served as a Managing Director with Cliffwater LLC. Mr. Rotenberg is a Senior Portfolio Strategist for Principal and a member Principal Funds Investment Committee. In this role, he is responsible for risk assessment within the alternative strategies as well as supporting the portfolio decision making process for the Principal Portfolio Construction StrategiesSM (Global Diversified Income Fund, Diversified Real Asset Fund, and Global Multi-Strategy Fund). He earned a Bachelor's degree in International Relations and Russian from Pomona College. Mr. Rotenberg has earned the right to use the Chartered Financial Analyst designation.

PRINCIPAL FUNDS, INC. (“PFI”)

**Institutional Shares
R-1 Class Shares**

**R-2 Class Shares
R-3 Class Shares**

**R-4 Class Shares
R-5 Class Shares**

The date of this Prospectus is March 1, 2014.

Fund	Ticker Symbols by Share Class					
	Institutional	R-1	R-2	R-3	R-4	R-5
Bond & Mortgage Securities	PMSIX	PBOMX	PBMNX	PBMMX	PBMSX	PBMPX
Core Plus Bond I	PCBZX	PCBRX	PCBBX	PCIRX	PCBDX	PCBEX
Diversified International	PIIX	PDVIX	PINNX	PINRX	PINLX	PINPX
Equity Income	PEIIX	PIEMX	PEINX	PEIOX	PEIPX	PEIQX
Global Diversified Income	PGDIX					
Global Real Estate Securities	POSIX					
Government & High Quality Bond	PMRIX	PMGRX	PFMRX	PRCMX	PMRDX	PMREX
High Yield	PHYTX					
High Yield I	PYHIX					
Income	PIOIX	PIOMX	PIONX	PIOOX	PIOPX	PIOQX
Inflation Protection	PIPIX	PISPX	PBSAX	PIFPX	PIFSX	PBPPX
International Emerging Markets	PIEIX	PIXEX	PEASX	PEAPX	PESSX	PEPSX
International I	PINIX	PPISX	PSPPX	PRPPX	PUPPX	PTPPX
LargeCap Blend II	PLBIX	PLBSX	PPZNX	PPZMX	PPZSX	PPZPX
LargeCap Growth	PGLIX	PLSGX	PCPPX	PLGPX	PEPPX	PDPPX
LargeCap Growth I	PLGIX	PCRSX	PPUNX	PPUMX	PPUSX	PPUPX
LargeCap Growth II	PPIIX	PDASX	PPTNX	PPTMX	PPTSX	PPTPX
LargeCap S&P 500 Index	PLFIX	PLPIX	PLFNX	PLFMX	PLFSX	PLFPX
LargeCap Value	PVLIX	PLSVX	PLVNX	PLVMX	PLV SX	PLVPX
LargeCap Value I	PVPIX	PVUAX	PABEX	PABDX	PAGBX	PAFBX
LargeCap Value III	PLVIX	PESAX	PPSNX	PPSFX	PPSSX	PPSRX
MidCap	PCBIX	PMSBX	PMBNX	PMBMX	PMBSX	PMBPX
MidCap Growth	PGWIX	PMSGX	PGPPX	PFPPX	PIPPX	PHPPX
MidCap Growth III	PPIMX	PHASX	PPQNX	PPQMX	PPQSX	PPQPX
MidCap S&P 400 Index	MPSIX	PMSSX	PMFNX	PMFMX	PMFSX	PMFPX
MidCap Value I	PVMIX	PLASX	PABUX	PMPRX	PABWX	PABVX
MidCap Value III	PVUIX	PMSVX	PKPPX	PJPPX	PMPPX	PLPPX
Money Market	PVMXX					
Overseas	PINZX	PINQX	PINSX	PINTX	PINUX	PINGX
Principal Capital Appreciation	PWCIX	PCAMX	PCANX	PCAOX	PCAPX	PCAQX
Principal LifeTime Strategic Income	PLSIX	PLAIX	PLSNX	PLSMX	PLSSX	PLSPX
Principal LifeTime 2010	PTTIX	PVASX	PTANX	PTAMX	PTASX	PTAPX
Principal LifeTime 2015	LTINX	LTSGX	LTASX	LTAPX	LTS LX	LTPFX
Principal LifeTime 2020	PLWIX	PWASX	PTBNX	PTBMX	PTBSX	PTBPX
Principal LifeTime 2025	LTSTX	LTSNX	LTADX	LTVPX	LTEEX	LTPDX
Principal LifeTime 2030	PMTIX	PXASX	PTCNX	PTCMX	PTCSX	PTCPX
Principal LifeTime 2035	LTIUX	LTANX	LTVIX	LTAOX	LTSEX	LTPEX
Principal LifeTime 2040	PTDIX	PYASX	PTDNX	PTDMX	PTDSX	PTDPX
Principal LifeTime 2045	LTRIX	LTRGX	LTRSX	LTRVX	LTRLX	LTRDX
Principal LifeTime 2050	PPLIX	PZASX	PTENX	PTERX	PTESX	PTEFX
Principal LifeTime 2055	LTFIX	LTFGX	LTF SX	LTFDX	LTFLX	LTFPX
Principal LifeTime 2060	PLTZX	PLTRX	PLTBX	PLTCX	PLTMX	PLTOX
Real Estate Securities	PIREX	PRAEX	PRENX	PRERX	PRETX	PREPX
SAM Balanced	PSBIX	PSBGX	PSBVX	PBAPX	PSBLX	PSBFX
SAM Conservative Balanced	PCCIX	PCSSX	PCNSX	PCBPX	PCBLX	PCBFX
SAM Conservative Growth	PCWIX	PCGGX	PCGVX	PCGPX	PCWSX	PCW PX
SAM Flexible Income	PIFIX	PFIGX	PFIVX	PFIPX	PFILX	PFIFX
SAM Strategic Growth	PSWIX	PSGGX	PSGVX	PSGPX	PSGLX	PSGFX
Short-Term Income	PSHIX	PSIMX	PSINX	PSIOX	PSIPX	PSIQX
SmallCap Blend	PSLIX	PSABX	PSBNX	PSBMX	PSBSX	PSBPX
SmallCap Growth I	PGRTX	PNASX	PPNNX	PPNMX	PPNSX	PPNPX
SmallCap Growth II	PSIIX	PPASX	PPMNX	PPMMX	PPMSX	PPMPX
SmallCap S&P 600 Index	PSSIX	PSAPX	PSSNX	PSSMX	PSSSX	PSSPX
SmallCap Value II	PPVIX	PCPTX	PKARX	PJARX	PSTWX	PLARX

The Securities and Exchange Commission has not approved or disapproved these securities or passed upon the adequacy of this prospectus. Any representation to the contrary is a criminal offense.

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PRINCIPAL LIFETIME STRATEGIC INCOME FUND

Objective: The Fund seeks current income, and as a secondary objective, capital appreciation.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.59%	0.59%	0.59%	0.59%	0.59%	0.59%
Total Annual Fund Operating Expenses	0.63%	1.50%	1.37%	1.19%	1.00%	0.88%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$64	\$202	\$351	\$786
Class R-1	153	474	818	1,791
Class R-2	139	434	750	1,646
Class R-3	121	378	654	1,443
Class R-4	102	318	552	1,225
Class R-5	90	281	488	1,084

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 14.6% of the average value of its portfolio.

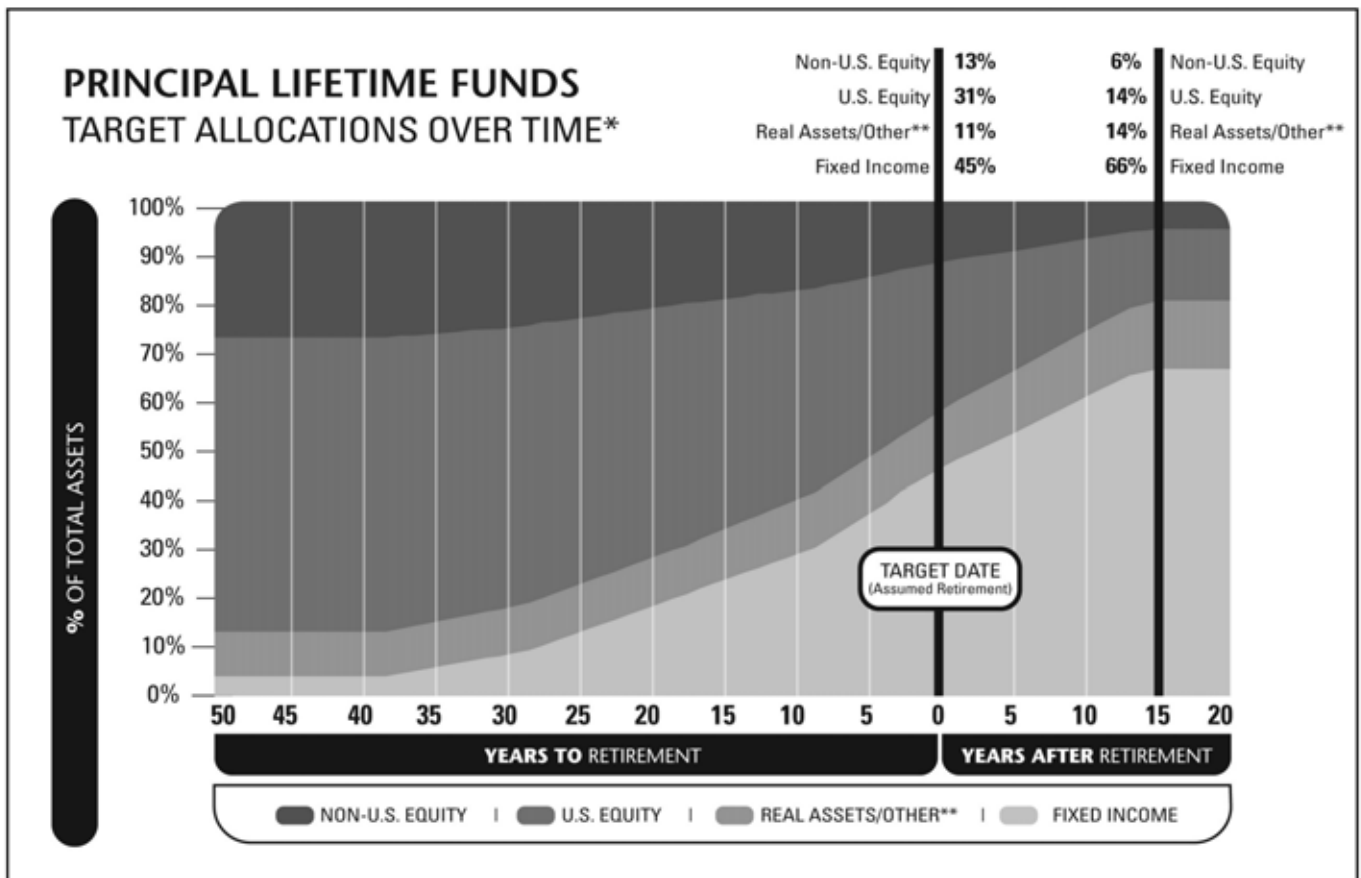
Principal Investment Strategies

The Fund invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors primarily seeking current income and secondarily capital appreciation. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation is designed for investors who are approximately 15 years beyond the normal retirement age of 65. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of large market capitalization companies, growth and value stocks, fixed-income securities (including high yield or "junk" bonds), domestic and foreign securities, securities denominated in foreign currencies, investment companies (including index funds), real estate securities, derivatives, mortgage-backed securities, and U.S. government and U.S. government-sponsored securities. The underlying funds engage in derivative transactions to gain exposure to a variety of securities or asset classes or attempt to reduce risk. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use futures, options, swaps (including, for example, credit default, interest rate, and currency swaps) and forwards.



* As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit in a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

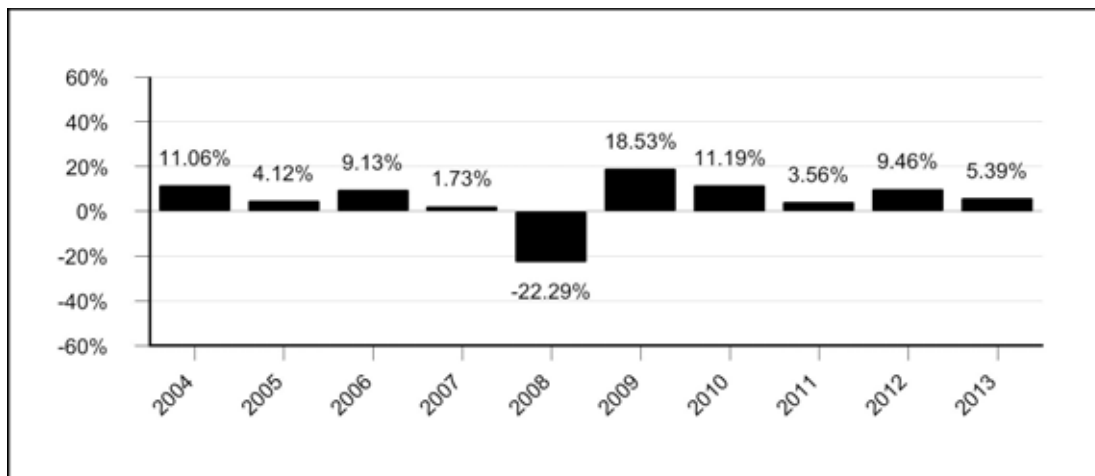
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-2, R-3, R-4, R-5, and Institutional Class shares were first sold on March 1, 2001.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 Class began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 9.86%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -11.26%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	5.39%	9.50%	4.62%
Institutional Class Return After Taxes on Distributions	4.49%	8.43%	3.37%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	3.15%	7.12%	3.20%
Class R-1 Return Before Taxes	4.53%	8.55%	3.71%
Class R-2 Return Before Taxes	4.66%	8.71%	3.87%
Class R-3 Return Before Taxes	4.81%	8.88%	4.03%
Class R-4 Return Before Taxes	5.02%	9.11%	4.23%
Class R-5 Return Before Taxes	5.13%	9.24%	4.37%
S&P Target Date Retirement Income Index (reflects no deduction for fees, expenses, or taxes)	6.28%	7.62%	4.85%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
Principal LifeTime Strategic Income Blended Index (reflects no deduction for fees, expenses, or taxes)	5.51%	7.83%	5.60%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Barclays U.S. Aggregate Bond Index to the S&P Target Date Retirement Income Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime Strategic Income Blended Index were 75.00% Barclays U.S. Aggregate Bond Index, 19.45% Russell 3000® Index, and 5.55% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2007), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2007), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanky (since 2001), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2010 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%
Total Annual Fund Operating Expenses	0.67%	1.54%	1.41%	1.23%	1.04%	0.92%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$68	\$214	\$373	\$835
Class R-1	157	486	839	1,834
Class R-2	144	446	771	1,691
Class R-3	125	390	676	1,489
Class R-4	106	331	574	1,271
Class R-5	94	293	509	1,131

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 15.2% of the average value of its portfolio.

Principal Investment Strategies

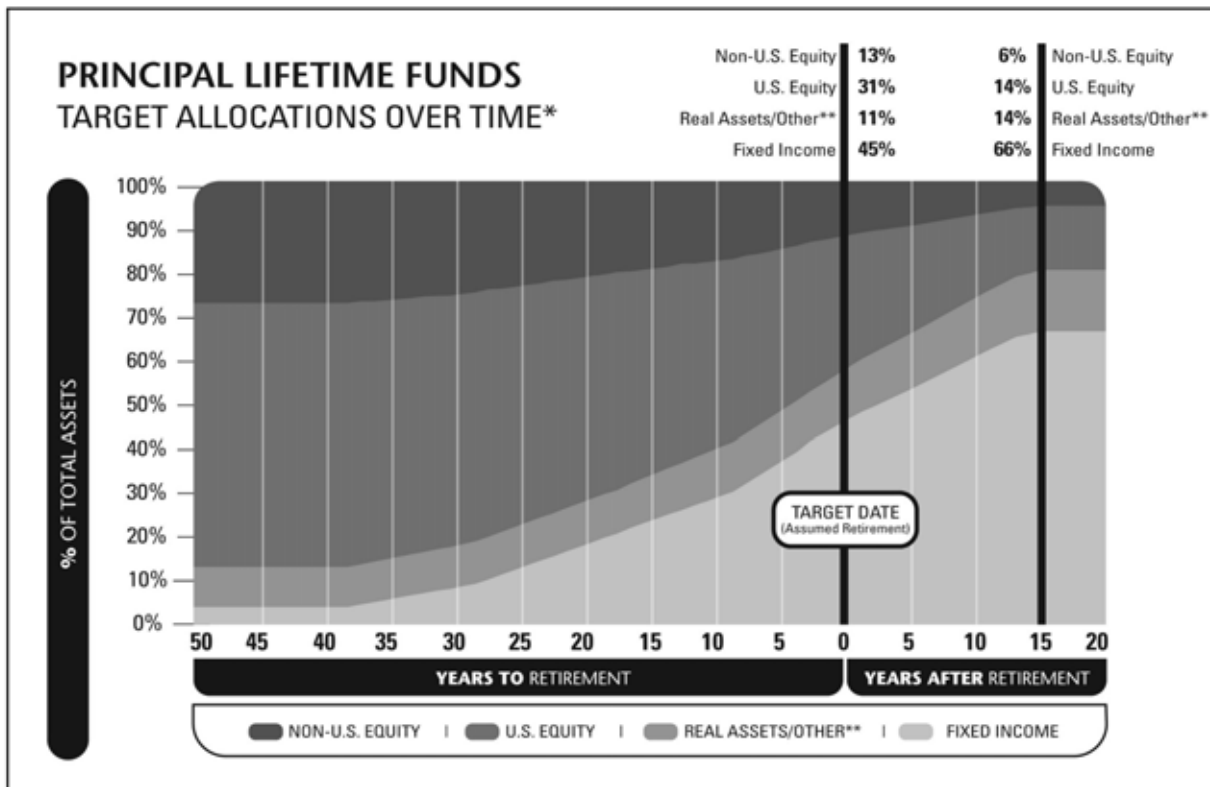
The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of large market capitalization companies, growth and value stocks, fixed-income securities (including high yield or "junk" bonds), domestic and foreign securities, securities denominated in foreign currencies, investment companies (including index funds), real estate securities, derivatives, mortgage-backed and asset-backed securities, and U.S. government and U.S. government-sponsored securities. The underlying funds engage in derivative transactions to gain exposure to a variety of securities or asset classes or attempt to reduce risk. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use futures, options, swaps (including, for example, credit default, interest rate, and currency swaps) and forwards.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



*As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

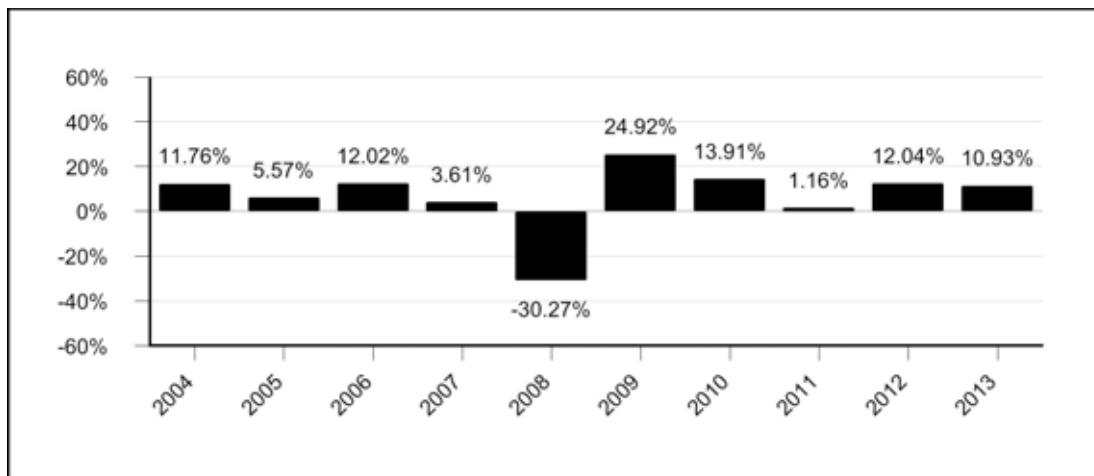
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on March 1, 2001.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 Class began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 14.17%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -16.27%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	10.93%	12.34%	5.50%
Institutional Class Return After Taxes on Distributions	10.12%	11.46%	4.47%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	6.33%	9.56%	4.06%
Class R-1 Return Before Taxes	10.02%	11.36%	4.57%
Class R-2 Return Before Taxes	10.09%	11.51%	4.71%
Class R-3 Return Before Taxes	10.39%	11.72%	4.90%
Class R-4 Return Before Taxes	10.57%	11.94%	5.11%
Class R-5 Return Before Taxes	10.67%	12.04%	5.24%
S&P Target Date 2010 Index (reflects no deduction for fees, expenses, or taxes)	9.42%	9.16%	5.47%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
Principal LifeTime 2010 Blended Index (reflects no deduction for fees, expenses, or taxes)	11.07%	10.85%	5.72%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Barclays U.S. Aggregate Bond Index to the S&P Target Date 2010 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2010 Blended Index were 57.50% Barclays U.S. Aggregate Bond Index, 31.35% Russell 3000® Index, and 11.15% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2007), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2007), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanzky (since 2001), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2015 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%
Total Annual Fund Operating Expenses	0.69%	1.56%	1.43%	1.25%	1.06%	0.94%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$70	\$221	\$384	\$859
Class R-1	159	493	850	1,856
Class R-2	146	452	782	1,713
Class R-3	127	397	686	1,511
Class R-4	108	337	585	1,294
Class R-5	96	300	520	1,155

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 21.4% of the average value of its portfolio.

Principal Investment Strategies

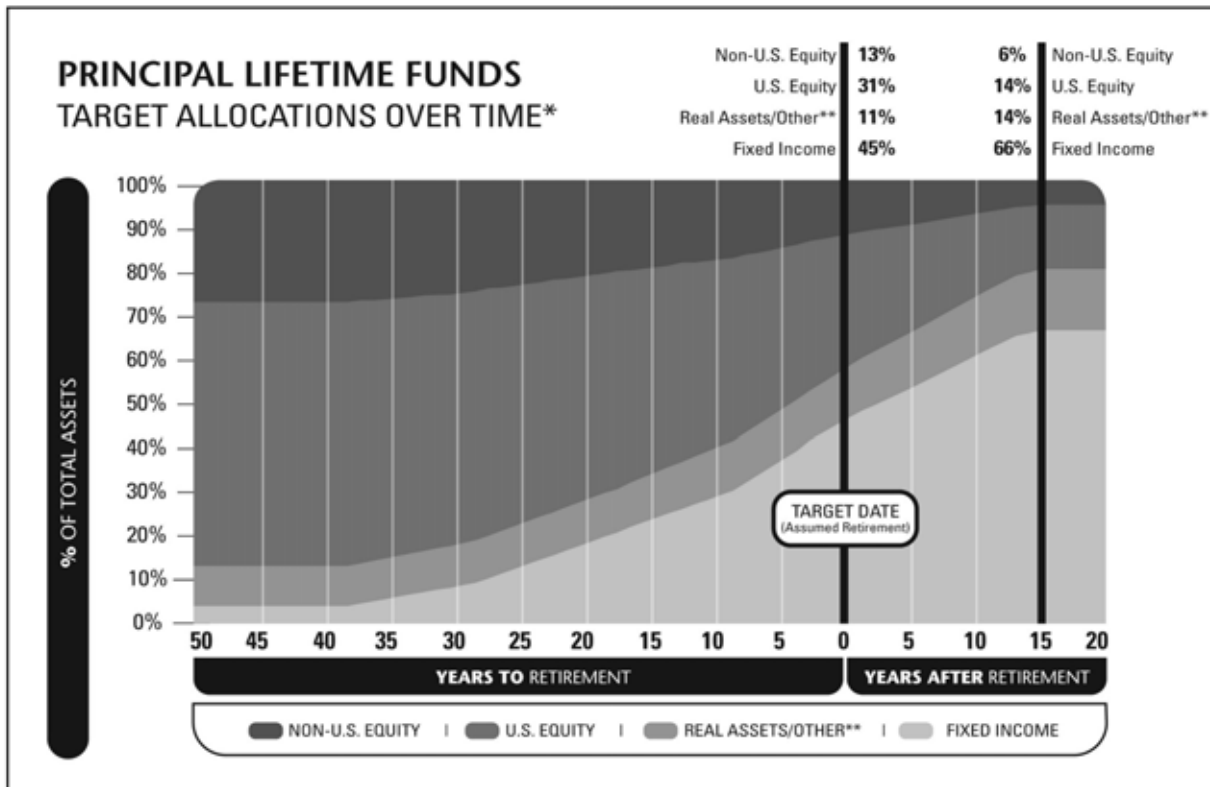
The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of large market capitalization companies, growth and value stocks, fixed-income securities (including high yield or "junk" bonds), domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), real estate securities, derivatives, mortgage-backed and asset-backed securities, and U.S. government and U.S. government-sponsored securities. The underlying funds engage in derivative transactions to gain exposure to a variety of securities or asset classes or attempt to reduce risk. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use futures, options, swaps (including, for example, credit default, interest rate, and currency swaps) and forwards.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



*As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

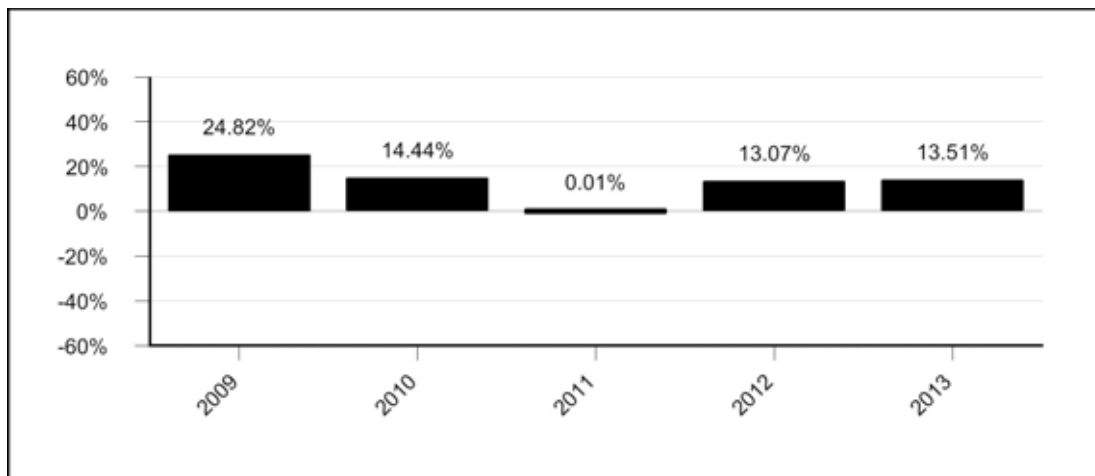
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

The Life of Fund results are measured from the date the Fund's shares were first sold (February 29, 2008).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 14.34%
 Lowest return for a quarter during the period of the bar chart above: Q3 '11 -10.77%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Year	Life of Fund
Institutional Class Return Before Taxes	13.51%	12.89%	5.21%
Institutional Class Return After Taxes on Distributions	11.78%	11.67%	4.14%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	8.45%	10.03%	3.81%
Class R-1 Return Before Taxes	12.52%	11.89%	4.21%
Class R-2 Return Before Taxes	12.56%	12.04%	4.35%
Class R-3 Return Before Taxes	12.83%	12.23%	4.52%
Class R-4 Return Before Taxes	13.08%	12.48%	4.74%
Class R-5 Return Before Taxes	13.17%	12.61%	4.86%
S&P Target Date 2015 Index (reflects no deduction for fees, expenses, or taxes)	12.16%	10.54%	5.39%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.38%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	8.66%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	1.73%
Principal LifeTime 2015 Blended Index (reflects no deduction for fees, expenses, or taxes)	13.99%	11.83%	5.73%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Barclays U.S. Aggregate Bond Index to the S&P Target Date 2015 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2015 Blended Index were 48.75% Barclays U.S. Aggregate Bond Index, 37.55% Russell 3000® Index, and 13.70% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2008), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2008), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanzky (since 2008), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

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The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2020 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.67%	0.67%	0.67%	0.67%	0.67%	0.67%
Total Annual Fund Operating Expenses	0.71%	1.58%	1.45%	1.27%	1.08%	0.96%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$73	\$227	\$395	\$883
Class R-1	161	499	860	1,878
Class R-2	148	459	792	1,735
Class R-3	129	403	697	1,534
Class R-4	110	343	595	1,317
Class R-5	98	306	531	1,178

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 25.7% of the average value of its portfolio.

Principal Investment Strategies

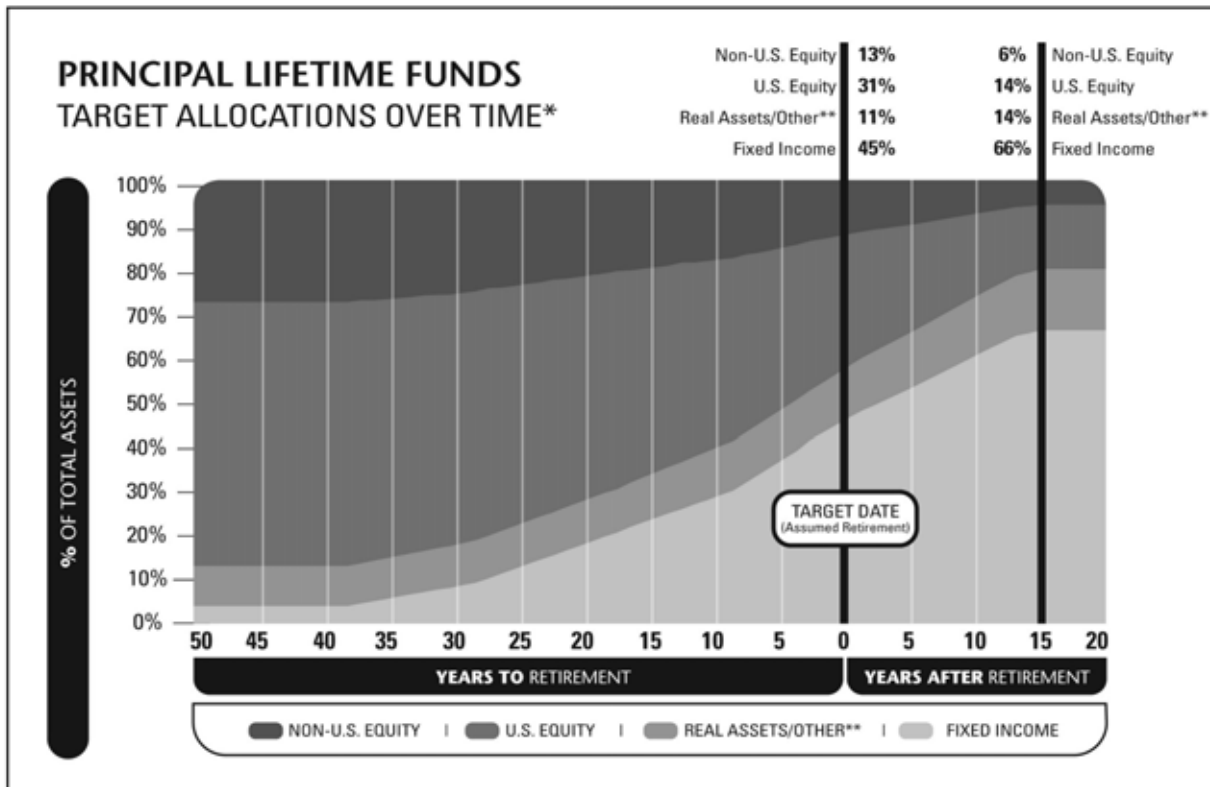
The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of large market capitalization companies, growth and value stocks, fixed-income securities (including high yield or "junk" bonds), domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), real estate securities, derivatives, mortgage-backed and asset-backed securities, and U.S. government and U.S. government-sponsored securities. The underlying funds engage in derivative transactions to gain exposure to a variety of securities or asset classes or attempt to reduce risk. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use futures, options, swaps (including, for example, credit default, interest rate, and currency swaps) and forwards.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

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Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

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Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

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Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

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Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

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Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

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Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

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Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

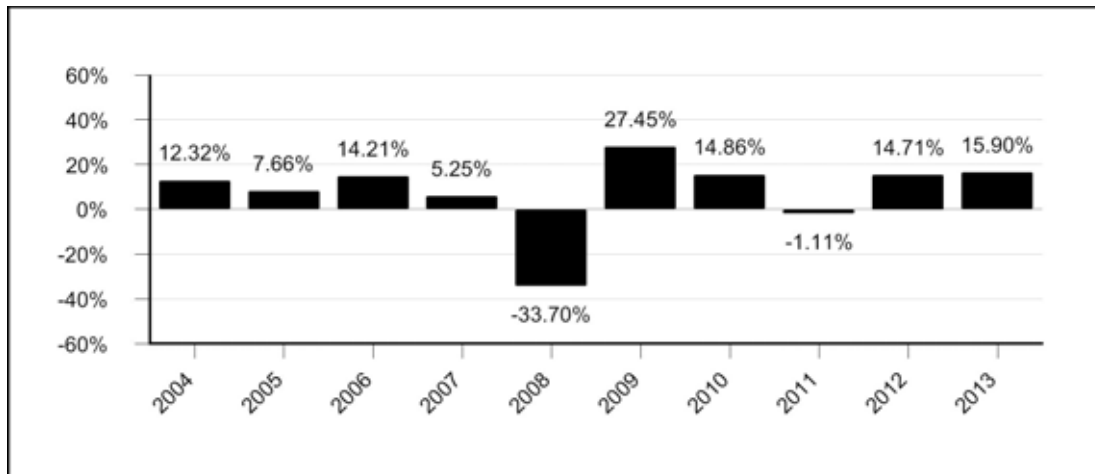
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on March 1, 2001.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 Class began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 16.10%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -18.35%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	15.90%	13.99%	6.37%
Institutional Class Return After Taxes on Distributions	14.84%	13.18%	5.41%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	9.41%	11.00%	4.84%
Class R-1 Return Before Taxes	14.98%	13.01%	5.45%
Class R-2 Return Before Taxes	15.06%	13.14%	5.58%
Class R-3 Return Before Taxes	15.31%	13.34%	5.77%
Class R-4 Return Before Taxes	15.52%	13.56%	5.96%
Class R-5 Return Before Taxes	15.68%	13.72%	6.10%
S&P Target Date 2020 Index (reflects no deduction for fees, expenses, or taxes)	14.76%	11.75%	6.26%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
Principal LifeTime 2020 Blended Index (reflects no deduction for fees, expenses, or taxes)	17.78%	12.88%	6.35%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Russell 3000[®] Index to the S&P Target Date 2020 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2020 Blended Index were 45.95% Russell 3000[®] Index, 37.25% Barclays U.S. Aggregate Bond Index, and 16.80% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2007), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2007), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanzky (since 2001), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2025 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.69%	0.69%	0.69%	0.69%	0.69%	0.69%
Total Annual Fund Operating Expenses	0.73%	1.60%	1.47%	1.29%	1.10%	0.98%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$75	\$233	\$406	\$906
Class R-1	163	505	871	1,900
Class R-2	150	465	803	1,757
Class R-3	131	409	708	1,556
Class R-4	112	350	606	1,340
Class R-5	100	312	542	1,201

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 22.2% of the average value of its portfolio.

Principal Investment Strategies

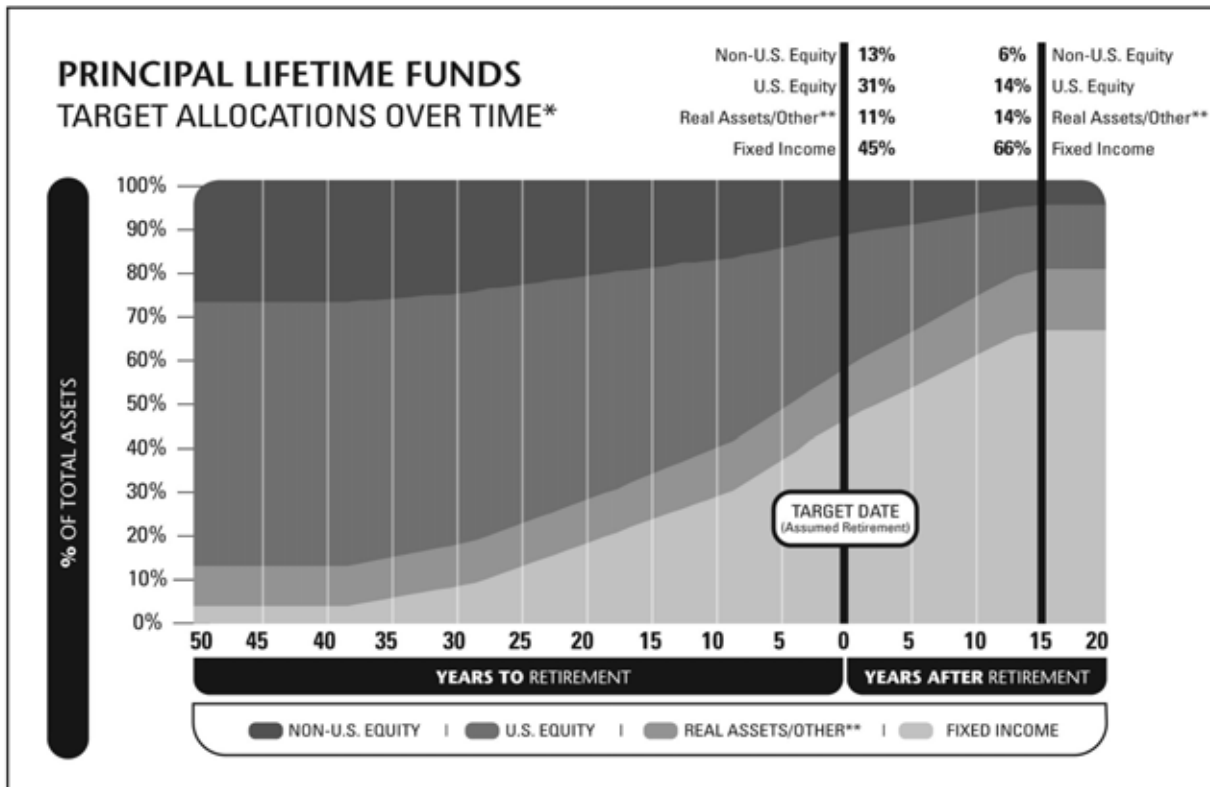
The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of small, medium, and large market capitalization companies, growth and value stocks, fixed-income securities (including high yield or "junk" bonds), domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), real estate securities, derivatives, and U.S. government and U.S. government-sponsored securities. The underlying funds engage in derivative transactions to gain exposure to a variety of securities or asset classes or attempt to reduce risk. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use futures, options, swaps (including, for example, credit default, interest rate, and currency swaps) and forwards.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



* As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

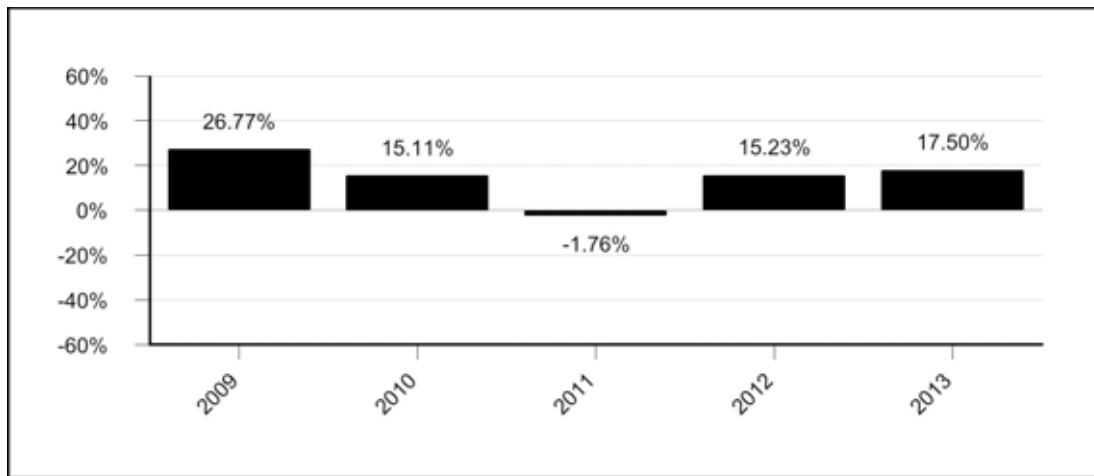
Performance

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The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

The Life of Fund results are measured from the date the Fund's shares were first sold (February 29, 2008).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 15.65%
 Lowest return for a quarter during the period of the bar chart above: Q3 '11 -13.65%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Year	Life of Fund
Institutional Class Return Before Taxes	17.50%	14.18%	5.50%
Institutional Class Return After Taxes on Distributions	15.56%	13.13%	4.58%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	10.82%	11.20%	4.12%
Class R-1 Return Before Taxes	16.49%	13.22%	4.59%
Class R-2 Return Before Taxes	16.63%	13.34%	4.72%
Class R-3 Return Before Taxes	16.95%	13.55%	4.89%
Class R-4 Return Before Taxes	17.15%	13.78%	5.11%
Class R-5 Return Before Taxes	17.32%	13.92%	5.24%
S&P Target Date 2025 Index (reflects no deduction for fees, expenses, or taxes)	17.03%	12.77%	5.97%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	8.66%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.38%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	1.73%
Principal LifeTime 2025 Blended Index (reflects no deduction for fees, expenses, or taxes)	20.03%	13.58%	6.20%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Russell 3000[®] Index to the S&P Target Date 2025 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2025 Blended Index were 51.15% Russell 3000[®] Index, 30.30% Barclays U.S. Aggregate Bond Index, and 18.55% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2008), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2008), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanzky (since 2008), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2030 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.71%	0.71%	0.71%	0.71%	0.71%	0.71%
Total Annual Fund Operating Expenses	0.75%	1.62%	1.49%	1.31%	1.12%	1.00%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$77	\$240	\$417	\$930
Class R-1	165	511	881	1,922
Class R-2	152	471	813	1,779
Class R-3	133	415	718	1,579
Class R-4	114	356	617	1,363
Class R-5	102	318	552	1,225

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 25.1% of the average value of its portfolio.

Principal Investment Strategies

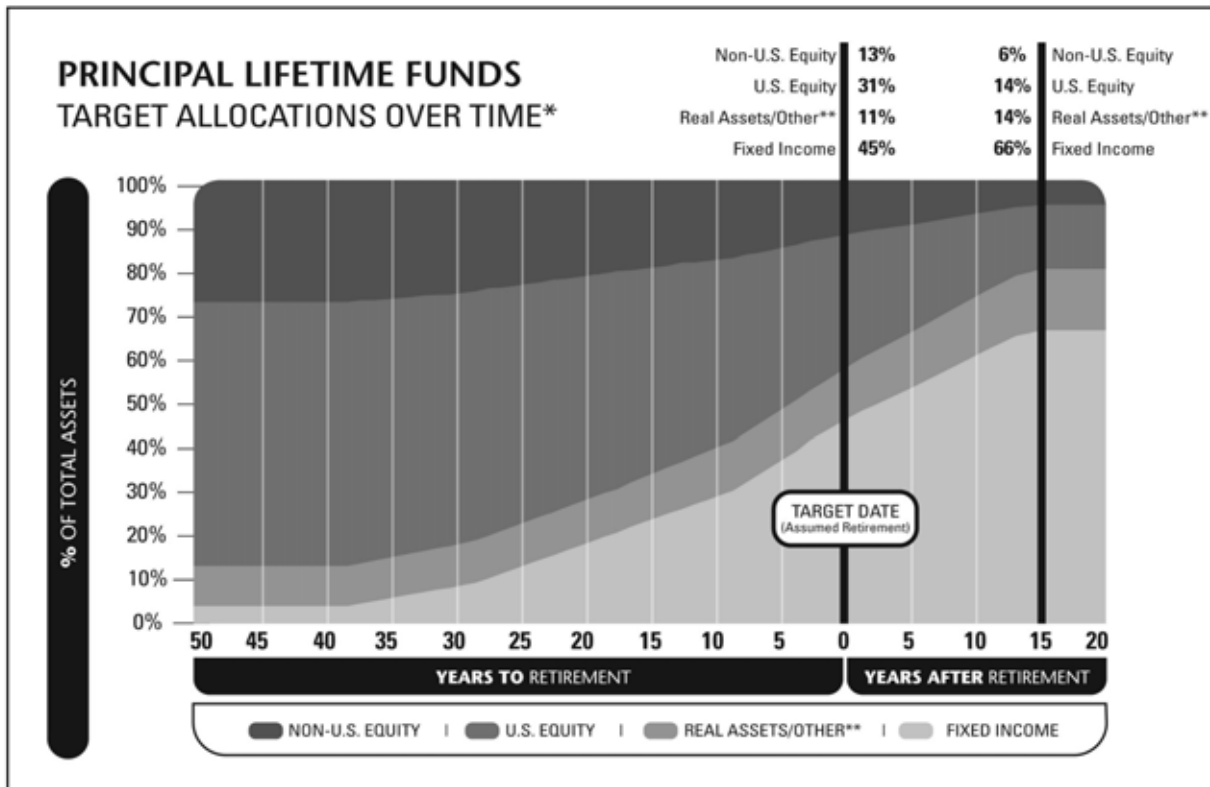
The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of small, medium, and large market capitalization companies, growth and value stocks, fixed-income securities (including high yield or "junk" bonds), domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), real estate securities, derivatives, and U.S. government and U.S. government-sponsored securities. The underlying funds engage in derivative transactions to gain exposure to a variety of securities or asset classes or attempt to reduce risk. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use futures, options, swaps (including, for example, credit default, interest rate, and currency swaps) and forwards.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



*As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

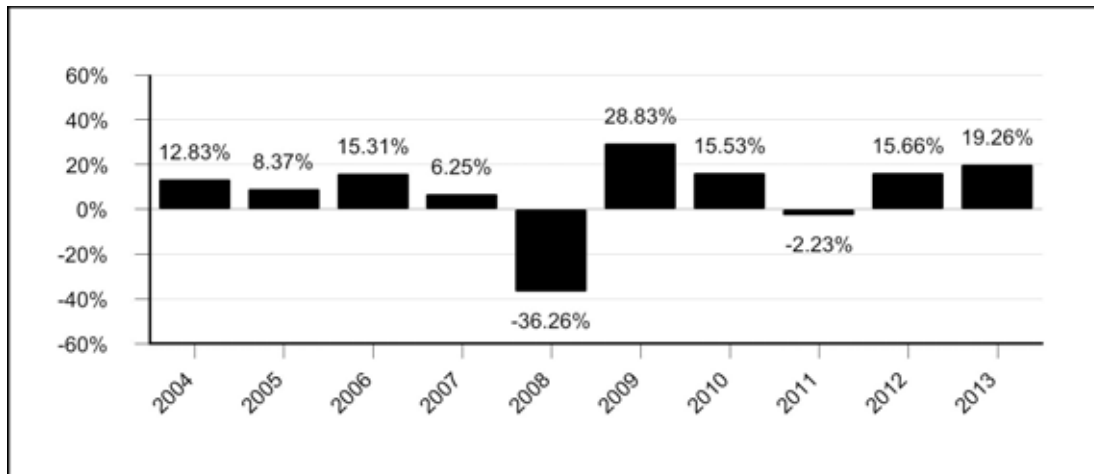
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on March 1, 2001.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 Class began operations) that is no higher than the historical performance of the Institutional Class shares.
- During 2003, the R-4 Class experienced a significant withdrawal of monies by an affiliate. As the remaining shareholders held relatively small positions, the total return amounts expressed herein are greater than those that would have been experienced without the withdrawal.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 17.01%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -19.94%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	19.26%	14.95%	6.72%
Institutional Class Return After Taxes on Distributions	18.10%	14.21%	5.83%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	11.40%	11.86%	5.18%
Class R-1 Return Before Taxes	18.25%	13.95%	5.79%
Class R-2 Return Before Taxes	18.46%	14.11%	5.93%
Class R-3 Return Before Taxes	18.59%	14.30%	6.11%
Class R-4 Return Before Taxes	18.82%	14.52%	6.31%
Class R-5 Return Before Taxes	18.99%	14.68%	6.45%
S&P Target Date 2030 Index (reflects no deduction for fees, expenses, or taxes)	19.14%	13.60%	6.73%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
Principal LifeTime 2030 Blended Index (reflects no deduction for fees, expenses, or taxes)	22.26%	14.29%	6.67%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Russell 3000[®] Index to the S&P Target Date 2030 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2030 Blended Index were 55.80% Russell 3000[®] Index, 23.75% Barclays U.S. Aggregate Bond Index, and 20.45% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2007), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2007), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanzky (since 2001), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2035 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%
Total Annual Fund Operating Expenses	0.76%	1.63%	1.50%	1.32%	1.13%	1.01%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$78	\$243	\$422	\$942
Class R-1	166	514	887	1,933
Class R-2	153	474	818	1,791
Class R-3	134	418	723	1,590
Class R-4	115	359	622	1,375
Class R-5	103	322	558	1,236

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 22.2% of the average value of its portfolio.

Principal Investment Strategies

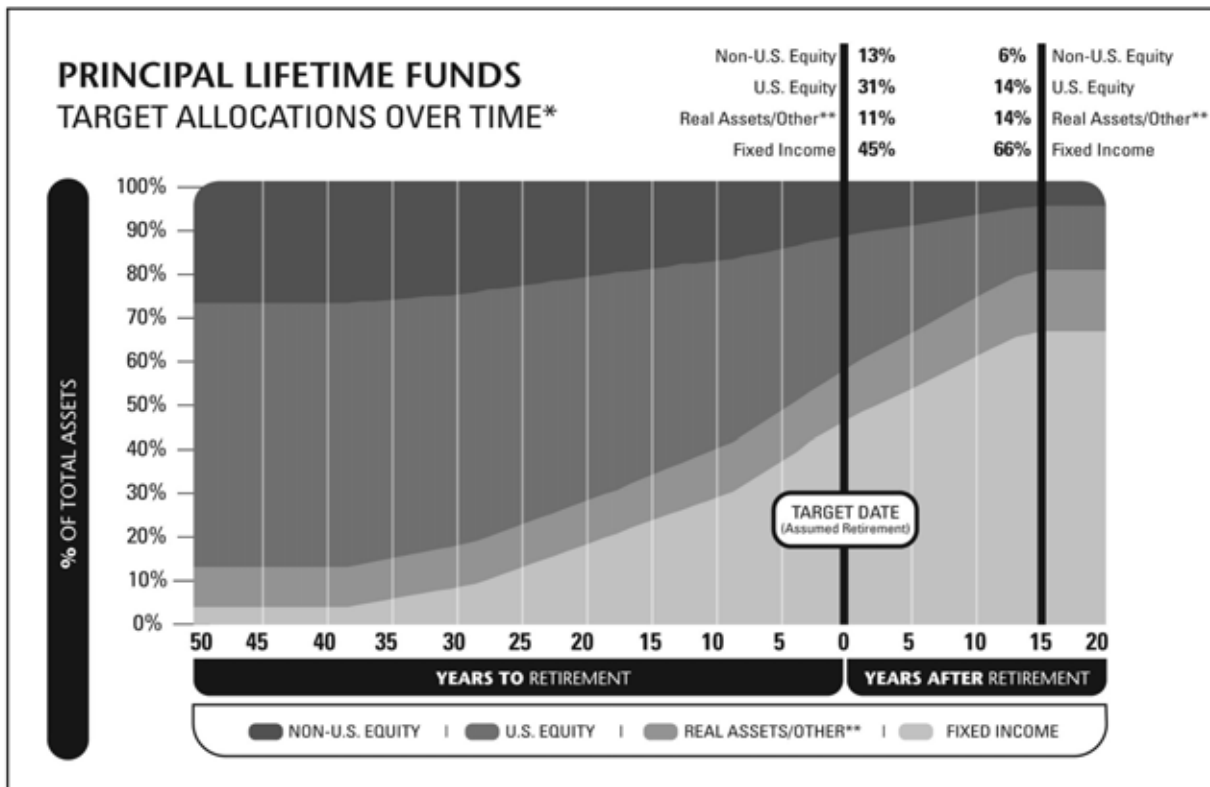
The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of small, medium, and large market capitalization companies, growth and value stocks, fixed-income securities, domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), real estate securities, derivatives, and U.S. government and U.S. government-sponsored securities. The underlying funds engage in derivative transactions to gain exposure to a variety of securities or asset classes or attempt to reduce risk. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use equity index futures and options to manage equity exposure.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



* As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

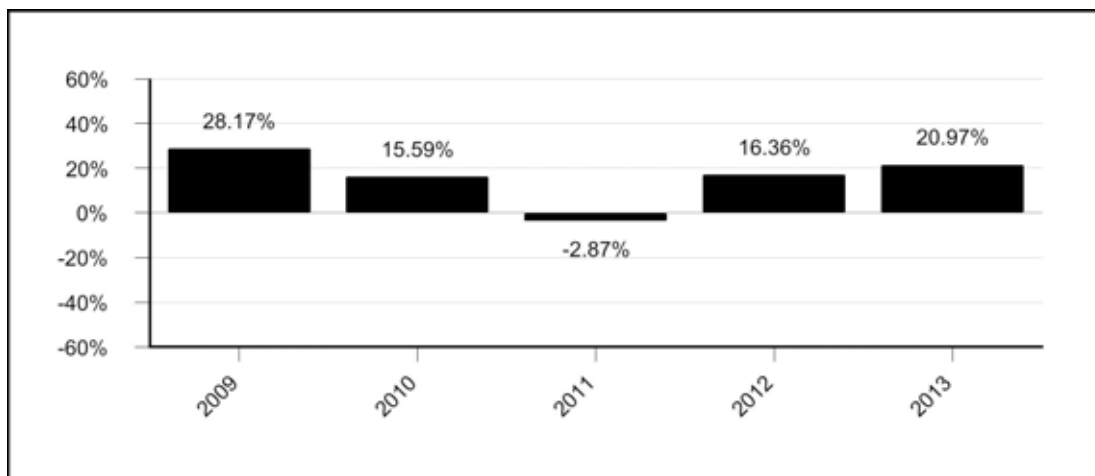
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

The Life of Fund results are measured from the date the Fund's shares were first sold (February 29, 2008).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above:	Q2 '09	16.61%
Lowest return for a quarter during the period of the bar chart above:	Q3 '11	-15.22%

Average Annual Total Returns			
For the periods ended December 31, 2013	1 Year	5 Year	Life of Fund
Institutional Class Return Before Taxes	20.97%	15.16%	5.81%
Institutional Class Return After Taxes on Distributions	19.08%	14.22%	4.99%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	12.76%	12.07%	4.40%
Class R-1 Return Before Taxes	19.98%	14.14%	4.91%
Class R-2 Return Before Taxes	20.14%	14.30%	5.03%
Class R-3 Return Before Taxes	20.40%	14.52%	5.22%
Class R-4 Return Before Taxes	20.60%	14.74%	5.43%
Class R-5 Return Before Taxes	20.79%	14.88%	5.57%
S&P Target Date 2035 Index (reflects no deduction for fees, expenses, or taxes)	20.84%	14.27%	6.16%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	8.66%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	1.73%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.38%
Principal LifeTime 2035 Blended Index (reflects no deduction for fees, expenses, or taxes)	24.10%	14.82%	6.49%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Russell 3000[®] Index to the S&P Target Date 2035 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2035 Blended Index were 59.25% Russell 3000[®] Index, 22.40% MSCI EAFE Index NDTR D, and 18.35% Barclays U.S. Aggregate Bond Index. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2008), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2008), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanzky (since 2008), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2040 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
Total Annual Fund Operating Expenses	0.78%	1.65%	1.52%	1.34%	1.15%	1.03%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$80	\$249	\$433	\$966
Class R-1	168	520	897	1,955
Class R-2	155	480	829	1,813
Class R-3	136	425	734	1,613
Class R-4	117	365	633	1,398
Class R-5	105	328	569	1,259

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 30.1% of the average value of its portfolio.

Principal Investment Strategies

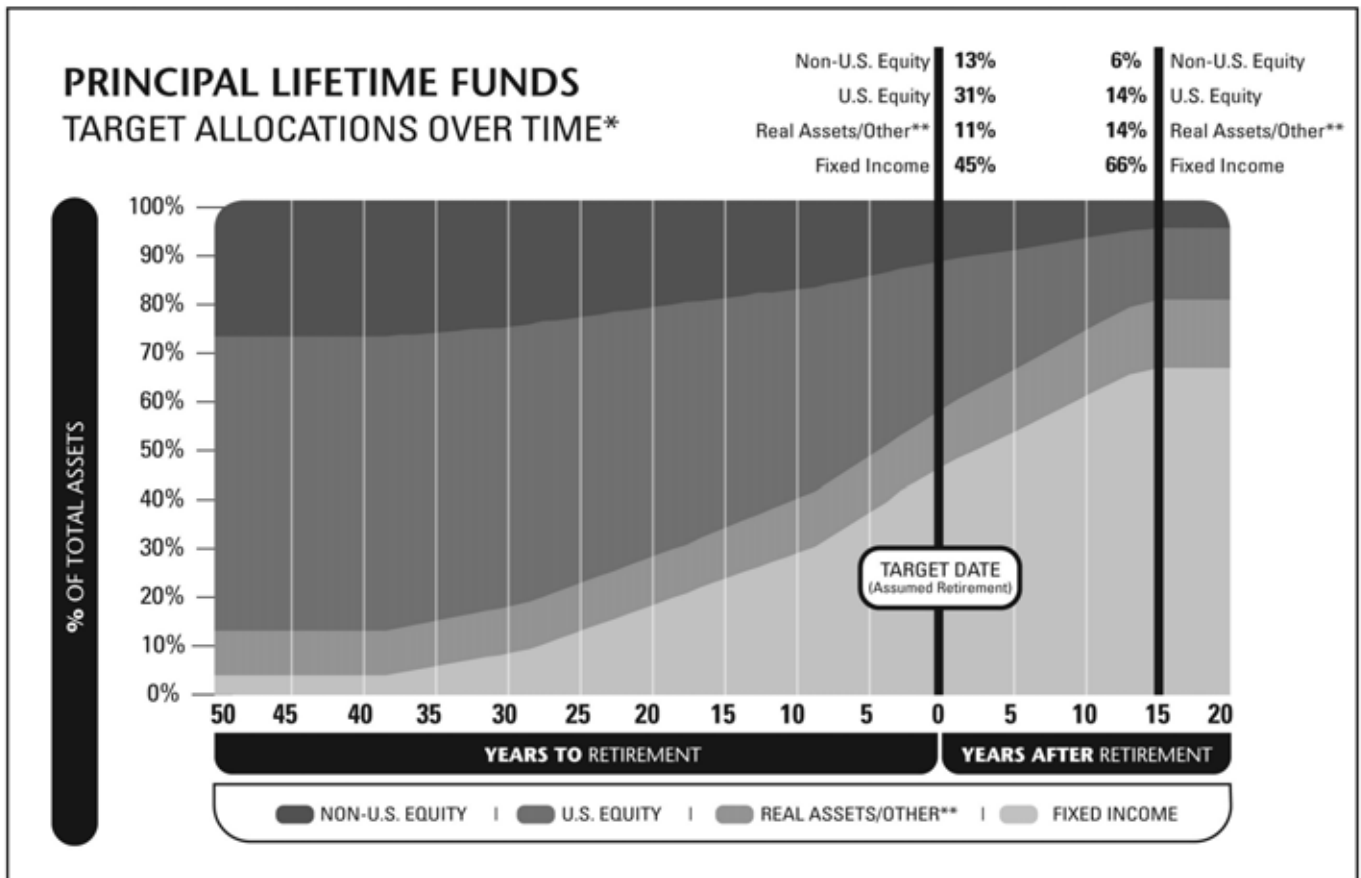
The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of small, medium, and large market capitalization companies, growth and value stocks, fixed-income securities, domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), and derivatives. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use equity index futures and options to manage equity exposure.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



* As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of the bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

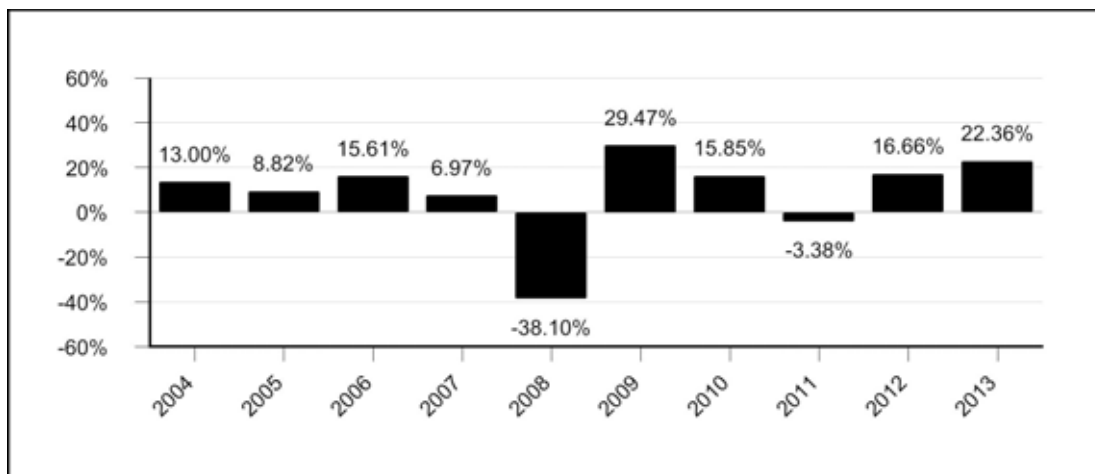
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on March 1, 2001.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 Class began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above:	Q2 '09	17.41%
Lowest return for a quarter during the period of the bar chart above:	Q4 '08	-21.32%

Average Annual Total Returns			
For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	22.36%	15.65%	6.89%
Institutional Class Return After Taxes on Distributions	20.92%	14.95%	6.07%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	13.44%	12.50%	5.38%
Class R-1 Return Before Taxes	21.22%	14.64%	5.95%
Class R-2 Return Before Taxes	21.41%	14.78%	6.09%
Class R-3 Return Before Taxes	21.56%	14.99%	6.29%
Class R-4 Return Before Taxes	21.79%	15.20%	6.48%
Class R-5 Return Before Taxes	21.99%	15.34%	6.61%
S&P Target Date 2040 Index (reflects no deduction for fees, expenses, or taxes)	22.10%	14.77%	6.96%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
Principal LifeTime 2040 Blended Index (reflects no deduction for fees, expenses, or taxes)	25.86%	15.33%	6.96%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Russell 3000[®] Index to the S&P Target Date 2040 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2040 Blended Index were 62.45% Russell 3000[®] Index, 24.35% MSCI EAFE Index NDTR D, and 13.20% Barclays U.S. Aggregate Bond Index. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2007), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2007), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanky (since 2001), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2045 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.02%	0.54%	0.46%	0.33%	0.29%	0.27%
Acquired Fund Fees and Expenses	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
Total Annual Fund Operating Expenses	0.79%	1.66%	1.53%	1.35%	1.16%	1.04%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$81	\$252	\$439	\$978
Class R-1	169	523	902	1,965
Class R-2	156	483	834	1,824
Class R-3	137	428	739	1,624
Class R-4	118	368	638	1,409
Class R-5	106	331	574	1,271

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 23.3% of the average value of its portfolio.

Principal Investment Strategies

The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

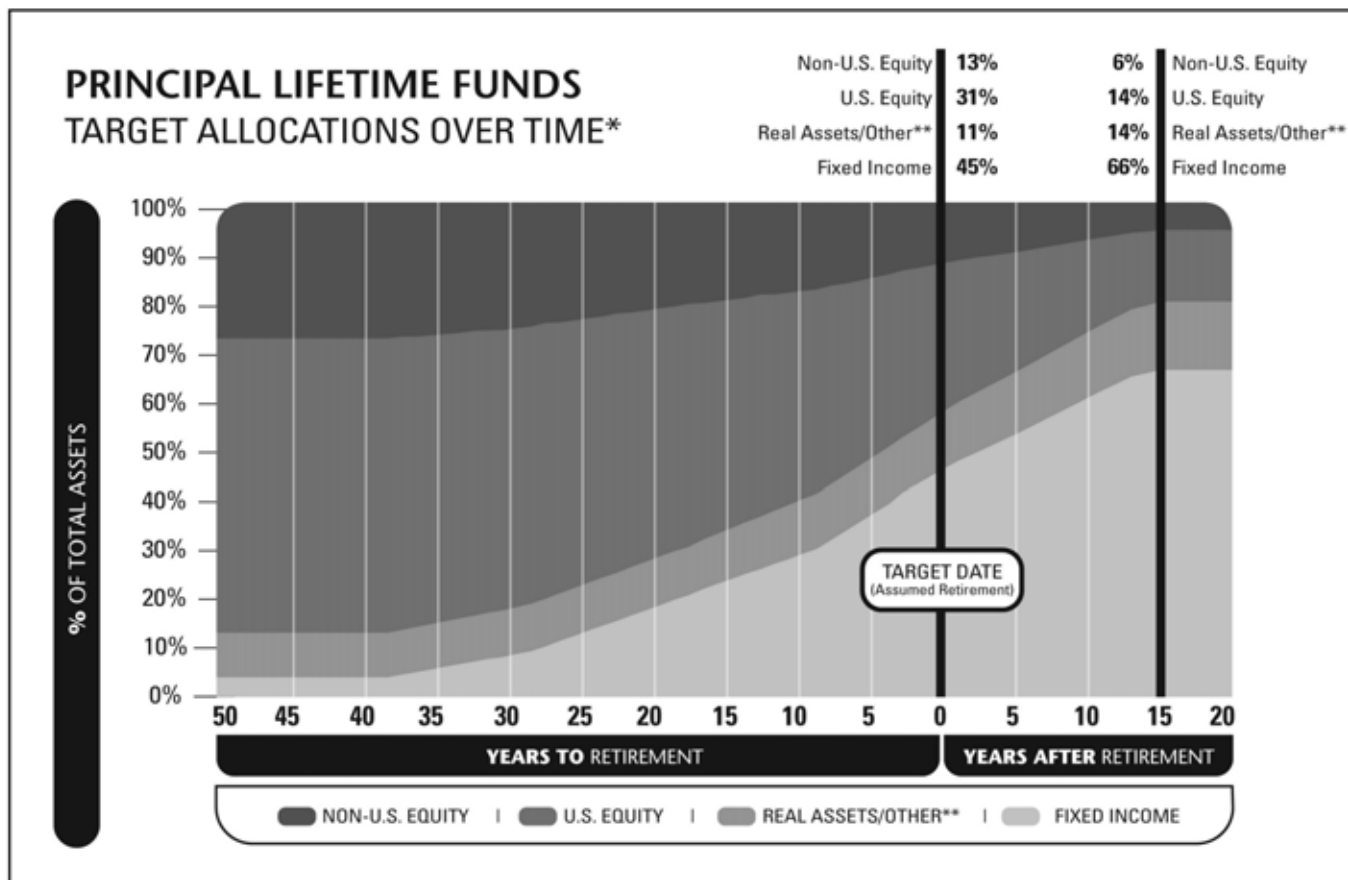
Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund.

Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of small, medium, and large market capitalization companies, growth and value stocks, fixed-income securities, domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), and derivatives. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use equity index futures and options to manage equity exposure.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



* As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you

paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

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Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

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Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

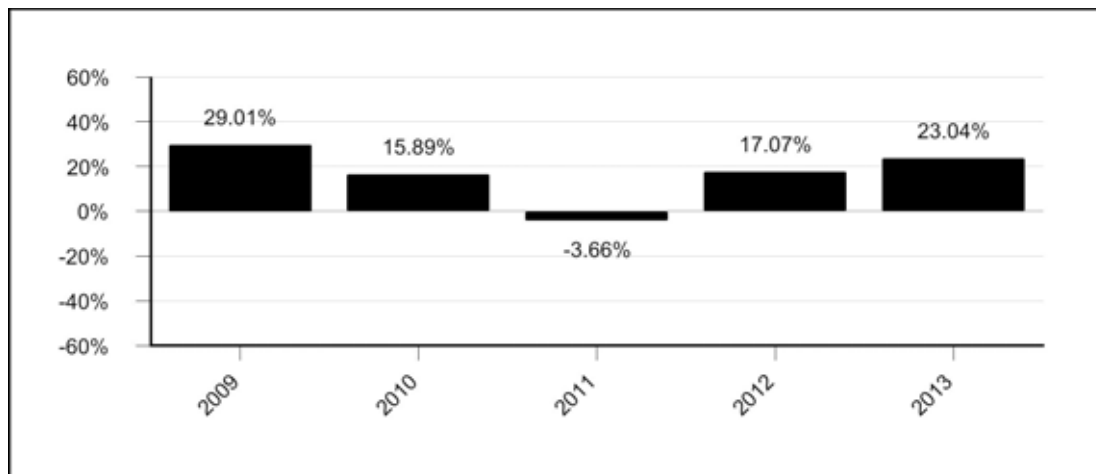
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund’s Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund’s average annual total returns compare to the returns of one or more broad-based market indices.

The Life of Fund results are measured from the date the Fund's shares were first sold (February 29, 2008).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 17.31%
 Lowest return for a quarter during the period of the bar chart above: Q3 '11 -16.15%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Year	Life of Fund
Institutional Class Return Before Taxes	23.04%	15.72%	5.96%
Institutional Class Return After Taxes on Distributions	21.23%	14.77%	5.15%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	13.90%	12.49%	4.49%
Class R-1 Return Before Taxes	21.93%	14.75%	4.99%
Class R-2 Return Before Taxes	22.13%	14.88%	5.14%
Class R-3 Return Before Taxes	22.29%	15.10%	5.30%
Class R-4 Return Before Taxes	22.59%	15.30%	5.52%
Class R-5 Return Before Taxes	22.74%	15.47%	5.65%
S&P Target Date 2045 Index (reflects no deduction for fees, expenses, or taxes)	23.14%	15.09%	6.20%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	8.66%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	1.73%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.38%
Principal LifeTime 2045 Blended Index (reflects no deduction for fees, expenses, or taxes)	26.93%	15.63%	6.65%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor’s tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Russell 3000[®] Index to the S&P Target Date 2045 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2045 Blended Index were 64.15% Russell 3000[®] Index, 25.95% MSCI EAFE Index NDTR D, and 9.90% Barclays U.S. Aggregate Bond Index. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2008), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2008), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanky (since 2008), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2050 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
Total Annual Fund Operating Expenses	0.78%	1.65%	1.52%	1.34%	1.15%	1.03%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$80	\$249	\$433	\$966
Class R-1	168	520	897	1,955
Class R-2	155	480	829	1,813
Class R-3	136	425	734	1,613
Class R-4	117	365	633	1,398
Class R-5	105	328	569	1,259

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 29.5% of the average value of its portfolio.

Principal Investment Strategies

The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

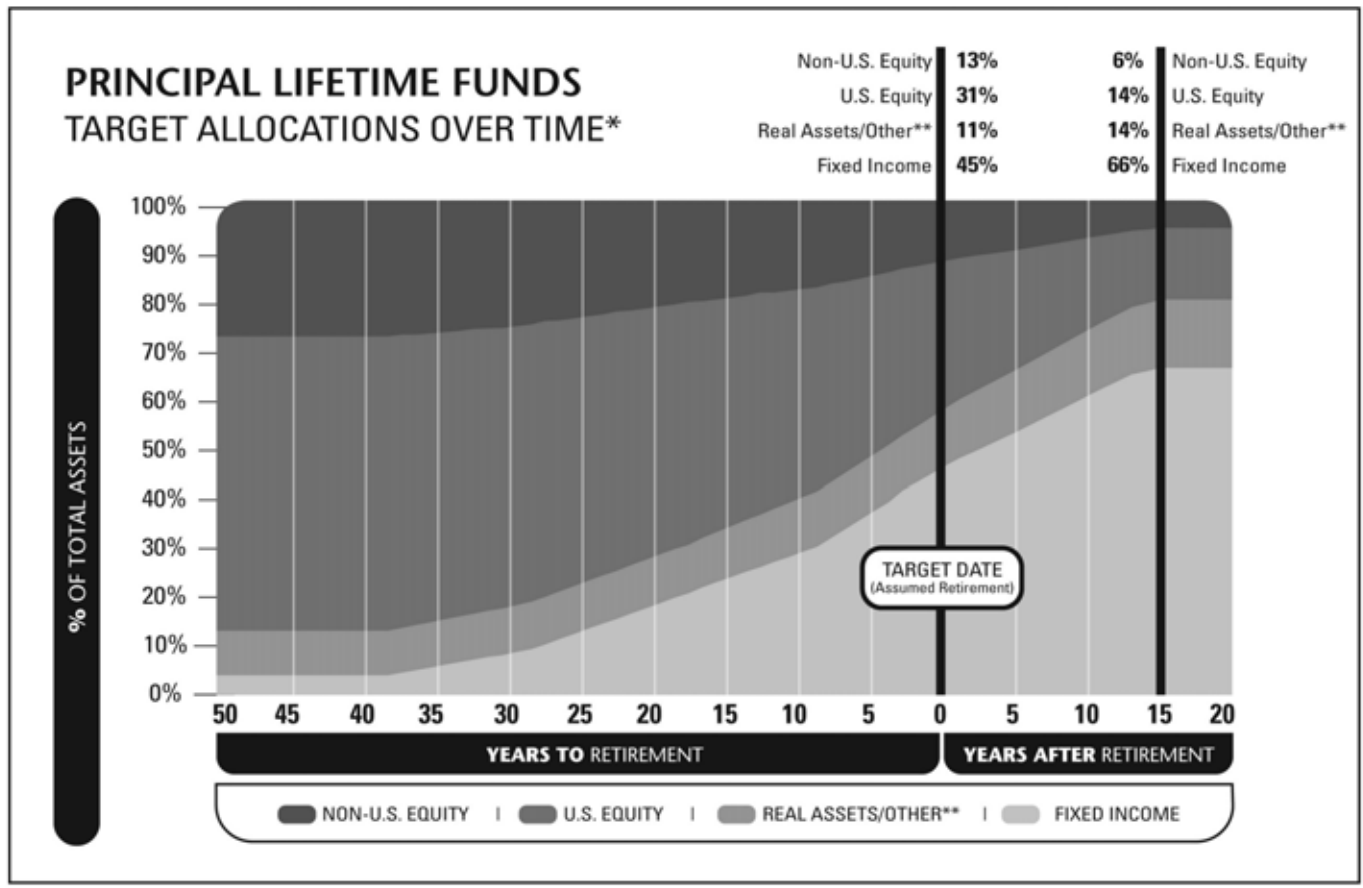
Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund.

Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of small, medium, and large market capitalization companies, growth and value stocks, fixed-income securities, domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), and derivatives. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use equity index futures and options to manage equity exposure.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



* As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

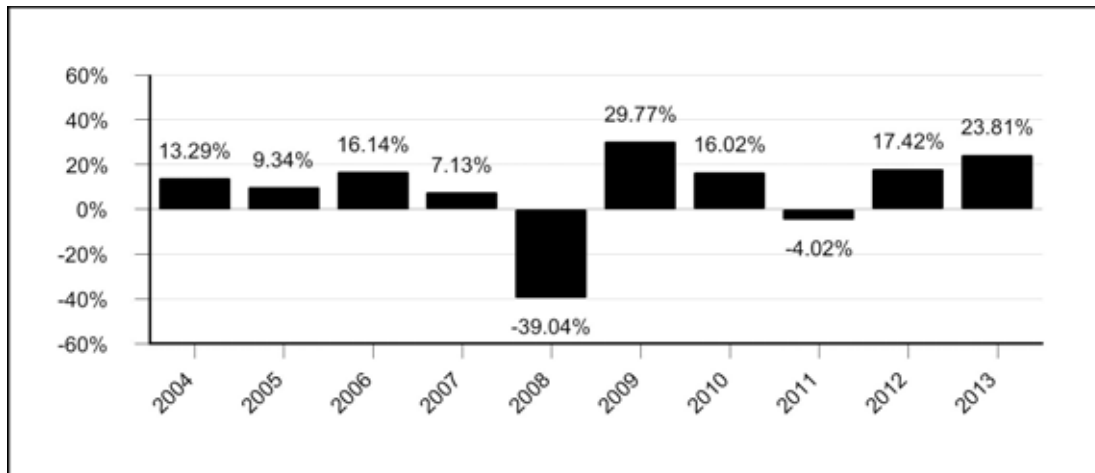
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on March 1, 2001.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 Class began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above:	Q2 '09	17.82%
Lowest return for a quarter during the period of the bar chart above:	Q4 '08	-21.98%

Average Annual Total Returns			
For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	23.81%	16.00%	7.04%
Institutional Class Return After Taxes on Distributions	22.26%	15.32%	6.24%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	14.37%	12.82%	5.53%
Class R-1 Return Before Taxes	22.78%	15.00%	6.11%
Class R-2 Return Before Taxes	22.92%	15.17%	6.24%
Class R-3 Return Before Taxes	23.08%	15.35%	6.43%
Class R-4 Return Before Taxes	23.39%	15.58%	6.63%
Class R-5 Return Before Taxes	23.53%	15.74%	6.76%
S&P Target Date 2050 Index (reflects no deduction for fees, expenses, or taxes)	24.13%	15.27%	N/A
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
Principal LifeTime 2050 Blended Index (reflects no deduction for fees, expenses, or taxes)	27.90%	15.89%	7.22%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Russell 3000[®] Index to the S&P Target Date 2050 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2050 Blended Index were 65.85% Russell 3000[®] Index, 27.10% MSCI EAFE Index NDTR D, and 7.05% Barclays U.S. Aggregate Bond Index. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2007), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2007), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanzky (since 2001), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2055 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.06%	0.55%	0.47%	0.34%	0.30%	0.28%
Acquired Fund Fees and Expenses	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Total Annual Fund Operating Expenses	0.84%	1.68%	1.55%	1.37%	1.18%	1.06%
Expense Reimbursement(1)	—	—	—	—	—	—
Total Annual Fund Operating Expenses after Expense Reimbursement	0.84%	1.68%	1.55%	1.37%	1.18%	1.06%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 0.13% for Institutional Class, 0.96% for Class R-1, 0.83% for Class R-2, 0.65% for Class R-3, 0.46% for Class R-4, and 0.34% for Class R-5 shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$86	\$268	\$466	\$1,037
Class R-1	171	530	913	1,987
Class R-2	158	490	845	1,845
Class R-3	139	434	750	1,646
Class R-4	120	375	649	1,432
Class R-5	108	337	585	1,294

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or "turns over" its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 29.1% of the average value of its portfolio.

Principal Investment Strategies

The Fund operates as a "target date fund." It invests in underlying Principal Funds, Inc. ("PFI") domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will

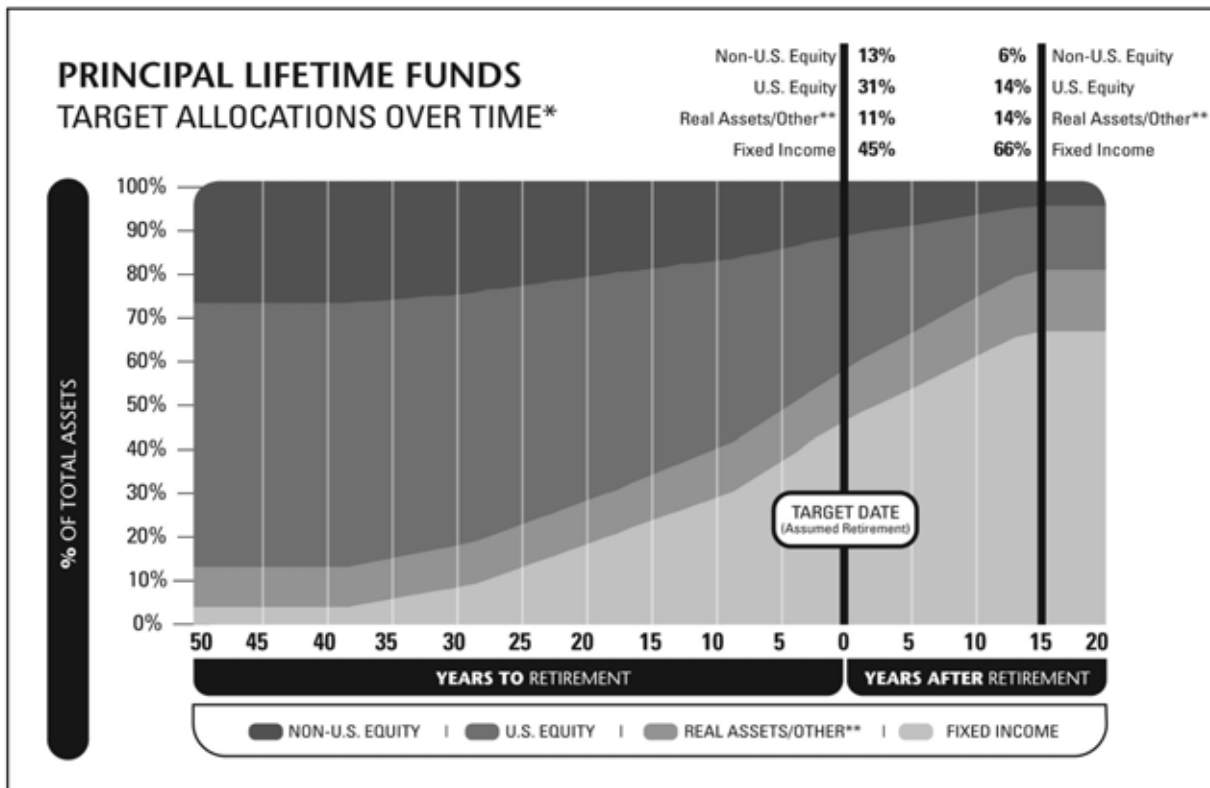
become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation ("Principal"); Principal has hired a sub-advisor, Principal Global Investors, LLC ("PGI"), to assist in managing the Fund.

Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of small, medium, and large market capitalization companies, growth and value stocks, fixed-income securities, domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), and derivatives. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use equity index futures and options to manage equity exposure.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.



*As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

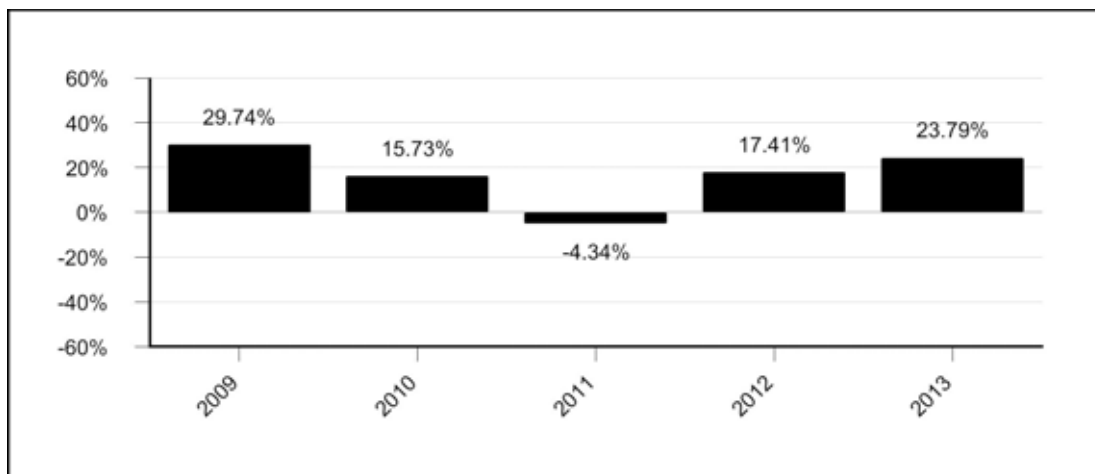
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

The Life of Fund results are measured from the date the Fund's shares were first sold (February 29, 2008).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above:	Q2 '09	17.40%
Lowest return for a quarter during the period of the bar chart above:	Q3 '11	-17.02%

Average Annual Total Returns			
For the periods ended December 31, 2013	1 Year	5 Year	Life of Fund
Institutional Class Return Before Taxes	23.79%	15.86%	5.90%
Institutional Class Return After Taxes on Distributions	22.12%	15.06%	5.21%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	14.20%	12.68%	4.50%
Class R-1 Return Before Taxes	22.88%	14.85%	4.98%
Class R-2 Return Before Taxes	23.01%	14.99%	5.11%
Class R-3 Return Before Taxes	23.14%	15.20%	5.31%
Class R-4 Return Before Taxes	23.29%	15.42%	5.50%
Class R-5 Return Before Taxes	23.61%	15.55%	5.63%
S&P Target Date 2055+ Index (reflects no deduction for fees, expenses, or taxes)	24.96%	15.49%	6.51%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	8.66%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	1.73%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.38%
Principal LifeTime 2055 Blended Index (reflects no deduction for fees, expenses, or taxes)	28.03%	15.87%	6.71%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Account's primary benchmark will change from Russell 3000[®] Index to the S&P Target Date 2055 Index because the S&P Target Date Indexes are more widely used and recognized in the industry. Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Effective March 31, 2013, the weightings for the Principal LifeTime 2055 Blended Index were 66.10% Russell 3000[®] Index, 27.40% MSCI EAFE Index NDTR D, and 6.50% Barclays U.S. Aggregate Bond Index. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2008), Vice President
- Jeffrey R. Tyler (since 2011), Vice President
- Randy L. Welch (since 2008), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanky (since 2008), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL LIFETIME 2060 FUND

Objective: The Fund seeks a total return consisting of long-term growth of capital and current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.03%	0.03%	0.03%	0.03%	0.03%	0.03%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	293.25%	7.76%	7.68%	7.55%	7.51%	7.49%
Acquired Fund Fees and Expenses	0.79%	0.79%	0.79%	0.79%	0.79%	0.79%
Total Annual Fund Operating Expenses	294.07%	8.93%	8.80%	8.62%	8.43%	8.31%
Expense Reimbursement (1)	(293.15)%	(7.18)%	(7.18)%	(7.18)%	(7.18)%	(7.18)%
Total Annual Fund Operating Expenses after Expense Reimbursement	0.92%	1.75%	1.62%	1.44%	1.25%	1.13%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 0.13% for Institutional Class, 0.96% for Class R-1, 0.83% for Class R-2, 0.65% for Class R-3, 0.46% for Class R-4, and 0.34% for Class R-5 shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. If separate account expenses and contract level expenses were included, expenses would be higher. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class (1)	\$94	\$14,055	\$46,579	\$(1,089,561)
Class R-1	\$178	\$1,848	\$3,503	\$7,105
Class R-2	\$165	\$1,813	\$3,453	\$7,038
Class R-3	\$147	\$1,765	\$3,383	\$6,943
Class R-4	\$127	\$1,713	\$3,308	\$6,840
Class R-5	\$115	\$1,680	\$3,260	\$6,774

(1) As of October 31, 2013, the Institutional Class shares of Principal LifeTime 2060 Fund had approximately \$13,000 in net assets; therefore, the example calculation renders unusual cost examples for years other than those during which expense reimbursement is in place.

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or “turns over” its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual account operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 42.5% of the average value of its portfolio.

Principal Investment Strategies

The Fund operates as a “target date fund.” It invests in underlying Principal Funds, Inc. (“PFI”) domestic and foreign equity, real asset and alternative investments, and fixed-income Funds according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in the Fund's name. Alternative investments aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity. The Fund's asset allocation will become more conservative over time as investment goals near (for example, retirement, which is assumed to begin at age 65) and investors become more risk-averse. The Fund invests in PFI Institutional Class shares of underlying funds. It is managed by Principal Management Corporation (“Principal”); Principal has hired a sub-advisor, Principal Global Investors, LLC (“PGI”), to assist in managing the Fund.

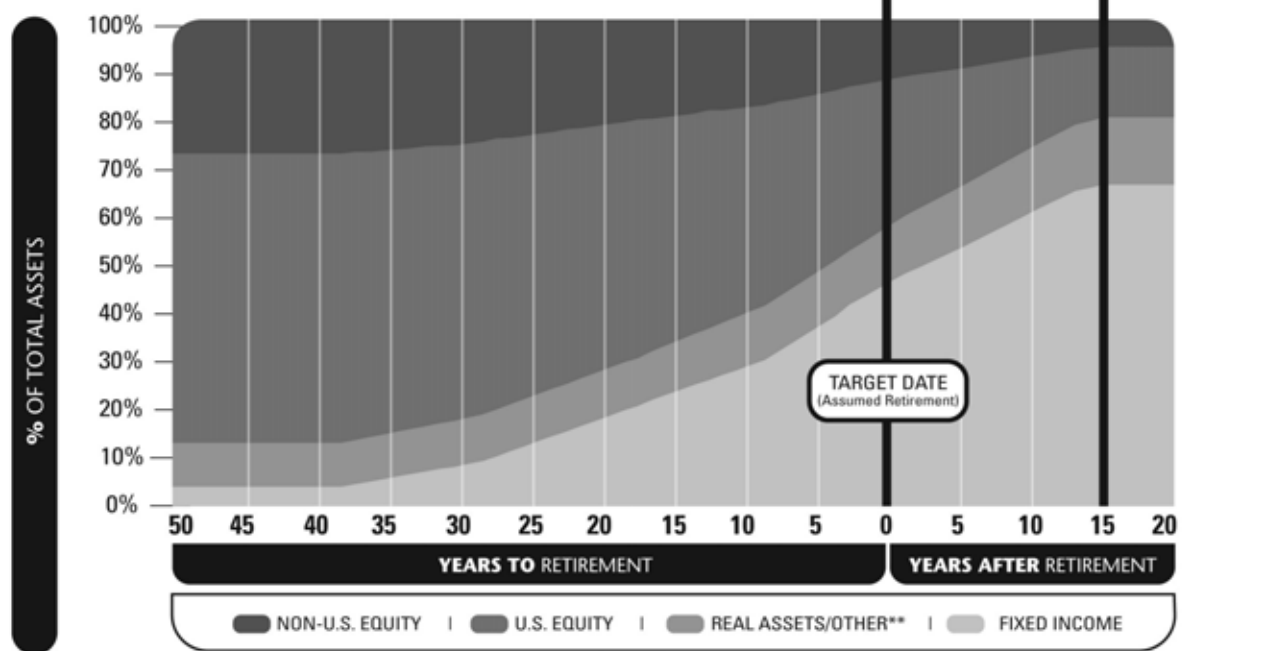
Principal, with assistance from PGI, develops, implements and monitors the Fund's strategic or long-term asset class targets and target ranges, is also responsible for an active rebalancing strategy designed to identify asset classes that appear attractive over the short term and sets the percentage of Fund assets to be allocated to a particular asset class. Principal selects the underlying funds for each asset class and the target weights for each underlying fund. Principal, with assistance from PGI, may shift asset class targets in response to normal evaluative processes, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. Principal may add, remove, or substitute underlying funds at any time.

In selecting underlying funds and target weights, Principal considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund.

The underlying funds invest in equity securities of small, medium, and large market capitalization companies, growth and value stocks, fixed-income securities, domestic and foreign (including those in emerging markets) securities, securities denominated in foreign currencies, investment companies (including index funds), and derivatives. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The underlying funds principally use equity index futures and options to manage equity exposure.

Within 10 to 15 years after its target year, the Fund's underlying fund allocation is expected to match that of the Principal LifeTime Strategic Income Fund. At that time, the Fund may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors determines that the combination is in the best interests of Fund shareholders. It is expected that at the target date in the Fund's name, the shareholder will begin gradually withdrawing the account's value.

PRINCIPAL LIFETIME FUNDS TARGET ALLOCATIONS OVER TIME*



* As of March 31, 2014.

** Shareholders receive exposure to real assets and alternative investment strategies through certain underlying funds.

Principal Risks

The broad diversification of the Fund is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Fund is subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. If you sell your shares when their value is less than the price you paid, you will lose money. The Fund operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Target Date Fund Risk. There is no guarantee that this fund will provide adequate income at or through retirement.

The principal risks of investing in the Fund that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

Performance

No performance information is shown because the Fund has not yet had a calendar year of performance. The Fund's performance is benchmarked against the Russell 3000[®] Index. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- James W. Fennessey (since 2013), Vice President
- Jeffrey R. Tyler (since 2013), Vice President
- Randy L. Welch (since 2013), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Matthew Annenberg (since 2013), Managing Director, Asset Allocation
- Dirk Laschanzky (since 2013), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

STRATEGIC ASSET MANAGEMENT (“SAM”) FLEXIBLE INCOME PORTFOLIO

Objective: The Portfolio seeks to provide a high level of total return (consisting of reinvestment of income with some capital appreciation).

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.02%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.58%	0.58%	0.58%	0.58%	0.58%	0.58%
Total Annual Fund Operating Expenses	0.92%	1.78%	1.65%	1.47%	1.28%	1.16%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$94	\$293	\$509	\$1,131
Class R-1	181	560	964	2,095
Class R-2	168	520	897	1,955
Class R-3	150	465	803	1,757
Class R-4	130	406	702	1,545
Class R-5	118	368	638	1,409

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or “turns over” its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 10.5% of the average value of its portfolio.

Principal Investment Strategies

The SAM Portfolios operate as funds of funds and invest principally in Institutional Class shares of Principal Funds, Inc. equity funds, fixed-income funds and specialty funds (“Underlying Funds”); the Sub-Advisor generally categorizes the Underlying Fund based on the investment profile of the Underlying Fund. Each SAM Portfolio typically allocates its assets among Underlying Funds, and within predetermined percentage ranges, as determined by the Sub-Advisor in accordance with its outlook for the economy, the financial markets and the relative market valuations of the Underlying Funds.

The Portfolio:

- Generally invests between 55% and 95% of its assets in fixed-income funds, and less than 40% in any one fixed-income fund (fixed-income funds that generally invest in fixed income instruments such as high yield securities (or "junk" bonds), real estate securities, mortgage-backed securities, government and government-sponsored securities, and corporate bonds)
- Generally invests between 5% and 45% of its assets in equity funds, and less than 30% in any one equity fund (equity funds that generally invest in domestic and foreign equity securities) and
- Generally invests less than 20% of its assets in specialty funds, and less than 20% in any one specialty fund (specialty funds that generally offer unique combinations of traditional equity securities and fixed-income securities or that use alternative investment strategies that aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity)

The Portfolio may temporarily exceed these percentage ranges for short periods, and the Sub-Advisor may alter the percentage ranges when it deems appropriate.

Principal Risks

The broad diversification of the Portfolio is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Portfolio is subject to the particular risks of the Underlying Funds in which it invests, and its share prices and performance will fluctuate with the shares prices and performance of the Underlying Funds. The Portfolio operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Portfolio is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. If you sell your shares when their value is less than the price you paid, you will lose money.

The principal risks of investing in the Portfolio that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

The principal risks of investing in the Portfolio that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

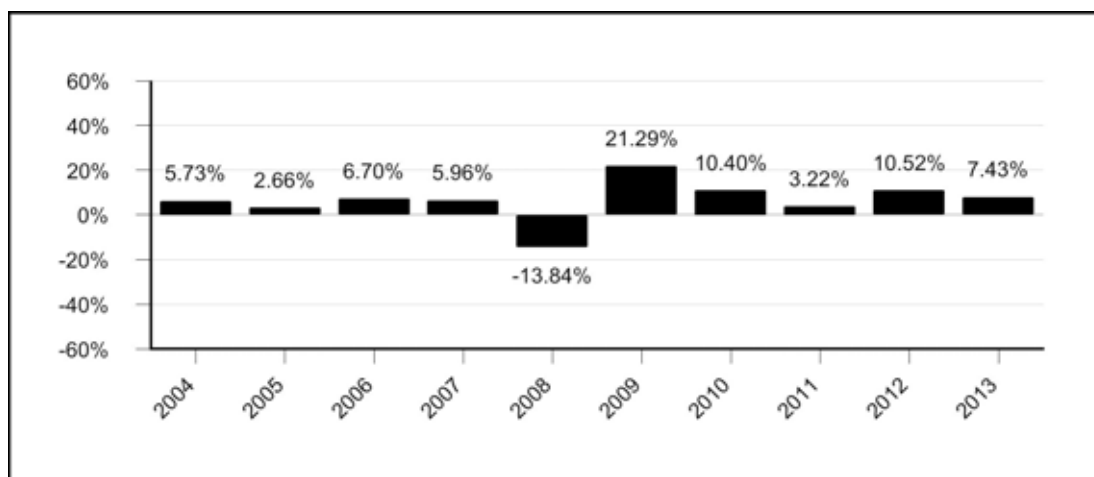
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Portfolio commenced operations after succeeding to the operations of another fund on January 12, 2007.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on July 25, 1996.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 10.86%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -6.88%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	7.43%	10.42%	5.67%
Institutional Class Return After Taxes on Distributions	5.80%	8.97%	4.22%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	4.63%	7.78%	3.99%
Class R-1 Return Before Taxes	6.53%	9.47%	4.98%
Class R-2 Return Before Taxes	6.66%	9.63%	5.12%
Class R-3 Return Before Taxes	6.86%	9.83%	5.26%
Class R-4 Return Before Taxes	7.06%	10.03%	5.41%
Class R-5 Return Before Taxes	7.19%	10.17%	5.48%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
SAM Flexible Income Blended Index (reflects no deduction for fees, expenses, or taxes)	5.56%	7.86%	5.59%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Performance of a blended index shows how the Portfolio's performance compares to an index with similar investment objectives, and performance of the components of the blended index are also shown. The weightings for SAM Flexible Income Blended Index are 75% Barclays U.S. Aggregate Bond Index, 20% Russell 3000® Index and 5% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which the fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- Charles D. Averill (since 2010), Portfolio Manager
- Jill R. Cuniff (since 2010), President and Portfolio Manager
- Todd A. Jablonski (since 2010), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

STRATEGIC ASSET MANAGEMENT (“SAM”) CONSERVATIVE BALANCED PORTFOLIO

Objective: The Portfolio seeks to provide a high level of total return (consisting of reinvestment of income and capital appreciation), consistent with a moderate degree of principal risk.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.02%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%
Total Annual Fund Operating Expenses	0.97%	1.83%	1.70%	1.52%	1.33%	1.21%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$99	\$309	\$536	\$1,190
Class R-1	186	576	990	2,148
Class R-2	173	536	923	2,009
Class R-3	155	480	829	1,813
Class R-4	135	421	729	1,601
Class R-5	123	384	665	1,466

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or “turns over” its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 13.1% of the average value of its portfolio.

Principal Investment Strategies

The SAM Portfolios operate as funds of funds and invest principally in Institutional Class shares of Principal Funds, Inc. equity funds, fixed-income funds and specialty funds (“Underlying Funds”); the Sub-Advisor generally categorizes the Underlying Fund based on the investment profile of the Underlying Fund. Each SAM Portfolio typically allocates its assets among Underlying Funds, and within predetermined percentage ranges, as determined by the Sub-Advisor in accordance with its outlook for the economy, the financial markets and the relative market valuations of the Underlying Funds.

The Portfolio:

- Generally invests between 40% and 80% of its assets in fixed-income funds, and less than 40% in any one fixed-income fund (fixed-income funds that generally invest in fixed income instruments such as high yield securities (or "junk" bonds), real estate securities, mortgage-backed securities, government and government-sponsored securities, and corporate bonds)
- Generally invests between 20% and 60% of its assets in equity funds, and less than 30% in any one equity fund (equity funds that generally invest in domestic and foreign equity securities) and
- Generally invests less than 20% of its assets in specialty funds, and less than 20% in any one specialty fund (specialty funds that generally offer unique combinations of traditional equity securities and fixed-income securities or that use alternative investment strategies that aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity)

The Portfolio may temporarily exceed these percentage ranges for short periods, and the Sub-Advisor may alter the percentage ranges when it deems appropriate.

Principal Risks

The broad diversification of the Portfolio is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Portfolio is subject to the particular risks of the Underlying Funds in which it invests, and its share prices and performance will fluctuate with the shares prices and performance of the Underlying Funds. The Portfolio operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Portfolio is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. If you sell your shares when their value is less than the price you paid, you will lose money.

The principal risks of investing in the Portfolio that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

The principal risks of investing in the Portfolio that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

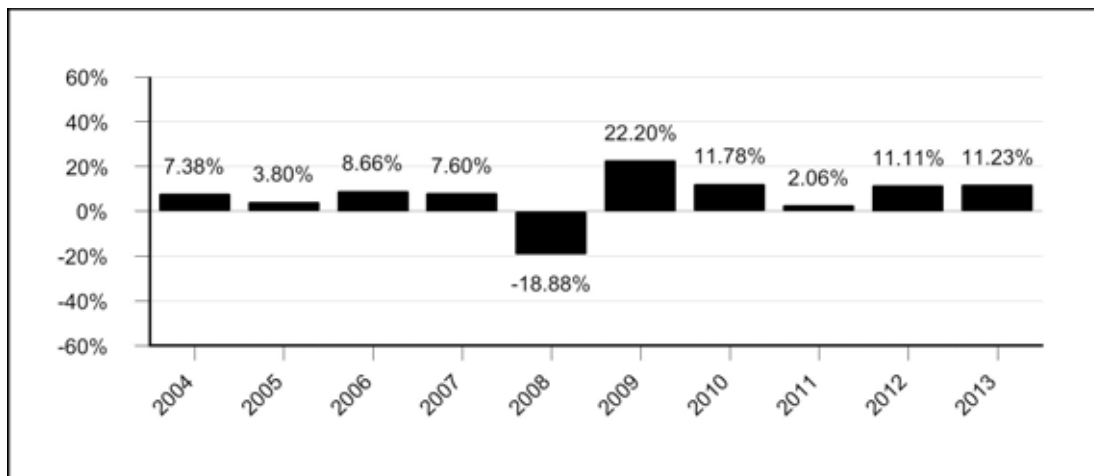
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Portfolio commenced operations after succeeding to the operations of another fund on January 12, 2007.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on July 25, 1996.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 11.59%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -9.92%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Years	5 Years	10 Years
Institutional Class Return Before Taxes	11.23%	11.50%	6.18%
Institutional Class Return After Taxes on Distributions	9.73%	10.30%	4.94%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	6.90%	8.79%	4.57%
Class R-1 Return Before Taxes	10.32%	10.56%	5.50%
Class R-2 Return Before Taxes	10.44%	10.72%	5.64%
Class R-3 Return Before Taxes	10.64%	10.89%	5.79%
Class R-4 Return Before Taxes	10.84%	11.12%	5.92%
Class R-5 Return Before Taxes	10.97%	11.25%	6.01%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
SAM Conservative Blended Blended Index (reflects no deduction for fees, expenses, or taxes)	10.17%	9.76%	6.12%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Performance of a blended index shows how the Portfolio's performance compares to an index with similar investment objectives, and performance of the components of the blended index are also shown. The weightings for SAM Conservative Blended Blended Index are 60% Barclays U.S. Aggregate Bond Index, 30% Russell 3000[®] Index and 10% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which the fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- Charles D. Averill (since 2010), Portfolio Manager
- Jill R. Cuniff (since 2010), President and Portfolio Manager
- Todd A. Jablonski (since 2010), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

STRATEGIC ASSET MANAGEMENT (“SAM”) BALANCED PORTFOLIO

Objective: The Portfolio seeks to provide as high a level of total return (consisting of reinvested income and capital appreciation) as is consistent with reasonable risk.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.68%	0.68%	0.68%	0.68%	0.68%	0.68%
Total Annual Fund Operating Expenses	1.01%	1.88%	1.75%	1.57%	1.38%	1.26%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$103	\$322	\$558	\$1,236
Class R-1	191	591	1,016	2,201
Class R-2	178	551	949	2,062
Class R-3	160	496	855	1,867
Class R-4	140	437	755	1,657
Class R-5	128	400	692	1,523

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or “turns over” its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 16.9% of the average value of its portfolio.

Principal Investment Strategies

The SAM Portfolios operate as funds of funds and invest principally in Institutional Class shares of Principal Funds, Inc. equity funds, fixed-income funds and specialty funds (“Underlying Funds”); the Sub-Advisor generally categorizes the Underlying Fund based on the investment profile of the Underlying Fund. Each SAM Portfolio typically allocates its assets among Underlying Funds, and within predetermined percentage ranges, as determined by the Sub-Advisor in accordance with its outlook for the economy, the financial markets and the relative market valuations of the Underlying Funds.

The Portfolio:

- Generally invests between 20% and 60% of its assets in fixed-income funds, and less than 40% in any one fixed-income fund (fixed-income funds that generally invest in fixed income instruments such as real estate securities, mortgage-backed securities, government and government-sponsored securities, and corporate bonds)
- Generally invests between 40% and 80% of its assets in equity funds, and less than 30% in any one equity fund (equity funds that generally invest in domestic and foreign equity securities) and
- Generally invests less than 20% of its assets in specialty funds, and less than 20% in any one specialty fund (specialty funds that generally offer unique combinations of traditional equity securities and fixed-income securities or that use alternative investment strategies that aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity)

The Portfolio may temporarily exceed the applicable percentage ranges for short periods, and the Sub-Advisor may alter the percentage ranges when it deems appropriate.

Principal Risks

The broad diversification of the Portfolio is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Portfolio is subject to the particular risks of the Underlying Funds in which it invests, and its share prices and performance will fluctuate with the shares prices and performance of the Underlying Funds. The Portfolio operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Portfolio is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. If you sell your shares when their value is less than the price you paid, you will lose money.

The principal risks of investing in the Portfolio that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

The principal risks of investing in the Portfolio that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

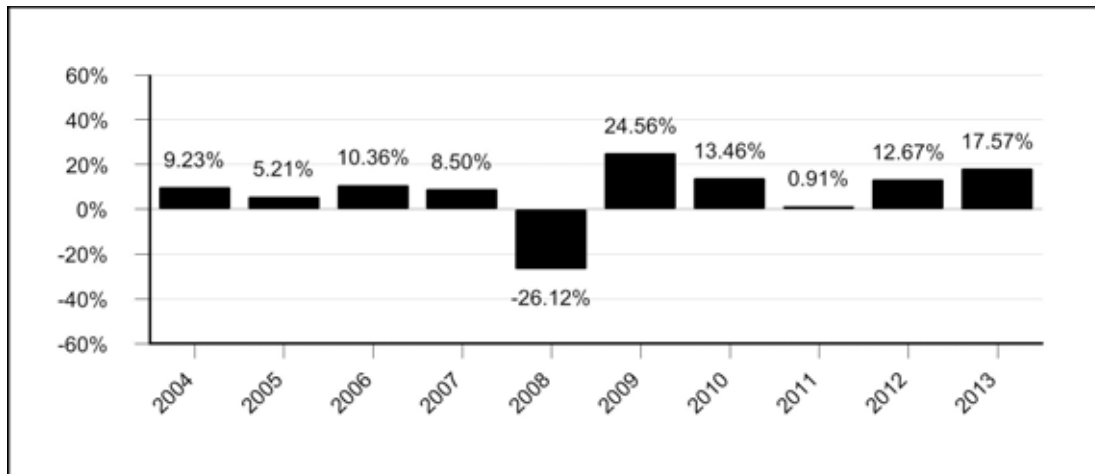
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Portfolio commenced operations after succeeding to the operations of another fund on January 12, 2007.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on July 25, 1996.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 13.57%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -14.44%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	17.57%	13.57%	6.74%
Institutional Class Return After Taxes on Distributions	16.33%	12.73%	5.76%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	10.54%	10.68%	5.23%
Class R-1 Return Before Taxes	16.49%	12.58%	6.03%
Class R-2 Return Before Taxes	16.63%	12.71%	6.16%
Class R-3 Return Before Taxes	16.82%	12.93%	6.33%
Class R-4 Return Before Taxes	17.01%	13.12%	6.47%
Class R-5 Return Before Taxes	17.22%	13.27%	6.55%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
SAM Balanced Blended Index (reflects no deduction for fees, expenses, or taxes)	16.73%	12.32%	6.76%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Performance of a blended index shows how the Portfolio's performance compares to an index with similar investment objectives, and performance of the components of the blended index are also shown. The weightings for SAM Balanced Blended Index are 45% Russell 3000® Index, 40% Barclays U.S. Aggregate Bond Index and 15% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which the fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- Charles D. Averill (since 2010), Portfolio Manager
- Jill R. Cuniff (since 2010), President and Portfolio Manager
- Todd A. Jablonski (since 2010), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

STRATEGIC ASSET MANAGEMENT (“SAM”) CONSERVATIVE GROWTH PORTFOLIO

Objective: The Portfolio seeks to provide long-term capital appreciation.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.72%	0.72%	0.72%	0.72%	0.72%	0.72%
Total Annual Fund Operating Expenses	1.05%	1.92%	1.79%	1.61%	1.42%	1.30%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund’s operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$107	\$334	\$579	\$1,283
Class R-1	195	603	1,037	2,243
Class R-2	182	563	970	2,105
Class R-3	164	508	876	1,911
Class R-4	145	449	776	1,702
Class R-5	132	412	713	1,568

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or “turns over” its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund’s portfolio turnover rate was 20.2% of the average value of its portfolio.

Principal Investment Strategies

The SAM Portfolios operate as funds of funds and invest principally in Institutional Class shares of Principal Funds, Inc. equity funds, fixed-income funds and specialty funds (“Underlying Funds”); the Sub-Advisor generally categorizes the Underlying Fund based on the investment profile of the Underlying Fund. Each SAM Portfolio typically allocates its assets among Underlying Funds, and within predetermined percentage ranges, as determined by the Sub-Advisor in accordance with its outlook for the economy, the financial markets and the relative market valuations of the Underlying Funds.

The Portfolio:

- Generally invests between 0% and 40% of its assets in fixed-income funds, and less than 30% in any one fixed-income fund (fixed-income funds that generally invest in fixed-income instruments such as government and government-sponsored securities and corporate bonds)
- Generally invests between 60% and 100% of its assets in equity funds, and less than 40% in any one equity fund (equity funds that generally invest in domestic and foreign equity securities) and
- Generally invests less than 20% of its assets in specialty funds, and less than 20% in any one specialty fund (specialty funds that generally offer unique combinations of traditional equity securities and fixed-income securities or that use alternative investment strategies that aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity)

The Portfolio may temporarily exceed the applicable percentage ranges for short periods, and the Sub-Advisor may alter the percentage ranges when it deems appropriate.

Principal Risks

The broad diversification of the Portfolio is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Portfolio is subject to the particular risks of the Underlying Funds in which it invests, and its share prices and performance will fluctuate with the shares prices and performance of the Underlying Funds. The Portfolio operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Portfolio is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Agency or any other government agency. If you sell your shares when their value is less than the price you paid, you will lose money.

The principal risks of investing in the Portfolio that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

The principal risks of investing in the Portfolio that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

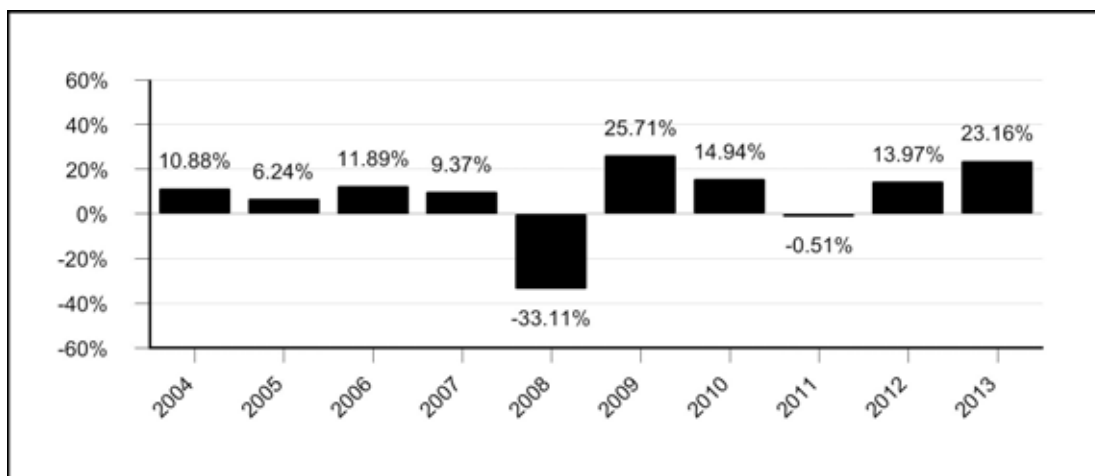
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The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Portfolio commenced operations after succeeding to the operations of another fund on January 12, 2007.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on July 25, 1996.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above:	Q2 '09	14.70%
Lowest return for a quarter during the period of the bar chart above:	Q4 '08	-19.12%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	23.16%	15.07%	6.88%
Institutional Class Return After Taxes on Distributions	22.39%	14.58%	6.22%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	13.65%	12.11%	5.55%
Class R-1 Return Before Taxes	22.06%	14.07%	6.17%
Class R-2 Return Before Taxes	22.25%	14.22%	6.31%
Class R-3 Return Before Taxes	22.43%	14.41%	6.47%
Class R-4 Return Before Taxes	22.61%	14.65%	6.61%
Class R-5 Return Before Taxes	22.79%	14.78%	6.70%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
SAM Conservative Growth Blended Index (reflects no deduction for fees, expenses, or taxes)	23.63%	14.80%	7.29%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Performance of a blended index shows how the Portfolio's performance compares to an index with similar investment objectives, and performance of the components of the blended index are also shown. The weightings for SAM Conservative Growth Blended Index are 60% Russell 3000[®] Index, 20% Barclays U.S. Aggregate Bond Index, and 20% MSCI EAFE Index NDTR D. The custom or blended index returns reflect the allocation in effect for the time period(s) for which the fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- Charles D. Averill (since 2010), Portfolio Manager
- Jill R. Cuniff (since 2010), President and Portfolio Manager
- Todd A. Jablonski (since 2010), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

STRATEGIC ASSET MANAGEMENT (“SAM”) STRATEGIC GROWTH PORTFOLIO

Objective: The Portfolio seeks to provide long-term capital appreciation.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.32%	0.32%	0.32%	0.32%	0.32%	0.32%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.70%	0.70%	0.70%	0.70%	0.70%	0.70%
Total Annual Fund Operating Expenses	1.03%	1.90%	1.77%	1.59%	1.40%	1.28%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$105	\$328	\$569	\$1,259
Class R-1	193	597	1,026	2,222
Class R-2	180	557	959	2,084
Class R-3	162	502	866	1,889
Class R-4	143	443	766	1,680
Class R-5	130	406	702	1,545

Portfolio Turnover

As a fund of funds, the Fund does not pay transaction costs, such as commissions, when it buys and sells shares of underlying funds (or “turns over” its portfolio). An underlying fund does pay transaction costs when it buys and sells portfolio securities, and a higher portfolio turnover may indicate higher transaction costs. These costs, which are not reflected in annual fund operating expenses or in the examples, affect the performance of the underlying fund and the Fund. During its most recent fiscal year, the Fund's portfolio turnover rate was 26.5% of the average value of its portfolio.

Principal Investment Strategies

The SAM Portfolios operate as funds of funds and invest principally in Institutional Class shares of Principal Funds, Inc. equity funds, fixed-income funds and specialty funds (“Underlying Funds”); the Sub-Advisor generally categorizes the Underlying Fund based on the investment profile of the Underlying Fund. Each SAM Portfolio typically allocates its assets among Underlying Funds, and within predetermined percentage ranges, as determined by the Sub-Advisor in accordance with its outlook for the economy, the financial markets and the relative market valuations of the Underlying Funds.

The Portfolio:

- Generally invests between 75% and 100% of its assets in equity funds, and less than 50% in any one equity fund (equity funds that generally invest in domestic and foreign equity securities) and
- Generally invests less than 20% of its assets in specialty funds, and less than 20% in any one specialty fund (specialty funds that generally offer unique combinations of traditional equity securities and fixed-income securities or that use alternative investment strategies that aim to offer diversification beyond traditional equity and fixed-income securities and include investments in such assets as infrastructure, commodities, currencies, timber and private equity)

The Portfolio may temporarily exceed the applicable percentage ranges for short periods, and the Sub-Advisor may alter the percentage ranges when it deems appropriate.

Principal Risks

The broad diversification of the Portfolio is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the Portfolio is subject to the particular risks of the Underlying Funds in which it invests, and its share prices and performance will fluctuate with the shares prices and performance of the Underlying Funds. The Portfolio operates as a fund of funds and thus bears both its own expenses and, indirectly, its proportionate share of the expenses of the underlying funds in which it invests. An investment in the Portfolio is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. If you sell your shares when their value is less than the price you paid, you will lose money.

The principal risks of investing in the Portfolio that are inherent in the fund of funds, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Conflict of Interest Risk. The Advisor and its affiliates earn different fees from different underlying funds and may have an incentive to allocate more fund-of-fund assets to underlying funds from which they receive higher fees.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

The principal risks of investing in the Portfolio that are inherent in the underlying funds, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

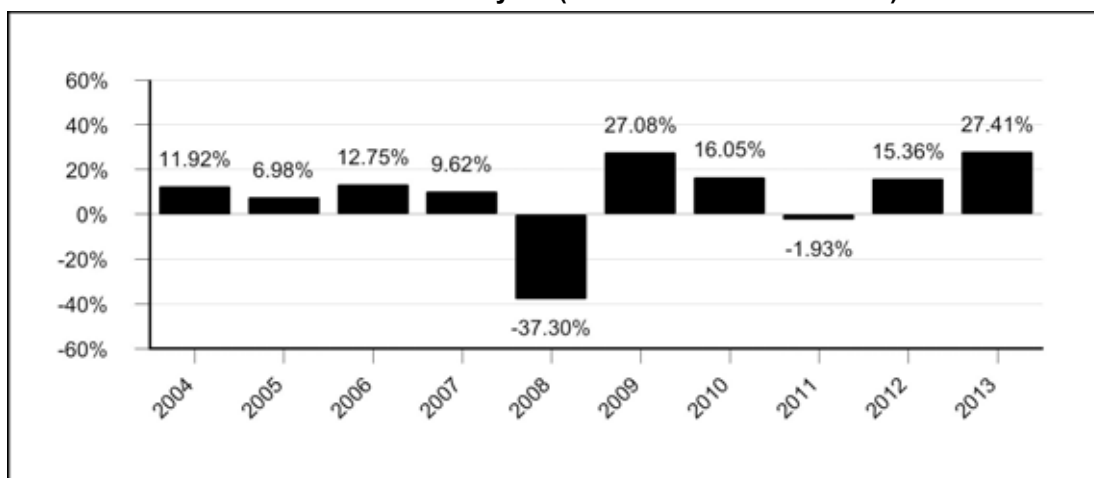
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Portfolio commenced operations after succeeding to the operations of another fund on January 12, 2007.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on July 25, 1996.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 15.78%

Lowest return for a quarter during the period of the bar chart above: Q4 '08 -22.21%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	27.41%	16.28%	7.03%
Institutional Class Return After Taxes on Distributions	26.77%	15.97%	6.52%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	16.04%	13.21%	5.72%
Class R-1 Return Before Taxes	26.28%	15.27%	6.34%
Class R-2 Return Before Taxes	26.44%	15.43%	6.48%
Class R-3 Return Before Taxes	26.77%	15.65%	6.62%
Class R-4 Return Before Taxes	26.96%	15.87%	6.75%
Class R-5 Return Before Taxes	27.06%	15.99%	6.84%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%
SAM Strategic Growth Blended Index (reflects no deduction for fees, expenses, or taxes)	28.89%	16.53%	7.60%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Performance of a blended index shows how the Portfolio's performance compares to an index with similar investment objectives, and performance of the components of the blended index are also shown. The weightings for SAM Strategic Growth Blended Index are 70% Russell 3000[®] Index, 25% MSCI EAFE Index NDTR D and 5% Barclays U.S. Aggregate Bond Index. The custom or blended index returns reflect the allocation in effect for the time period(s) for which the fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- Charles D. Averill (since 2010), Portfolio Manager
- Jill R. Cuniff (since 2010), President and Portfolio Manager
- Todd A. Jablonski (since 2010), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

GLOBAL DIVERSIFIED INCOME FUND

Objective: The Fund seeks consistent cash income through a diversified, yield-focused investment strategy.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Management Fees	0.72%
Other Expenses:	
Dividend and Interest Expense on Short Sales	0.05%
Remainder of Other Expenses	0.06%
Total Annual Fund Operating Expenses	0.83%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$85	\$265	\$460	\$1,025

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 79.0% of the average value of its portfolio.

Principal Investment Strategies

The Fund generally invests a majority of its assets in fixed income securities, such as high yield bonds (also known as "junk" bonds), preferred securities, commercial mortgage-backed securities, and emerging market debt securities, in an effort to provide incremental yields over a portfolio of government securities. In addition, the Fund invests in equity securities to provide incremental dividend yields and diversify fixed-income related risks in the Fund. The Fund generally invests a portion of its assets in equity securities of global companies principally engaged in the real estate industry, equity securities of global infrastructure companies, value equities of global companies, and master limited partnerships ("MLPs") and other entities in the energy infrastructure sector. As described below, the Fund will use some derivative strategies. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index.

In managing the Fund, Principal Management Corporation ("Principal"), the Fund's investment advisor, determines the Fund's strategic asset allocation among the following general investment categories, which are executed by multiple sub-advisors: high yield, preferred securities, emerging market debt, global real estate, commercial mortgage-backed securities, MLPs, global value equity, and publicly-traded infrastructure. The Fund may add additional investment categories. The Fund seeks to provide yield by having each sub-advisor focus on those securities offering the best potential for yield, taking risk into consideration, within their respective investment categories.

The Fund also writes (or sells) call options by using equity index/exchange traded fund ("ETF") call options on the indices represented by certain asset categories of the Fund, including global real estate, global value equity, MLPs, and publicly-traded infrastructure. Call option overwriting is an investment strategy that is used to generate income through receipt of the call option premium and reduce portfolio volatility.

A portion of the Fund's assets is invested in high yield and other income-producing securities including bank loans and corporate bonds. These include foreign securities issued in both USD and non-USD. "High yield" securities are below investment grade bonds (sometimes called "junk bonds") which are rated at the time of purchase Ba1 or lower by Moody's and BB+ or lower by S&P (if the bond has been rated by only one of those agencies, that rating will determine whether the bond is below investment grade; if the bond has not been rated by either of those agencies, the Sub-Advisor will determine whether the bond is of a quality comparable to those rated below investment grade). These securities offer a higher yield than other, higher rated securities, but they carry a greater degree of risk and are considered speculative with respect to the issuer's ability to pay interest and to repay principal.

A portion of the Fund's assets is invested primarily in preferred securities of U.S. and non-U.S. companies primarily rated BBB- or higher by S&P or Baa3 or higher by Moody's or, if unrated, of comparable quality in the opinion of the Sub-Advisor. This portion of the Fund focuses primarily on the financial services, real estate investment trust ("REIT"), and utility industries.

A portion of the Fund's assets is invested in a diversified portfolio of fixed income securities issued primarily by governments, their agencies, local authorities and instrumentalities, and corporate entities domiciled in or exercising the predominant part of their economic activities in emerging markets. This portion of the Fund also invests in interest rate swaps or Treasury futures to manage fixed income exposure; credit default swaps to increase or decrease in an efficient manner exposures to certain sectors or individual issuers; and total return swaps to increase or decrease in an efficient manner exposures to certain sectors. Here, "emerging market country" means any country which is considered to be an emerging country by the international financial community (including the International Bank for Reconstruction and Development (also known as the World Bank) and MSCI Emerging Markets Index) and any country included in any J.P. Morgan Emerging Market Bond Index. These countries generally include every nation in the world except the U.S., Canada, Japan, Australia, and New Zealand, and most nations located in Western Europe.

A portion of the Fund's assets is invested in equity securities of global real estate companies. A real estate company has at least 50% of its assets, income or profits derived from products or services related to the real estate industry. Real estate companies include real estate investment trusts ("REITs"), REIT-like entities, and companies with substantial real estate holdings such as paper, lumber, hotel and entertainment companies as well as building supply manufacturers, mortgage lenders, and mortgage servicing companies.

A portion of the Fund's assets is invested in commercial mortgage-backed securities, which are bonds that are secured by first mortgages on commercial real estate.

A portion of the Fund's assets is invested in MLPs and companies that are organized as corporations, limited liability companies or limited partnerships in the energy infrastructure sector. Energy infrastructure companies are engaged in the transportation, storage, processing, refining, marketing, exploration, production, or mining of any mineral or natural resource. This portion of the Fund invests primarily in the mid-stream energy infrastructure market, which is comprised mostly of the following: crude oil and refined products pipeline, storage, and terminal assets; natural gas gathering and transportation pipelines, processing, and storage facilities; propane distributors; energy commodity marine transportation (including liquefied natural gas transportation and processing); and other energy infrastructure assets. Most pipelines do not own the energy products they transport and, as a result, are not directly exposed to commodity price risk.

A portion of the Fund's assets is invested in a diversified portfolio of value equity securities of companies located or operating in the U.S. and foreign countries, including emerging markets. Investing in value equity securities, is an investment strategy that emphasizes buying equity securities that appear to be undervalued.

A portion of the Fund's assets is invested in publicly-listed infrastructure companies (domestic and foreign public utility, energy, and transportation companies). Publicly-listed infrastructure equity securities trade on an exchange and include companies involved to a significant extent in providing products, services or equipment for: transportation (including toll roads, airports, railways, and ports); the generation, transmission or distribution of electricity, gas or water (utilities); or telecommunications activities as well as in companies involved in the discovery, development, production, generation, transmission, refinement, measurement, trading, marketing or distribution of energy.

During the fiscal year ended October 31, 2013, the average ratings of the Fund's fixed-income assets, based on market value at each month-end, were as follows (all ratings are by Moody's):

1.54% in securities rated Aaa	25.62% in securities rated Baa	10.41% in securities rated Caa	0.00% in securities rated D
1.60% in securities rated Aa	15.75% in securities rated Ba	0.12% in securities rated Ca	5.26% in securities not rated
5.22% in securities rated A	34.48% in securities rated B	0.00% in securities rated C	

Principal Risks

The Fund may be an appropriate investment for investors seeking high cash returns, who are willing to accept the risk associated with investing in equities and below-investment-grade fixed income securities.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Asset Allocation Risk. A fund's selection and weighting of asset classes may cause it to underperform other funds with a similar investment objective.

Bank Loans Risk. Changes in economic conditions are likely to cause issuers of bank loans (also known as senior floating rate interests) to be unable to meet their obligations. In addition, the value of the collateral securing the loan may decline, causing a loan to be substantially unsecured. Underlying credit agreements governing the bank loans, reliance on market makers, priority of repayment and overall market volatility may harm the liquidity of loans.

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Index/Exchange-traded Fund ("ETF") Call Option Risk. As the writer of an equity index/exchange-traded fund ("ETF") call option, a fund forgoes, during the option's life, the opportunity to profit from increases in the market value of the index on which the call option has been written above the sum of the premium and the strike price of the call, but has retained the risk of loss should the price of the underlying index decline (net of premiums received). In addition, a fund bears the risk that the index/ETF on which the call option has been written behaves differently than the underlying stocks in the portfolio which would limit the ability of the call option overwriting strategy to reduce portfolio volatility.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Master Limited Partnership ("MLP") Risk. MLPs are publicly-traded limited partnership interests or units. An MLP that invests in a particular industry (e.g., oil and gas) will be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income an MLP pays to its investors.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Preferred Securities Risk. Preferred securities are securities with a lower priority claim on assets or earnings than bonds and other debt instruments in a company's capital structure, and therefore can be subject to greater credit and liquidation risk than more senior debt instruments. In addition, preferred securities are subject to other risks, such as limited or no voting rights, deferring or skipping distributions, interest rate risk, and redeeming the security prior to the stated maturity date.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

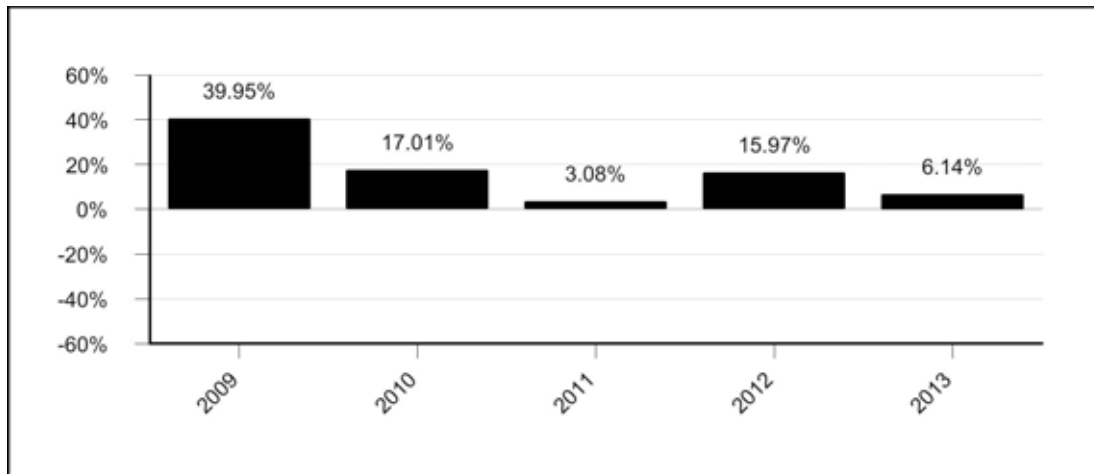
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for Institutional Class shares of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

Life of Fund results are measured from the date the Fund's shares were first sold (December 15, 2008).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 20.93%
 Lowest return for a quarter during the period of the bar chart above: Q3 '11 -8.08%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Year	Life of Fund
Institutional Class Return Before Taxes	6.14%	15.75%	15.93%
Institutional Class Return After Taxes on Distributions	4.15%	12.71%	12.89%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	3.65%	11.41%	11.56%
Barclays U.S. Corporate High Yield 2% Issuer Capped Index (reflects no deduction for fees, expenses, or taxes)	7.44%	18.96%	21.10%
J.P. Morgan EMBI Global Diversified Index (reflects no deduction for fees, expenses, or taxes)	-5.25%	11.72%	12.78%
BofA Merrill Lynch European Currency Non-Financial High Yield 2% Constrained Index (reflects no deduction for fees, expenses, or taxes)	13.63%	19.87%	20.96%
Barclays Investment Grade CMBS Index (reflects no deduction for fees, expenses, or taxes)	0.18%	12.69%	14.55%
MSCI All Country World Value Index (reflects no deduction for fees, expenses, or taxes)	22.43%	13.73%	14.25%
MSCI All Country World Value SMID Index (reflects no deduction for fees, expenses, or taxes)	26.37%	19.14%	20.19%
S&P 500 Energy Index (reflects no deduction for fees, expenses, or taxes)	25.07%	13.44%	13.29%
S&P 500 Telecom Services Index (reflects no deduction for fees, expenses, or taxes)	11.47%	12.67%	13.87%
S&P 500 Utilities Index (reflects no deduction for fees, expenses, or taxes)	13.21%	10.17%	10.91%
S&P Global Infrastructure Index (reflects no deduction for fees, expenses, or taxes)	14.99%	11.17%	12.27%
BofA Merrill Lynch Fixed Rate Preferred Securities Index (reflects no deduction for fees, expenses, or taxes)	-3.65%	9.23%	11.50%
Barclays U.S. Tier I Capital Securities Index (reflects no deduction for fees, expenses, or taxes)	7.30%	17.35%	17.25%
BofA Merrill Lynch U.S. Capital Securities Index (reflects no deduction for fees, expenses, or taxes)	4.95%	16.97%	16.89%
Tortoise Midstream MLP Index (reflects no deduction for fees, expenses, or taxes)	33.50%	31.84%	31.15%
FTSE EPRA/NAREIT Developed Index (reflects no deduction for fees, expenses, or taxes)	4.39%	16.06%	17.61%
Global Diversified Custom Index (reflects no deduction for fees, expenses, or taxes)	8.00%	16.90%	18.46%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Performance of a blended index shows how the Fund's performance compares to an index with similar investment objectives. Performance of the components of the blended index are also shown. Global Diversified Income Custom Index is composed of 35% Barclays U.S. Corporate High Yield 2% Issuer Capped Index; 17% blend of 75% J.P. Morgan EMBI Global Diversified Index and 25% BofA Merrill Lynch European Currency Non-Financial High Yield 2% Constrained Index; 13% Barclays Investment Grade CMBS Index; 12% blend of 85% MSCI All Country World Value

Index and 15% MSCI ACWI Value SMID Index; 10% blend of 50% S&P Global Infrastructure Index and 50% blend of 10% S&P 500 Energy Index, 25% S&P 500 Telecom Services Index, and 65% S&P 500 Utilities Index; 5% blend of 50% BofA Merrill Lynch Fixed Rate Preferred Securities Index and 50% BofA Merrill Lynch U.S. Capital Securities Index; 5% Tortoise Midstream MLP Index; and 3% FTSE EPRA/NAREIT Developed Index. The blended index historic returns reflect the allocation as of the time of production. Previous allocation changes are not restated. The custom or blended index returns reflect the allocation in effect for the time period(s) for which fund returns are disclosed. Previous weightings or allocations of the custom or blended index are not restated.

Management

Investment Advisor and Portfolio Managers:

Principal Management Corporation

- Michael P. Finnegan (since 2010), Chief Investment Officer
- Kelly Grossman (since 2010), Senior Product Manager
- Dave Reichart (since 2011), Senior Vice President

Sub-Advisors:

Colonial First State Asset Management (Australia) Limited

DDJ Capital Management, LLC

Guggenheim Partners Investment Management, LLC

Post Advisory Group, LLC

Principal Global Investors, LLC

Principal Real Estate Investors, LLC

Spectrum Asset Management, Inc.

Stone Harbor Investment Partners LP

Tortoise Capital Advisors, L.L.C.

W. H. Reaves & Co., Inc. (doing business as Reaves Asset Management)

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

EQUITY INCOME FUND

Objective: The Fund seeks to provide a relatively high level of current income and long-term growth of income and capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.52%	1.39%	1.26%	1.08%	0.89%	0.77%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$53	\$167	\$291	\$653
Class R-1	142	440	761	1,669
Class R-2	128	400	692	1,523
Class R-3	110	343	595	1,317
Class R-4	91	284	493	1,096
Class R-5	79	246	428	954

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 16.4% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in dividend-paying equity securities at the time of each purchase. The Fund usually invests in equity securities of companies with large market capitalizations. For this Fund, companies with large market capitalizations are those with market capitalizations within the range of companies comprising the Russell 1000[®] Value Index (as of December 31, 2013, this range was between approximately \$1.126 billion and \$526.685 billion). The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The Fund also invests in real estate investment trusts and securities of foreign issuers.

Principal Risks

The Fund may be an appropriate investment for investors who seek dividends to generate income or to reinvest for growth and who can accept fluctuations in the value of investments and the risks of investing in real estate investment trust securities and foreign securities.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

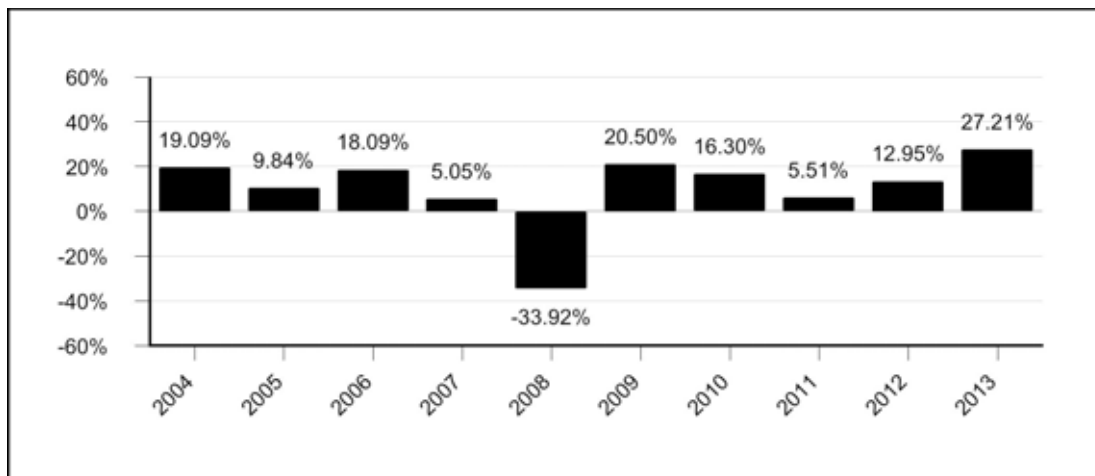
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Fund commenced operations after succeeding to the operations of another fund on January 12, 2007.
- The R-1, R-2, R-3, R-4 and R-5 Class shares were first sold on March 1, 2010.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on May 31, 1939.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 14.00%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -19.68%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	27.21%	16.27%	8.58%
Institutional Class Return After Taxes on Distributions	26.45%	15.70%	7.81%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	15.95%	13.20%	7.05%
Class R-1 Return Before Taxes	26.08%	15.28%	7.66%
Class R-2 Return Before Taxes	26.27%	15.43%	7.80%
Class R-3 Return Before Taxes	26.53%	15.62%	7.99%
Class R-4 Return Before Taxes	26.76%	15.82%	8.17%
Class R-5 Return Before Taxes	26.87%	15.93%	8.23%
Russell 1000 Value Index (reflects no deduction for fees, expenses, or taxes)	32.53%	16.67%	7.58%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- Daniel R. Coleman (since 2010), Head of Equities, Portfolio Manager
- David W. Simpson (since 2008), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

LARGECAP BLEND FUND II

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.74%	0.74%	0.74%	0.74%	0.74%	0.74%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.02%	0.54%	0.46%	0.33%	0.29%	0.27%
Total Annual Fund Operating Expenses	0.76%	1.63%	1.50%	1.32%	1.13%	1.01%
Fee Waiver(1)	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%
Total Annual Fund Operating Expenses after Fee Waiver	0.74%	1.61%	1.48%	1.30%	1.11%	0.99%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.018% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$76	\$241	\$420	\$940
Class R-1	164	512	884	1,931
Class R-2	151	472	816	1,789
Class R-3	132	416	721	1,588
Class R-4	113	357	620	1,373
Class R-5	101	319	556	1,234

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 47.0% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations at the time of each purchase. For this Fund, companies with large market capitalizations are those with market capitalizations within the range of companies comprising the S&P 500 Index (as of December 31, 2013, this range was between approximately \$3.353 billion and \$504.852 billion). The Fund also invests in securities of foreign issuers.

Employing a "blend" strategy, the Fund's assets are invested in equity securities with both growth and/or value characteristics. Investing in value equity securities is an investment strategy that emphasizes buying equity securities that appear to be undervalued. The growth orientation selection emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The Fund does not have a policy of preferring one of these categories over the other.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in an actively managed portfolio of equity securities, but who prefer investing in larger, established companies.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

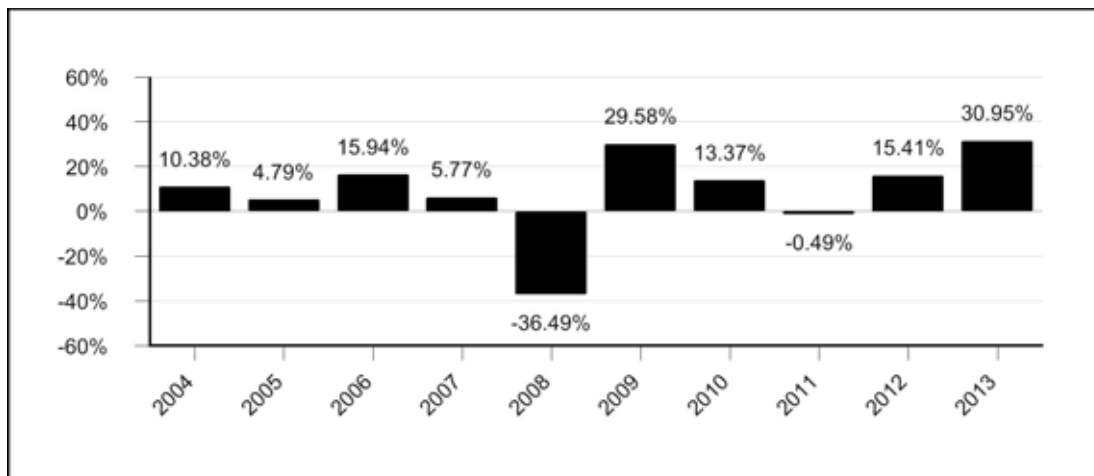
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 16.89%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -21.93%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	30.95%	17.18%	7.13%
Institutional Class Return After Taxes on Distributions	22.83%	15.52%	5.82%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	23.96%	13.95%	5.74%
Class R-1 Return Before Taxes	29.98%	16.23%	6.22%
Class R-2 Return Before Taxes	30.04%	16.35%	6.33%
Class R-3 Return Before Taxes	30.22%	16.56%	6.53%
Class R-4 Return Before Taxes	30.59%	16.80%	6.74%
Class R-5 Return Before Taxes	30.73%	16.91%	6.86%
S&P 500 Index (reflects no deduction for fees, expenses, or taxes)	32.39%	17.94%	7.41%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

ClearBridge Investments, LLC

T. Rowe Price Associates, Inc.

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

LARGECAP GROWTH FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.63%	0.63%	0.63%	0.63%	0.63%	0.63%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.64%	1.51%	1.38%	1.20%	1.01%	0.89%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$65	\$205	\$357	\$798
Class R-1	154	477	824	1,802
Class R-2	140	437	755	1,657
Class R-3	122	381	660	1,455
Class R-4	103	322	558	1,236
Class R-5	91	284	493	1,096

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 79.3% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations at the time of each purchase. For this Fund, companies with large market capitalizations are those with market capitalizations within the range of companies comprising the Russell 1000[®] Growth Index (as of December 31, 2013, this range was between approximately \$1.26 billion and \$526.685 billion). The Fund invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities that may have greater risks than equity securities of companies with lower potential for earnings growth.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

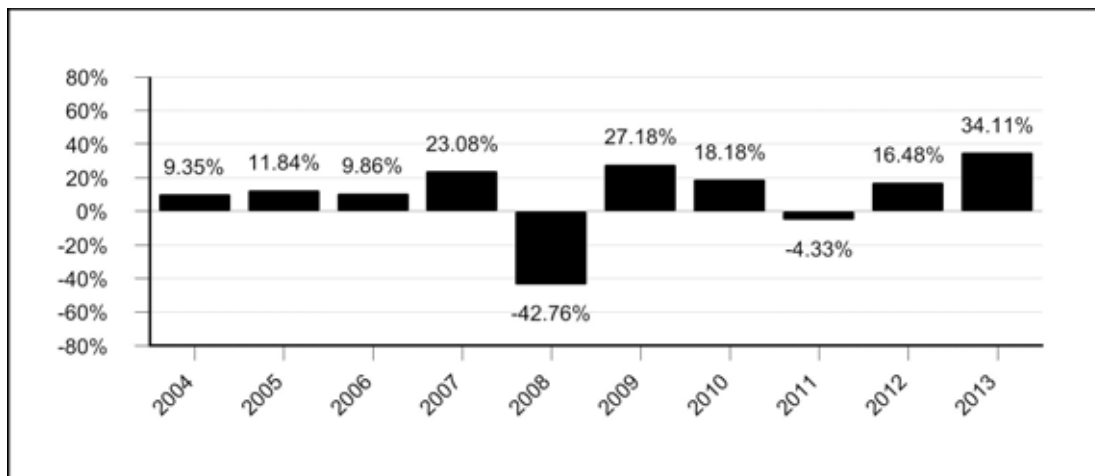
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.
- During 2003, the Fund processed a significant (relative to the R-1 Class) "As Of" transaction that resulted in a gain to the remaining shareholders of the R-1 Class. In accordance with the Fund's shareholder processing policies, this benefit inures all shareholders of the R-1 Class. Had such a gain not been recognized, the total return amounts expressed herein would have been smaller.
- During 2010, the R-3 Class experienced a significant one-time gain of approximately \$0.06/shares as the result of a settlement in an SEC administrative proceeding. If such gain had not been recognized, the total amounts expressed herein would have been lower.
- During 2003, the R-4 Class experienced a significant withdrawal of monies by an affiliate. As the remaining shareholders held relatively small positions, the total return amounts expressed herein are greater than those that would have been experienced without the withdrawal.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q1 '12 17.29%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -25.80%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	34.11%	17.57%	7.83%
Institutional Class Return After Taxes on Distributions	30.78%	16.89%	7.44%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	21.98%	14.23%	6.38%
Class R-1 Return Before Taxes	32.82%	16.58%	6.90%
Class R-2 Return Before Taxes	32.97%	16.69%	7.04%
Class R-3 Return Before Taxes	33.26%	17.10%	7.30%
Class R-4 Return Before Taxes	33.55%	17.16%	7.42%
Class R-5 Return Before Taxes	33.70%	17.29%	7.55%
Russell 1000 Growth Index (reflects no deduction for fees, expenses, or taxes)	33.48%	20.39%	7.83%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Columbus Circle Investors

- Thomas J. Bisighini (since 2009), Managing Director/Co-Portfolio Manager
- Anthony Rizza (since 2005), Senior Managing Director/Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

LARGECAP GROWTH FUND I

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.61%	0.61%	0.61%	0.61%	0.61%	0.61%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.02%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.63%	1.49%	1.36%	1.18%	0.99%	0.87%
Fee Waiver(1)	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%
Total Annual Fund Operating Expenses after Fee Waiver	0.61%	1.47%	1.34%	1.16%	0.97%	0.85%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.016% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$62	\$199	\$349	\$784
Class R-1	150	469	811	1,777
Class R-2	136	428	742	1,633
Class R-3	118	372	647	1,430
Class R-4	99	313	545	1,211
Class R-5	87	275	480	1,070

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 37.0% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations at the time of each purchase. For this Fund, companies with large market capitalizations are those with market capitalizations within the range of companies comprising the Russell 1000[®] Growth Index (as of December 31, 2013, this range was between approximately \$1.26 billion and \$526.685 billion). The Fund invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities that may have greater risks than equity securities of companies with lower potential for earnings growth.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

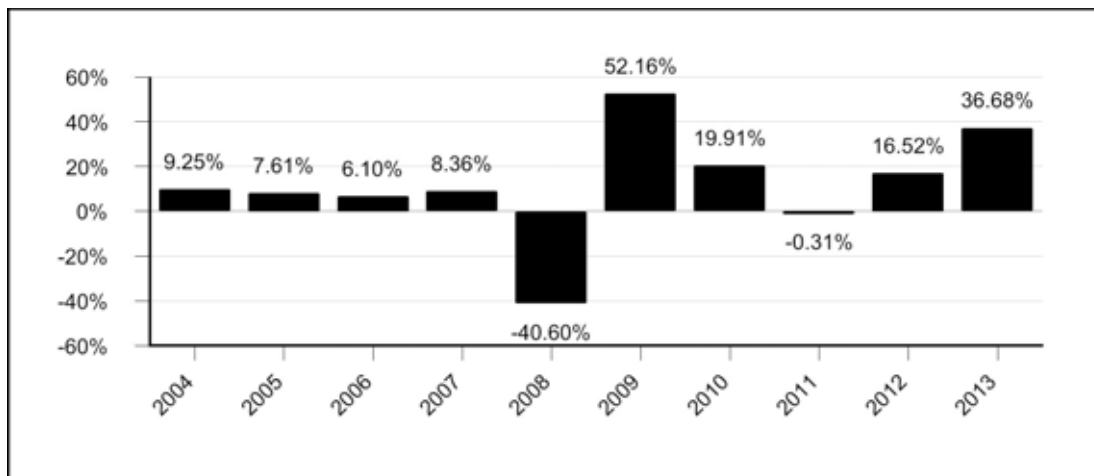
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on December 6, 2000
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 Class began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 19.84%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -22.75%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	36.68%	23.71%	8.81%
Institutional Class Return After Taxes on Distributions	34.73%	23.03%	8.26%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	22.31%	19.63%	7.21%
Class R-1 Return Before Taxes	35.42%	22.61%	7.85%
Class R-2 Return Before Taxes	35.65%	22.76%	8.00%
Class R-3 Return Before Taxes	35.80%	23.01%	8.20%
Class R-4 Return Before Taxes	36.11%	23.23%	8.39%
Class R-5 Return Before Taxes	36.37%	23.41%	8.53%
Russell 1000 Growth Index (reflects no deduction for fees, expenses, or taxes)	33.48%	20.39%	7.83%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

Brown Advisory, LLC

T. Rowe Price Associates, Inc.

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

LARGECAP GROWTH FUND II

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.87%	0.87%	0.87%	0.87%	0.87%	0.87%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.88%	1.75%	1.62%	1.44%	1.25%	1.13%
Fee Waiver(1)	(0.01)%	(0.01)%	(0.01)%	(0.01)%	(0.01)%	(0.01)%
Total Annual Fund Operating Expenses after Fee Waiver	0.87%	1.74%	1.61%	1.43%	1.24%	1.12%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.014% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$89	\$280	\$486	\$1,083
Class R-1	177	550	948	2,061
Class R-2	164	510	880	1,921
Class R-3	146	454	786	1,723
Class R-4	126	395	685	1,510
Class R-5	114	358	621	1,374

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 63.6% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations at the time of each purchase. For this Fund, companies with large market capitalizations are those with market capitalizations within the range of companies comprising the Russell 1000[®] Growth Index (as of December 31, 2013, the range was between approximately \$1.26 billion and \$526.685 billion). The Fund invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities that may have greater risks than equity securities of companies with lower potential for earnings growth.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

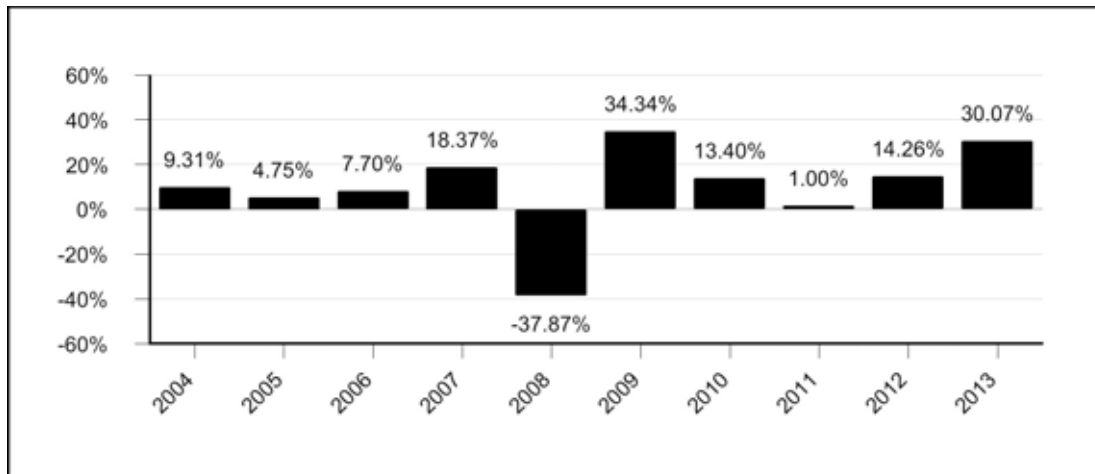
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 15.82%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -22.90%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	30.07%	17.99%	7.57%
Institutional Class Return After Taxes on Distributions	27.42%	17.04%	6.63%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	19.12%	14.71%	6.06%
Class R-1 Return Before Taxes	28.97%	16.97%	6.63%
Class R-2 Return Before Taxes	29.03%	17.09%	6.77%
Class R-3 Return Before Taxes	29.30%	17.32%	6.96%
Class R-4 Return Before Taxes	29.60%	17.57%	7.17%
Class R-5 Return Before Taxes	29.86%	17.70%	7.28%
Russell 1000 Growth Index (reflects no deduction for fees, expenses, or taxes)	33.48%	20.39%	7.83%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

American Century Investment Management, Inc.

Montag & Caldwell, LLC

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

LARGECAP S&P 500 INDEX FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses (expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.16%	1.03%	0.90%	0.72%	0.53%	0.41%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$16	\$52	\$90	\$205
Class R-1	105	328	569	1,259
Class R-2	92	287	498	1,108
Class R-3	74	230	401	894
Class R-4	54	170	296	665
Class R-5	42	132	230	518

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 3.0% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies that compose the S&P 500 Index at the time of each purchase. The Index is designed to represent U.S. equities with risk/return characteristics of the large cap universe. As of December 31, 2013, the market capitalization range of the Index was between approximately \$3.353 billion and \$504.852 billion. The Fund employs a passive investment approach designed to attempt to track the performance of the Index. The Fund utilizes derivative strategies. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. Specifically, the Fund invests in index futures and exchange-traded funds ("ETFs") on a daily basis to gain exposure to the Index in an effort to minimize tracking error relative to the benchmark.

Note: "Standard & Poor's 500" and "S&P 500[®]" are trademarks of The McGraw-Hill Companies, Inc. and have been licensed by Principal. The Fund is not sponsored, endorsed, sold, or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the Fund.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital, willing to accept the potential for volatile fluctuations in the value of investments and preferring a passive, rather than active, management style.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Exchange-Traded Funds ("ETFs") Risk. An ETF is subject to the risks associated with direct ownership of the securities comprising the index on which the ETF is based. Fund shareholders indirectly bear their proportionate share of the expenses of the ETFs in which the fund invests.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

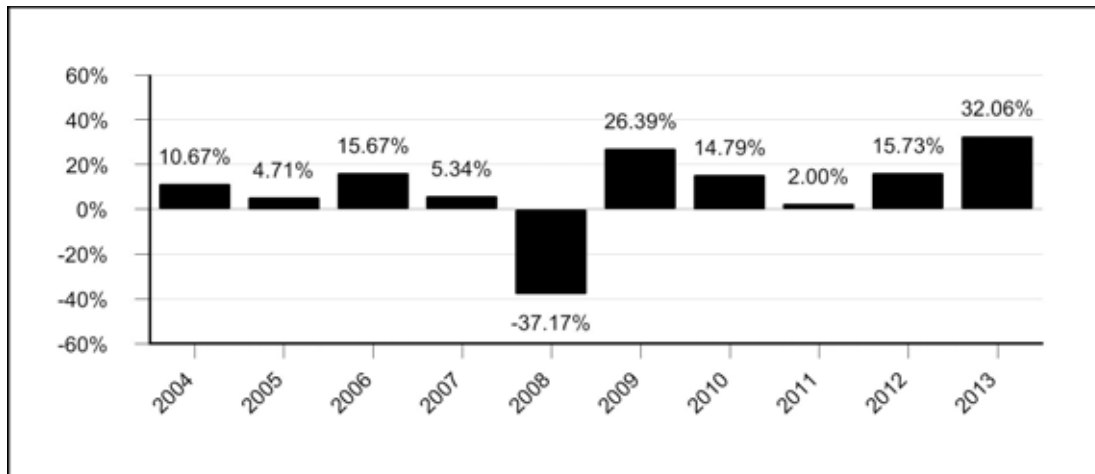
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 15.80%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -22.11%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	32.06%	17.73%	7.21%
Institutional Class Return After Taxes on Distributions	31.54%	17.39%	6.77%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	18.56%	14.45%	5.87%
Class R-1 Return Before Taxes	30.88%	16.70%	6.27%
Class R-2 Return Before Taxes	31.17%	16.86%	6.43%
Class R-3 Return Before Taxes	31.40%	17.06%	6.61%
Class R-4 Return Before Taxes	31.56%	17.31%	6.81%
Class R-5 Return Before Taxes	31.79%	17.44%	6.94%
S&P 500 Index (reflects no deduction for fees, expenses, or taxes)	32.39%	17.94%	7.41%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Thomas L. Kruchten (since 2011), Research Analyst and Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

LARGECAP VALUE FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.42%	0.42%	0.42%	0.42%	0.42%	0.42%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.43%	1.30%	1.17%	0.99%	0.80%	0.68%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$44	\$138	\$241	\$542
Class R-1	132	412	713	1,568
Class R-2	119	372	644	1,420
Class R-3	101	315	547	1,213
Class R-4	82	255	444	990
Class R-5	69	218	379	847

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 121.4% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations at the time of each purchase. For this Fund, companies with large market capitalizations are those with market capitalizations within the range of companies comprising the Russell 1000[®] Value Index (which as of December 31, 2013 ranged between approximately \$1.126 billion and \$526.685 billion). The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The Fund actively trades portfolio securities.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities, but who prefer investing in companies that appear to be considered undervalued relative to similar companies.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Active Trading Risk. A fund that has a portfolio turnover rate over 100% is considered actively traded. Actively trading portfolio securities may accelerate realization of taxable gains and losses, lower fund performance and may result in high portfolio turnover rates and increased brokerage costs.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

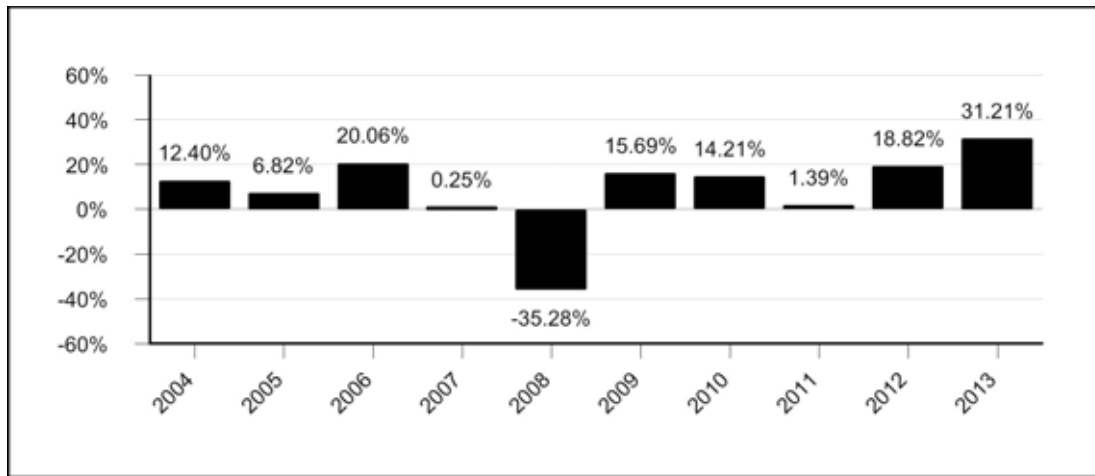
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 15.95%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -21.80%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	31.21%	15.87%	6.92%
Institutional Class Return After Taxes on Distributions	27.67%	15.00%	6.04%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	19.55%	12.76%	5.60%
Class R-1 Return Before Taxes	30.04%	14.88%	6.02%
Class R-2 Return Before Taxes	30.21%	15.02%	6.14%
Class R-3 Return Before Taxes	30.49%	15.23%	6.34%
Class R-4 Return Before Taxes	30.62%	15.43%	6.52%
Class R-5 Return Before Taxes	30.86%	15.58%	6.65%
Russell 1000 Value Index (reflects no deduction for fees, expenses, or taxes)	32.53%	16.67%	7.58%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Arild Holm (since 2007), Portfolio Manager
- Jeffrey A. Schwarte (since 2010), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

LARGECAP VALUE FUND I

On January 30, 2014, the Board of Directors of Principal Funds, Inc. approved the acquisition of the assets of the LargeCap Value Fund I by the LargeCap Value Fund III. This proposal will be submitted for shareholder vote at a Special Meeting of Shareholders of LargeCap Value Fund I tentatively scheduled for May 30, 2014. Additional information about this proposal will be provided in the Proxy Statement/Prospectus that is expected to be mailed to record date shareholders of LargeCap Value Fund I in April 2014. If shareholders approve this proposal, the acquisition is expected to occur on or about June 6, 2014.

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.77%	0.77%	0.77%	0.77%	0.77%	0.77%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	—%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.77%	1.65%	1.52%	1.34%	1.15%	1.03%
Fee Waiver(1)	(0.01)%	(0.01)%	(0.01)%	(0.01)%	(0.01)%	(0.01)%
Total Annual Fund Operating Expenses after Fee Waiver	0.76%	1.64%	1.51%	1.33%	1.14%	1.02%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.014% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$78	\$245	\$427	\$953
Class R-1	167	519	896	1,954
Class R-2	154	479	828	1,812
Class R-3	135	423	733	1,612
Class R-4	116	364	632	1,396
Class R-5	104	327	567	1,258

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 68.2% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in securities of companies with large market capitalizations at the time of each purchase. For this Fund, companies with large market capitalizations are those with market capitalizations within the range of companies comprising the Russell 1000[®] Value Index (as of December 31, 2013, this range was between approximately \$1.126 billion and \$526.685 billion). The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities but prefer investing in companies that appear to be considered undervalued relative to similar companies.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

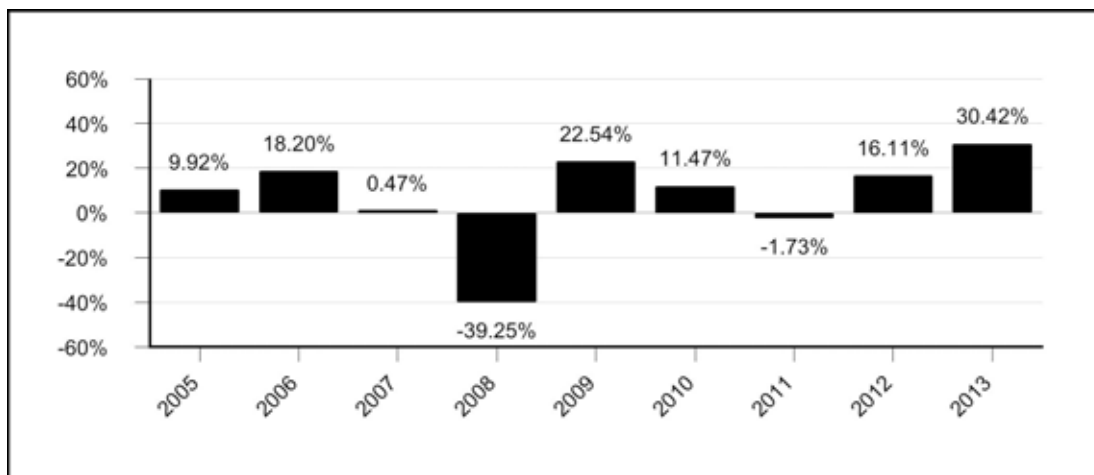
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- Life of Fund results are measured from the date the Fund's shares were first sold (June 1, 2004).
- The Institutional Class shares were first sold on June 1, 2004.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 19.23%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -24.98%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	Life of Fund
Institutional Class Return Before Taxes	30.42%	15.24%	6.42%
Institutional Class Return After Taxes on Distributions	8.32%	10.83%	4.07%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	21.67%	10.85%	4.51%
Class R-1 Return Before Taxes	29.19%	14.23%	5.49%
Class R-2 Return Before Taxes	29.38%	14.38%	5.62%
Class R-3 Return Before Taxes	29.59%	14.59%	5.82%
Class R-4 Return Before Taxes	29.86%	14.80%	6.02%
Class R-5 Return Before Taxes	30.01%	14.94%	6.15%
Russell 1000 Value Index (reflects no deduction for fees, expenses, or taxes)	32.53%	16.67%	7.75%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

Herndon Capital Management, LLC

Thompson, Siegel & Walmsley LLC

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

LARGECAP VALUE FUND III

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.79%	0.79%	0.79%	0.79%	0.79%	0.79%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.54%	0.46%	0.33%	0.29%	0.27%
Total Annual Fund Operating Expenses	0.80%	1.68%	1.55%	1.37%	1.18%	1.06%
Fee Waiver(1)	(0.01)%	(0.01)%	(0.01)%	(0.01)%	(0.01)%	(0.01)%
Total Annual Fund Operating Expenses after Fee Waiver	0.79%	1.67%	1.54%	1.36%	1.17%	1.05%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.012% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$81	\$254	\$443	\$989
Class R-1	170	528	911	1,986
Class R-2	157	488	844	1,844
Class R-3	138	433	749	1,645
Class R-4	119	374	648	1,431
Class R-5	107	336	584	1,293

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 64.8% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in companies with large market capitalizations at the time of each purchase. For this Fund, companies with large market capitalizations are those with market capitalizations within the range of companies comprising the Russell 1000[®] Value Index (as of December 31, 2013, the range of the index was between approximately \$1.126 billion and \$526.685 billion). The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities but who prefer investing in companies that appear to be considered undervalued relative to similar companies.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

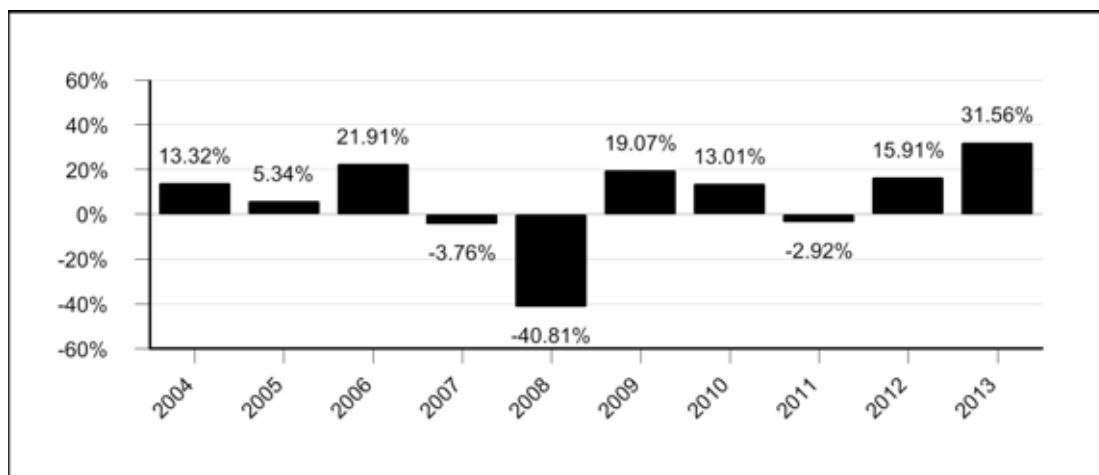
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 15.89%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -21.54%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	31.56%	14.78%	5.14%
Institutional Class Return After Taxes on Distributions	31.36%	14.49%	4.63%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	18.02%	11.96%	4.24%
Class R-1 Return Before Taxes	30.29%	13.77%	4.21%
Class R-2 Return Before Taxes	30.52%	13.94%	4.36%
Class R-3 Return Before Taxes	30.71%	14.12%	4.54%
Class R-4 Return Before Taxes	31.05%	14.33%	4.74%
Class R-5 Return Before Taxes	31.08%	14.47%	4.87%
Russell 1000 Value Index (reflects no deduction for fees, expenses, or taxes)	32.53%	16.67%	7.58%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

Barrow, Hanley, Mewhinney & Strauss, LLC.

Westwood Management Corp.

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

PRINCIPAL CAPITAL APPRECIATION FUND

Objective: The Fund seeks to provide long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.47%	0.47%	0.47%	0.47%	0.47%	0.47%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.48%	1.35%	1.22%	1.04%	0.85%	0.73%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$49	\$154	\$269	\$604
Class R-1	137	428	739	1,624
Class R-2	124	387	670	1,477
Class R-3	106	331	574	1,271
Class R-4	87	271	471	1,049
Class R-5	75	233	406	906

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 14.3% of the average value of its portfolio.

Principal Investment Strategies

The Fund invests primarily in equity securities of companies with any market capitalization, but has a greater exposure to large market capitalization companies than small or medium market capitalization companies.

The Fund invests in equity securities with value and/or growth characteristics and constructs an investment portfolio that has a "blend" of equity securities with these characteristics. Investing in value equity securities is an investment strategy that emphasizes buying equity securities that appear to be undervalued. The growth orientation selection emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The Fund does not have a policy of preferring one of these categories over the other.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

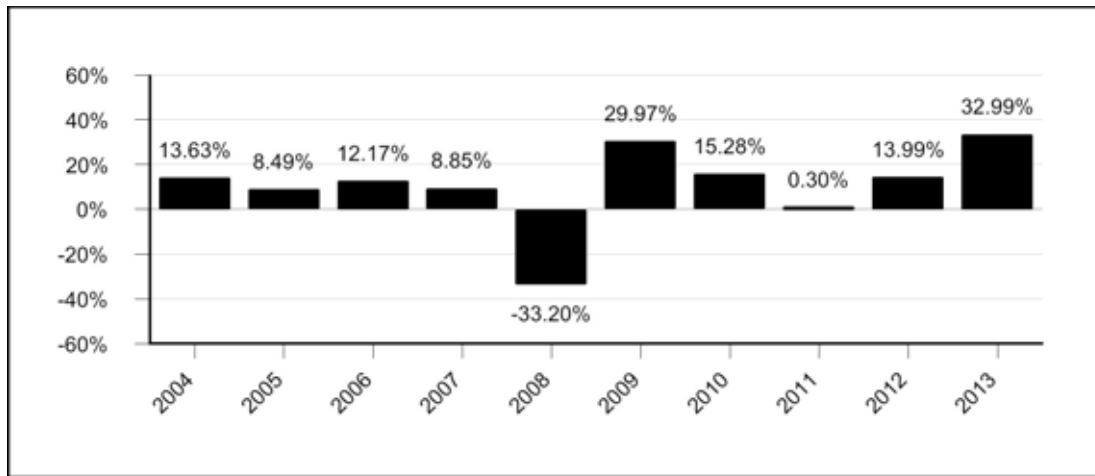
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Fund commenced operations after succeeding to the operations of another fund on January 12, 2007.
- The R-1, R-2, R-3, R-4 and R-5 Class shares were first sold on March 1, 2010.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on November 24, 1986.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 16.57%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -22.66%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	32.99%	17.90%	8.64%
Institutional Class Return After Taxes on Distributions	31.98%	17.34%	8.03%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	19.48%	14.62%	7.11%
Class R-1 Return Before Taxes	31.82%	16.88%	7.68%
Class R-2 Return Before Taxes	32.00%	17.03%	7.81%
Class R-3 Return Before Taxes	32.22%	17.25%	8.01%
Class R-4 Return Before Taxes	32.49%	17.44%	8.20%
Class R-5 Return Before Taxes	32.65%	17.55%	8.28%
Russell 3000 Index (reflects no deduction for fees, expenses, or taxes)	33.55%	18.71%	7.88%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- Daniel R. Coleman (since 2010), Head of Equities, Portfolio Manager
- Philip M. Foreman (since 2002), Portfolio Manager
- Sarah E. Radecki (since 2013), Associate Portfolio Manager & Senior Analyst

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

MIDCAP FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.06%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.66%	1.48%	1.35%	1.17%	0.98%	0.86%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$67	\$211	\$368	\$822
Class R-1	151	468	808	1,768
Class R-2	137	428	739	1,624
Class R-3	119	372	644	1,420
Class R-4	100	312	542	1,201
Class R-5	88	274	477	1,061

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 13.0% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations at the time of each purchase. For this Fund, companies with medium market capitalizations are those with market capitalizations within the range of companies comprising the Russell Midcap[®] Index (as of December 31, 2013, this range was between approximately \$1.126 billion and \$29.14 billion). The Fund invests in foreign securities.

The Fund invests in equity securities with value and/or growth characteristics and constructs an investment portfolio that has a "blend" of equity securities with these characteristics. Investing in value equity securities is an investment strategy that emphasizes buying equity securities that appear to be undervalued. The growth orientation selection emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The Fund does not have a policy of preferring one of these categories over the other.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the potential for short-term fluctuations in the value of investments.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

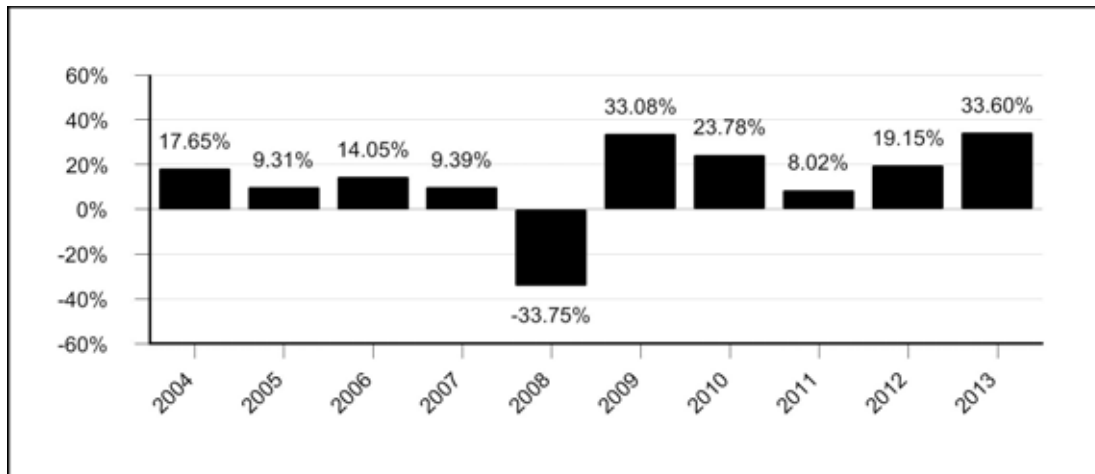
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.
- During 2004, The R-4 Class experienced a significant withdrawal of monies by an affiliate. As the remaining shareholders held relatively small positions, the total return amounts expressed herein are greater than those that would have been experienced without the withdrawal.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 17.76%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -23.77%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	33.60%	23.15%	11.65%
Institutional Class Return After Taxes on Distributions	32.87%	22.45%	10.68%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	19.60%	19.11%	9.60%
Class R-1 Return Before Taxes	32.56%	22.10%	10.70%
Class R-2 Return Before Taxes	32.68%	22.28%	10.84%
Class R-3 Return Before Taxes	32.97%	22.48%	11.06%
Class R-4 Return Before Taxes	33.17%	22.73%	11.24% ⁽¹⁾
Class R-5 Return Before Taxes	33.33%	22.87%	11.39%
Russell Midcap Index (reflects no deduction for fees, expenses, or taxes)	34.76%	22.36%	10.22%

⁽¹⁾ During 2004, the Class experienced a significant withdrawal of monies by an affiliate. As the remaining shareholders held relatively small positions, the total return amounts expressed herein are greater than those that would have been experienced without the withdrawal.

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- K. William Nolin (since 2000), Portfolio Manager
- Tom Rozycki (since 2013), Research Analyst & Associate Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

For retail investors (i.e., non-employer sponsored retirement plan investors), effective as of the close of the New York Stock Exchange on June 14, 2013 and for employer-sponsored retirement plan investors, effective as of the close of the New York Stock Exchange on August 15, 2013, the MidCap Fund will no longer be available for purchases from new investors except in limited circumstances. See the section **Purchase of Fund Shares** for additional information.

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

MIDCAP GROWTH FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.12%	0.56%	0.48%	0.35%	0.31%	0.29%
Total Annual Fund Operating Expenses	0.77%	1.56%	1.43%	1.25%	1.06%	0.94%
Expense Reimbursement(1)	(0.03)%	N/A	N/A	N/A	N/A	N/A
Total Annual Fund Operating Expenses after Expense Reimbursement	0.74%	1.56%	1.43%	1.25%	1.06%	0.94%

- (1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 0.75% for Institutional class shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$76	\$242	\$424	\$951
Class R-1	159	493	850	1,856
Class R-2	146	452	782	1,713
Class R-3	127	397	686	1,511
Class R-4	108	337	585	1,294
Class R-5	96	300	520	1,155

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 222.6% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations at the time of each purchase. For this Fund, companies with medium market capitalizations are those with market capitalizations within the range of companies comprising the Russell Midcap[®] Growth Index (as of December 31, 2013, this range was between approximately \$1.26 billion and \$29.14 billion). The Fund invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The Fund actively trades portfolio securities and invests its assets in the securities of foreign issuers.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities that may have greater risks than equity securities of companies with lower potential for earnings growth.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Active Trading Risk. A fund that has a portfolio turnover rate over 100% is considered actively traded. Actively trading portfolio securities may accelerate realization of taxable gains and losses, lower fund performance and may result in high portfolio turnover rates and increased brokerage costs.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

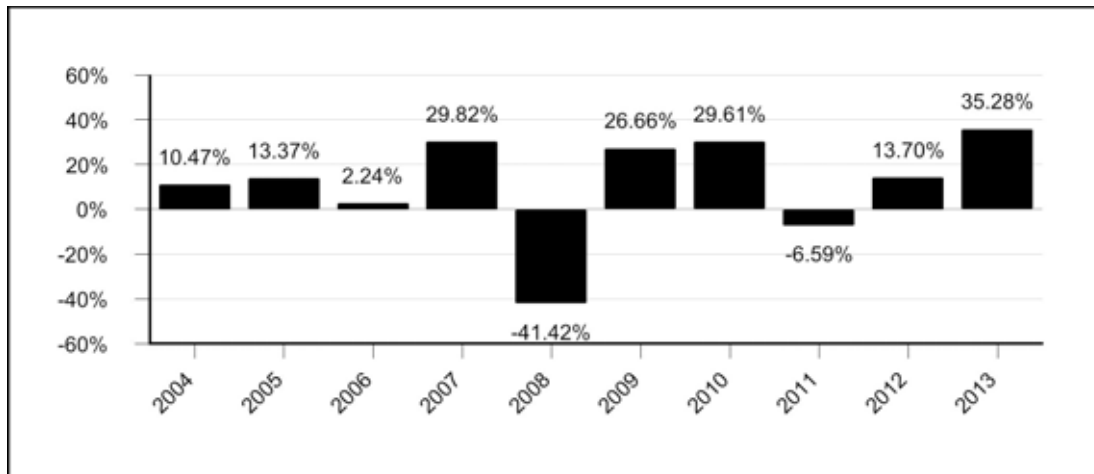
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q4 '10 17.62%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -25.27%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	35.28%	18.72%	8.67%
Institutional Class Return After Taxes on Distributions	25.76%	16.25%	7.42%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	22.07%	14.63%	6.83%
Class R-1 Return Before Taxes	34.31%	17.71%	7.75%
Class R-2 Return Before Taxes	34.53%	17.89%	7.88%
Class R-3 Return Before Taxes	34.67%	18.05%	8.08%
Class R-4 Return Before Taxes	34.94%	18.27%	8.27%
Class R-5 Return Before Taxes	35.30%	18.46%	8.4%
Russell Midcap Growth Index (reflects no deduction for fees, expenses, or taxes)	35.74%	23.37%	9.77%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Columbus Circle Investors

- Clifford G. Fox (since 2005), Senior Managing Director/Portfolio Manager
- Michael Iacono (since 2008), Managing Director/Co-Portfolio Manager
- Katerina Wasserman (since 2010), Senior Vice President, Co-Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

MIDCAP GROWTH FUND III

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.97%	0.97%	0.97%	0.97%	0.97%	0.97%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	—	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.97%	1.85%	1.72%	1.54%	1.35%	1.23%
Fee Waiver(1)	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%
Total Annual Fund Operating Expenses after Fee Waiver	0.95%	1.83%	1.70%	1.52%	1.33%	1.21%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.022% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$97	\$307	\$534	\$1,188
Class R-1	186	579	998	2,167
Class R-2	173	540	931	2,028
Class R-3	155	484	837	1,833
Class R-4	135	425	737	1,622
Class R-5	123	388	673	1,487

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 105.0% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations at the time of each purchase. For this Fund, companies with medium market capitalizations are those with market capitalizations within the range of companies comprising the Russell Midcap[®] Growth Index (as of December 31, 2013, this range was between approximately \$1.26 billion and \$29.14 billion). The Fund invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The Fund actively trades portfolio securities.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities that may have greater risks than equity securities of companies with lower potential for earnings growth.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Active Trading Risk. A fund that has a portfolio turnover rate over 100% is considered actively traded. Actively trading portfolio securities may accelerate realization of taxable gains and losses, lower fund performance and may result in high portfolio turnover rates and increased brokerage costs.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

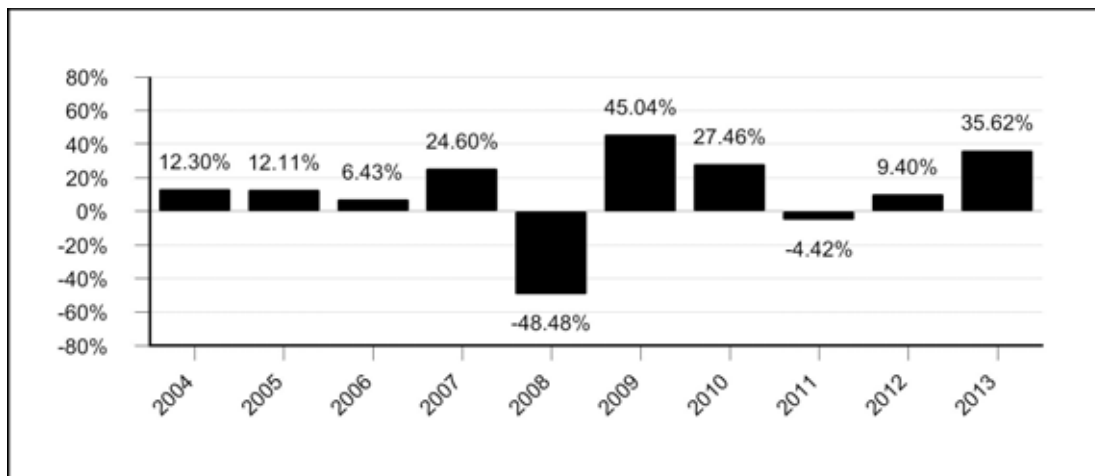
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 20.43%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -28.66%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	35.62%	21.26%	8.47%
Institutional Class Return After Taxes on Distributions	28.80%	19.92%	7.71%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	23.29%	17.19%	6.85%
Class R-1 Return Before Taxes	34.37%	20.23%	7.53%
Class R-2 Return Before Taxes	34.53%	20.37%	7.66%
Class R-3 Return Before Taxes	34.81%	20.54%	7.85%
Class R-4 Return Before Taxes	34.94%	20.78%	8.05%
Class R-5 Return Before Taxes	35.08%	20.89%	8.18%
Russell Midcap Growth Index (reflects no deduction for fees, expenses, or taxes)	35.74%	23.37%	9.77%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

Robert W. Baird & Co. Incorporated

William Blair & Company, L.L.C.

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

MIDCAP S&P 400 INDEX FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.06%	0.54%	0.46%	0.33%	0.29%	0.27%
Acquired Fund Fees and Expenses	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Total Annual Fund Operating Expenses	0.22%	1.05%	0.92%	0.74%	0.55%	0.43%
Expense Reimbursement(1)	—%	N/A	N/A	N/A	N/A	N/A
Total Annual Fund Operating Expenses after Expense Reimbursement	0.22%	1.05%	0.92%	0.74%	0.55%	0.43%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 0.25% for Institutional class shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$23	\$71	\$124	\$280
Class R-1	107	334	579	1,283
Class R-2	94	293	509	1,131
Class R-3	76	237	411	918
Class R-4	56	176	307	689
Class R-5	44	138	241	542

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 11.2% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies that compose the Standard & Poor's ("S&P") MidCap 400 Index at the time of each purchase. The Index is designed to represent U.S. equities with risk/return characteristics of the mid cap universe. As of December 31, 2013, the market capitalization range of the Index was between approximately \$1.112 billion and \$11.49 billion. The Fund employs a passive investment approach designed to attempt to track the performance of the Index. The Fund utilizes derivative strategies. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. Specifically, the Fund invests in index futures and exchange-traded funds ("ETFs") on a daily basis to gain exposure to the Index in an effort to minimize tracking error relative to the benchmark.

Note: "Standard & Poor's MidCap 400" and "S&P MidCap 400" are trademarks of The McGraw-Hill Companies, Inc. and have been licensed by Principal. The Fund is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the Fund.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital, willing to accept the potential for volatile fluctuations in the value of investments and preferring a passive, rather than active, management style.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Exchange-Traded Funds ("ETFs") Risk. An ETF is subject to the risks associated with direct ownership of the securities comprising the index on which the ETF is based. Fund shareholders indirectly bear their proportionate share of the expenses of the ETFs in which the fund invests.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

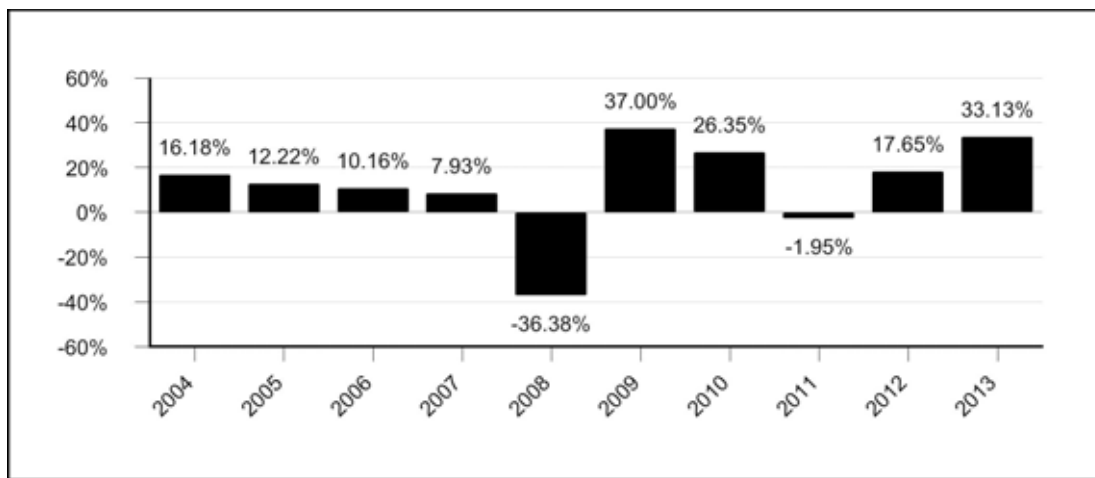
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 19.87%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -25.73%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	33.13%	21.60%	10.12%
Institutional Class Return After Taxes on Distributions	31.73%	20.86%	9.27%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	19.70%	17.77%	8.28%
Class R-1 Return Before Taxes	32.00%	20.58%	9.17%
Class R-2 Return Before Taxes	32.22%	20.74%	9.32%
Class R-3 Return Before Taxes	32.41%	20.95%	9.52%
Class R-4 Return Before Taxes	32.70%	21.18%	9.72%
Class R-5 Return Before Taxes	32.84%	21.33%	9.86%
S&P 400 MidCap Stock Index (reflects no deduction for fees, expenses, or taxes)	33.50%	21.89%	10.36%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Thomas L. Kruchten (since 2011), Research Analyst and Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

MIDCAP VALUE FUND I

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.98%	0.98%	0.98%	0.98%	0.98%	0.98%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.02%	0.53%	0.45%	0.32%	0.28%	0.26%
Acquired Fund Fees and Expenses	0.01%	0.01%	0.01%	0.01%	0.01%	0.01%
Total Annual Fund Operating Expenses	1.01%	1.87%	1.74%	1.56%	1.37%	1.25%
Fee Waiver(1)	(0.06)%	(0.06)%	(0.06)%	(0.06)%	(0.06)%	(0.06)%
Total Annual Fund Operating Expenses after Fee Waiver	0.95%	1.81%	1.68%	1.50%	1.31%	1.19%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.06% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$97	\$315	\$551	\$1,230
Class R-1	184	581	1,004	2,185
Class R-2	171	541	937	2,046
Class R-3	153	486	843	1,850
Class R-4	133	427	743	1,640
Class R-5	121	390	680	1,505

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 98.6% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in a diversified portfolio of equity securities of companies with medium market capitalizations at the time of each purchase. For this Fund, companies with medium market capitalizations are those with market capitalizations within the range of companies comprising the Russell Midcap[®] Value Index (as of December 31, 2013, the range was between approximately \$1.126 billion and \$26.943 billion). The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The Fund also invests in real estate investment trusts.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth and willing to accept short-term fluctuations in the value of investments.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

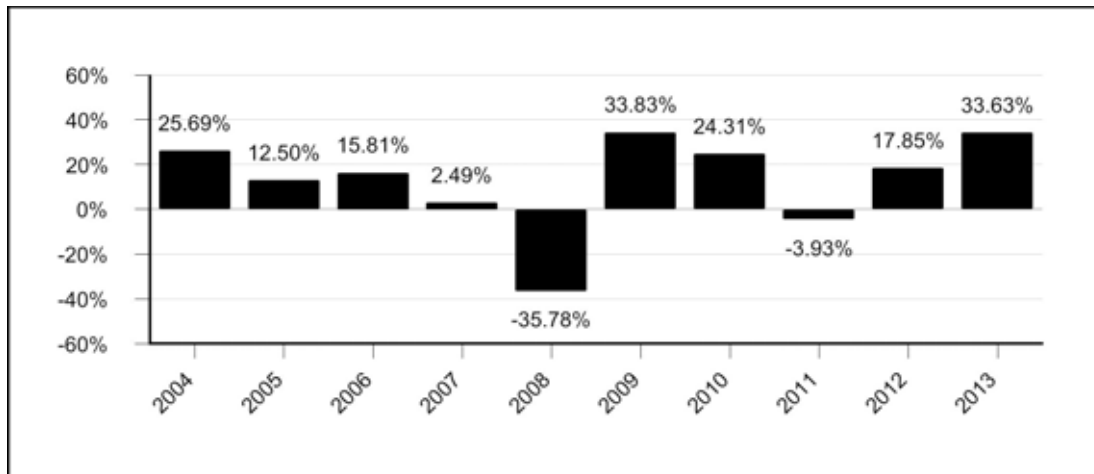
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- Life of Fund results are measured from the date the Fund's shares were first sold (December 29, 2003).
- The Institutional Class shares were first sold on December 29, 2003.
- The R-2, R-3, R-4, and R-5 Class shares were first sold on June 1, 2004.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which these classes began operations, their performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for the periods prior to the date these classes began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 22.38%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -23.74%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	Life of Fund
Institutional Class Return Before Taxes	33.63%	20.28%	10.50%
Institutional Class Return After Taxes on Distributions	24.49%	18.40%	9.01%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	22.71%	16.14%	8.35%
Class R-1 Return Before Taxes	32.45%	19.26%	9.55%
Class R-2 Return Before Taxes	32.61%	19.40%	9.69%
Class R-3 Return Before Taxes	32.88%	19.60%	9.88%
Class R-4 Return Before Taxes	33.11%	19.84%	10.08%
Class R-5 Return Before Taxes	33.21%	19.98%	10.22%
Russell Midcap Value Index (reflects no deduction for fees, expenses, or taxes)	33.46%	21.16%	10.25%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

Goldman Sachs Asset Management, L.P.

Los Angeles Capital Management and Equity Research, Inc.

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

MIDCAP VALUE FUND III

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.65%	0.65%	0.65%	0.65%	0.65%	0.65%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.02%	0.54%	0.46%	0.33%	0.29%	0.27%
Acquired Fund Fees and Expenses	0.04%	0.04%	0.04%	0.04%	0.04%	0.04%
Total Annual Fund Operating Expenses	0.71%	1.58%	1.45%	1.27%	1.08%	0.96%
Fee Waiver and Expense Reimbursement (1)(2)	(0.01)%	(0.01)%	(0.01)%	(0.01)%	(0.01)%	(0.01)%
Total Annual Fund Operating Expenses after Fee Waiver and Expense Reimbursement	0.70%	1.57%	1.44%	1.26%	1.07%	0.95%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.014% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

(2) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 0.736% for Institutional class shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$72	\$226	\$394	\$881
Class R-1	160	498	859	1,877
Class R-2	147	457	791	1,734
Class R-3	128	402	696	1,533
Class R-4	109	342	594	1,316
Class R-5	97	305	530	1,177

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 88.3% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations at the time of each purchase. For this Fund, companies with medium market capitalizations are those with market capitalizations within the range of companies comprising the Russell Midcap[®] Value Index (as of December 31, 2013, this range was between approximately \$1.126 billion and \$26.943 billion). The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The Fund invests in real estate investment trusts.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the potential for short-term fluctuations in the value of investments.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

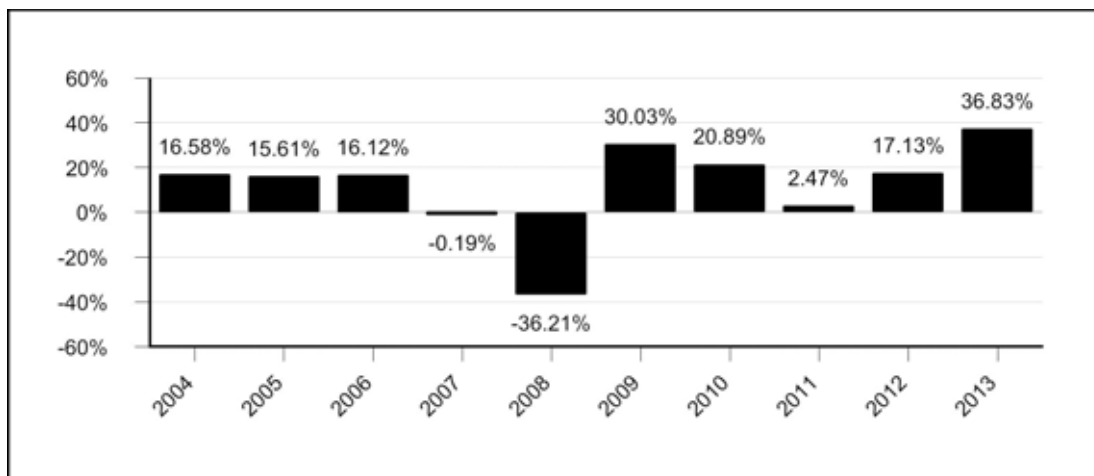
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 19.21%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -22.42%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	36.83%	20.89%	9.91%
Institutional Class Return After Taxes on Distributions	35.46%	20.43%	8.80%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	21.72%	17.12%	7.90%
Class R-1 Return Before Taxes	35.70%	19.77%	8.68%
Class R-2 Return Before Taxes	35.84%	19.93%	8.82%
Class R-3 Return Before Taxes	36.06%	20.14%	9.02%
Class R-4 Return Before Taxes	36.35%	20.39%	9.22%
Class R-5 Return Before Taxes	36.53%	20.52%	9.35%
Russell Midcap Value Index (reflects no deduction for fees, expenses, or taxes)	33.46%	21.16%	10.25%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 16, 2010), Vice President
- Randy L. Welch (since June 16, 2010), Vice President

Sub-Advisor(s):

Barrow, Hanley, Mewhinney & Strauss, LLC

Principal Global Investors, LLC

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

SMALLCAP BLEND FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.75%	0.75%	0.75%	0.75%	0.75%	0.75%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.05%	0.54%	0.46%	0.33%	0.29%	0.27%
Acquired Fund Fees and Expenses	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%
Total Annual Fund Operating Expenses	0.92%	1.76%	1.63%	1.45%	1.26%	1.14%
Expense Reimbursement(1)	—%	N/A	N/A	N/A	N/A	N/A
Total Annual Fund Operating Expenses after Expense Reimbursement	0.92%	1.76%	1.63%	1.45%	1.26%	1.14%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 0.80% for Institutional class shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$94	\$293	\$509	\$1,131
Class R-1	179	554	954	2,073
Class R-2	166	514	887	1,933
Class R-3	148	459	792	1,735
Class R-4	128	400	692	1,523
Class R-5	116	362	628	1,386

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 95.2% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with small market capitalizations at the time of each purchase. For this Fund, companies with small market capitalizations are those with market capitalizations within the range of companies comprising the Russell 2000[®] Index (as of December 31, 2013, this range was between approximately \$36 million and \$5.268 billion).

The Fund invests in equity securities with value and/or growth characteristics and constructs an investment portfolio that has a "blend" of equity securities with these characteristics. Investing in value equity securities is an investment strategy that emphasizes buying equity securities that appear to be undervalued. The growth orientation selection emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average. The Fund does not have a policy of preferring one of these categories over the other.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the potential for volatile fluctuations in the value of investments.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

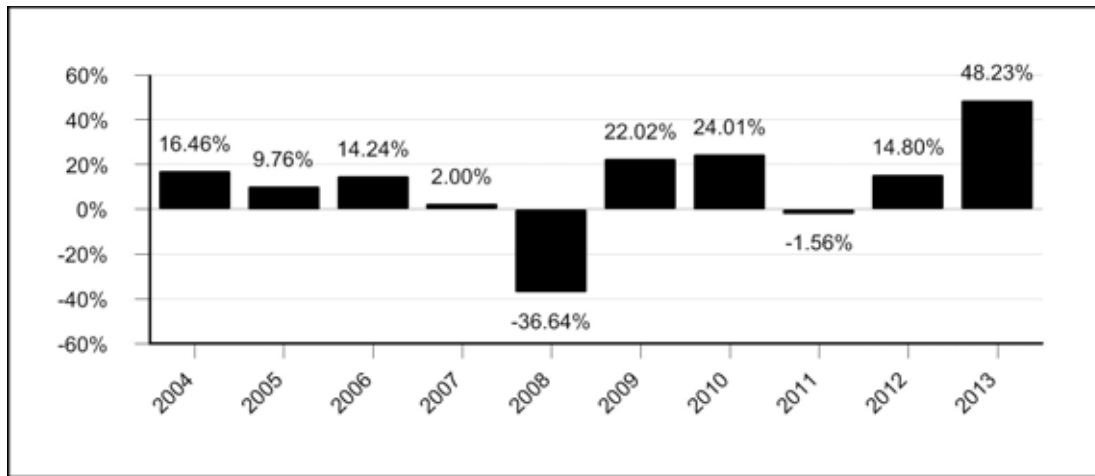
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q4 '11 18.19%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -26.13%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	48.23%	20.45%	9.11%
Institutional Class Return After Taxes on Distributions	45.83%	19.99%	8.40%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	29.20%	16.75%	7.45%
Class R-1 Return Before Taxes	47.06%	19.43%	8.18%
Class R-2 Return Before Taxes	47.17%	19.60%	8.32%
Class R-3 Return Before Taxes	47.44%	19.81%	8.52%
Class R-4 Return Before Taxes	47.80%	20.03%	8.77%
Class R-5 Return Before Taxes	47.96%	20.18%	8.85%
Russell 2000 Index (reflects no deduction for fees, expenses, or taxes)	38.82%	20.08%	9.07%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Phil Nordhus (since 2006), Portfolio Manager
- Brian Pattinson (since 2011), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

SMALLCAP GROWTH FUND I

On December 10, 2013, the Board of Directors of Principal Funds, Inc. approved the acquisition of the assets of the SmallCap Growth Fund II by the SmallCap Growth Fund I. This proposal will be submitted for shareholder vote at a Special Meeting of Shareholders of SmallCap Growth Fund II tentatively scheduled for April 18, 2014. Additional information about this proposal will be provided in the Proxy Statement/Prospectus that is expected to be mailed to record date shareholders of SmallCap Growth Fund II in February 2014. If shareholders approve this proposal, the acquisition is expected to occur on or about April 25, 2014. Additionally, if shareholders approve this proposal, Emerald Advisers, Inc. will become an additional sub-advisor to the SmallCap Growth Fund I.

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	1.08%	1.08%	1.08%	1.08%	1.08%	1.08%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	1.09%	1.96%	1.83%	1.65%	1.46%	1.34%
Fee Waiver(1)	(0.07)%	(0.07)%	(0.07)%	(0.07)%	(0.07)%	(0.07)%
Total Annual Fund Operating Expenses after Fee Waiver	1.02%	1.89%	1.76%	1.58%	1.39%	1.27%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2016. The fee waiver will reduce the Fund's Management Fees by 0.072% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$104	\$331	\$586	\$1,315
Class R-1	192	600	1,043	2,273
Class R-2	179	560	976	2,135
Class R-3	161	505	882	1,941
Class R-4	142	446	783	1,733
Class R-5	129	409	719	1,599

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 74.7% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with small market capitalizations at the time of each purchase. For this Fund, companies with small market capitalizations are those with market capitalizations equal to or smaller than the greater of: 1) \$6.0 billion or 2) the highest market capitalization of the companies comprising the Russell 2000[®] Growth Index (as of December 31, 2013, the range was between approximately \$36 million and \$5.268 billion). The Fund invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities that may have greater risks than equity securities of companies with lower potential for earnings growth.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

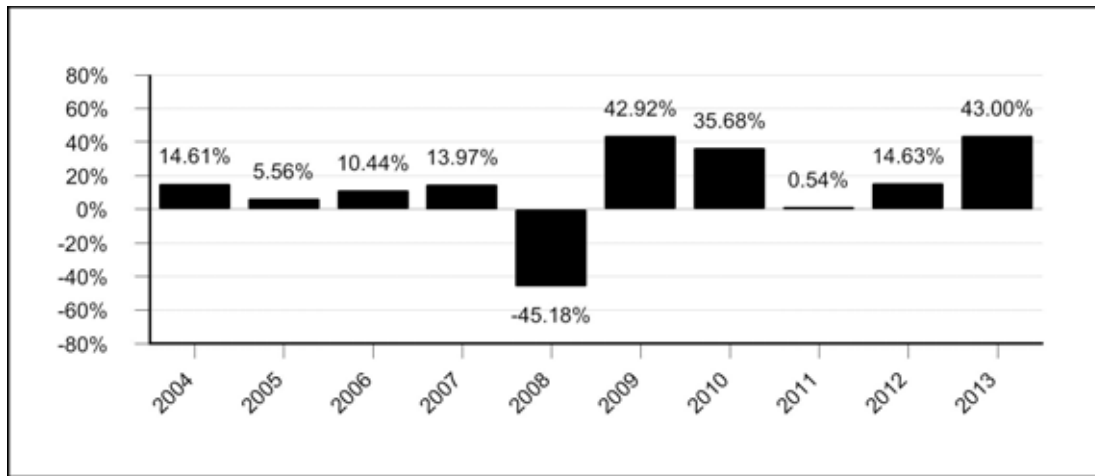
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 19.78%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -29.22%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	43.00%	26.16%	10.31%
Institutional Class Return After Taxes on Distributions	39.24%	25.04%	9.58%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	26.67%	21.69%	8.48%
Class R-1 Return Before Taxes	41.66%	25.10%	9.36%
Class R-2 Return Before Taxes	41.88%	25.27%	9.50%
Class R-3 Return Before Taxes	42.14%	25.48%	9.70%
Class R-4 Return Before Taxes	42.31%	25.71%	9.90%
Class R-5 Return Before Taxes	42.52%	25.82%	10.03%
Russell 2000 Growth Index (reflects no deduction for fees, expenses, or taxes)	43.30%	22.58%	9.41%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

AllianceBernstein L.P.

Brown Advisory, LLC

Columbus Circle Investors

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

SMALLCAP GROWTH FUND II

On December 10, 2013, the Board of Directors of Principal Funds, Inc. approved the acquisition of the assets of the SmallCap Growth Fund II by the SmallCap Growth Fund I. This proposal will be submitted for shareholder vote at a Special Meeting of Shareholders of SmallCap Growth Fund II tentatively scheduled for April 18, 2014. Additional information about this proposal will be provided in the Proxy Statement/Prospectus that is expected to be mailed to record date shareholders of SmallCap Growth Fund II in February 2014. If shareholders approve this proposal, the acquisition is expected to occur on or about April 25, 2014. Additionally, if shareholders approve this proposal, Emerald Advisers, Inc. will become an additional sub-advisor to the SmallCap Growth Fund I.

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	1.00%	1.00%	1.00%	1.00%	1.00%	1.00%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.04%	0.55%	0.47%	0.34%	0.30%	0.28%
Total Annual Fund Operating Expenses	1.04%	1.90%	1.77%	1.59%	1.40%	1.28%
Fee Waiver(1)	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%
Total Annual Fund Operating Expenses after Fee Waiver	1.02%	1.88%	1.75%	1.57%	1.38%	1.26%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.02% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$104	\$329	\$572	\$1,269
Class R-1	191	595	1,024	2,220
Class R-2	178	555	957	2,082
Class R-3	160	500	863	1,887
Class R-4	140	441	764	1,678
Class R-5	128	404	700	1,543

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 78.5% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with small market capitalizations at the time of each purchase. For this Fund, companies with small market capitalizations are those with market capitalizations equal to or smaller than the greater of 1) \$2.5 billion or 2) the highest market capitalization of the companies comprising the Russell 2000[®] Growth Index (as of December 31, 2013, this range was between approximately \$36 million and \$5.268 billion). The Fund invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital and willing to accept the risks of investing in equity securities that may have greater risks than equity securities of companies with lower potential for earnings growth.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

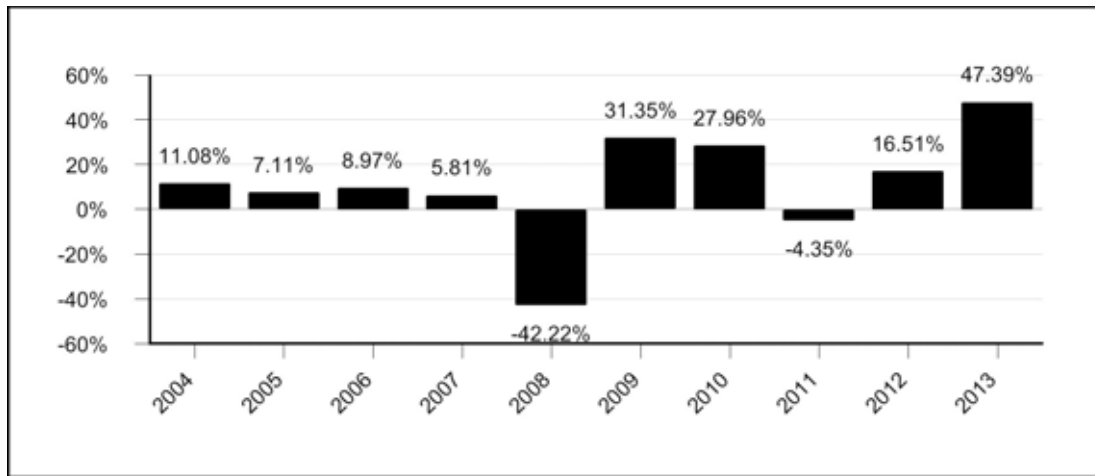
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Institutional Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q1 '12 19.14%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -29.82%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	47.39%	22.52%	8.15%
Institutional Class Return After Taxes on Distributions	43.28%	21.83%	7.49%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	29.36%	18.45%	6.60%
Class R-1 Return Before Taxes	46.18%	21.46%	7.21%
Class R-2 Return Before Taxes	46.30%	21.60%	7.36%
Class R-3 Return Before Taxes	46.47%	21.83%	7.54%
Class R-4 Return Before Taxes	46.70%	22.03%	7.74%
Class R-5 Return Before Taxes	47.04%	22.19%	7.87%
Russell 2000 Growth Index (reflects no deduction for fees, expenses, or taxes)	43.30%	22.58%	9.41%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Mariateresa Monaco (since 2009), Vice President-Portfolio Manager
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s) and Portfolio Manager(s):

Emerald Advisers, Inc.

- Joseph W. Garner (since 2005), Portfolio Manager and Director of Research
- Kenneth G. Mertz II (since 1992), Portfolio Manager, Chief Investment Officer, and President
- Stacey L. Sears (since 2002), Portfolio Manager and Senior Vice President

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

SMALLCAP S&P 600 INDEX FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.06%	0.54%	0.46%	0.33%	0.29%	0.27%
Acquired Fund Fees and Expenses	0.05%	0.05%	0.05%	0.05%	0.05%	0.05%
Total Annual Fund Operating Expenses	0.26%	1.09%	0.96%	0.78%	0.59%	0.47%
Expense Reimbursement(1)	—%	N/A	N/A	N/A	N/A	N/A
Total Annual Fund Operating Expenses after Expense Reimbursement	0.26%	1.09%	0.96%	0.78%	0.59%	0.47%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 0.25% for Institutional class shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$27	\$84	\$146	\$331
Class R-1	111	347	601	1,329
Class R-2	98	306	531	1,178
Class R-3	80	249	433	966
Class R-4	60	189	329	738
Class R-5	48	151	263	591

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 14.6% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies that compose the Standard & Poor's ("S&P") SmallCap 600 Index at the time of each purchase. The Index is designed to represent U.S. equities with risk/return characteristics of the small cap universe. As of December 31, 2013, the market capitalization range of the Index was between approximately \$134 million and \$4.59 billion. The Fund employs a passive investment approach designed to attempt to track the performance of the Index. The Fund utilizes derivative strategies. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. Specifically, the Fund invests in index futures and exchange-traded funds ("ETFs") on a daily basis to gain exposure to the Index in an effort to minimize tracking error relative to the benchmark.

Note: "Standard & Poor's SmallCap 600" and "S&P SmallCap 600" are trademarks of The McGraw-Hill Companies, Inc. and have been licensed by Principal. The Fund is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the Fund.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital, willing to accept the potential for volatile fluctuations in the value of investments and preferring a passive, rather than active, management style.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Exchange-Traded Funds ("ETFs") Risk. An ETF is subject to the risks associated with direct ownership of the securities comprising the index on which the ETF is based. Fund shareholders indirectly bear their proportionate share of the expenses of the ETFs in which the fund invests.

Index Fund Investment Risk. More likely than not, an index fund will underperform the index due to cashflows and the fees and expenses of the fund.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

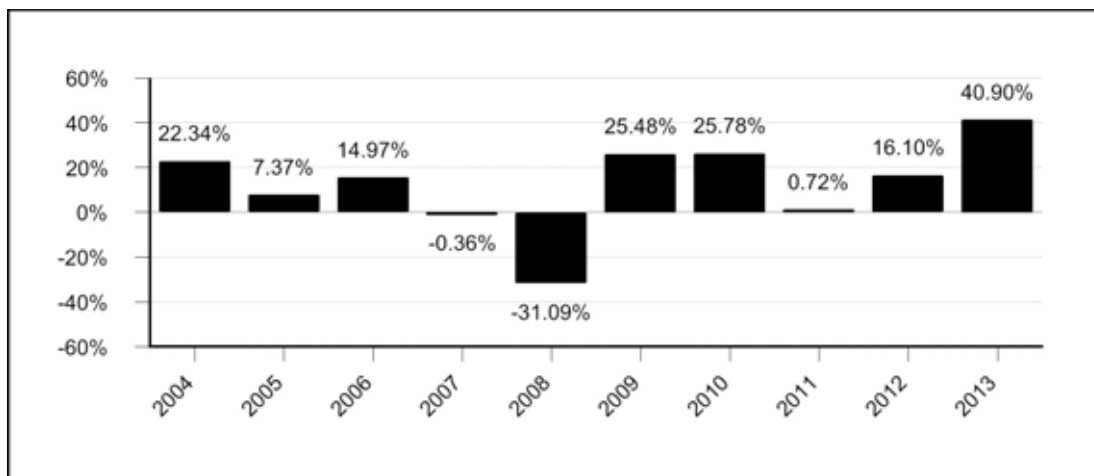
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 20.85%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -25.21%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	40.90%	21.06%	10.43%
Institutional Class Return After Taxes on Distributions	39.84%	20.74%	9.68%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	23.99%	17.30%	8.50%
Class R-1 Return Before Taxes	39.76%	20.04%	9.49%
Class R-2 Return Before Taxes	39.88%	20.21%	9.62%
Class R-3 Return Before Taxes	40.15%	20.43%	9.83%
Class R-4 Return Before Taxes	40.43%	20.66%	10.03%
Class R-5 Return Before Taxes	40.63%	20.81%	10.17%
S&P SmallCap 600 Stock Index (reflects no deduction for fees, expenses, or taxes)	41.31%	21.37%	10.65%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Thomas L. Kruchten (since 2011), Research Analyst and Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

SMALLCAP VALUE FUND II

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.98%	0.98%	0.98%	0.98%	0.98%	0.98%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.02%	0.54%	0.46%	0.33%	0.29%	0.27%
Acquired Fund Fees and Expenses	0.12%	0.12%	0.12%	0.12%	0.12%	0.12%
Total Annual Fund Operating Expenses	1.12%	1.99%	1.86%	1.68%	1.49%	1.37%
Fee Waiver(1)	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%	(0.02)%
Total Annual Fund Operating Expenses after Fee Waiver	1.10%	1.97%	1.84%	1.66%	1.47%	1.35%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.024% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$112	\$354	\$615	\$1,361
Class R-1	200	622	1,070	2,315
Class R-2	187	582	1,004	2,178
Class R-3	169	527	910	1,985
Class R-4	150	469	811	1,777
Class R-5	137	432	748	1,644

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 60.5% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of U.S. companies with small market capitalizations at the time of each purchase. For this Fund, companies with small market capitalizations are those with market capitalizations within the range of companies comprising the Russell 2000[®] Value Index (as of December 31, 2013, this range was between approximately \$36 million and \$4.593 billion) or in securities with market capitalizations of \$3.5 billion or less. The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The Fund also invests in real estate investment trusts.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth and willing to accept volatile fluctuations in the value of their investment.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

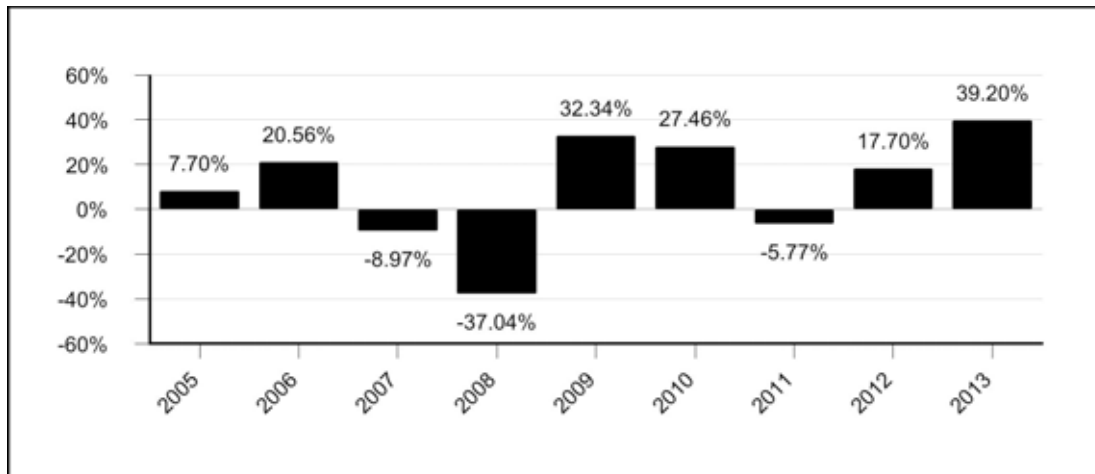
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- Life of Fund results are measured from the date the Fund's shares were first sold (June 1, 2004).
- The Institutional Class shares were first sold on June 1, 2004.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- The adjustments result in performance (for the periods prior to the date the R-1 began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 23.87%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -27.06%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	Life of Fund
Institutional Class Return Before Taxes	39.20%	21.10%	8.96%
Institutional Class Return After Taxes on Distributions	37.00%	20.61%	7.79%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	23.92%	17.30%	7.06%
Class R-1 Return Before Taxes	38.06%	20.04%	8.01%
Class R-2 Return Before Taxes	38.26%	20.23%	8.15%
Class R-3 Return Before Taxes	38.43%	20.41%	8.34%
Class R-4 Return Before Taxes	38.68%	20.67%	8.54%
Class R-5 Return Before Taxes	38.86%	20.79%	8.67%
Russell 2000 Value Index (reflects no deduction for fees, expenses, or taxes)	34.52%	17.64%	8.63%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

Dimensional Fund Advisors LP

Los Angeles Capital Management and Equity Research, Inc.

Vaughan Nelson Investment Management, LP

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

GLOBAL REAL ESTATE SECURITIES FUND

Objective: The Fund seeks to generate a total return.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Management Fees	0.88%
Other Expenses	0.04%
Total Annual Fund Operating Expenses	0.92%
Expense Reimbursement(1)	—%
Total Annual Fund Operating Expenses after Expense Reimbursement	0.92%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 1.00% for Institutional class shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$94	\$293	\$509	\$1,131

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 52.4% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of U.S. and non-U.S. companies principally engaged in the real estate industry at the time of each purchase. For the Fund's investment policies, a real estate company has at least 50% of its assets, income or profits derived from products or services related to the real estate industry. Real estate companies include real estate investment trusts ("REITS") and companies with substantial real estate holdings such as paper, lumber, hotel and entertainment companies as well as those whose products and services relate to the real estate industry such as building supply manufacturers, mortgage lenders, and mortgage servicing companies. The Fund invests in equity securities of small, medium, and large market capitalization companies.

REITs are pooled investment vehicles that invest in income producing real estate, real estate related loans, or other types of real estate interests. REITs in the U.S. are corporations or business trusts that are permitted to eliminate corporate level federal income taxes by meeting certain requirements of the Internal Revenue Code.

Some foreign countries have adopted REIT structures that are very similar to those in the United States. Similarities include pass through tax treatment and portfolio diversification. Other countries may have REIT structures that are significantly different than the U.S. or may not have adopted a REIT like structure at all. The Fund invests a significant percentage of its portfolio in REITs and foreign REIT-like entities.

The Fund has no limitation on the percentage of assets that are invested in any one country or denominated in any one currency. The Fund typically has investments located in a number of different countries, including the U.S. and countries with emerging securities markets.

The Fund uses derivatives instruments. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. Specifically, the Fund engages in certain options transactions, enters into financial futures contracts, currency forwards, and related options for the purpose of portfolio hedging and other purposes.

The Fund concentrates its investments (invest more than 25% of its net assets) in securities in the real estate industry.

The Fund is considered non-diversified, which means it can invest a higher percentage of assets in securities of individual issuers than a diversified fund. As a result, changes in the value of a single investment could cause greater fluctuations in the Fund's share price than would occur in a more diversified fund.

Principal Risks

The Fund may be an appropriate investment for investors who seek a total return, want to invest in U.S. and non-U.S. companies engaged in the real estate industry and can accept the potential for volatile fluctuations in the value of investments.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Basis Risk. A hedge using derivatives and/or securities could expose the fund to basis risk. Basis risk could arise when the change in price of the hedge may not match the change in price of the asset it hedges. In other words, the hedge could move in a direction that does not match the asset it is trying to hedge.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Industry Concentration Risk (Real Estate). A fund that concentrates investments in a particular industry or group of industries has greater exposure than other funds to market, economic and other factors affecting that industry or group of industries. A fund concentrating in the real estate industry can be subject to the risks associated with direct ownership of real estate, securities of companies in the real estate industry, and/or real estate investment trusts.

Non-Diversification Risk. A non-diversified fund may invest a high percentage of its assets in the securities of a small number of issuers and is more likely than diversified funds to be significantly affected by a specific security's poor performance.

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Performance

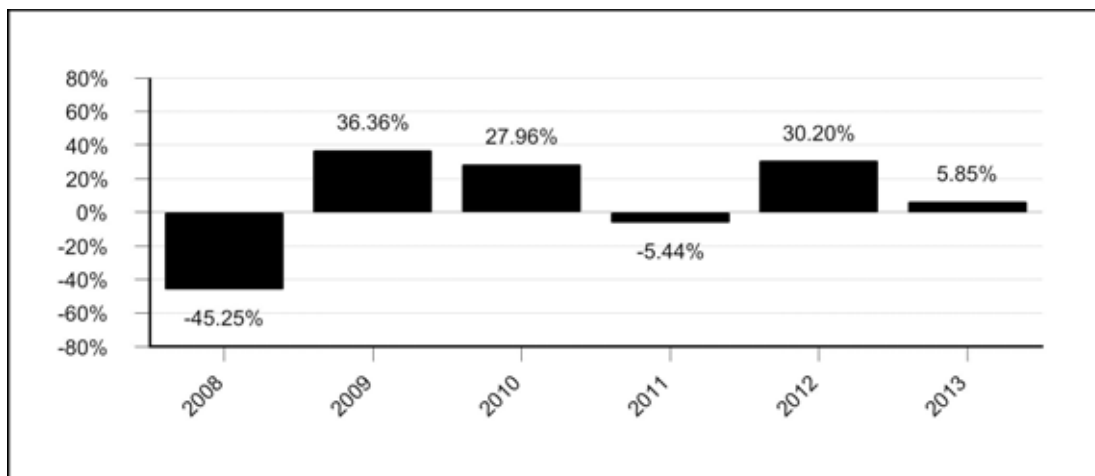
The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for Institutional Class shares of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

Life of Fund results are measured from the date the Fund's shares were first sold (October 1, 2007).

During 2010, the Institutional Class experienced a significant withdrawal of monies by an affiliate. As the remaining shareholders held relatively small positions, the total return amounts expressed herein are greater than those that would have been experienced without the withdrawal.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above:	Q2 '09	31.10%
Lowest return for a quarter during the period of the bar chart above:	Q4 '08	-29.70%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	Since Inception
Institutional Class Return Before Taxes	5.85%	17.86% ⁽¹⁾	1.44% ⁽¹⁾
Institutional Class Return After Taxes on Distributions	3.50%	15.89% ⁽¹⁾	-0.12% ⁽¹⁾
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	3.68%	13.66% ⁽¹⁾	0.48% ⁽¹⁾
FTSE EPRA/NAREIT Developed Index (reflects no deduction for fees, expenses, or taxes)	4.39%	16.06%	-0.30%

⁽¹⁾ During 2010, the Class experienced a significant withdrawal of monies by an affiliate. As the remaining shareholders held relatively small positions, the total return amounts expressed herein are greater than those that would have been experienced without the withdrawal.

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Real Estate Investors, LLC

- Simon Hedger (since 2007), Portfolio Manager
- Anthony Kenkel (since 2010), Portfolio Manager
- Kelly D. Rush (since 2007), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

REAL ESTATE SECURITIES FUND

Objective: The Fund seeks to generate a total return.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.83%	0.83%	0.83%	0.83%	0.83%	0.83%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.05%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.88%	1.71%	1.58%	1.40%	1.21%	1.09%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$90	\$281	\$488	\$1,084
Class R-1	174	539	928	2,019
Class R-2	161	499	860	1,878
Class R-3	143	443	766	1,680
Class R-4	123	384	665	1,466
Class R-5	111	347	601	1,329

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 42.1% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies principally engaged in the real estate industry at the time of each purchase. For this Fund's investment policies, a real estate company has at least 50% of its assets, income or profits derived from products or services related to the real estate industry. Real estate companies include real estate investment trusts ("REITs") and companies with substantial real estate holdings such as paper, lumber, hotel and entertainment companies as well as those whose products and services relate to the real estate industry include building supply manufacturers, mortgage lenders and mortgage servicing companies. The Fund invests in equity securities of small, medium, and large market capitalization companies.

REITs are pooled investment vehicles that invest in income producing real estate, real estate related loans, or other types of real estate interests. REITs are corporations or business trusts that are permitted to eliminate corporate level federal income taxes by meeting certain requirements of the Internal Revenue Code.

The Fund concentrates its investments (invest more than 25% of its net assets) in securities in the real estate industry.

The Fund is considered non-diversified, which means it can invest a higher percentage of assets in securities of individual issuers than a diversified fund. As a result, changes in the value of a single investment could cause greater fluctuations in the Fund's share price than would occur in a more diversified fund.

Principal Risks

The Fund may be an appropriate investment for investors who seek a total return, want to invest in companies engaged in the real estate industry and can accept the potential for volatile fluctuations in the value of investments.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Industry Concentration Risk (Real Estate). A fund that concentrates investments in a particular industry or group of industries has greater exposure than other funds to market, economic and other factors affecting that industry or group of industries. A fund concentrating in the real estate industry can be subject to the risks associated with direct ownership of real estate, securities of companies in the real estate industry, and/or real estate investment trusts.

Non-Diversification Risk. A non-diversified fund may invest a high percentage of its assets in the securities of a small number of issuers and is more likely than diversified funds to be significantly affected by a specific security's poor performance.

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

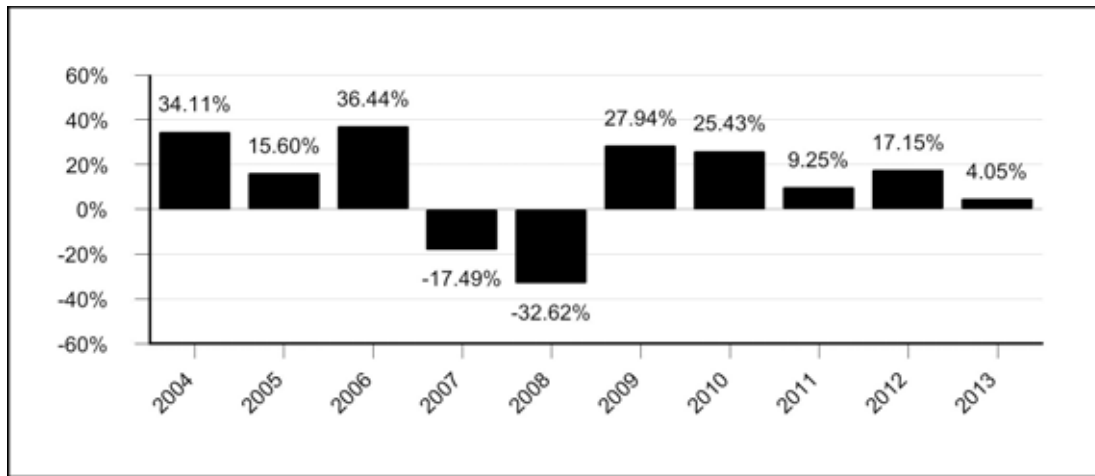
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 33.10%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -33.84%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	4.05%	16.41%	9.66%
Institutional Class Return After Taxes on Distributions	-0.22%	14.84%	7.86%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	5.17%	12.89%	7.70%
Class R-1 Return Before Taxes	3.16%	15.40%	8.71%
Class R-2 Return Before Taxes	3.33%	15.55%	8.85%
Class R-3 Return Before Taxes	3.49%	15.76%	9.05%
Class R-4 Return Before Taxes	3.68%	15.99%	9.26%
Class R-5 Return Before Taxes	3.84%	16.11%	9.38%
MSCI US REIT Index (reflects no deduction for fees, expenses, or taxes)	2.47%	16.73%	8.40%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Real Estate Investors, LLC

- Keith Bokota (since 2013), Portfolio Manager
- Anthony Kenkel (since 2012), Portfolio Manager
- Kelly D. Rush (since 2000), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

DIVERSIFIED INTERNATIONAL FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.84%	0.84%	0.84%	0.84%	0.84%	0.84%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.03%	0.55%	0.47%	0.34%	0.30%	0.28%
Total Annual Fund Operating Expenses	0.87%	1.74%	1.61%	1.43%	1.24%	1.12%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$89	\$278	\$482	\$1,073
Class R-1	177	548	944	2,052
Class R-2	164	508	876	1,911
Class R-3	146	452	782	1,713
Class R-4	126	393	681	1,500
Class R-5	114	356	617	1,363

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 76.9% of the average value of its portfolio.

Principal Investment Strategies

The Fund invests primarily in equity securities of companies domiciled in any of the nations of the world. The Fund has no limitation on the percentage of assets that are invested in any one country or denominated in any one currency, but the Fund typically invests in at least 30 countries. Primary consideration is given to securities of corporations of developed areas, such as Japan, Western Europe, Canada, Australia, and New Zealand; however, the Fund also invests in emerging market securities. The Fund invests in equity securities of small, medium, and large market capitalization companies.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital in U.S. and non-U.S. markets, including emerging markets, who are able to assume the increased risks of higher price volatility and currency fluctuations associated with investments in international equity securities which trade in non-U.S. currencies.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

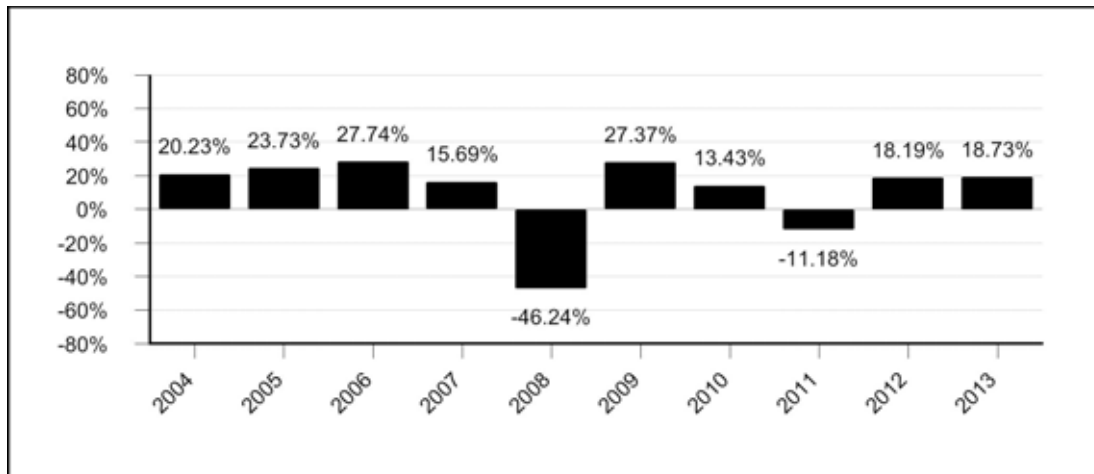
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.
- During 2010, the R-5 Class experienced a significant one-time gain approximately \$0.08/share as the result of a settlement in an SEC administrative proceeding. If such a gain had not been recognized, the total return amounts expressed herein would have been lower.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 21.29%
 Lowest return for a quarter during the period of the bar chart above: Q3 '08 -24.03%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	18.73%	12.48%	7.85%
Institutional Class Return After Taxes on Distributions	18.32%	12.36%	7.21%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	11.19%	10.28%	6.73%
Class R-1 Return Before Taxes	17.68%	11.51%	6.92%
Class R-2 Return Before Taxes	17.78%	11.65%	7.07%
Class R-3 Return Before Taxes	18.07%	11.84%	7.25%
Class R-4 Return Before Taxes	18.26%	12.07%	7.43%
Class R-5 Return Before Taxes	18.45%	12.41% ⁽¹⁾	7.67% ⁽¹⁾
MSCI ACWI Ex-U.S. Index (reflects no deduction for fees, expenses, or taxes)	15.29%	12.81%	7.57%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%

⁽¹⁾ During 2010, the Class experienced a significant one-time gain of approximately \$0.08/share as the result of a settlement in an SEC administrative proceeding. If such gain had not been recognized, the total return amounts expressed herein would have been lower.

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Effective March 1, 2014, the Fund's primary benchmark will change from the MSCI EAFE Index NDTR D to the MSCI ACWI Ex-U.S. because the MSCI ACWI Ex-U.S. more closely aligns with the Fund's investments in developed and emerging markets than the MSCI EAFE Index NDTR D.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Paul H. Blankenhagen (since 2003), Portfolio Manager
- Juliet Cohn (since 2004), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

INTERNATIONAL EMERGING MARKETS FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	1.18%	1.18%	1.18%	1.18%	1.18%	1.18%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.06%	0.58%	0.50%	0.37%	0.33%	0.31%
Total Annual Fund Operating Expenses	1.24%	2.11%	1.98%	1.80%	1.61%	1.49%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$126	\$393	\$681	\$1,500
Class R-1	214	661	1,134	2,441
Class R-2	201	621	1,068	2,306
Class R-3	183	566	975	2,116
Class R-4	164	508	876	1,911
Class R-5	152	471	813	1,779

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 117.2% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of emerging market companies at the time of each purchase. Emerging market companies are:

- companies with their principal place of business or principal office in emerging market countries or
- companies whose principal securities trading market is an emerging market country.

Here, "emerging market country" means any country which is considered to be an emerging country by the international financial community (including the MSCI Emerging Markets Index or Barclays Emerging Markets USD Aggregate Bond). These countries generally include every nation in the world except the United States, Canada, Japan, Australia, and New Zealand, and most nations located in Western Europe. The Fund invests in equity securities of small, medium, and large market capitalization companies. The Fund actively trades portfolio securities.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital in securities of emerging market countries who are able to assume the increased risks of higher price volatility and currency fluctuations associated with investments in international equity securities which trade in non-U.S. currencies.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Active Trading Risk. A fund that has a portfolio turnover rate over 100% is considered actively traded. Actively trading portfolio securities may accelerate realization of taxable gains and losses, lower fund performance and may result in high portfolio turnover rates and increased brokerage costs.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

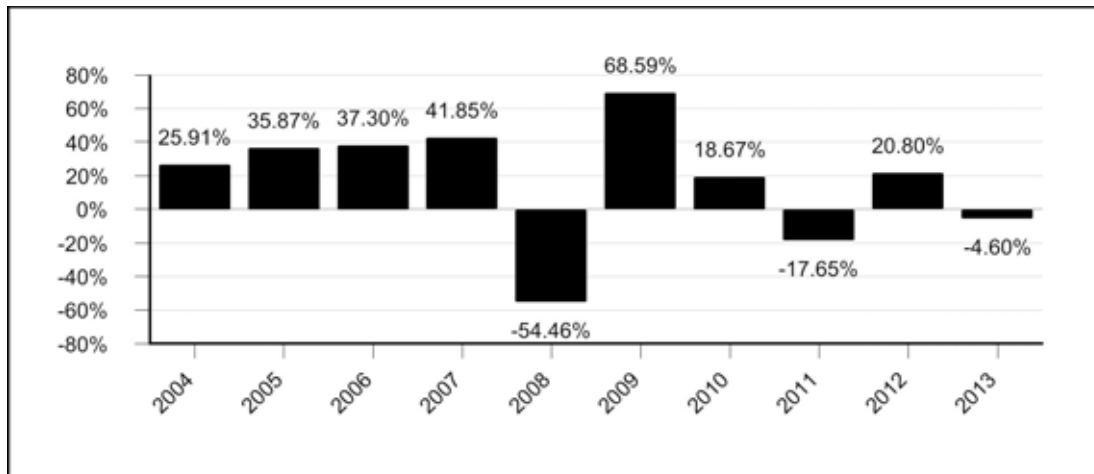
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 29.13%
 Lowest return for a quarter during the period of the bar chart above: Q3 '08 -29.07%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	-4.60%	13.68%	11.16%
Institutional Class Return After Taxes on Distributions	-4.57%	13.76%	10.07%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	-2.23%	11.37%	9.28%
Class R-1 Return Before Taxes	-5.42%	12.70%	10.19%
Class R-2 Return Before Taxes	-5.32%	12.85%	10.34%
Class R-3 Return Before Taxes	-5.14%	13.06%	10.54%
Class R-4 Return Before Taxes	-4.97%	13.26%	10.76%
Class R-5 Return Before Taxes	-4.83%	13.40%	10.88%
MSCI Emerging Markets NDTR D Index (reflects no deduction for fees, expenses, or taxes)	-2.60%	14.79%	11.17%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Mihail Dobrinov (since 2007), Portfolio Manager
- Mohammed Zaidi (since 2012), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

INTERNATIONAL FUND I

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.96%	0.96%	0.96%	0.96%	0.96%	0.96%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.06%	0.57%	0.49%	0.36%	0.32%	0.30%
Total Annual Fund Operating Expenses	1.02%	1.88%	1.75%	1.57%	1.38%	1.26%
Fee Waiver(1)	(0.05)%	(0.05)%	(0.05)%	(0.05)%	(0.05)%	(0.05)%
Total Annual Fund Operating Expenses after Fee Waiver	0.97%	1.83%	1.70%	1.52%	1.33%	1.21%

(1) Principal Management Corporation has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.046% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$99	\$319	\$558	\$1,243
Class R-1	186	585	1,011	2,196
Class R-2	173	545	943	2,058
Class R-3	155	490	850	1,862
Class R-4	135	431	750	1,652
Class R-5	123	394	686	1,517

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 50.6% of the average value of its portfolio.

Principal Investment Strategies

The Fund invests primarily in equity securities of foreign companies. Usually, the Fund's investments are diversified across many different countries and regions, including countries with emerging markets. The Fund invests in equity securities of small, medium, and large market capitalization companies.

The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The Fund also invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital in markets outside of the U.S., including emerging markets, who are able to assume the increased risks of higher price volatility and currency fluctuations associated with investments in international equity securities which trade in non-U.S. currencies.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Growth Stock Risk. If growth companies do not increase their earnings at a rate expected by investors, the market price of the stock may decline significantly, even if earnings show an absolute increase. Growth company stocks also typically lack the dividend yield that can lessen price declines in market downturns.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

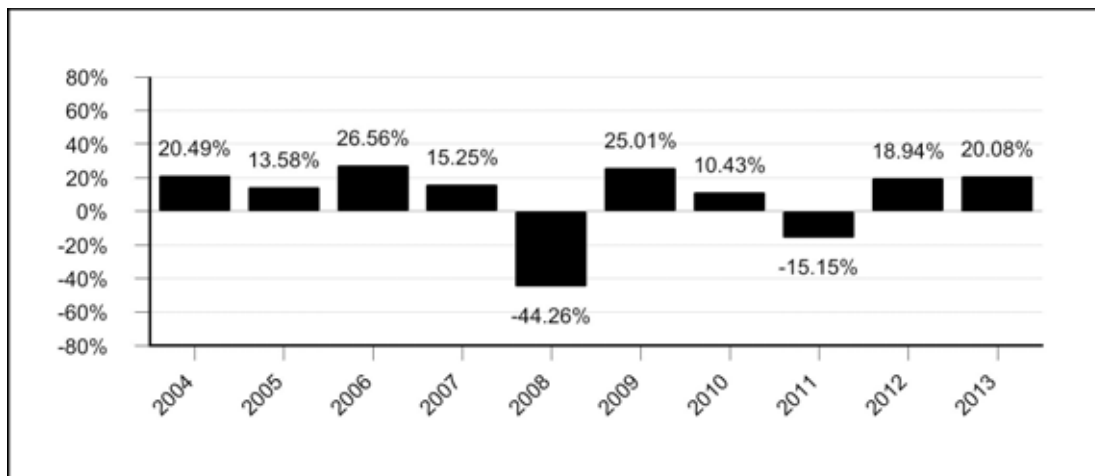
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- Life of Fund results are measured from the date the Fund's shares were first sold (December 29, 2003).
- The Institutional Class shares were first sold on December 29, 2003.
- The R-2, R-3, R-4, and R-5 Class shares were first sold on June 1, 2004.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which these classes began operations, their performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance (for the periods prior to the date these classes began operations) that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 22.60%
 Lowest return for a quarter during the period of the bar chart above: Q3 '11 -22.83%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	Life of Fund
Institutional Class Return Before Taxes	20.08%	10.84%	6.41%
Institutional Class Return After Taxes on Distributions	19.83%	10.76%	5.89%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	11.95%	8.92%	5.43%
Class R-1 Return Before Taxes	19.01%	9.90%	5.50%
Class R-2 Return Before Taxes	19.15%	10.02%	5.63%
Class R-3 Return Before Taxes	19.36%	10.24%	5.81%
Class R-4 Return Before Taxes	19.67%	10.45%	6.02%
Class R-5 Return Before Taxes	19.76%	10.59%	6.15%
MSCI EAFE Index NDTR D (reflects no deduction for fees, expenses, or taxes)	22.78%	12.44%	6.91%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

Pyramis Global Advisors, LLC

Schroder Investment Management North America Inc.

Sub-Sub-Advisor(s):

Schroder Investment Management North America Limited

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

OVERSEAS FUND

Objective: The Fund seeks long-term growth of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	1.07%	1.07%	1.07%	1.07%	1.07%	1.07%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.03%	0.55%	0.47%	0.34%	0.30%	0.28%
Total Annual Fund Operating Expenses	1.10%	1.97%	1.84%	1.66%	1.47%	1.35%
Fee Waiver(1)	(0.03)%	(0.03)%	(0.03)%	(0.03)%	(0.03)%	(0.03)%
Total Annual Fund Operating Expenses after Fee Waiver	1.07%	1.94%	1.81%	1.63%	1.44%	1.32%

- (1) Principal Management Corporation has contractually agreed to limit the Fund's Management Fees through the period ending February 28, 2015. The fee waiver will reduce the Fund's Management Fees by 0.03% (expressed as a percent of average net assets on an annualized basis). It is expected that the fee waiver will continue through the period disclosed; however, Principal Funds, Inc. and Principal, the parties to the agreement may agree to terminate the fee waiver prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$109	\$346	\$603	\$1,337
Class R-1	197	615	1,059	2,293
Class R-2	184	575	992	2,156
Class R-3	166	520	899	1,962
Class R-4	147	461	799	1,754
Class R-5	134	424	736	1,621

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 35.3% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of foreign companies at the time of each purchase. Foreign companies are:

- companies with their principal place of business or principal office outside the U.S. or
- companies whose principal securities trading market is outside the U.S.

The Fund invests in emerging market countries. The Fund invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The Fund invests in equity securities of small, medium, and large market capitalization companies.

Principal Management Corporation invests between 10% and 35% of the Fund's assets in equity securities in an attempt to match or exceed the performance of the Fund's benchmark index (listed in the Average Annual Total Returns table) by purchasing securities in the index while slightly overweighting and underweighting certain individual equity securities relative to their weight in the index.

Principal Risks

The Fund may be an appropriate investment for investors seeking long-term growth of capital in markets outside of the U.S., including emerging markets, who are able to assume the increased risks of higher price volatility and currency fluctuations associated with investments in international equity securities which trade in non-U.S. currencies.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Equity Securities Risk. The value of equity securities could decline if the issuer's financial condition declines or in response to overall market and economic conditions. A fund's principal market segment(s), such as large cap, mid cap or small cap stocks, or growth or value stocks, may underperform other market segments or the equity markets as a whole. Investments in smaller companies and mid-size companies may involve greater risk and price volatility than investments in larger, more mature companies.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Value Stock Risk. The market may not recognize the intrinsic value of value stocks for a long time, or they may be appropriately priced at the time of purchase.

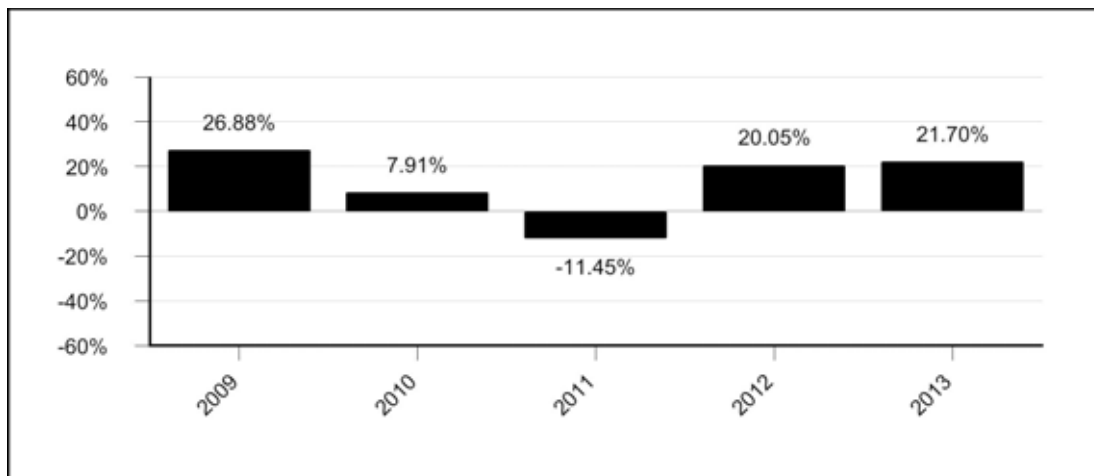
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- Life of Fund results are measured from the date the Fund's shares were first sold (September 30, 2008).
- Institutional Class shares were first sold on September 30, 2008.
- The R-1, R-2, R-3, R-4, and R-5 Class shares were first sold on March 1, 2012.
- For periods prior to the date on which these classes began operations, their performance is based on the performance of the Fund's Institutional Class shares adjusted to reflect the fees and expenses of these classes.
- The adjustments result in performance for such periods that is no higher than the historical performance of the Institutional Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2' 09 22.88%
 Lowest return for a quarter during the period of the bar chart above: Q3' 11 -21.11%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Year	Life of Fund
Institutional Class Return Before Taxes	21.70%	12.11%	8.88%
Institutional Class Return After Taxes on Distributions	19.95%	11.07%	7.91%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	13.85%	9.86%	7.20%
Class R-1 Return Before Taxes	20.63%	11.14%	7.93%
Class R-2 Return Before Taxes	20.85%	11.30%	8.08%
Class R-3 Return Before Taxes	20.99%	11.48%	8.25%
Class R-4 Return Before Taxes	21.21%	11.71%	8.47%
Class R-5 Return Before Taxes	21.37%	11.84%	8.60%
MSCI EAFE Value Index (reflects no deduction for fees, expenses, or taxes)	22.95%	11.99%	6.80%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor and Portfolio Manager(s):

Principal Management Corporation

- James W. Fennessey (since June 2, 2009), Vice President
- Randy L. Welch (since June 2, 2009), Vice President

Sub-Advisor(s):

Barrow, Hanley, Mewhinney & Strauss, LLC

Causeway Capital Management LLC

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

BOND & MORTGAGE SECURITIES FUND

Objective: The Fund seeks to provide current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.52%	0.52%	0.52%	0.52%	0.52%	0.52%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	—%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.52%	1.40%	1.27%	1.09%	0.90%	0.78%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$53	\$167	\$291	\$653
Class R-1	143	443	766	1,680
Class R-2	129	403	697	1,534
Class R-3	111	347	601	1,329
Class R-4	92	287	498	1,108
Class R-5	80	249	433	966

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 205.6% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in intermediate maturity fixed-income or debt securities rated BBB- or higher by Standard & Poor's Rating Service ("S&P") or Baa3 or higher by Moody's Investors Service, Inc. ("Moody's") at the time of each purchase, including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities; asset-backed securities or mortgage-backed securities representing an interest in a pool of mortgage loans or other assets; debt securities and taxable municipal bonds; and debt securities issued or guaranteed by foreign governments payable in U.S. dollars. The Fund also invests in foreign securities, and up to 20% of its assets in below investment grade bonds (sometimes called "high yield bonds" or "junk bonds") which are rated at the time of purchase Ba1 or lower by Moody's and BB+ or lower by S&P (if the bond has been rated by only one of those agencies, that rating will determine whether the bond is below investment grade; if the bond has not been rated by either of those agencies, the Sub-Advisor will determine whether the bond is of a quality comparable to those rated below investment grade). Under normal circumstances, the Fund maintains an average portfolio duration that is within $\pm 15\%$ or ± 0.75 year (whichever is greater) of the duration of the Barclays U.S. Aggregate Bond Index, which as of December 31, 2013 was 5.55 years.

The Fund actively trades securities and enters into dollar roll transactions which may involve leverage. The Fund utilizes derivative strategies for hedging or managing fixed income exposure. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. Specifically, the Fund invests in Treasury futures or interest rate swaps to manage the fixed-income exposure (including for hedging purposes) and credit default swaps to increase or decrease, in an efficient manner, exposures to certain sectors or individual issuers. The Fund uses forwards to manage its foreign currency exposure.

During the fiscal year ended October 31, 2013, the average ratings of the Fund's fixed-income assets, based on market value at each month-end, were as follows (all ratings are by Moody's):

54.50% in securities rated Aaa	19.52% in securities rated Baa	1.46% in securities rated Caa	0.00% in securities rated D
2.76% in securities rated Aa	5.08% in securities rated Ba	0.00% in securities rated Ca	1.02% in securities not rated
10.58% in securities rated A	5.06% in securities rated B	0.02% in securities rated C	

Principal Risks

The Fund may be an appropriate investment for investors seeking diversification by investing in a fixed-income mutual fund.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Active Trading Risk. A fund that has a portfolio turnover rate over 100% is considered actively traded. Actively trading portfolio securities may accelerate realization of taxable gains and losses, lower fund performance and may result in high portfolio turnover rates and increased brokerage costs.

Basis Risk. A hedge using derivatives and/or securities could expose the fund to basis risk. Basis risk could arise when the change in price of the hedge may not match the change in price of the asset it hedges. In other words, the hedge could move in a direction that does not match the asset it is trying to hedge.

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Leverage Risk. Leverage created by borrowing or certain types of transactions or investments may impair the fund's liquidity, cause it to liquidate positions at an unfavorable time, increase volatility of the fund's net asset value, or diminish the fund's performance.

Municipal Securities Risk. Principal and interest payments on municipal securities may not be guaranteed by the issuing body and may be payable only from a particular source. That source may not perform as expected and payment obligations may not be made or made on time.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

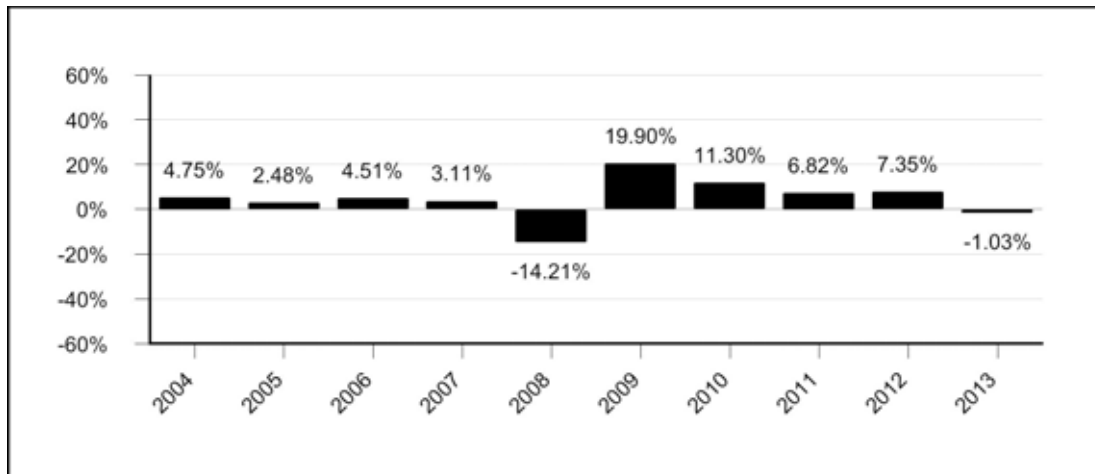
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The R-3 Class shares were first sold on December 6, 2000.
- The R-1 Class shares were first sold on November 1, 2004.
- For periods prior to the date on which the R-1 Class began operations, its performance is based on the performance of the Fund's R-3 Class shares adjusted to reflect the fees and expenses of the R-1 Class.
- These adjustments result in performance (for the periods prior to the date the R-1 Class shares began operations) that is no higher than the historical performance of the R-3 Class shares.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 9.19%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -6.05%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	-1.03%	8.66%	4.16%
Institutional Class Return After Taxes on Distributions	-2.12%	7.26%	2.73%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	-0.58%	6.26%	2.71%
Class R-1 Return Before Taxes	-1.90%	7.71%	3.24%
Class R-2 Return Before Taxes	-1.78%	7.85%	3.38%
Class R-3 Return Before Taxes	-1.69%	8.04%	3.56%
Class R-4 Return Before Taxes	-1.48%	8.26%	3.76%
Class R-5 Return Before Taxes	-1.38%	8.37%	3.89%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- William C. Armstrong (since 2000), Portfolio Manager
- Timothy R. Warrick (since 2000), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

CORE PLUS BOND FUND I

Objective: The Fund seeks maximum total return, consistent with preservation of capital and prudent investment management.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.55%	0.55%	0.55%	0.55%	0.55%	0.55%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.56%	1.43%	1.30%	1.12%	0.93%	0.81%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same.

Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$57	\$179	\$313	\$701
Class R-1	146	452	782	1,713
Class R-2	132	412	713	1,568
Class R-3	114	356	617	1,363
Class R-4	95	296	515	1,143
Class R-5	83	259	450	1,002

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 254.1% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in a diversified portfolio of fixed-income instruments of varying maturities, represented by forwards or derivatives such as options, futures contracts, or swap agreements, at the time of each purchase. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The Fund invests in securities issued or guaranteed by the U.S. government or its agencies or instrumentalities, asset-backed securities or mortgage-backed securities representing an interest in a pool of mortgage loans or other assets, and debt securities and taxable municipal bonds. The average portfolio duration of this Fund normally varies within ± 2 years of the duration of the Barclays U.S. Aggregate Bond Index, which as of December 31, 2013 was 5.27 years, as calculated by PIMCO. The Fund invests primarily in investment grade debt securities, but may invest up to 20% of its total assets in below investment grade bonds (sometimes called "high yield bonds" or "junk bonds") which are rated at the time of purchase Ba1 or lower by Moody's and BB+ or lower by S&P (if the bond has been rated by only one of those agencies, that rating will determine whether the bond is below investment grade; if the bond has not been rated by either of those agencies, the Sub-Advisor will determine whether the bond is of a quality comparable to those rated below investment grade). The Fund invests in securities denominated in foreign currencies and in securities of foreign issuers, including securities tied to emerging market countries.

The Fund actively trades securities. The Fund takes short positions. The Fund may also, without limitation, seek to obtain market exposure to the securities in which it primarily invests by entering into a series of purchase and sale contracts or by using other investment techniques (such as buy backs or dollar rolls); this may involve leverage.

Principal Risks

The Fund may be an appropriate investment for investors seeking diversification by investing in a fixed-income mutual fund.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Active Trading Risk. A fund that has a portfolio turnover rate over 100% is considered actively traded. Actively trading portfolio securities may accelerate realization of taxable gains and losses, lower fund performance and may result in high portfolio turnover rates and increased brokerage costs.

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Leverage Risk. Leverage created by borrowing or certain types of transactions or investments may impair the fund's liquidity, cause it to liquidate positions at an unfavorable time, increase volatility of the fund's net asset value, or diminish the fund's performance.

Municipal Securities Risk. Principal and interest payments on municipal securities may not be guaranteed by the issuing body and may be payable only from a particular source. That source may not perform as expected and payment obligations may not be made or made on time.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

Short Sale Risk. A short sale involves the sale by the fund of a security that it does not own with the hope of purchasing the same security at a later date at a lower price. A fund may also enter into a short derivative position through a futures contract or swap agreement. If the price of the security or derivative has increased during this time, then the fund will incur a loss equal to the increase in price from the time that the short sale was entered into plus any premiums and interest paid to the third party. Therefore, short sales involve the risk that losses may be exaggerated, potentially losing more money than the actual cost of the investment. Also, there is the risk that the third party to the short sale may fail to honor its contract terms, causing a loss to the fund.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

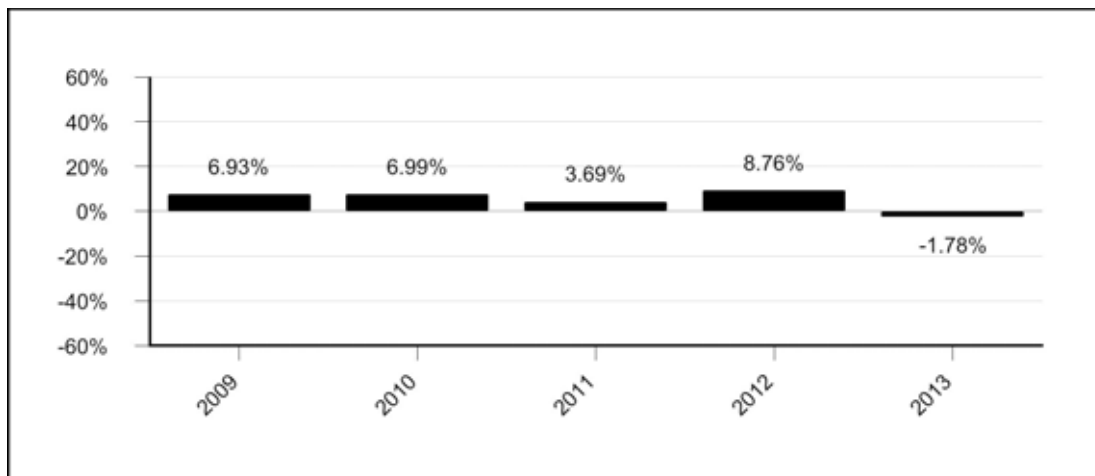
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

Life of Fund results are measured from the date the Fund's shares were first sold (September 30, 2008).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '09 4.06%
 Lowest return for a quarter during the period of the bar chart above: Q2 '13 -3.34%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Year	Life of Fund
Institutional Class Return Before Taxes	-1.78%	4.85%	5.77%
Institutional Class Return After Taxes on Distributions	-2.81%	3.35%	4.30%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	-1.01%	3.24%	3.99%
Class R-1 Return Before Taxes	-2.69%	3.93%	4.86%
Class R-2 Return Before Taxes	-2.48%	4.09%	5.02%
Class R-3 Return Before Taxes	-2.28%	4.26%	5.19%
Class R-4 Return Before Taxes	-2.15%	4.50%	5.42%
Class R-5 Return Before Taxes	-2.02%	4.58%	5.51%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	5.12%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Pacific Investment Management Company LLC

- William H. Gross (since 2008), Managing Director, CIO

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

GOVERNMENT & HIGH QUALITY BOND FUND

Objective: The Fund seeks to provide a high level of current income consistent with safety and liquidity.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.51%	1.38%	1.25%	1.07%	0.88%	0.76%
Expense Reimbursement(1)	N/A	(0.09)%	(0.09)%	(0.09)%	(0.09)%	(0.09)%
Total Annual Fund Operating Expenses after Expense Reimbursement	0.51%	1.29%	1.16%	0.98%	0.79%	0.67%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 1.29% for Class R-1, 1.16% for Class R-2, 0.98% for Class R-3, 0.79% for Class R-4, and 0.67% for Class R-5 shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$52	\$164	\$285	\$640
Class R-1	131	427	745	1,648
Class R-2	118	386	676	1,502
Class R-3	100	330	580	1,296
Class R-4	81	270	477	1,075
Class R-5	68	232	412	932

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 41.1% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in securities issued by the U.S. government, its agencies or instrumentalities or securities that are rated AAA by S&P, AAA by Fitch, or Aaa by Moody's, including but not limited to mortgage securities such as agency and non-agency collateralized mortgage obligations, and other obligations that are secured by mortgages or mortgage-backed securities at the time of each purchase. Under normal circumstances, the Fund maintains an average portfolio duration that is within $\pm 25\%$ of the duration of the Barclays Fixed-Rate MBS Index, which as of December 31, 2013 was 5.70 years. The Fund also invests in mortgage-backed securities that are not issued by the U.S. government, its agencies or instrumentalities or rated AAA by S&P, AAA by Fitch, or Aaa by Moody's, including collateralized mortgage obligations, and in other obligations that are secured by mortgages or mortgage-backed securities.

Principal Risks

The Fund may be an appropriate investment for investors seeking diversification by investing in a fixed-income mutual fund.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

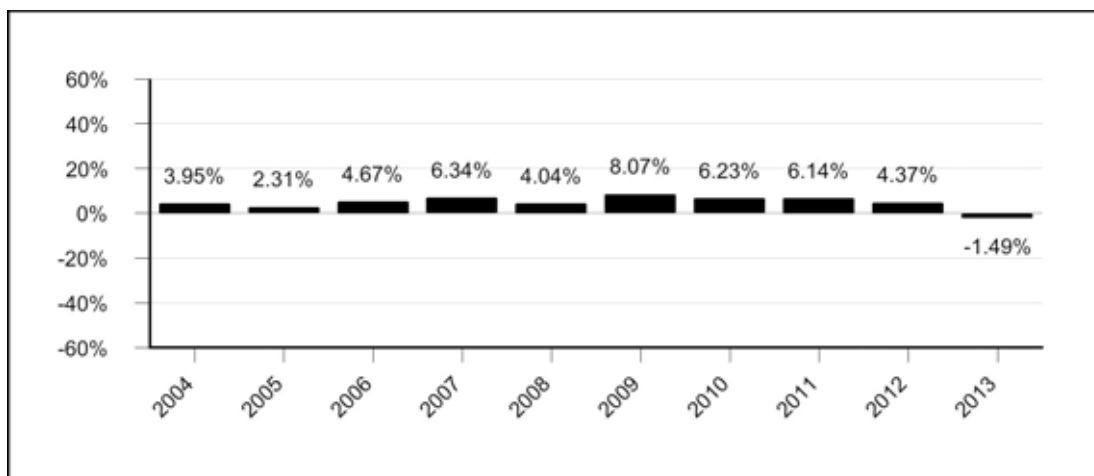
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Fund commenced operations after succeeding to the operations of another fund on January 12, 2007.
- The R-1, R-2, R-3, R-4, and R-5 Class shares were first sold on December 15, 2008.
- Performance for periods prior to that date is based on the performance of the predecessor fund.
- The predecessor Fund commenced operations on May 4, 1984.
- On March 1, 2004, the investment policies of the predecessor fund were modified. As a result, the predecessor Fund's performance for periods prior to that date may not be representative of the performance it would have achieved had its current investment policies been in place.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '06 3.41%
 Lowest return for a quarter during the period of the bar chart above: Q2 '13 -2.06%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	-1.49%	4.61%	4.43%
Institutional Class Return After Taxes on Distributions	-2.84%	3.12%	2.81%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	-0.84%	3.02%	2.82%
Class R-1 Return Before Taxes	-2.17%	3.80%	3.64%
Class R-2 Return Before Taxes	-2.04%	3.93%	3.78%
Class R-3 Return Before Taxes	-1.86%	4.12%	3.96%
Class R-4 Return Before Taxes	-1.68%	4.32%	4.09%
Class R-5 Return Before Taxes	-1.65%	4.44%	4.15%
Barclays MBS Fixed Rate Index (reflects no deduction for fees, expenses or taxes)	-1.45%	3.70%	4.64%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- John R. Friedl (since 2010), Portfolio Manager
- Ryan P. McCann (since 2010), Portfolio Manager
- Scott J. Peterson (since 2010), Portfolio Manager
- Greg L. Tornga (since 2011), Head of Fixed Income and Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

HIGH YIELD FUND

Objective: The Fund seeks to provide a relatively high level of current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Management Fees	0.51%
Other Expenses	0.08%
Total Annual Fund Operating Expenses	0.59%
Expense Reimbursement(1)	(0.01)%
Total Annual Fund Operating Expenses after Expense Reimbursement	0.58%

(1) Principal Management Corporation ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 0.61% for Institutional class shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$59	\$188	\$328	\$737

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 69.6% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in below investment grade bonds (sometimes called "high yield bonds" or "junk bonds") which are rated at the time of each purchase Ba1 or lower by Moody's and BB+ or lower by S&P (if the bond has been rated by only one of those agencies, that rating will determine whether the bond is below investment grade; if the bond has not been rated by either of those agencies, the Sub-Advisor will determine whether the bond is of a quality comparable to those rated below investment grade). The Fund also invests in bank loans (also known as senior floating rate interests) and securities of foreign issuers, including those located in developing or emerging countries. Under normal circumstances, the Fund maintains an average portfolio duration that is within $\pm 20\%$ of the duration of the Barclays US High Yield 2% Issuer Capped Index, which as of December 31, 2013 was 4.15 years.

During the fiscal year ended October 31, 2013, the average ratings of the Fund's fixed-income assets, based on market value at each month-end, were as follows (all ratings are by Moody's):

0.00% in securities rated Aaa	7.81% in securities rated Baa	15.27% in securities rated Caa	0.00% in securities rated D
0.00% in securities rated Aa	33.72% in securities rated Ba	0.04% in securities rated Ca	4.65% in securities not rated
0.07% in securities rated A	38.44% in securities rated B	0.00% in securities rated C	

Principal Risks

The Fund may be an appropriate investment for investors seeking diversification by investing in a fixed-income mutual fund, and who are willing to accept the risks associated with investing in "junk bonds," foreign securities and emerging markets.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Bank Loans Risk. Changes in economic conditions are likely to cause issuers of bank loans (also known as senior floating rate interests) to be unable to meet their obligations. In addition, the value of the collateral securing the loan may decline, causing a loan to be substantially unsecured. Underlying credit agreements governing the bank loans, reliance on market makers, priority of repayment and overall market volatility may harm the liquidity of loans.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Emerging Market Risk. Investments in emerging market countries may have more risk than those in developed market countries because the emerging markets are less developed and more illiquid. Emerging market countries can also be subject to increased social, economic, regulatory, and political uncertainties and can be extremely volatile.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

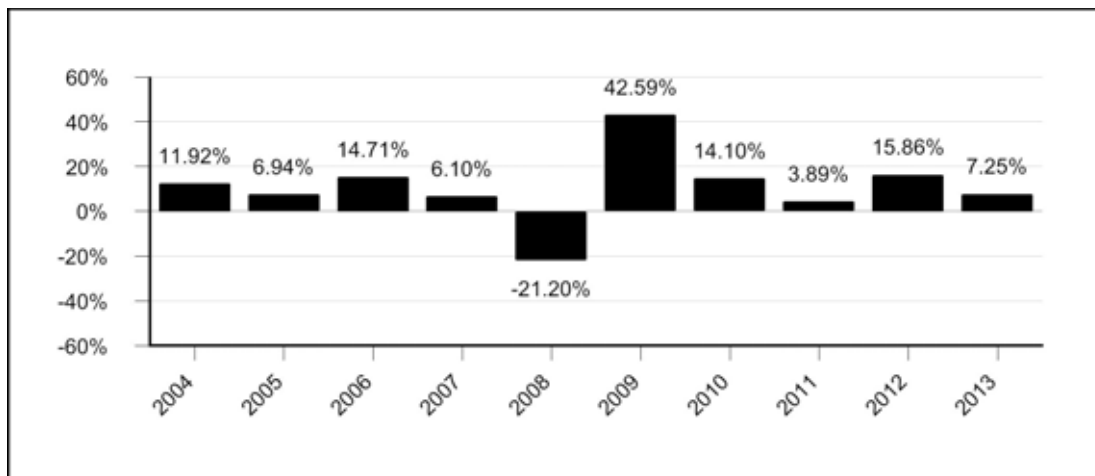
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund’s Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for Institutional Class shares of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund’s average annual total returns compare to the returns of one or more broad-based market indices.

- The Fund commenced operations after succeeding to the operations of another fund on January 12, 2007.
- Performance for periods prior to that date is based on the performance of the predecessor fund.
- The predecessor fund commenced operations on April 8, 1998.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 18.85%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -11.84%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	7.25%	16.00%	9.20%
Institutional Class Return After Taxes on Distributions	3.66%	12.22%	5.88%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	4.35%	11.34%	5.97%
Barclays U.S. Corporate High Yield 2% Issuer Capped Index (reflects no deduction for fees, expenses, or taxes)	7.44%	18.96%	8.61%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor’s tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Mark P. Denkinger (since 2009), Portfolio Manager
- Darrin E. Smith (since 2009), Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

HIGH YIELD FUND I

Objective: The Fund seeks high current income.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Management Fees	0.63%
Other Expenses	0.02%
Total Annual Fund Operating Expenses	0.65%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$66	\$208	\$362	\$810

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 67.0% of the average value of its portfolio.

Principal Investment Strategies

Under normal circumstances, the Fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in below investment grade bonds (sometimes called "high yield bonds" or "junk bonds") which are rated at the time of each purchase Ba1 or lower by Moody's and BB+ or lower by S&P (if the bond has been rated by only one of those agencies, that rating will determine whether the bond is below investment grade; if the bond has not been rated by either of those agencies, the Sub-Advisor will determine whether the bond is of a quality comparable to those rated below investment grade). The Fund also invests in bank loans (also known as senior floating rate interests) and securities of foreign issuers. Under normal circumstances, the Fund maintains an average portfolio duration that is within $\pm 25\%$ of the duration of the Barclays US High Yield 2% Issuer Capped Index, which as of December 31, 2013 was 4.15 years.

During the fiscal year ended October 31, 2013, the average ratings of the Fund's fixed-income assets, based on market value at each month-end, were as follows (all ratings are by Moody's):

0.00% in securities rated Aaa	7.92% in securities rated Baa	10.73% in securities rated Caa	0.05% in securities rated D
0.00% in securities rated Aa	38.38% in securities rated Ba	0.06% in securities rated Ca	0.87% in securities not rated
0.30% in securities rated A	41.69% in securities rated B	0.00% in securities rated C	

Principal Risks

The Fund may be an appropriate investment for investors seeking asset class diversification by investing in a fixed-income mutual fund and who are willing to accept the risks associated with investing in "junk bonds."

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Bank Loans Risk. Changes in economic conditions are likely to cause issuers of bank loans (also known as senior floating rate interests) to be unable to meet their obligations. In addition, the value of the collateral securing the loan may decline, causing a loan to be substantially unsecured. Underlying credit agreements governing the bank loans, reliance on market makers, priority of repayment and overall market volatility may harm the liquidity of loans.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

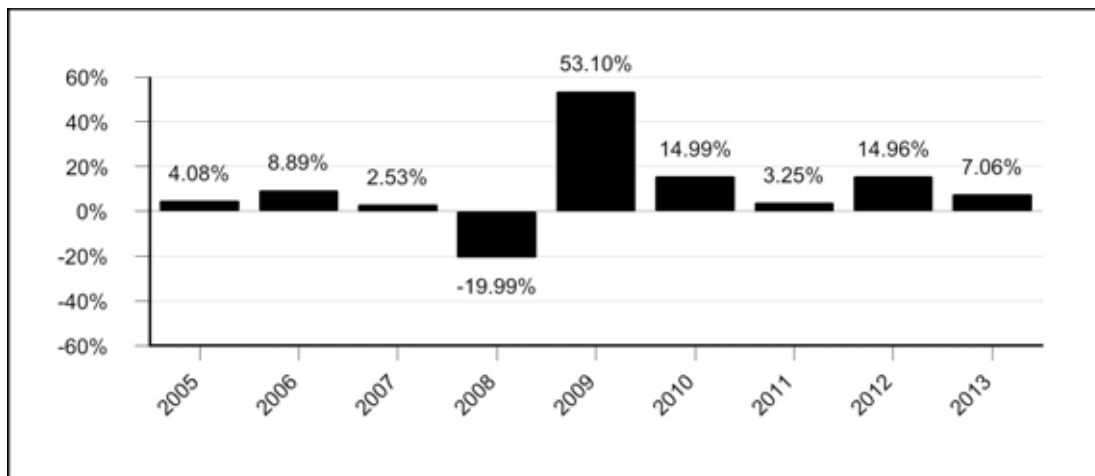
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for Institutional Class shares of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

Life of Fund results are measured from the date the Fund's shares were first sold (December 29, 2004).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 19.02%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -14.40%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	Life of Fund
Institutional Class Return Before Taxes	7.06%	17.47%	8.47%
Institutional Class Return After Taxes on Distributions	3.89%	14.08%	5.75%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	4.23%	12.81%	5.60%
Barclays U.S. Corporate High Yield 2% Issuer Capped Index (reflects no deduction for fees, expenses, or taxes)	7.44%	18.96%	8.34%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

J.P. Morgan Investment Management, Inc.

- James Gibson (since 2007), Managing Director, Head High Yield Trader and Co-Portfolio Manager
- William J. Morgan (since 2007), Managing Director, Senior Portfolio Manager and High Yield Team Leader
- James P. Shanahan, Jr. (since 2007), Managing Director, Portfolio Manager

Neuberger Berman Fixed Income LLC

- Ann H. Benjamin (since 2007), Managing Director
- William (Russ) Covode (since 2011), Managing Director
- Daniel Doyle (since 2014), Managing Director
- Thomas P. O'Reilly (since 2007), Managing Director

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

INCOME FUND

Objective: The Fund seeks to provide a high level of current income consistent with preservation of capital.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.49%	0.49%	0.49%	0.49%	0.49%	0.49%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.53%	0.45%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.50%	1.37%	1.24%	1.06%	0.87%	0.75%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$51	\$160	\$280	\$628
Class R-1	139	434	750	1,646
Class R-2	126	393	681	1,500
Class R-3	108	337	585	1,294
Class R-4	89	278	482	1,073
Class R-5	77	240	417	930

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 20.7% of the average value of its portfolio.

Principal Investment Strategies

The Fund invests primarily in a diversified pool of fixed-income securities including corporate securities, U.S. government securities, and mortgage-backed securities (including collateralized mortgage obligations), up to 35% of which may be in below investment grade bonds (sometimes called "high yield bonds" or "junk bonds") which are rated at the time of purchase Ba1 or lower by Moody's and BB+ or lower by S&P (if the bond has been rated by only one of those agencies, that rating will determine whether the bond is below investment grade; if the bond has not been rated by either of those agencies, the Sub-Advisor will determine whether the bond is of a quality comparable to those rated below investment grade). Under normal circumstances, the Fund maintains an average portfolio duration that is within $\pm 25\%$ of the duration of the Barclays U.S. Aggregate Bond Index, which as of December 31, 2013 was 5.55 years. The Fund also invests in foreign securities and real estate investment trust ("REIT") securities.

During the fiscal year ended October 31, 2013, the average ratings of the Fund's fixed-income assets, based on market value at each month-end, were as follows (all ratings are by Moody's):

27.97% in securities rated Aaa	37.35% in securities rated Baa	1.97% in securities rated Caa	0.00% in securities rated D
2.00% in securities rated Aa	3.62% in securities rated Ba	0.00% in securities rated Ca	0.93% in securities not rated
18.93% in securities rated A	7.23% in securities rated B	0.00% in securities rated C	

Principal Risks

The Fund may be an appropriate investment for investors seeking diversification by investing in a fixed-income mutual fund, and who are willing to accept the risks associated with investing in "junk bonds," foreign securities, and real estate investment trust securities.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

High Yield Securities Risk. High yield fixed-income securities (commonly referred to as "junk bonds") are subject to greater credit quality risk than higher rated fixed-income securities and should be considered speculative.

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

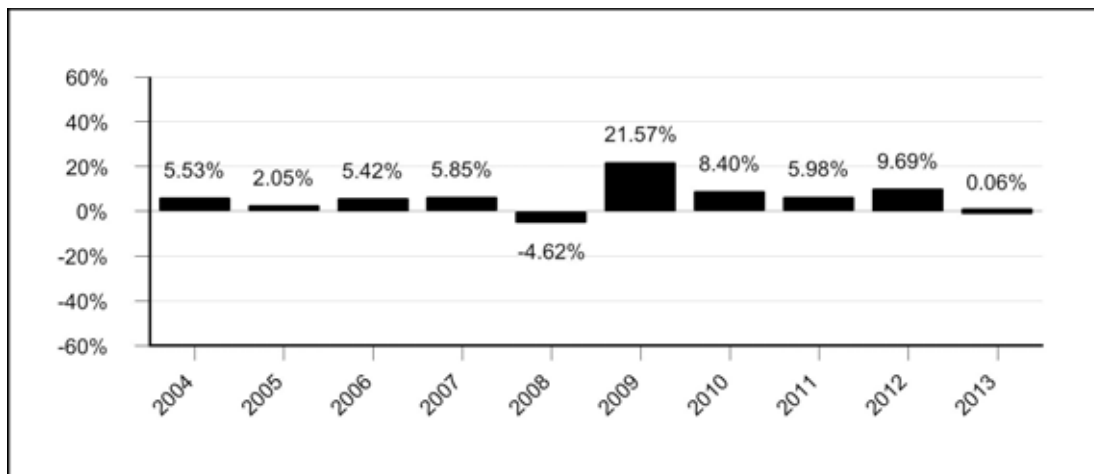
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Fund commenced operations after succeeding to the operations of another fund on January 12, 2007.
- The R-1, R-2, R-3, R-4 and R-5 Class shares were first sold on March 1, 2010.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the respective fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on December 15, 1975.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q2 '09 10.34%
 Lowest return for a quarter during the period of the bar chart above: Q3 '08 -4.64%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	0.06%	8.92%	5.80%
Institutional Class Return After Taxes on Distributions	-1.68%	6.86%	3.74%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	0.03%	6.19%	3.70%
Class R-1 Return Before Taxes	-0.80%	7.97%	4.90%
Class R-2 Return Before Taxes	-0.67%	8.13%	5.05%
Class R-3 Return Before Taxes	-0.39%	8.34%	5.25%
Class R-4 Return Before Taxes	-0.30%	8.52%	5.42%
Class R-5 Return Before Taxes	-0.08%	8.61%	5.46%
Barclays U.S. Aggregate Bond Index (reflects no deduction for fees, expenses, or taxes)	-2.02%	4.44%	4.55%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- John R. Friedl (since 2005), Portfolio Manager
- Ryan P. McCann (since 2010), Portfolio Manager
- Scott J. Peterson (since 2010), Portfolio Manager
- Greg L. Tornga (since 2011), Head of Fixed Income and Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

INFLATION PROTECTION FUND

Objective: The Fund seeks to provide current income and real (after inflation) total returns.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.39%	0.39%	0.39%	0.39%	0.39%	0.39%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.01%	0.54%	0.46%	0.33%	0.29%	0.27%
Total Annual Fund Operating Expenses	0.40%	1.28%	1.15%	0.97%	0.78%	0.66%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$41	\$128	\$224	\$505
Class R-1	130	406	702	1,545
Class R-2	117	365	633	1,398
Class R-3	99	309	536	1,190
Class R-4	80	249	433	966
Class R-5	67	211	368	822

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 100.9% of the average value of its portfolio.

Principal Investment Strategies

The Fund invests primarily in inflation-indexed bonds of varying maturities issued by the U.S. and non-U.S. governments, their agencies or instrumentalities, and U.S. and non-U.S. corporations. Inflation-indexed bonds are fixed income securities that are structured to provide protection against inflation. The value of the bond's principal or the interest income paid on the bond is adjusted to track changes in an official inflation measure. The U.S. Treasury uses the Consumer Price Index for Urban Consumers as the inflation measure. Inflation-indexed bonds issued by a foreign government are generally adjusted to reflect a comparable inflation index, calculated by that government. Under normal circumstances, the Fund maintains an average portfolio duration that is within $\pm 20\%$ of the duration of the Barclays U.S. Treasury Inflation Protected Securities (TIPS) Index. The Fund also invests in foreign securities, U.S. Treasuries and agency securities. The Fund utilizes derivative strategies, including financial futures contracts, swaps, currency forwards, and options for purposes of managing or adjusting the risk profile (for example, duration) of the Fund. A derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. The Fund actively trades portfolio securities.

Principal Risks

The Fund may be an appropriate investment for investors who want their income and principal investments to keep pace with inflation over time.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Active Trading Risk. A fund that has a portfolio turnover rate over 100% is considered actively traded. Actively trading portfolio securities may accelerate realization of taxable gains and losses, lower fund performance and may result in high portfolio turnover rates and increased brokerage costs.

Counterparty Risk. Counterparty risk is the risk that the counterparty to a derivatives contract or repurchase agreement, the borrower of a portfolio's securities, or other obligation, will be unable or unwilling to make timely principal, interest, or settlement payments, or otherwise to honor its obligations.

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Derivatives Risk. Transactions in derivatives may increase volatility, cause the liquidation of portfolio positions when not advantageous to do so and produce disproportionate losses.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

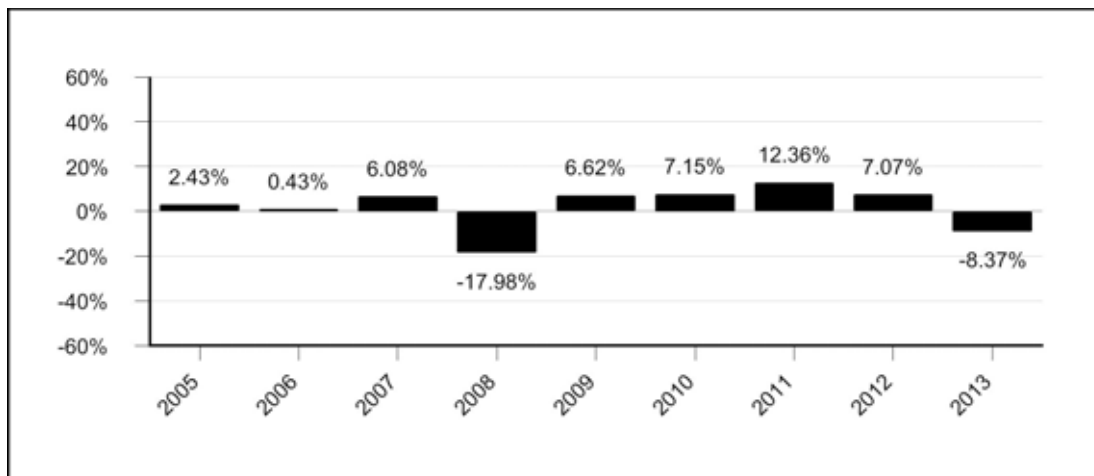
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

Life of Fund results are measured from the date the Fund's shares were first sold (December 29, 2004).

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q3 '11 4.42%
 Lowest return for a quarter during the period of the bar chart above: Q4 '08 -10.23%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	Life of Fund
Institutional Class Return Before Taxes	-8.37%	4.72%	1.37%
Institutional Class Return After Taxes on Distributions	-8.81%	4.18%	0.19%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	-4.44%	3.51%	0.66%
Class R-1 Return Before Taxes	-9.09%	3.85%	0.52%
Class R-2 Return Before Taxes	-8.96%	3.97%	0.63%
Class R-3 Return Before Taxes	-8.81%	4.15%	0.81%
Class R-4 Return Before Taxes	-8.67%	4.34%	0.98%
Class R-5 Return Before Taxes	-8.62%	4.46%	1.12%
Barclays US Treasury TIPS Index (reflects no deduction for fees, expenses, or taxes)	-8.61%	5.63%	4.51%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

BlackRock Financial Management, Inc.

- Martin Hegarty (since 2010), Managing Director
- Brian Weinstein (since 2008), Managing Director

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

MONEY MARKET FUND

Objective: The Fund seeks as high a level of current income as is considered consistent with preservation of principal and maintenance of liquidity.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class
Management Fees	0.39%
Other Expenses	0.02%
Acquired Fund Fees and Expenses	0.01%
Total Annual Fund Operating Expenses	0.42%

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$43	\$135	\$235	\$530

Principal Investment Strategies

The Fund seeks to maintain a stable net asset value of \$1.00 per share by investing its assets in a portfolio of high quality, short-term money market instruments such as those issued by banks, corporations (U.S. and non-U.S.), municipalities and the U.S. government. Such instruments include certificates of deposit, bankers acceptances, commercial paper, treasury bills, bonds, and shares of other money market funds. The Fund maintains a dollar weighted average portfolio maturity of 60 days or less. As with all mutual funds, the value of the Fund's assets may rise or fall.

Principal Risks

The Fund may be an appropriate investment for investors seeking monthly dividends without incurring much risk to principal.

An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although the Fund seeks to preserve the value of an investment at \$1.00 per share, it is possible to lose money by investing in the Fund. The principal risks of investing in the Fund, in alphabetical order, are:

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Investment Company Securities Risk. Fund shareholders bear indirectly their proportionate share of the expenses of other investment companies in which the fund invests.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

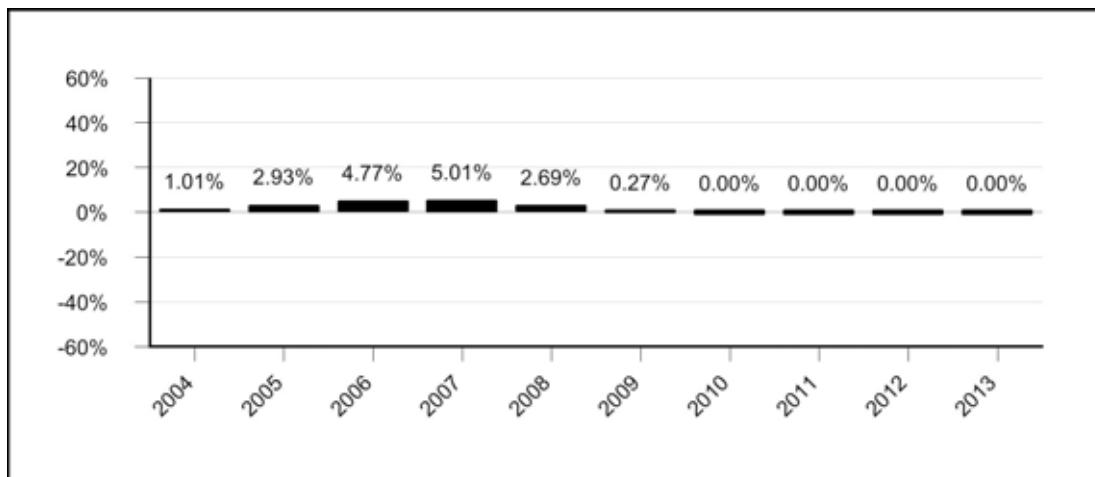
U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for Institutional Class shares of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above: Q4 '06 1.27%
 Lowest return for a quarter during the period of the bar chart above: Q4 '13 0.00%

Average Annual Total Returns

For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	0.00%	0.05%	1.65%
Barclays U.S. Treasury Bellwethers 3 Month Index (reflects no deduction for fees, expenses, or taxes)	0.08%	0.14%	1.71%

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Principal Global Investors, LLC

- Tracy Reeg (since 2004), Portfolio Manager
- Alice Robertson (since 2000), Trader and Portfolio Manager

Purchase and Sale of Fund Shares

There are no minimum initial or subsequent investment requirements for an eligible purchaser. You may purchase or redeem shares on any business day (normally any day when the New York Stock Exchange is open for regular trading) through your plan or intermediary; by sending a written request to Principal Funds at P.O. Box 8024, Boston, MA 02266-8024 (regular mail) or 30 Dan Road, Canton, MA 02021-2809 (overnight mail); calling us at 1-800-222-5852; or accessing our website (www.principalfunds.com).

Tax Information

The Fund's distributions you receive are generally subject to federal income tax as ordinary income or capital gain and may also be subject to state and local taxes, unless you are tax-exempt or your account is tax-deferred in which case your distributions would be taxed when withdrawn from the tax-deferred account.

Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

SHORT-TERM INCOME FUND

Objective: The Fund seeks to provide as high a level of current income as is consistent with prudent investment management and stability of principal.

Fees and Expenses of the Fund

This table describes the fees and expenses that you may pay if you buy and hold shares of the Fund.

Shareholder Fees (fees paid directly from your investment): None

Annual Fund Operating Expenses

(expenses that you pay each year as a percentage of the value of your investment)

	Institutional Class	Class R-1	Class R-2	Class R-3	Class R-4	Class R-5
Management Fees	0.42%	0.42%	0.42%	0.42%	0.42%	0.42%
Distribution and/or Service (12b-1) Fees	N/A	0.35%	0.30%	0.25%	0.10%	N/A
Other Expenses	0.03%	0.53%	0.46%	0.32%	0.28%	0.26%
Total Annual Fund Operating Expenses	0.45%	1.30%	1.18%	0.99%	0.80%	0.68%
Expense Reimbursement(1)	N/A	—%	—%	—%	(0.01)%	—%
Total Annual Fund Operating Expenses after Expense Reimbursement	0.45%	1.30%	1.18%	0.99%	0.79%	0.68%

(1) Principal Management Corporation, ("Principal"), the investment advisor, has contractually agreed to limit the Fund's expenses by paying, if necessary, expenses normally payable by the Fund, (excluding interest expense, expenses related to fund investments, acquired fund fees and expenses, and other extraordinary expenses) to maintain a total level of operating expenses (expressed as a percent of average net assets on an annualized basis) not to exceed 1.30% for Class R-1, 1.18% for Class R-2, 0.99% for Class R-3, 0.79% for Class R-4, and 0.68% for Class R-5 shares. It is expected that the expense limit will continue through the period ending February 28, 2015; however, Principal Funds, Inc. and Principal, the parties to the agreement, may agree to terminate the expense limit prior to the end of the period.

Example

This Example is intended to help you compare the cost of investing in the Fund with the cost of investing in other mutual funds.

The Example assumes that you invest \$10,000 in the Fund for the time periods indicated and then redeem all of your shares at the end of those periods. The Example also assumes that your investment has a 5% return each year and that the Fund's operating expenses remain the same. Although your actual costs may be higher or lower, based on these assumptions your costs would be:

	1 year	3 years	5 years	10 years
Institutional Class	\$46	\$144	\$252	\$567
Class R-1	132	412	713	1,568
Class R-2	120	375	649	1,432
Class R-3	101	315	547	1,213
Class R-4	81	254	443	989
Class R-5	69	218	379	847

Portfolio Turnover

The Fund pays transaction costs, such as commissions, when it buys and sells securities (or "turns over" its portfolio). A higher portfolio turnover rate may indicate higher transaction costs and may result in higher taxes when Fund shares are held in a taxable account. These costs, which are not reflected in annual fund operating expenses or in the example, affect the Fund's performance. During the most recent fiscal year, the Fund's portfolio turnover rate was 50.1% of the average value of its portfolio.

Principal Investment Strategies

The Fund invests primarily in high quality short-term bonds and other fixed-income securities that, at the time of purchase, are rated BBB- or higher by Standard & Poor's Rating Service or Baa3 or higher by Moody's Investors Service, Inc. or, if unrated, in the opinion of the Sub-Advisor of comparable quality. Under normal circumstances, the Fund maintains an effective maturity of five years or less and an average portfolio duration that is within $\pm 15\%$ of the duration of the Barclays Credit 1-3 Years Index which as of December 31, 2013 was 1.91 years. The Fund's investments also include corporate securities, U.S. and foreign government securities, mortgage-backed and asset-backed securities, and real estate investment trust ("REIT") securities. The Fund invests in securities denominated in foreign currencies and in securities of foreign issuers.

Principal Risks

The Fund may be an appropriate investment for investors seeking diversification by investing in a fixed-income mutual fund.

The value of your investment in the Fund changes with the value of the Fund's investments. Many factors affect that value, and it is possible to lose money by investing in the Fund. An investment in the Fund is not a deposit of a bank and is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. The principal risks of investing in the Fund, in alphabetical order, are:

Currency Risk. Risks of investing in securities denominated in, or that trade in, foreign (non-U.S.) currencies include changes in foreign exchange rates and foreign exchange restrictions.

Fixed-Income Securities Risk. Fixed-income securities are subject to interest rate risk and credit quality risk. The market value of fixed-income securities generally declines when interest rates rise, and an issuer of fixed-income securities could default on its payment obligations.

Foreign Securities Risk. The risks of foreign securities include loss of value as a result of: political or economic instability; nationalization, expropriation or confiscatory taxation; settlement delays; and limited government regulation (including less stringent reporting, accounting, and disclosure standards than are required of U.S. companies).

Portfolio Duration Risk. Portfolio duration is a measure of the expected life of a fixed-income security and its sensitivity to changes in interest rates. The longer a fund's average portfolio duration, the more sensitive the fund will be to changes in interest rates.

Prepayment Risk. Unscheduled prepayments on mortgage-backed and asset-backed securities may have to be reinvested at lower rates. A reduction in prepayments may increase the effective maturities of these securities, exposing them to the risk of decline in market value over time (extension risk).

Real Estate Investment Trusts ("REITs") Risk. A REIT could fail to qualify for tax-free pass-through of income under the Internal Revenue Code, and fund shareholders will indirectly bear their proportionate share of the expenses of REITs in which the fund invests.

Real Estate Securities Risk. Real estate securities are subject to the risks associated with direct ownership of real estate, including declines in value, adverse economic conditions, increases in expenses, regulatory changes and environmental problems. Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market including factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer.

Risk of Being an Underlying Fund. A fund is subject to the risk of being an underlying fund to the extent that a fund of funds invests in the fund. An underlying fund of a fund of funds may experience relatively large redemptions or investments as the fund of funds periodically reallocates or rebalances its assets. These transactions may cause the underlying fund to sell portfolio securities to meet such redemptions, or to invest cash from such investments, at times it would not otherwise do so, and may as a result increase transaction costs and adversely affect underlying fund performance.

U.S. Government Securities Risk. Yields available from U.S. government securities are generally lower than yields from many other fixed-income securities.

U.S. Government Sponsored Securities Risk. Securities issued by U.S. government-sponsored or -chartered enterprises such as the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Home Loan Banks are not issued or guaranteed by the U.S. Treasury.

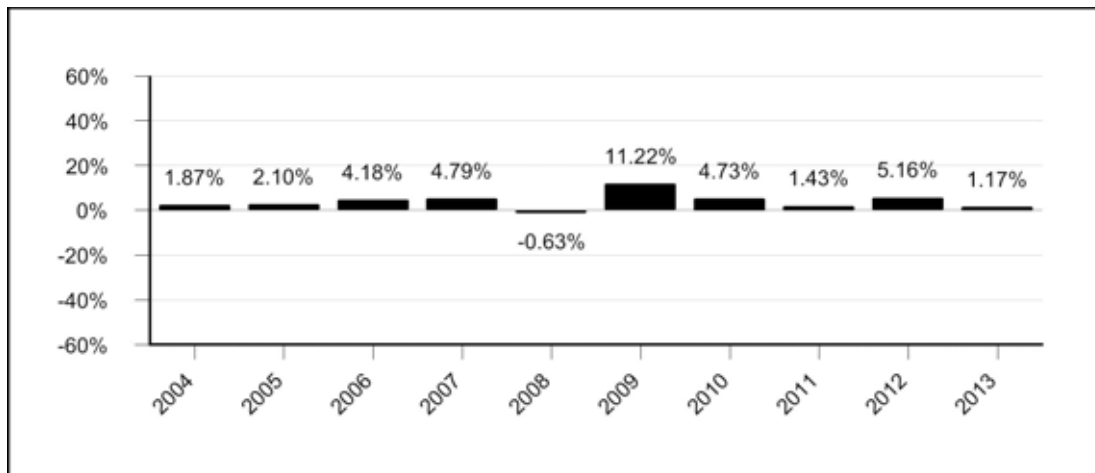
Performance

The following information provides an indication of the risks of investing in the Fund. Past performance (before and after taxes) is not necessarily an indication of how the Fund will perform in the future. You may get updated performance information online at www.principal.com or by calling 1-800-222-5852.

The bar chart shows the investment returns of the Fund's Institutional Class shares for each full calendar year of operations for 10 years (or, if shorter, the life of the Fund). The table shows, for each share class of the Fund and for the last one, five, and ten calendar year periods (or, if shorter, the life of the Fund), how the Fund's average annual total returns compare to the returns of one or more broad-based market indices.

- The Fund commenced operations after succeeding to the operations of another fund on January 12, 2007.
- The R-1, R-2, R-3, R-4 and R-5 Class shares were first sold on July 12, 2010.
- Performance for periods prior to that date is based on the performance of the predecessor fund's Class A shares adjusted to reflect the respective fees and expenses of these classes.
- The adjustments result in performance (for periods prior to the date these classes began operations) that is no higher than the historical performance of Class A shares.
- The predecessor fund commenced operations on November 1, 1993.

Total Returns as of December 31 each year (Institutional Class shares)



Highest return for a quarter during the period of the bar chart above:	Q2 '09	3.95%
Lowest return for a quarter during the period of the bar chart above:	Q4 '08	-1.75%

Average Annual Total Returns			
For the periods ended December 31, 2013	1 Year	5 Years	10 Years
Institutional Class Return Before Taxes	1.17%	4.68%	3.56%
Institutional Class Return After Taxes on Distributions	0.46%	3.71%	2.35%
Institutional Class Return After Taxes on Distribution and Sale of Fund Shares	0.67%	3.27%	2.30%
Class R-1 Return Before Taxes	0.32%	3.84%	2.73%
Class R-2 Return Before Taxes	0.44%	3.97%	2.85%
Class R-3 Return Before Taxes	0.63%	4.18%	3.06%
Class R-4 Return Before Taxes	0.83%	4.37%	3.21%
Class R-5 Return Before Taxes	1.02%	4.45%	3.25%
Barclays Credit 1-3 Years Index (reflects no deduction for fees, expenses, or taxes)	1.45%	4.46%	3.68%

After-tax returns are calculated using the historical highest individual federal marginal income tax rates and do not reflect the impact of state and local taxes. Actual after-tax returns depend on an investor's tax situation and may differ from those shown. The after-tax returns shown are not relevant to investors who hold their Fund shares through tax-deferred arrangements, such as 401(k) plans or individual retirement accounts. After-tax returns are shown for Institutional Class shares only and would be different for Class R-1, R-2, R-3, R-4 and R-5 shares.

Management

Investment Advisor: Principal Management Corporation

Sub-Advisor(s) and Portfolio Manager(s):

Edge Asset Management, Inc.

- John R. Friedl (since 2010), Portfolio Manager
- Ryan P. McCann (since 2010), Portfolio Manager
- Scott J. Peterson (since 2010), Portfolio Manager
- Greg L. Torniga (since 2011), Head of Fixed Income and Portfolio Manager

Purchase and Sale of Fund Shares

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Payments to Broker-Dealers and Other Financial Intermediaries

If you purchase the Fund through a broker-dealer or other financial intermediary (such as a bank, insurance company, investment adviser, etc.), the Fund and its related companies may pay the intermediary for the sale of Fund shares and related services. These payments may create a conflict of interest by influencing the broker-dealer or other intermediary and your salesperson to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your salesperson or visit your financial intermediary's website for more information.

ADDITIONAL INFORMATION ABOUT INVESTMENT STRATEGIES AND RISKS

Each Fund's investment objective is described in the summary section for each Fund. The summary section also describes each Fund's principal investment strategies, including the types of securities in which each Fund invests, and the principal risks of investing in each Fund. The principal investment strategies are not the only investment strategies available to each Fund, but they are the ones each Fund primarily uses to achieve its investment objective.

The Board of Directors may change each Fund's objective or the investment strategies without a shareholder vote if it determines such a change is in the best interests of the Fund. If there is a material change to a Fund's investment objective or investment strategies, you should consider whether the Fund remains an appropriate investment for you. There is no guarantee that each Fund will meet its objective.

The investment strategies identified in this section provide specific information about each Fund, but there are some general principles Principal Management Corporation ("Principal") and/or the sub-advisors apply in making investment decisions. When making decisions about whether to buy or sell equity securities, Principal and/or the sub-advisors may consider, among other things, a company's strength in fundamentals, its potential for earnings growth over time, its ability to navigate certain macroeconomic environments, and the current price of its securities relative to their perceived worth and relative to others in its industry. When making decisions about whether to buy or sell fixed-income investments, Principal and/or the sub-advisors may consider, among other things, the strength of certain sectors of the fixed-income market relative to others, interest rates, the macroeconomic backdrop, the balance between supply and demand for certain asset classes, other general market conditions, and the credit quality of individual issuers.

Each Fund is designed to be a portion of an investor's portfolio. No Fund is intended to be a complete investment program. Investors should consider the risks of a Fund before making an investment and be prepared to maintain the investment during periods of adverse market conditions. It is possible to lose money by investing in each Fund.

The following table lists each Fund and identifies whether the strategies and risks discussed in this section (listed in alphabetical order) are principal, non-principal, or not applicable for each Fund. The risks described below for the Funds that operate as fund of funds - Principal LifeTime Funds and the Strategic Asset Management ("SAM") Portfolios - are risks at both the fund of funds level and underlying funds level. These Funds are also subject to the risks of the underlying funds in which they invest. A Fund is subject to Risk of Being an Underlying Fund to the extent that a fund of funds invests in the Fund. The Statement of Additional Information ("SAI") contains additional information about investment strategies and their related risks.

INVESTMENT STRATEGIES AND RISKS	BOND & MORTGAGE SECURITIES	CORE PLUS BOND I	DIVERSIFIED INTERNATIONAL	EQUITY INCOME	GLOBAL DIVERSIFIED INCOME
Bank Loans (also known as Senior Floating Rate interests)	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Principal
Convertible Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Derivatives	Principal	Principal	Non-Principal	Non-Principal	Principal
Emerging Markets	Non-Principal	Principal	Principal	Non-Principal	Principal
Equity Securities	Not Applicable	Non-Principal	Principal	Principal	Principal
Exchange Traded Funds (ETFs)	Not Applicable	Not Applicable	Non-Principal	Non-Principal	Non-Principal
Fixed-Income Securities	Principal	Principal	Non-Principal	Non-Principal	Principal
Foreign Securities	Principal	Principal	Principal	Principal	Principal
Fund of Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Hedging	Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Principal	Principal	Not Applicable	Non-Principal	Principal
Index Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Industry Concentration	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Not Applicable	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Leverage	Principal	Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Not Applicable	Not Applicable	Non-Principal	Non-Principal	Principal
Municipal Obligations and AMT-Subject Bonds	Principal	Principal	Not Applicable	Non-Principal	Non-Principal
Portfolio Turnover	Principal	Principal	Non-Principal	Non-Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Principal
Real Estate Investment Trusts	Non-Principal	Non-Principal	Non-Principal	Principal	Principal
Real Estate Securities	Principal	Principal	Non-Principal	Principal	Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Not Applicable	Not Applicable	Non-Principal	Non-Principal	Non-Principal
Securitized Products	Principal	Principal	Not Applicable	Not Applicable	Principal
Short Sales	Not Applicable	Principal	Not Applicable	Not Applicable	Not Applicable
Small and Medium Market Capitalization Companies	Non-Principal	Non-Principal	Principal	Non-Principal	Non-Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal	Principal	Principal	Principal	Principal

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

INVESTMENT STRATEGIES AND RISKS	GLOBAL REAL ESTATE SECURITIES	GOVERNMENT & HIGH QUALITY BOND	HIGH YIELD	HIGH YIELD I	INCOME
Bank Loans (also known as Senior Floating Rate interests)	Not Applicable	Not Applicable	Principal	Principal	Non-Principal
Convertible Securities	Non-Principal	Not Applicable	Non-Principal	Non-Principal	Non-Principal
Derivatives	Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Emerging Markets	Principal	Not Applicable	Principal	Non-Principal	Non-Principal
Equity Securities	Principal	Not Applicable	Non-Principal	Non-Principal	Non-Principal
Exchange Traded Funds (ETFs)	Non-Principal	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Fixed-Income Securities	Non-Principal	Principal	Principal	Principal	Principal
Foreign Securities	Principal	Not Applicable	Principal	Principal	Principal
Fund of Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Hedging	Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Non-Principal	Non-Principal	Principal	Principal	Principal
Index Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Industry Concentration	Principal	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Non-Principal	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Municipal Obligations and AMT-Subject Bonds	Not Applicable	Non-Principal	Not Applicable	Not Applicable	Non-Principal
Portfolio Turnover	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Preferred Securities	Non-Principal	Not Applicable	Non-Principal	Non-Principal	Non-Principal
Real Estate Investment Trusts	Principal	Non-Principal	Non-Principal	Non-Principal	Principal
Real Estate Securities	Principal	Principal	Non-Principal	Non-Principal	Principal
Repurchase Agreements	Non-Principal	Non-Principal	Not Applicable	Not Applicable	Non-Principal
Royalty Trusts	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Securitized Products	Non-Principal	Principal	Non-Principal	Non-Principal	Principal
Short Sales	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Small and Medium Market Capitalization Companies	Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal	Principal	Principal	Principal	Principal

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

INVESTMENT STRATEGIES AND RISKS	INFLATION PROTECTION	INTERNATIONAL EMERGING MARKETS	INTERNATIONAL I	LARGECAP BLEND II	LARGECAP GROWTH
Bank Loans (also known as Senior Floating Rate interests)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Convertible Securities	Not Applicable	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Derivatives	Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Emerging Markets	Not Applicable	Principal	Principal	Not Applicable	Not Applicable
Equity Securities	Not Applicable	Principal	Principal	Principal	Principal
Exchange Traded Funds (ETFs)	Not Applicable	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Fixed-Income Securities	Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Foreign Securities	Principal	Principal	Principal	Principal	Non-Principal
Fund of Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Hedging	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Non-Principal	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Index Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Industry Concentration	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Not Applicable	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Not Applicable	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Municipal Obligations and AMT-Subject Bonds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Portfolio Turnover	Principal	Principal	Non-Principal	Non-Principal	Non-Principal
Preferred Securities	Not Applicable	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Investment Trusts	Not Applicable	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Not Applicable	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Securitized Products	Non-Principal	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Short Sales	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Small and Medium Market Capitalization Companies	Non-Principal	Principal	Principal	Non-Principal	Non-Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal	Principal	Not Applicable	Not Applicable	Principal

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

INVESTMENT STRATEGIES AND RISKS	LARGECAP GROWTH I	LARGECAP GROWTH II	LARGECAP S&P 500 INDEX	LARGECAP VALUE	LARGECAP VALUE I
Bank Loans (also known as Senior Floating Rate interests)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Convertible Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Derivatives	Non-Principal	Non-Principal	Principal	Non-Principal	Non-Principal
Emerging Markets	Not Applicable	Non-Principal	Not Applicable	Not Applicable	Not Applicable
Equity Securities	Principal	Principal	Principal	Principal	Principal
Exchange Traded Funds (ETFs)	Non-Principal	Non-Principal	Principal	Non-Principal	Non-Principal
Fixed-Income Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Foreign Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Fund of Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Hedging	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Index Funds	Not Applicable	Not Applicable	Principal	Not Applicable	Not Applicable
Industry Concentration	Not Applicable	Not Applicable	Not Applicable ⁽²⁾	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Municipal Obligations and AMT-Subject Bonds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Portfolio Turnover	Non-Principal	Non-Principal	Non-Principal	Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Real Estate Investment Trusts	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Securitized Products	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Short Sales	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Small and Medium Market Capitalization Companies	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal	Principal	Principal	Principal	Not Applicable

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

⁽²⁾ The Index Fund may concentrate its investments in a particular industry only to the extent that the relevant index is so concentrated.

INVESTMENT STRATEGIES AND RISKS	LARGECAP VALUE III	MIDCAP	MIDCAP GROWTH	MIDCAP GROWTH III	MIDCAP S&P 400 INDEX
Bank Loans (also known as Senior Floating Rate interests)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Convertible Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Not Applicable
Derivatives	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Principal
Emerging Markets	Not Applicable	Not Applicable	Non-Principal	Non-Principal	Not Applicable
Equity Securities	Principal	Principal	Principal	Principal	Principal
Exchange Traded Funds (ETFs)	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Principal
Fixed-Income Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Not Applicable
Foreign Securities	Non-Principal	Principal	Principal	Non-Principal	Not Applicable
Fund of Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Hedging	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Index Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Principal
Industry Concentration	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable ⁽²⁾
Initial Public Offerings ("IPOs")	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Not Applicable
Municipal Obligations and AMT-Subject Bonds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Portfolio Turnover	Non-Principal	Non-Principal	Principal	Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Not Applicable
Real Estate Investment Trusts	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Not Applicable
Securitized Products	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Short Sales	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Small and Medium Market Capitalization Companies	Non-Principal	Principal	Principal	Principal	Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal	Principal	Not Applicable	Principal	Principal

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

⁽²⁾ The Index Fund may concentrate its investments in a particular industry only to the extent that the relevant index is so concentrated.

INVESTMENT STRATEGIES AND RISKS	MIDCAP VALUE I	MIDCAP VALUE III	MONEY MARKET	OVERSEAS	PRINCIPAL CAPITAL APPRECIATION
Bank Loans (also known as Senior Floating Rate interests)	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Non-Principal
Convertible Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Derivatives	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Emerging Markets	Non-Principal	Not Applicable	Not Applicable	Principal	Non-Principal
Equity Securities	Principal	Principal	Not Applicable	Principal	Principal
Exchange Traded Funds (ETFs)	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Fixed-Income Securities	Non-Principal	Non-Principal	Principal	Non-Principal	Non-Principal
Foreign Securities	Non-Principal	Non-Principal	Principal	Principal	Non-Principal
Fund of Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Hedging	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
High Yield Securities	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Non-Principal
Index Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Industry Concentration	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Leverage	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Municipal Obligations and AMT-Subject Bonds	Not Applicable	Not Applicable	Non-Principal	Not Applicable	Not Applicable
Portfolio Turnover	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Real Estate Investment Trusts	Principal	Principal	Not Applicable	Non-Principal	Non-Principal
Real Estate Securities	Principal	Principal	Not Applicable	Non-Principal	Non-Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Securitized Products	Not Applicable	Not Applicable	Non-Principal	Not Applicable	Not Applicable
Short Sales	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Small and Medium Market Capitalization Companies	Principal	Principal	Not Applicable	Principal	Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Underlying Funds	Not Applicable	Principal	Not Applicable	Principal	Principal

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

INVESTMENT STRATEGIES AND RISKS	PRINCIPAL LIFETIME STRATEGIC INCOME	PRINCIPAL LIFETIME 2010	PRINCIPAL LIFETIME 2015	PRINCIPAL LIFETIME 2020	PRINCIPAL LIFETIME 2025
Bank Loans (also known as Senior Floating Rate interests)	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Convertible Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Derivatives	Principal	Principal	Principal	Principal	Principal
Emerging Markets	Non-Principal	Non-Principal	Principal	Principal	Principal
Equity Securities	Principal	Principal	Principal	Principal	Principal
Exchange Traded Funds (ETFs)	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Fixed-Income Securities	Principal	Principal	Principal	Principal	Principal
Foreign Securities	Principal	Principal	Principal	Principal	Principal
Fund of Funds	Principal	Principal	Principal	Principal	Principal
Hedging	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Principal	Principal	Principal	Principal	Principal
Index Funds	Principal	Principal	Principal	Principal	Principal
Industry Concentration	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Municipal Obligations and AMT-Subject Bonds	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Portfolio Turnover	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Investment Trusts	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Securities	Principal	Principal	Principal	Principal	Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Securitized Products	Principal	Principal	Principal	Principal	Non-Principal
Short Sales	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Small and Medium Market Capitalization Companies	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal ⁽³⁾	Principal ⁽³⁾	Principal ⁽³⁾	Principal ⁽³⁾	Principal ⁽³⁾

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

⁽³⁾ A fund of funds is subject to the risks of the underlying funds in which it invests, and the underlying funds are subject to the risk of being an underlying fund.

INVESTMENT STRATEGIES AND RISKS	PRINCIPAL LIFETIME 2030	PRINCIPAL LIFETIME 2035	PRINCIPAL LIFETIME 2040	PRINCIPAL LIFETIME 2045	PRINCIPAL LIFETIME 2050
Bank Loans (also known as Senior Floating Rate interests)	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Convertible Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Derivatives	Principal	Principal	Principal	Principal	Principal
Emerging Markets	Principal	Principal	Principal	Principal	Principal
Equity Securities	Principal	Principal	Principal	Principal	Principal
Exchange Traded Funds (ETFs)	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Fixed-Income Securities	Principal	Principal	Principal	Principal	Principal
Foreign Securities	Principal	Principal	Principal	Principal	Principal
Fund of Funds	Principal	Principal	Principal	Principal	Principal
Hedging	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Index Funds	Principal	Principal	Principal	Principal	Principal
Industry Concentration	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Municipal Obligations and AMT-Subject Bonds	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Portfolio Turnover	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Investment Trusts	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Securities	Principal	Principal	Non-Principal	Non-Principal	Non-Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Securitized Products	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Short Sales	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Small and Medium Market Capitalization Companies	Principal	Principal	Principal	Principal	Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal ⁽³⁾	Principal ⁽³⁾	Principal ⁽³⁾	Principal ⁽³⁾	Principal ⁽³⁾

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

⁽³⁾ A fund of funds is subject to the risks of the underlying funds in which it invests, and the underlying funds are subject to the risk of being an underlying fund.

INVESTMENT STRATEGIES AND RISKS	PRINCIPAL LIFETIME 2055	PRINCIPAL LIFETIME 2060	REAL ESTATE SECURITIES	SAM FLEXIBLE INCOME	SAM CONSERVATIVE BALANCED
Bank Loans (also known as Senior Floating Rate interests)	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Convertible Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Derivatives	Principal	Principal	Non-Principal	Non-Principal	Non-Principal
Emerging Markets	Principal	Principal	Not Applicable	Non-Principal	Non-Principal
Equity Securities	Principal	Principal	Principal	Principal	Principal
Exchange Traded Funds (ETFs)	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Fixed-Income Securities	Principal	Principal	Non-Principal	Principal	Principal
Foreign Securities	Principal	Principal	Non-Principal	Principal	Principal
Fund of Funds	Principal	Principal	Not Applicable	Principal	Principal
Hedging	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Non-Principal	Non-Principal	Non-Principal	Principal	Principal
Index Funds	Principal	Principal	Not Applicable	Non-Principal	Non-Principal
Industry Concentration	Not Applicable	Not Applicable	Principal	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Not Applicable	Not Applicable	Non-Principal	Not Applicable	Not Applicable
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Municipal Obligations and AMT-Subject Bonds	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Portfolio Turnover	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Investment Trusts	Non-Principal	Non-Principal	Principal	Non-Principal	Non-Principal
Real Estate Securities	Non-Principal	Non-Principal	Principal	Principal	Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Securitized Products	Non-Principal	Non-Principal	Non-Principal	Principal	Principal
Short Sales	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Non-Principal
Small and Medium Market Capitalization Companies	Principal	Principal	Principal	Non-Principal	Non-Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal ⁽³⁾	Principal ⁽³⁾	Not Applicable	Principal ⁽³⁾	Principal ⁽³⁾

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

⁽³⁾ A fund of funds is subject to the risks of the underlying funds in which it invests, and the underlying funds are subject to the risk of being an underlying fund.

INVESTMENT STRATEGIES AND RISKS	SAM BALANCED	SAM CONSERVATIVE GROWTH	SAM STRATEGIC GROWTH	SHORT-TERM INCOME	SMALLCAP BLEND
Bank Loans (also known as Senior Floating Rate interests)	Non-Principal	Non-Principal	Non-Principal	Not Applicable	Not Applicable
Convertible Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Derivatives	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Emerging Markets	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Not Applicable
Equity Securities	Principal	Principal	Principal	Not Applicable	Principal
Exchange Traded Funds (ETFs)	Non-Principal	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Fixed-Income Securities	Principal	Principal	Non-Principal	Principal	Non-Principal
Foreign Securities	Principal	Principal	Principal	Principal	Non-Principal
Fund of Funds	Principal	Principal	Principal	Not Applicable	Not Applicable
Hedging	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal	Not Applicable
Index Funds	Non-Principal	Non-Principal	Non-Principal	Not Applicable	Not Applicable
Industry Concentration	Not Applicable	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Initial Public Offerings ("IPOs")	Non-Principal	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Not Applicable	Not Applicable	Not Applicable	Non-Principal	Non-Principal
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Non-Principal	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Municipal Obligations and AMT-Subject Bonds	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Not Applicable
Portfolio Turnover	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Real Estate Investment Trusts	Non-Principal	Non-Principal	Non-Principal	Principal	Non-Principal
Real Estate Securities	Principal	Non-Principal	Non-Principal	Principal	Non-Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Non-Principal	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Securitized Products	Principal	Non-Principal	Non-Principal	Principal	Not Applicable
Short Sales	Non-Principal	Non-Principal	Non-Principal	Not Applicable	Not Applicable
Small and Medium Market Capitalization Companies	Principal	Principal	Principal	Non-Principal	Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal ⁽³⁾	Principal ⁽³⁾	Principal ⁽³⁾	Principal	Not Applicable

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

⁽³⁾ A fund of funds is subject to the risks of the underlying funds in which it invests, and the underlying funds are subject to the risk of being an underlying fund.

INVESTMENT STRATEGIES AND RISKS	SMALLCAP GROWTH I	SMALLCAP GROWTH II	SMALLCAP S&P 600 INDEX	SMALLCAP VALUE II
Bank Loans (also known as Senior Floating Rate interests)	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Convertible Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Derivatives	Non-Principal	Non-Principal	Principal	Non-Principal
Emerging Markets	Non-Principal	Not Applicable	Not Applicable	Non-Principal
Equity Securities	Principal	Principal	Principal	Principal
Exchange Traded Funds (ETFs)	Non-Principal	Non-Principal	Principal	Non-Principal
Fixed-Income Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Foreign Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Fund of Funds	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Hedging	Non-Principal	Non-Principal	Non-Principal	Non-Principal
High Yield Securities	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Index Funds	Not Applicable	Not Applicable	Principal	Not Applicable
Industry Concentration	Not Applicable	Not Applicable	Not Applicable ⁽²⁾	Not Applicable
Initial Public Offerings ("IPOs")	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Leverage	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Liquidity Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Management Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Market Volatility and Issuer Risk ⁽¹⁾	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Master Limited Partnerships	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Municipal Obligations and AMT-Subject Bonds	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Portfolio Turnover	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Preferred Securities	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Real Estate Investment Trusts	Non-Principal	Non-Principal	Non-Principal	Principal
Real Estate Securities	Non-Principal	Non-Principal	Non-Principal	Principal
Repurchase Agreements	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Royalty Trusts	Non-Principal	Non-Principal	Not Applicable	Non-Principal
Securitized Products	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Short Sales	Not Applicable	Not Applicable	Not Applicable	Not Applicable
Small and Medium Market Capitalization Companies	Principal	Principal	Principal	Principal
Temporary Defensive Measures	Non-Principal	Non-Principal	Non-Principal	Non-Principal
Underlying Funds	Principal	Not Applicable	Principal	Principal

⁽¹⁾ These risks are not deemed principal for purposes of this table because they apply to almost all funds; however, in certain circumstances, they could significantly affect the net asset value, yield, and total return.

⁽²⁾ The Index Fund may concentrate its investments in a particular industry only to the extent that the relevant index is so concentrated.

Bank Loans (also known as Senior Floating Rate Interests)

Bank loans typically hold the most senior position in the capital structure of a business entity (the "Borrower"), are typically secured by specific collateral, and have a claim on the assets and/or stock of the Borrower that is senior to that held by unsecured subordinated debtholders and stockholders of the Borrower. The proceeds of bank loans primarily are used to finance leveraged buyouts, recapitalizations, mergers, acquisitions, stock repurchases, dividends, and, to a lesser extent, to finance internal growth and for other corporate purposes. Bank loans are typically structured and administered by a financial institution that acts as the agent of the lenders participating in the bank loan. Most bank loans that will be purchased by the fund are rated below-investment-grade (sometimes called "junk") or will be comparable if unrated, which means they are more likely to default than investment-grade loans. A default could lead to non-payment of income which would result in a reduction of income to the fund and there can be no assurance that the liquidation of any collateral would satisfy the Borrower's obligation in the event of non-payment of scheduled interest or principal payments, or that such collateral could be readily liquidated. Most bank loans are not traded on any national securities exchange. Bank loans generally have less liquidity than investment-grade bonds and there may be less public information available about them.

The secondary market for loans may be subject to irregular trading activity, wide bid/ask spreads and extended trade settlement periods, which may cause the fund to be unable to realize full value and thus cause a material decline in the fund's net asset value.

Bank loans pay interest at rates which are periodically reset by reference to a base lending rate plus a spread. These base lending rates are generally the prime rate offered by a designated U.S. bank or the London InterBank Offered Rate (LIBOR) or the prime rate offered by one or more major U.S. banks.

Bank loans generally are subject to mandatory and/or optional prepayment. Because of these mandatory prepayment conditions and because there may be significant economic incentives for the borrower to repay, prepayments of senior floating rate interests may occur.

Convertible Securities

Convertible securities are usually fixed-income securities that a fund has the right to exchange for equity securities at a specified conversion price. Convertible securities could also include corporate bonds, notes or preferred stocks of U.S. or foreign issuers. The option allows the fund to realize additional returns if the market price of the equity securities exceeds the conversion price. For example, the fund may hold fixed-income securities that are convertible into shares of common stock at a conversion price of \$10 per share. If the market value of the shares of common stock reached \$12, the fund could realize an additional \$2 per share by converting its fixed-income securities.

Convertible securities have lower yields than comparable fixed-income securities. In addition, at the time a convertible security is issued the conversion price exceeds the market value of the underlying equity securities. Thus, convertible securities may provide lower returns than non-convertible fixed-income securities or equity securities depending upon changes in the price of the underlying equity securities. However, convertible securities permit the fund to realize some of the potential appreciation of the underlying equity securities with less risk of losing its initial investment.

Depending on the features of the convertible security, the fund will treat a convertible security as either a fixed-income or equity security for purposes of investment policies and limitations because of the unique characteristics of convertible securities. Funds that invest in convertible securities may invest in convertible securities that are below investment grade. Many convertible securities are relatively illiquid.

Derivatives

A fund may invest in certain derivative strategies to earn income, manage or adjust the risk profile of the fund, replace more direct investments, or obtain exposure to certain markets. Generally, a derivative is a financial arrangement, the value of which is derived from, or based on, a traditional security, asset, or market index. Certain derivative securities are described more accurately as index/structured securities. Index/structured securities are derivative securities whose value or performance is linked to other equity securities (such as depositary receipts), currencies, interest rates, indices, or other financial indicators (reference indices).

There are many different types of derivatives and many different ways to use them. Futures, forward contracts, and options are commonly used for traditional hedging purposes to attempt to protect a fund from loss due to changing interest rates, securities prices, asset values, or currency exchange rates and as a low-cost method of gaining exposure to a particular market without investing directly in those securities or assets. A fund may enter into put or call options, futures contracts, options on futures contracts, over-the-counter swap contracts (e.g., interest rate swaps, total return swaps and credit default swaps), currency futures contracts and options, options on currencies, and forward currency contracts or currency swaps for both hedging and non-hedging purposes. A fund also may use foreign currency options and foreign currency forward and swap contracts to increase exposure to a foreign currency or to shift exposure to foreign currency fluctuations from one country to another. A forward currency contract involves

a privately negotiated obligation to purchase or sell a specific currency at a future date at a price set in the contract. A fund will not hedge currency exposure to an extent greater than the approximate aggregate market value of the securities held or to be purchased by the fund (denominated or generally quoted or currently convertible into the currency). A fund may enter into forward commitment agreements, which call for the fund to purchase or sell a security on a future date at a fixed price. A fund may also enter into contracts to sell its investments either on demand or at a specific interval.

Generally, a fund may not invest in a derivative security unless the reference index or the instrument to which it relates is an eligible investment for the fund or the reference currency relates to an eligible investment for the fund.

The return on a derivative security may increase or decrease, depending upon changes in the reference index or instrument to which it relates. If a fund's Sub-Advisor hedges market conditions incorrectly or employs a strategy that does not correlate well with the fund's investment, these techniques could result in a loss. These techniques may increase the volatility of a fund and may involve a small investment of cash relative to the magnitude of the risk assumed.

The risks associated with derivative investments include:

- the risk that the underlying security, currency, interest rate, market index, or other financial asset will not move in the direction Principal Management Corporation ("Principal") and/or Sub-Advisor anticipated;
- the possibility that there may be no liquid secondary market which may make it difficult or impossible to close out a position when desired;
- the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment;
- the possibility that the counterparty may fail to perform its obligations; and
- the inability to close out certain hedged positions to avoid adverse tax consequences.

Swap agreements involve the risk that the party with whom the fund has entered into the swap will default on its obligation to pay the fund and the risk that the fund will not be able to meet its obligations to pay the other party to the agreement.

Credit default swap agreements involve special risks because they may be difficult to value, are highly susceptible to liquidity and credit risk, and generally pay a return to the party that has paid the premium only in the event of an actual default by the issuer of the underlying obligation (as opposed to a credit downgrade or other indication of financial difficulty). Credit default swaps can increase credit risk because the fund has exposure to both the issuer of the referenced obligation and the counterparty to the credit default swap.

Forward, swap, and futures contracts are subject to special risk considerations. The primary risks associated with the use of these contracts are (a) the imperfect correlation between the change in market value of the instruments held by the fund and the price of the forward or futures contract; (b) possible lack of a liquid secondary market for a forward, swap, or futures contract and the resulting inability to close a forward, swap, or futures contract when desired; (c) losses caused by unanticipated market movements, which are potentially unlimited; (d) the sub-advisor's inability to predict correctly the direction of securities prices, interest rates, currency exchange rates, asset values, and other economic factors; (e) the possibility that the counterparty will default in the performance of its obligations; and (f) if the fund has insufficient cash, it may have to sell securities from its portfolio to meet daily variation margin requirements, and the fund may have to sell securities at a time when it may be disadvantageous to do so.

For currency contracts, there is also a risk of government action through exchange controls that would restrict the ability of the fund to deliver or receive currency.

Some of the risks associated with options include imperfect correlation, counterparty risk, difference in trading hours for the options markets and the markets for the underlying securities (rate movements can take place in the underlying markets that cannot be reflected in the options markets), and an insufficient liquid secondary market for particular options.

Emerging Markets

Principal defines emerging market securities as those issued by:

- companies with their principal place of business or principal office in emerging market countries or
- companies whose principal securities trading market is an emerging market country.

Usually, the term "emerging market country" means any country which is considered to be an emerging country by the international financial community (including the MSCI Emerging Markets Index or Barclays Emerging Markets USD Aggregate Bond). These countries generally include every nation in the world except the U.S., Canada, Japan, Australia, New Zealand, and most nations located in Western Europe.

Investments in companies of emerging (also called "developing") countries are subject to higher risks than investments in companies in more developed countries. These risks include:

- increased social, political, and economic instability;
- a smaller market for these securities and low or nonexistent volume of trading that results in a lack of liquidity and in greater price volatility;
- lack of publicly available information, including reports of payments of dividends or interest on outstanding securities;
- foreign government policies that may restrict opportunities, including restrictions on investment in issuers or industries deemed sensitive to national interests;
- relatively new capital market structure or market-oriented economy;
- the possibility that recent favorable economic developments may be slowed or reversed by unanticipated political or social events in these countries;
- restrictions that may make it difficult or impossible for the fund to vote proxies, exercise shareholder rights, pursue legal remedies, and obtain judgments in foreign courts; and
- possible losses through the holding of securities in domestic and foreign custodial banks and depositories.

In addition, many developing countries have experienced substantial and, in some periods, extremely high rates of inflation for many years. Inflation and rapid fluctuations in inflation rates have had and may continue to have negative effects on the economies, currencies, interest rates, and securities markets of those countries.

Repatriation of investment income, capital, and proceeds of sales by foreign investors may require governmental registration and/or approval in some developing countries. A fund could be adversely affected by delays in or a refusal to grant any required governmental registration or approval for repatriation.

Further, the economies of developing countries generally are heavily dependent upon international trade and, accordingly, have been and may continue to be adversely affected by trade barriers, exchange controls, managed adjustments in relative currency values and other protectionist measures imposed or negotiated by the countries with which they trade.

Equity Securities

Equity securities include common stocks, convertible securities, depositary receipts, rights (a right is an offering of common stock to investors who currently own shares which entitle them to buy subsequent issues at a discount from the offering price), and warrants (a warrant grants its owner the right to purchase securities from the issuer at a specified price, normally higher than the current market price). Common stocks, the most familiar type, represent an equity (ownership) interest in a corporation. The value of a company's stock may fall as a result of factors directly relating to that company, such as decisions made by its management or lower demand for the company's products or services. A stock's value may also fall because of factors affecting not just the company, but also companies in the same industry or in a number of different industries, such as increases in production costs. The value of a company's stock may also be affected by changes in financial markets that are relatively unrelated to the company or its industry, such as changes in interest rates or currency exchange rates. In addition, a company's stock generally pays dividends only after the company invests in its own business and makes required payments to holders of its bonds and other debt. For this reason, the value of a company's stock will usually react more strongly than its bonds and other debt to actual or perceived changes in the company's financial condition or prospects. Some funds focus their investments on certain market capitalization ranges. Market capitalization is defined as total current market value of a company's outstanding equity securities. The market capitalization of companies in the fund's portfolios and their related indexes will change over time and, the fund will not automatically sell a security just because it falls outside of the market capitalization range of its index(es). Stocks of smaller companies may be more vulnerable to adverse developments than those of larger companies.

Exchange Traded Funds ("ETFs")

Generally, ETFs invest in a portfolio of stocks, bonds or other assets. Often ETFs are a type of index or actively managed fund bought and sold on a securities exchange. An ETF trades like common stock. Shares in an index ETF represent an interest in a fixed portfolio of securities designed to track a particular market index. A fund could purchase shares issued by an ETF to gain exposure to a portion of the U.S. or a foreign market while awaiting purchase of underlying securities or for other reasons. The risks of owning an ETF generally reflect the risks of owning the underlying securities or other assets they are designed to track, although ETFs have management fees that increase their costs. Fund shareholders indirectly bear their proportionate share of the expenses of the ETFs in which the fund invests.

Fixed-Income Securities

Fixed-income securities include bonds and other debt instruments that are used by issuers to borrow money from investors (some examples include corporate bonds, convertible securities, mortgage-backed securities, U.S. government securities and asset-backed securities). The issuer generally pays the investor a fixed, variable, or floating rate of interest. The amount borrowed must be repaid at maturity. Some debt securities, such as zero coupon bonds, do not pay current interest, but are sold at a discount from their face values.

- **Interest Rate Changes:** Fixed-income securities are sensitive to changes in interest rates. In general, fixed-income security prices rise when interest rates fall and fall when interest rates rise. If interest rates fall, issuers of callable bonds may call (repay) securities with high interest rates before their maturity dates; this is known as call risk. In this case, a fund would likely reinvest the proceeds from these securities at lower interest rates, resulting in a decline in the fund's income. Floating rate securities generally are less sensitive to interest rate changes but may decline in value if their interest rates do not rise as much, or as quickly, as interest rates in general. Conversely, floating rate securities will not generally increase in value if interest rates decline. Average duration is a mathematical calculation of the average life of a bond (or bonds in a bond fund) that serves as a useful measure of its price risk. Duration is an estimate of how much the value of the bonds held by a fund will fluctuate in response to a change in interest rates. For example, if a fund has an average duration of 4 years and interest rates rise by 1%, the value of the bonds held by the fund will decline by approximately 4%, and if the interest rates decline by 1%, the value of the bonds held by the fund will increase by approximately 4%. Longer term bonds and zero coupon bonds are generally more sensitive to interest rate changes. Duration, which measures price sensitivity to interest rate changes, is not necessarily equal to average maturity.
- **Credit Risk:** Fixed-income security prices are also affected by the credit quality of the issuer. Investment grade debt securities are medium and high quality securities. Some bonds, such as lower grade or "junk" bonds, may have speculative characteristics and may be particularly sensitive to economic conditions and the financial condition of the issuers. Credit risk refers to the possibility that the issuer of the security will not be able to make principal and interest payments when due.

Foreign Securities

Principal defines foreign securities as those issued by:

- companies with their principal place of business or principal office outside the U.S. or
- companies whose principal securities trading market is outside the U.S.

Foreign companies may not be subject to the same uniform accounting, auditing, and financial reporting practices as are required of U.S. companies. In addition, there may be less publicly available information about a foreign company than about a U.S. company. Securities of many foreign companies are less liquid and more volatile than securities of comparable U.S. companies. Commissions on foreign securities exchanges may be generally higher than those on U.S. exchanges.

Foreign markets also have different clearance and settlement procedures than those in U.S. markets. In certain markets there have been times when settlements have been unable to keep pace with the volume of securities transactions, making it difficult to conduct these transactions. Delays in settlement could result in temporary periods when a portion of fund assets is not invested and earning no return. If a fund is unable to make intended security purchases due to settlement problems, the fund may miss attractive investment opportunities. In addition, a fund may incur a loss as a result of a decline in the value of its portfolio if it is unable to sell a security.

With respect to certain foreign countries, there is the possibility of expropriation or confiscatory taxation, political or social instability, or diplomatic developments that could affect a fund's investments in those countries. In addition, a fund may also suffer losses due to nationalization, expropriation, or differing accounting practices and treatments. Investments in foreign securities are subject to laws of the foreign country that may limit the amount and types of foreign investments. Changes of governments or of economic or monetary policies, in the U.S. or abroad, changes in dealings between nations, currency convertibility or exchange rates could result in investment losses for a fund. Finally, even though certain currencies may be convertible into U.S. dollars, the conversion rates may be artificial relative to the actual market values and may be unfavorable to fund investors. To protect against future uncertainties in foreign currency exchange rates, the funds are authorized to enter into certain foreign currency exchange transactions.

Foreign securities are often traded with less frequency and volume, and therefore may have greater price volatility, than is the case with many U.S. securities. Brokerage commissions, custodial services, and other costs relating to investment in foreign countries are generally more expensive than in the U.S. Though the fund intends to acquire the securities of foreign issuers where there are public trading markets, economic or political turmoil in a country in which a fund has a significant portion of its assets or deterioration of the relationship between the U.S. and a foreign country may reduce the liquidity of a fund's portfolio. The fund may have difficulty meeting a large number of redemption requests. Furthermore, there may be difficulties in obtaining or enforcing judgments against foreign issuers.

A fund may choose to invest in a foreign company by purchasing depositary receipts. Depositary receipts are certificates of ownership of shares in a foreign-based issuer held by a bank or other financial institution. They are alternatives to purchasing the underlying security but are subject to the foreign securities risks to which they relate.

Fund of Funds

The performance and risks of each Principal LifeTime Fund and Strategic Asset Management ("SAM") Portfolio (singly, "a fund of funds" and collectively, "the funds of funds") directly correspond to the performance and risks of the underlying funds in which the Fund or Portfolio invests. By investing in many underlying funds, the funds of funds have partial exposure to the risks of many different areas of the market. The more a fund of funds allocates to stock funds, the greater the expected risk.

As of October 31, 2013, the Principal LifeTime Funds' and SAM Portfolios' assets were allocated among the underlying funds as identified in the tables below.

Underlying Fund	Principal LifeTime 2010 Fund	Principal LifeTime 2015 Fund	Principal LifeTime 2020 Fund	Principal LifeTime 2025 Fund	Principal LifeTime 2030 Fund	Principal LifeTime 2035 Fund
Bond & Mortgage Securities Fund	10.93%	10.25%	8.88%	6.84%	5.16%	3.90%
Bond Market Index Fund	8.85%	8.65%	7.08%	6.24%	4.62%	3.54%
Core Plus Bond Fund I	10.98%	10.13%	8.91%	6.81%	5.15%	3.91%
Diversified International Fund	4.58%	5.23%	5.88%	6.44%	6.96%	7.44%
Diversified Real Asset Fund	3.79%	4.02%	2.88%	2.32%	2.04%	1.59%
Equity Income Fund	5.11%	4.45%	3.07%	—%	—%	—%
Global Diversified Income Fund	4.99%	3.38%	2.11%	1.17%	—%	—%
Global Multi-Strategy Fund	2.77%	2.72%	2.44%	2.51%	2.36%	2.26%
Global Opportunities Fund	1.77%	3.54%	4.75%	4.97%	4.89%	5.41%
Global Real Estate Securities Fund	—%	—%	3.43%	4.08%	4.71%	5.22%
High Yield Fund I	2.76%	2.20%	1.50%	1.81%	1.98%	1.95%
Inflation Protection Fund	4.58%	3.60%	2.66%	2.13%	1.31%	0.68%
International Emerging Markets Fund	1.51%	2.04%	2.74%	3.03%	3.34%	3.61%
LargeCap Growth Fund	—%	—%	0.44%	2.08%	3.11%	3.31%
LargeCap Growth Fund I	6.59%	8.20%	9.42%	10.46%	11.92%	12.91%
LargeCap S&P 500 Index Fund	4.23%	5.37%	6.67%	6.93%	7.20%	7.77%
LargeCap Value Fund	2.34%	3.38%	4.41%	5.06%	5.36%	6.12%
LargeCap Value Fund I	1.31%	1.74%	2.42%	2.08%	2.96%	3.23%
LargeCap Value III	2.60%	3.51%	4.71%	6.21%	5.99%	6.51%
MidCap Fund	4.89%	2.96%	1.48%	0.74%	—%	—%
MidCap Growth Fund III	—%	1.26%	2.08%	2.68%	3.30%	3.29%
MidCap Value Fund III	—%	1.10%	2.05%	2.71%	3.26%	3.38%
Overseas Fund	4.83%	5.45%	6.05%	6.69%	8.08%	7.85%
Preferred Securities Fund	—%	—%	—%	1.88%	1.97%	1.59%
Short-Term Income Fund	7.67%	3.51%	—%	—%	—%	—%
SmallCap Growth Fund I	1.48%	1.66%	1.94%	2.07%	2.18%	2.25%
SmallCap Value Fund II	1.44%	1.65%	2.00%	2.06%	2.15%	2.28%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Underlying Fund	Principal LifeTime 2040 Fund	Principal LifeTime 2045 Fund	Principal LifeTime 2050 Fund	Principal LifeTime 2055 Fund	Principal LifeTime 2060 Fund	Principal LifeTime Strategic Income Fund
Bond & Mortgage Securities Fund	2.48%	1.84%	1.17%	1.14%	1.17%	13.73%
Bond Market Index Fund	2.39%	1.47%	0.30%	0.24%	—%	11.74%
Core Plus Bond Fund I	2.47%	2.05%	1.17%	1.12%	1.17%	13.73%
Diversified International Fund	8.64%	8.89%	9.24%	9.13%	9.44%	2.55%
Diversified Real Asset Fund	1.62%	1.28%	1.16%	1.41%	1.42%	4.63%
Equity Income Fund	—%	—%	—%	—%	—%	6.26%
Global Diversified Income Fund	—%	—%	—%	—%	—%	6.82%
Global Multi-Strategy Fund	2.23%	1.96%	1.62%	1.68%	1.88%	2.76%
Global Opportunities Fund	5.77%	6.14%	6.41%	6.60%	6.74%	0.89%
Global Real Estate Securities Fund	5.02%	5.27%	5.34%	5.28%	5.18%	—%
High Yield Fund I	1.90%	1.90%	2.01%	1.93%	1.90%	3.59%
Inflation Protection Fund	—%	—%	—%	—%	—%	6.81%
International Emerging Markets Fund	4.35%	3.89%	4.09%	4.21%	4.71%	0.64%
LargeCap Growth Fund	3.87%	3.81%	3.94%	4.11%	3.77%	—%
LargeCap Growth Fund I	13.26%	13.67%	13.88%	14.07%	14.21%	3.54%
LargeCap S&P 500 Index Fund	7.88%	7.92%	8.24%	8.29%	8.05%	2.30%
LargeCap Value Fund	6.13%	6.33%	6.58%	6.40%	6.03%	—%
LargeCap Value Fund I	3.59%	3.55%	3.86%	3.50%	5.39%	—%
LargeCap Value III	6.91%	7.20%	7.69%	7.66%	5.75%	—%
MidCap Fund	—%	—%	—%	—%	—%	2.90%
MidCap Growth Fund III	3.46%	3.46%	3.59%	3.26%	3.59%	—%
MidCap Value Fund III	3.13%	3.46%	3.22%	3.44%	3.60%	—%
Overseas Fund	8.75%	9.28%	9.74%	9.96%	9.64%	2.69%
Preferred Securities Fund	1.56%	1.97%	2.03%	1.89%	1.85%	—%
Short-Term Income Fund	—%	—%	—%	—%	—%	13.04%
SmallCap Growth Fund I	2.32%	2.32%	2.37%	2.35%	2.28%	0.68%
SmallCap Value Fund II	2.27%	2.34%	2.35%	2.33%	2.23%	0.70%
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Underlying Fund	SAM Balanced Portfolio	SAM Conservative Balanced Portfolio	SAM Conservative Growth Portfolio	SAM Flexible Income Portfolio	SAM Strategic Growth Portfolio
Blue Chip Fund	2.52%	1.73%	3.21%	1.01%	4.00%
Bond & Mortgage Securities Fund	1.17%	2.46%	—%	3.99%	—%
Diversified International Fund	9.44%	6.39%	12.11%	2.97%	10.29%
Diversified Real Asset Fund	—%	—%	1.49%	—%	—%
Equity Income Fund	12.04%	8.28%	15.99%	8.10%	17.94%
Global Diversified Income Fund	1.49%	2.51%	—%	4.51%	—%
Global Multi-Strategy Fund	3.54%	2.47%	4.50%	—%	—%
Global Real Estate Securities Fund	0.50%	0.50%	0.69%	0.81%	1.28%
Government & High Quality Bond Fund	9.63%	15.83%	3.32%	15.83%	—%
High Yield Fund	1.99%	3.40%	0.59%	5.10%	—%
Income Fund	13.34%	21.33%	4.92%	28.64%	—%
International Emerging Markets Fund	2.29%	1.51%	2.99%	1.10%	4.94%
LargeCap Growth Fund	7.59%	5.28%	10.08%	4.09%	17.05%
LargeCap Growth Fund II	2.53%	1.71%	3.21%	—%	4.01%
LargeCap Value Fund	10.28%	7.09%	13.11%	4.66%	17.77%
MidCap Fund	2.64%	1.82%	3.23%	—%	1.51%
Preferred Securities Fund	1.18%	1.97%	0.49%	3.58%	—%
Principal Capital Appreciation Fund	6.60%	4.58%	8.79%	2.06%	10.07%
Short-Term Income Fund	3.50%	5.82%	1.16%	7.69%	—%
SmallCap Growth Fund I	2.78%	1.90%	3.66%	1.39%	4.32%
SmallCap Value Fund II	2.83%	1.92%	3.73%	—%	4.00%
Small-MidCap Dividend Income Fund	2.12%	1.50%	2.73%	4.47%	2.82%
	100.00%	100.00%	100.00%	100.00%	100.00%

Each fund of funds indirectly bears its pro-rata share of the expenses of the Underlying Funds in which it invests, as well as directly incurring expenses. Therefore, investment in a fund of funds is more costly than investing directly in shares of the Underlying Funds.

If you are considering investing in a Principal LifeTime Fund, you should take into account your estimated retirement date and risk tolerance. In general, each Principal LifeTime Fund is managed with the assumption that the investor will invest in a Principal LifeTime Fund whose stated date is closest to the date the shareholder retires. Choosing a fund targeting an earlier date represents a more conservative choice; choosing a fund with a later date represents a more aggressive choice. It is important to note that the retirement year of the fund you select should not necessarily represent the specific year you intend to start drawing retirement assets. It should be a guide only. Generally, the potential for higher returns over time is accompanied by the higher risk of a decline in the value of your principal. Investors should realize that the Principal LifeTime Funds are not a complete solution to their retirement needs. Investors must weigh many factors when considering when to retire, what their retirement needs will be, and what sources of income they may have.

There are five Strategic Asset Management ("SAM") Portfolios: Flexible Income, Conservative Balanced, Balanced, Conservative Growth and Strategic Growth. The SAM Portfolios offer long-term investors different asset allocation strategies having different levels of potential investment risk and reward. The SAM Portfolios share the same risks but often with different levels of exposure. In general, relative to the other Portfolios:

- the Balanced Portfolio should offer investors the potential for a medium level of income and a medium level of capital growth, while exposing them to a medium level of principal risk,
- the Conservative Balanced Portfolio should offer investors the potential for a medium to high level of income and a medium to low level of capital growth, while exposing them to a medium to low level of principal risk,
- the Conservative Growth Portfolio should offer investors the potential for a low to medium level of income and a medium to high level of capital growth, while exposing them to a medium to high level of principal risk,
- the Flexible Income Portfolio should offer investors the potential for a high level of income and a low level of capital growth, while exposing them to a low level of principal risk, and
- the Strategic Growth Portfolio should offer investors the potential for a high level of capital growth, and a corresponding level of principal risk.

Funds of funds can be subject to payment in kind liquidity risk: If an underlying fund pays a redemption request by the fund wholly or partly by a distribution-in-kind of portfolio securities rather than in cash, the fund may hold such portfolio securities until its sub-advisor determines that it is appropriate to dispose of them.

Hedging

The success of a fund's hedging strategy will be subject to the Sub-Adviser's ability to correctly assess the degree of correlation between the performance of the instruments used in the hedging strategy and the performance of the investments in the portfolio being hedged. Since the characteristics of many securities change as markets change or time passes, the success of a fund's hedging strategy will also be subject to the Sub-Adviser's ability to continually recalculate, readjust, and execute hedges in an efficient and timely manner. For a variety of reasons, the Sub-Adviser may not seek to establish a perfect correlation between such hedging instruments and the portfolio holdings being hedged. Such imperfect correlation may prevent a fund from achieving the intended hedge or expose a fund to risk of loss. In addition, it is not possible to hedge fully or perfectly against any risk, and hedging entails its own costs.

High Yield Securities

Below investment grade bonds, which are rated at the time of purchase Ba1 or lower by Moody's and BB+ or lower by S&P (if the bond has been rated by only one of those agencies, that rating will determine if the bond is below investment grade; if the bond has not been rated by either of those agencies, the Sub-Adviser will determine whether the bond is of a quality comparable to those rated below investment grade), are sometimes referred to as high yield or "junk bonds" and are considered speculative. Such securities could be in default at time of purchase. Each of the Principal LifeTime Funds and Strategic Asset Management Portfolios may invest in underlying funds that may invest in such securities.

Investment in high yield bonds involves special risks in addition to the risks associated with investment in highly rated debt securities. High yield bonds may be regarded as predominantly speculative with respect to the issuer's continuing ability to meet principal and interest payments. Moreover, such securities may, under certain circumstances, be less liquid than higher rated debt securities.

Analysis of the creditworthiness of issuers of high yield securities may be more complex than for issuers of higher quality debt securities. The ability of a fund to achieve its investment objective may, to the extent of its investment in high yield bonds, be more dependent on such credit analysis than would be the case if the fund were investing in higher quality bonds.

High yield bonds may be more susceptible to real or perceived adverse economic and competitive industry conditions than higher-grade bonds. The prices of high yield bonds have been found to be less sensitive to interest rate changes than more highly rated investments, but more sensitive to adverse economic downturns or individual corporate developments. If the issuer of high yield bonds defaults, a fund may incur additional expenses to seek recovery. To the extent that such high yield issuers undergo a corporate restructuring, such high yield securities may become exchanged for or converted into reorganized equity of the underlying issuer. High yield bonds oftentimes include complex legal covenants that impose various degrees of restriction on the issuer's ability to take certain actions, such as distribute cash to equity holders, incur additional indebtedness, and dispose of assets. To the extent that a bond indenture or loan agreement does not contain sufficiently protective covenants or otherwise permits the issuer to take certain actions to the detriment of the holder of the fixed-income security, the underlying value of such fixed-income security may decline.

The secondary market on which high yield bonds are traded may be less liquid than the market for higher-grade bonds. Less liquidity in the secondary trading market could adversely affect the price at which a fund could sell a high yield bond and could adversely affect and cause large fluctuations in the daily price of the fund's shares. Adverse publicity and investor perceptions, whether or not based on fundamental analysis, may decrease the value and liquidity of high yield bonds, especially in a thinly traded market.

The use of credit ratings for evaluating high yield bonds also involves certain risks. For example, credit ratings evaluate the safety of principal and interest payments, not the market value risk of high yield bonds. Also, credit rating agencies may fail to change credit ratings in a timely manner to reflect subsequent events. If a credit rating agency changes the rating of a portfolio security held by a fund, the fund may retain the security if Principal or Sub-Adviser thinks it is in the best interest of shareholders.

Index Funds

Index funds generally attempt to mirror the investment performance of the index by allocating the fund's assets in approximately the same weightings as the index. However, it is unlikely that the fund's performance will perfectly correlate with the index performance for a variety of reasons. The correlation between fund performance and index performance may be affected by the fund's expenses, changes in securities markets, changes in the composition of the index and the timing of purchases and sales of fund shares. Because of the difficulty and expense of executing relatively small securities trades, index funds may not always be invested in the less heavily weighted securities and may at times be weighted differently than the index.

Industry Concentration

A fund that concentrates its investments (invests more than 25% of its net assets) in a particular industry (or group of industries) is more exposed to the overall condition of the particular industry than a fund that invests in a wider variety of industries. A particular industry could be affected by economic, business, supply-and-demand, political, or regulatory factors. Companies within the same industry could react similarly to such factors. As a result, a fund's concentration in a particular industry would increase the possibility that the fund's performance will be affected by such factors.

Initial Public Offerings ("IPOs")

An IPO is a company's first offering of stock to the public. IPO risk is that the market value of IPO shares will fluctuate considerably due to factors such as the absence of a prior public market, unseasoned trading, the small number of shares available for trading and limited information about the issuer. The purchase of IPO shares may involve high transaction costs. IPO shares are subject to market risk and liquidity risk. In addition, the market for IPO shares can be speculative and/or inactive for extended periods of time. The limited number of shares available for trading in some IPOs may make it more difficult for a fund to buy or sell significant amounts of shares without an unfavorable impact on prevailing prices. Investors in IPO shares can be affected by substantial dilution in the value of their shares by sales of additional shares and by concentration of control in existing management and principal shareholders.

When a fund's asset base is small, a significant portion of the fund's performance could be attributable to investments in IPOs because such investments would have a magnified impact on the fund. As the fund's assets grow, the effect of the fund's investments in IPOs on the fund's performance probably will decline, which could reduce the fund's performance. Because of the price volatility of IPO shares, a fund may choose to hold IPO shares for a very short period of time. This may increase the turnover of the fund's portfolio and lead to increased expenses to the fund, such as commissions and transaction costs. By selling IPO shares, the fund may realize taxable gains it will subsequently distribute to shareholders.

Leverage

If a fund makes investments in futures contracts, forward contracts, swaps and other derivative instruments, these instruments provide the economic effect of financial leverage by creating additional investment exposure, as well as the potential for greater loss. If a fund uses leverage through activities such as borrowing, entering into short sales, purchasing securities on margin or on a "when-issued" basis or purchasing derivative instruments in an effort to increase its returns, the fund has the risk of magnified capital losses that occur when losses affect an asset base, enlarged by borrowings or the creation of liabilities, that exceeds the net assets of the fund. The net asset value of a fund employing leverage will be more volatile and sensitive to market movements. Leverage may involve the creation of a liability that requires the fund to pay interest. Leveraging may cause a fund to liquidate portfolio positions to satisfy its obligations or to meet segregation requirements when it may not be advantageous to do so. To the extent that a fund is not able to close out a leveraged position because of market illiquidity, a fund's liquidity may be impaired to the extent that it has a substantial portion of liquid assets segregated or earmarked to cover obligations.

Liquidity Risk

A fund is exposed to liquidity risk when trading volume, lack of a market maker, or legal restrictions impair the fund's ability to sell particular securities or close derivative positions at an advantageous price. Funds with principal investment strategies that involve securities of companies with smaller market capitalizations, foreign securities, derivatives, high yield bonds and bank loans or securities with substantial market and/or credit risk tend to have the greatest exposure to liquidity risk.

Management Risk

If a Sub-Advisor's investment strategies do not perform as expected, the fund could underperform other funds with similar investment objectives or lose money.

- **Active Management:** The performance of a fund that is actively managed will reflect in part the ability of Principal and/or Sub-Advisor(s) to make investment decisions that are suited to achieving the fund's investment objective. Funds that are actively managed are prepared to invest in securities, sectors, or industries differently from the benchmark.
- **Passive Management:** Index funds use a passive, or indexing, investment approach. Pure index funds do not attempt to manage market volatility, use defensive strategies or reduce the effect of any long-term periods of poor stock or bond performance. Index funds attempt to replicate their relevant target index by investing primarily in the securities held by the index in approximately the same proportion of the weightings in the index. However, because of the difficulty of executing some relatively small securities trades, such funds may not always be invested in the less heavily weighted securities held by the index. An index fund's ability to match the performance of their relevant index may be affected by many factors, such as fund expenses, the timing of cash flows into and out of the fund, changes in securities markets, and changes in the composition of the index. Some index funds may invest in index futures and/or exchange traded funds on a daily basis to gain exposure to the Index in an effort to minimize tracking error relative to the benchmark.

Market Volatility and Issuer Risk

The value of a fund's portfolio securities may go down in response to overall stock or bond market movements. Markets tend to move in cycles, with periods of rising prices and periods of falling prices. Stocks tend to go up and down in value more than bonds. If the fund's investments are concentrated in certain sectors, its performance could be worse than the overall market. The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. The value of a security may decline for reasons directly related to the issuer, such as management performance, financial leverage and reduced demand for the issuer's goods or services. It is possible to lose money when investing in a fund.

Master Limited Partnerships

Master limited partnerships ("MLPs") tend to pay relatively higher distributions than other types of companies. The amount of cash that each individual MLP can distribute to its partners will depend on the amount of cash it generates from operations, which will vary from quarter to quarter depending on factors affecting the market generally and on factors affecting the particular business lines of the MLP. Available cash will also depend on the MLPs' level of operating costs (including incentive distributions to the general partner), level of capital expenditures, debt service requirements, acquisition costs (if any), fluctuations in working capital needs and other factors. The benefit derived from investment in MLPs depends largely on the MLPs being treated as partnerships for federal income tax purposes. As a partnership, an MLP has no federal income tax liability at the entity level. If, as a result of a change in current law or a change in an MLP's business, an MLP were treated as a corporation for federal income tax purposes, the MLP would be obligated to pay federal income tax on its income at the corporate tax rate. If an MLP were classified as a corporation for federal income tax purposes, the amount of cash available for distribution would be reduced and the distributions received might be taxed entirely as dividend income.

Municipal Obligations and AMT-Subject Bonds

The term "municipal obligations" generally is understood to include debt obligations issued by municipalities to obtain funds for various public purposes. The two principal classifications of municipal bonds are "general obligation" and "revenue" bonds. General obligation bonds are secured by the issuer's pledge of its full faith and credit, with either limited or unlimited taxing power for the payment of principal and interest. Revenue bonds are not supported by the issuer's full taxing authority. Generally, they are payable only from the revenues of a particular facility, a class of facilities, or the proceeds of another specific revenue source.

"AMT-subject bonds" are municipal obligations issued to finance certain "private activities," such as bonds used to finance airports, housing projects, student loan programs, and water and sewer projects. Interest on AMT-subject bonds is an item of tax preference for purposes of the federal individual alternative minimum tax ("AMT") and will also give rise to corporate alternative minimum taxes. See "Tax Considerations" for a discussion of the tax consequences of investing in the fund.

Current federal income tax laws limit the types and volume of bonds qualifying for the federal income tax exemption of interest, which may have an effect upon the ability of the fund to purchase sufficient amounts of tax-exempt securities.

Portfolio Turnover

"Portfolio Turnover" is the term used in the industry for measuring the amount of trading that occurs in a fund's portfolio during the year. For example, a 100% turnover rate means that on average every security in the portfolio has been replaced once during the year. Funds that engage in active trading may have high portfolio turnover rates. Funds with high turnover rates (more than 100%) often have higher transaction costs (which are paid by the fund) and may lower the fund's performance. Please consider all the factors when you compare the turnover rates of different funds. You should also be aware that the "total return" line in the Financial Highlights section reflects portfolio turnover costs.

No turnover rate can be calculated for the Money Market Fund because of the short maturities of the securities in which it invests.

Preferred Securities

Preferred securities generally pay fixed rate dividends and/or interest (though some are adjustable rate) and typically have "preference" over common stock in payment priority and the liquidation of a company's assets - preference means that a company must pay on its preferred securities before paying on its common stock, and the claims of preferred securities holders are typically ahead of common stockholders' claims on assets in a corporate liquidation. Holders of preferred securities usually have no right to vote for corporate directors or on other matters. The market value of preferred securities is sensitive to changes in interest rates as they are typically fixed income securities - the fixed-income payments are expected to be the primary source of long-term investment return. While some preferred securities are issued with a final maturity date, others are perpetual in nature. In certain instances, a final maturity date may be extended and/or the final payment of principal may be deferred at the issuer's option for a specified time without triggering an event of default for the issuer. In addition, an issuer of preferred securities may have the right to redeem the securities prior to their stated maturity date. For instance, for certain types of preferred securities, a redemption may be triggered by a change in federal income tax or securities laws. As with call provisions, a redemption by the issuer may reduce the return of the security held by the fund. Preferred securities may be subject to provisions that allow an issuer, under certain circumstances to skip (indefinitely) or defer (possibly up to 10 years) distributions. If a fund owns a preferred security that is deferring its distribution, the fund may be required to report income for tax purposes while it is not receiving any income.

Preferred securities are typically issued by corporations, generally in the form of interest or dividend bearing instruments, or by an affiliated business trust of a corporation, generally in the form of beneficial interests in subordinated debentures or similarly structured securities. The preferred securities market is generally divided into the \$25 par "retail" and the \$1,000 par "institutional" segments. The \$25 par segment includes securities that are listed on the New York Stock Exchange (exchange traded), which trade and are quoted with accrued dividend or interest income, and which are often callable at par value five years after their original issuance date. The institutional segment includes \$1,000 par value securities that are not exchange-listed (over the counter), which trade and are quoted on a "clean" price, i.e., without accrued dividend or interest income, and which often have a minimum of 10 years of call protection from the date of their original issuance.

Real Estate Investment Trusts

Real estate investment trust securities ("REITs") involve certain unique risks in addition to those risks associated with investing in the real estate industry in general (such as possible declines in the value of real estate, lack of availability of mortgage funds, or extended vacancies of property). REITs are characterized as: equity REITs, which primarily own property and generate revenue from rental income; mortgage REITs, which invest in real estate mortgages; and hybrid REITs, which combine the characteristics of both equity and mortgage REITs. Equity REITs may be affected by changes in the value of the underlying property owned by the REITs, while mortgage REITs may be affected by the quality of any credit extended. REITs are dependent upon management skills, are not diversified, and are subject to heavy cash flow dependency, risks of default by borrowers, and self-liquidation. As an investor in a REIT, the fund will be subject to the REIT's expenses, including management fees, and will remain subject to the fund's advisory fees with respect to the assets so invested. REITs are also subject to the possibilities of failing to qualify for the special tax treatment accorded REITs under the Internal Revenue Code, and failing to maintain their exemptions from registration under the 1940 Act.

Investment in REITs involves risks similar to those associated with investing in small market capitalization companies. REITs may have limited financial resources, may trade less frequently and in a limited volume, and may be subject to more abrupt or erratic price movements than larger company securities.

Real Estate Securities

Investing in securities of companies in the real estate industry, subjects a fund to the special risks associated with the real estate market and the real estate industry in general. Generally, companies in the real estate industry are considered to be those that have principal activity involving the development, ownership, construction, management or sale of real estate; have significant real estate holdings, such as hospitality companies, healthcare facilities, supermarkets, mining, lumber and/or paper companies; and/or provide products or services related to the real estate industry, such as financial institutions that make and/or service mortgage loans and manufacturers or distributors of building supplies. Securities of companies in the real estate industry are sensitive to factors such as loss to casualty or condemnation, changes in real estate values, property taxes, interest rates, cash flow of underlying real estate assets, occupancy rates, government regulations affecting zoning, land use and rents, and the management skill and creditworthiness of the issuer. Companies in the real estate industry may also be subject to liabilities under environmental and hazardous waste laws.

Repurchase Agreements

Repurchase agreements typically involve the purchase of debt securities from a financial institution such as a bank, savings and loan association, or broker-dealer. A repurchase agreement provides that the fund sells back to the seller and that the seller repurchases the underlying securities at a specified price on a specific date. Repurchase agreements may be viewed as loans by a fund collateralized by the underlying securities. This arrangement results in a fixed rate of return that is not subject to market fluctuation while the fund holds the security. In the event of a default or bankruptcy by a selling financial institution, the affected fund bears a risk of loss. To minimize such risks, the fund enters into repurchase agreements only with parties a Sub-Advisor deems creditworthy (those that are large, well-capitalized and well-established financial institutions). In addition, the value of the securities collateralizing the repurchase agreement is, and during the entire term of the repurchase agreement remains, at least equal to the repurchase price, including accrued interest.

Royalty Trusts

A royalty trust generally acquires an interest in natural resource or chemical companies and distributes the income it receives to its investors. A sustained decline in demand for natural resource and related products could adversely affect royalty trust revenues and cash flows. Such a decline could result from a recession or other adverse economic conditions, an increase in the market price of the underlying commodity, higher taxes or other regulatory actions that increase costs, or a shift in consumer demand. Rising interest rates could harm the performance and limit the capital appreciation of royalty trusts because of the increased availability of alternative investments at more competitive yields. Fund shareholders will indirectly bear their proportionate share of the royalty trusts' expenses.

Securitized Products

Securitized products are fixed income instruments that represent interest in underlying pools of collateral or assets. The value of the securitized product is derived from the performance, value and cash flows of the underlying asset(s). The fund's investments in securitized products are subject to risks similar to traditional fixed income securities, such as credit, interest rate, liquidity, prepayment, extension, and default risk, as well as additional risks associated with the nature of the assets and the servicing of those assets. Prepayment risk may make it difficult to calculate the average life of a fund's investment in securitized products. Securitized products are generally issued as pass-through certificates, which represent the right to receive principal and interest payments collected on the underlying pool of assets, which are passed through to the security holder. Therefore, repayment depends on the cash flows generated by the underlying pool of assets. The securities may be rated as investment-grade or below-investment-grade.

- Mortgage-backed securities ("MBS") represent an interest in a pool of underlying mortgage loans secured by real property. Mortgage-backed securities are sensitive to changes in interest rates, but may respond to these changes differently from other fixed income securities due to the possibility of prepayment of the underlying mortgage loans. If interest rates fall and the underlying loans are prepaid faster than expected, the fund may have to reinvest the prepaid principal in lower yielding securities, thus reducing the fund's income. Conversely, rising interest rates tend to discourage refinancings and the underlying loans are prepaid more slowly than expected, reducing a fund's potential to reinvest the principal in higher yielding securities and extending the duration of the underlying loans. In addition, when market conditions result in an increase in default rates on the underlying loans and the foreclosure values of the underlying real estate is less than the outstanding amount due on the underlying loan, collection of the full amount of accrued interest and principal on these investments may be doubtful. The risk of such defaults is generally higher in the case of underlying mortgage pools that include sub-prime mortgages (mortgages granted to borrowers whose credit histories would not support conventional mortgages).

- Commercial mortgage-backed securities (“CMBS”) represent an interest in a pool of underlying commercial mortgage loans secured by real property such as retail, office, hotel, multi-family and industrial properties. Certain CMBS are issued in several classes with different levels of yield and credit protection, and the CMBS class in which a fund invests usually influences the interest rate, credit and prepayment risks.
- Asset-backed securities (“ABS”) are backed by non-mortgage assets such as company receivables, truck and auto loans, student loans, leases and credit card receivables. Asset-backed securities entail credit risk. They also may present a risk that, in the event of default, the liquidation value of the underlying assets may be inadequate to pay any unpaid interest or principal.

Short Sales

A fund enters into a short sale by selling a security it has borrowed (typically from a broker or other institution). If the market price of a security increases after a fund borrows the security, the fund will suffer a (potentially unlimited) loss when it replaces the borrowed security at the higher price. In certain cases, purchasing a security to cover a short position can itself cause the price of the security to rise further, thereby exacerbating the loss. In addition, a fund may not always be able to borrow the security at a particular time or at an acceptable price. Before a fund replaces a borrowed security, it is required to designate on its books cash or liquid assets as collateral to cover the fund’s short position, marking the collateral to market daily. This obligation limits a fund’s investment flexibility, as well as its ability to meet redemption requests or other current obligations. The fund may also take a short position in a derivative instrument, such as a future, forward or swap. A short position in a derivative instrument involves the risk of a theoretically unlimited increase in the value of the underlying instrument. Short sales also involve transaction and other costs that will reduce potential fund gains and increase potential fund losses.

Small and Medium Market Capitalization Companies

Funds may invest in securities of companies with small- or mid-sized market capitalizations. Market capitalization is defined as total current market value of a company’s outstanding common stock. Investments in companies with smaller market capitalizations may involve greater risks and price volatility (wide, rapid fluctuations) than investments in larger, more mature companies. Small companies may be less significant within their industries and may be at a competitive disadvantage relative to their larger competitors. While smaller companies may be subject to these additional risks, they may also realize more substantial growth than larger or more established companies.

Smaller companies may be less mature than larger companies. At this earlier stage of development, the companies may have limited product lines, reduced market liquidity for their shares, limited financial resources, or less depth in management than larger or more established companies. Unseasoned issuers are companies with a record of less than three years continuous operation, including the operation of predecessors and parents. Unseasoned issuers by their nature have only a limited operating history that can be used for evaluating the company’s growth prospects. As a result, these securities may place a greater emphasis on current or planned product lines and the reputation and experience of the company’s management and less emphasis on fundamental valuation factors than would be the case for more mature growth companies.

Temporary Defensive Measures

From time to time, as part of its investment strategy, funds may invest without limit in cash and cash equivalents for temporary defensive purposes in response to adverse market, economic, or political conditions. To the extent that a fund is in a defensive position, it may lose the benefit of upswings and limit its ability to meet its investment objective. For this purpose, cash equivalents include: bank notes, bank certificates of deposit, bankers’ acceptances, repurchase agreements, commercial paper, and commercial paper master notes which are floating rate debt instruments without a fixed maturity. In addition, the fund may purchase U.S. government securities, preferred stocks, and debt securities, whether or not convertible into or carrying rights for common stock.

There is no limit on the extent to which a fund may take temporary defensive measures. In taking such measures, a fund may fail to achieve its investment objective.

The Money Market Fund may invest in high-quality money market securities at any time.

Underlying Funds

An underlying fund to a fund of funds may experience relatively large redemptions or purchases as the fund of funds periodically reallocates or rebalances its assets. These transactions may accelerate the realization of taxable income if sales of portfolio securities result in gains and could increase transaction costs. In addition, when a fund of funds reallocates or redeems significant assets away from an underlying fund, the loss of assets to the underlying fund could result in increased expense ratios for that fund.

Principal is the advisor to the Principal LifeTime Funds, SAM Portfolios, PVC Diversified Balanced Account, PVC Diversified Balanced Managed Volatility Account, PVC Diversified Growth Account, PVC Diversified Growth Managed Volatility Account, PVC Diversified Income Account, and each of the underlying funds. Principal Global Investors, LLC ("PGI") is Sub-Advisor to the Principal LifeTime Funds and Edge Asset Management, Inc. ("Edge") is the Sub-Advisor to the SAM Portfolios. Either PGI or Edge also serves as Sub-Advisor to some or all of the underlying funds. Principal, PGI, and Edge are committed to minimizing the potential impact of underlying fund risk on underlying funds to the extent consistent with pursuing the investment objectives of the fund of funds which it manages. Each may face conflicts of interest in fulfilling its responsibilities to all such funds.

As of October 31, 2013, PFI SAM Portfolios, PFI Principal LifeTime Funds, PVC SAM Portfolios, PVC Principal LifeTime Accounts, PVC Diversified Balanced Account, PVC Diversified Growth Account, and PVC Diversified Income Account owned the following percentages, in the aggregate, of the outstanding shares of the underlying funds listed below:

Fund	Total Percentage of Outstanding Shares Owned
Bond & Mortgage Securities Fund	73.09%
Core Plus Bond Fund I	48.01%
Diversified International Fund	58.16%
Equity Income Fund	37.90%
Global Diversified Income Fund	6.70%
Global Real Estate Securities Fund	66.14%
Government & High Quality Bond Fund	58.95%
High Yield Fund	7.11%
High Yield Fund I	32.54%
Income Fund	64.75%
Inflation Protection Fund	56.67%
International Emerging Markets Fund	62.02%
LargeCap Growth Fund	58.74%
LargeCap Growth Fund I	40.06%
LargeCap Growth Fund II	28.16%
LargeCap S&P 500 Index Fund	46.91%
LargeCap Value Fund	85.78%
LargeCap Value Fund I	76.01%
LargeCap Value Fund III	78.72%
MidCap Fund	6.98%
MidCap Growth Fund III	43.08%
MidCap S&P 400 Index Fund	15.34%
MidCap Value Fund III	82.17%
Overseas Fund	80.59%
Principal Capital Appreciation Fund	43.11%
Short-Term Income Fund	38.19%
SmallCap Growth Fund I	50.95%
SmallCap S&P 600 Index Fund	14.41%
SmallCap Value Fund II	58.91%

PORTFOLIO HOLDINGS INFORMATION

A description of the Fund's policies and procedures with respect to disclosure of the Fund's portfolio securities is available in the Fund's Statement of Additional Information.

MANAGEMENT OF THE FUNDS

The Manager

Principal Management Corporation ("Principal") serves as the manager for the Fund. Through the Management Agreement with the Fund, Principal provides investment advisory services and certain corporate administrative services for the Fund.

Principal is an indirect subsidiary of Principal Financial Group, Inc. and has managed mutual funds since 1969. Principal's address is 655 9th Street, Des Moines, IA 50392.

Principal provides investment advisory services with respect to 10-35% of the assets of the following Funds: International Fund I, LargeCap Blend Fund II, LargeCap Growth Fund I, LargeCap Growth Fund II, LargeCap Value Fund I, LargeCap Value Fund III, MidCap Growth Fund III, MidCap Value Fund I, MidCap Value Fund III, Overseas Fund, SmallCap Growth Fund I, SmallCap Growth Fund II, and SmallCap Value Fund II. The remaining assets in each of these Funds will be managed by the sub-advisor(s) named in the prospectus.

Principal provides these investment advisory services through a portfolio manager who functions as a co-employee of Principal and Principal Global Investors, LLC ("PGI") under an investment service agreement. Through the agreement, the portfolio manager has access to PGI's equity management processes, systems, staff, proprietary quantitative model, portfolio construction disciplines, experienced portfolio management, and quantitative research staff. This portfolio manager also has access to PGI's trading staff and trade execution capabilities along with PGI's order management system, pre- and post-trade compliance system, portfolio accounting system and performance attribution and risk management system. Mariateresa Monaco is the lead portfolio manager for the 10-35% of the assets to which Principal provides investment advisory services.

Mariateresa Monaco has worked as a portfolio manager for Principal since 2009. Previously, she worked as a portfolio manager for Principal Global Investors, LLC, where she worked as a portfolio manager since 2005. She earned a master's degree in Electrical Engineering from Politecnico di Torino, Italy, a master's degree in Electrical Engineering from Northeastern University, and an M.B.A. from the Sloan School of Management at the Massachusetts Institute of Technology.

Principal provides a substantial part of the investment advisory services to each of the Principal LifeTime Funds directly, while engaging PGI as a sub-advisor to assist in providing those investment advisory services. The portfolio managers Principal has appointed for each Principal LifeTime Fund are James Fennessey, Jeffrey Tyler, and Randy Welch. The portfolio managers PGI has appointed for each Principal LifeTime Fund are Matthew Annenberg and Dirk Laschanzky. Messrs. Fennessey, Tyler, Welch, Annenberg, and Laschanzky work as a team, sharing day-to-day management of the Principal LifeTime Funds; however, Mr. Tyler has ultimate decision making authority.

James W. Fennessey joined the Principal Financial Group in 2000. He is the Head of the Manager Research Team that is responsible for analyzing, interpreting and coordinating investment performance data and evaluation of the investment managers under the due diligence program that monitors investment managers used by the Principal Funds. Mr. Fennessey earned a B.S. in Business Administration, with an emphasis in Finance, and a minor in Economics from Truman State University. He has earned the right to use the Chartered Financial Analyst designation.

Jeffrey R. Tyler joined Principal in 2011. Prior to that, Mr. Tyler was the Chief Investment Officer at EXOS Partners. From 1988-2009, Mr. Tyler was a Senior Vice President, Senior Portfolio Manager, and Manager of Taxable Fixed Income for American Century. He earned a B.A. in business economics and accounting from the University of California, Santa Barbara and a Master of Management in finance and economics from the J.L. Kellogg Graduate School of Management, Northwestern University. Mr. Tyler has earned the right to use the Chartered Financial Analyst designation.

Randy L. Welch joined the Principal Financial Group in 1989 and oversees the functions of the Investment Services group, which includes investment manager research, investment consulting, performance analysis, and investment communication. He is also responsible for the due diligence program that monitors investment managers used by the Principal Funds. Mr. Welch is an affiliate member of the Chartered Financial Analysts (CFA) Institute. Mr. Welch earned a B.A. in Business/ Finance from Grand View College and an M.B.A. from Drake University.

Cash Management Program

The following Funds have adopted a special cash management program, described below: International Fund I, LargeCap Blend Fund II, LargeCap Growth Fund I, LargeCap Growth Fund II, LargeCap Value Fund I, LargeCap Value Fund III, MidCap Growth Fund III, MidCap Value Fund I, MidCap Value Fund III, Overseas Fund, SmallCap Growth Fund I, SmallCap Growth Fund II, and SmallCap Value Fund II.

Each Fund has cash available in its portfolio to meet redemption requests and to pay expenses. Additionally, each Fund receives cash when shareholders purchase shares. Each Fund invests its cash in money market investments and in stock index futures contracts reflecting the Fund's market capitalization to gain exposure to the market. Stock index futures provide returns similar to those of common stocks. Principal believes that, over the long term, this strategy will enhance the investment performance of the Funds.

The Sub-Advisors

Principal has signed contracts with various Sub-Advisors. Under the sub-advisory agreements, the Sub-Advisor agrees to assume the obligations of Principal to provide investment advisory services to the portion of the assets of a specific Fund allocated to it by Principal. For these services, Principal pays the Sub-Advisor a fee.

Principal or the Sub-Advisor provides the Directors of the Fund with a recommended investment program. The program must be consistent with the Fund's investment objective and policies. Within the scope of the approved investment program, the Sub-Advisor advises the Fund on its investment policy and determines which securities are bought or sold, and in what amounts.

Some of the Sub-Advisors may enter into co-employee agreements, investment service agreements, dual employee agreements, or other similar agreements with advisers with which they are affiliated. Through the agreements, the Sub-Advisor's portfolio manager usually is accorded access to the portfolio management processes, systems, staff, proprietary quantitative model, portfolio construction disciplines, experienced portfolio management, and quantitative research staff of the affiliated investment advisory firm. Likewise, through the agreements, the portfolio manager usually has access to the trading staff and trade execution capabilities along with the order management system, pre- and post-trade compliance system, portfolio accounting system and portfolio accounting system and performance attribution and risk management system of the affiliated investment advisory firm.

Several of the Funds have multiple Sub-Advisors. For those Funds (except the Global Diversified Income Fund), a team at Principal, consisting of James Fennessey and Randy Welch, determines the portion of the Fund's assets each Sub-Advisor will manage and may, from time-to-time, reallocate Fund assets between the Sub-Advisors. The decision to do so may be based on a variety of factors, including but not limited to: the investment capacity of each Sub-Advisor, portfolio diversification, volume of net cash flows, fund liquidity, investment performance, investment strategies, changes in each Sub-Advisor's firm or investment professionals or changes in the number of Sub-Advisors. Ordinarily, reallocations of Fund assets among Sub-Advisors occur as a Sub-Advisor liquidates assets in the normal course of portfolio management or with net new cash flows; however, at times existing Fund assets may be reallocated among Sub-Advisors. This team shares equally in the day-to-day portfolio management responsibility and agrees on allocation decisions.

The Global Diversified Income Fund has multiple Sub-Advisors and a team at Principal, consisting of Michael Finnegan, Kelly Grossman, and Dave Reichart, determines the portion of the Fund's assets each Sub-Advisor will manage and may, from time-to-time, reallocate Fund assets among the Sub-Advisors. This team shares day-to-day portfolio management, sharing authority, with no limitation on the authority of one portfolio manager in relation to another. The decision to reallocate Fund assets between the Sub-Advisors may be based on a variety of factors, including but not limited to: the investment capacity of each Sub-Advisor, portfolio diversification, volume of net cash flows, fund liquidity, investment performance, investment strategies, changes in each Sub-Advisor's firm or investment professionals or changes in the number of Sub-Advisors. Ordinarily, reallocations of Fund assets among Sub-Advisors occur as a Sub-Advisor liquidates assets in the normal course of portfolio management or with net new cash flows; however, at times existing Fund assets may be reallocated among Sub-Advisors.

Michael P. Finnegan joined the Principal Financial Group in 2001. Mr. Finnegan is Chief Investment Officer for Principal and leads the Investment Services group. He earned a B.B.A. in finance from Iowa State University and an M.A. in finance from the University of Iowa. Mr. Finnegan has earned the right to use the Chartered Financial Analyst designation and is a member of the ICFA and the Iowa Society of Financial Analysts.

Kelly Grossman joined the Principal Financial Group in 1991. She is Senior Product Manager at Principal. Prior to that, she was a Managing Director within the Capital Markets and Structured Products Group at Principal Global Investors. Ms. Grossman earned a B.A. in mathematics and computer science from the University of Northern Iowa. She is a fellow of the Society of Actuaries and a member of the American Academy of Actuaries.

Dave Reichart joined the Principal Financial Group in 1991. Mr. Reichart is a Senior Vice President for Principal. He earned a B.A. in finance from University of Nebraska and an M.B.A. from Drake University. Mr. Reichart has earned the right to use the Chartered Financial Analyst designation.

The Fund summaries identified the portfolio managers and the funds they manage. Additional information about the portfolio managers follows. The SAI provides additional information about each portfolio manager's compensation, other accounts managed by the portfolio manager, and the portfolio manager's ownership of securities in the Fund.

Sub-Advisor: AllianceBernstein L.P. ("AllianceBernstein"), 1345 Avenue of the Americas, New York, NY 10105, was founded in 1971 as an independent investment advisor registered with the SEC.

AllianceBernstein is the sub-advisor for a portion of the assets of the SmallCap Growth Fund I.

Sub-Advisor: American Century Investment Management, Inc. ("American Century"), American Century Tower, 4500 Main Street, Kansas City, MO 64111, was founded in 1958 and is a wholly owned subsidiary of American Century Companies, Inc.

American Century is the sub-advisor for a portion of the assets of the LargeCap Growth Fund II.

Sub-Advisor: Barrow, Hanley, Mewhinney & Strauss, LLC ("BHMS"), 2200 Ross Avenue, 31st Floor, Dallas, Texas 75201, is an investment advisory firm that was founded in 1979 and is a subsidiary of Old Mutual Asset Management (US) LLC, which is a subsidiary of Old Mutual plc, based in London, England.

BHMS is the sub-advisor for a portion of the assets of the MidCap Value Fund III, a portion of the assets of the LargeCap Value Fund III, and a portion of the assets of the Overseas Fund.

Sub-Advisor: BlackRock Financial Management, Inc. ("BlackRock"), 55 East 52nd Street, New York, New York 10055, is a registered investment adviser organized in 1994. BlackRock and its affiliates manage investment company and other portfolio assets.

BlackRock is the sub-advisor for the Inflation Protection Fund.

The Inflation Protection Fund is managed by a team of financial professionals at BlackRock. Martin Hegarty and Brian Weinstein are jointly and primarily responsible for the day-to-day management of the Fund.

Martin Hegarty has been with BlackRock since 2010. Prior to joining the firm, he served as a Director at Bank of America Merrill Lynch. He earned a B.S. in economics from Rhodes University, South Africa.

Brian Weinstein has been with BlackRock since 2000. He earned a B.A. in History from the University of Pennsylvania.

Sub-Advisor: Brown Advisory, LLC ("Brown"), 901 South Bond Street, Suite 400, Baltimore, Maryland 21231, is a registered investment adviser that works with institutions, corporations, nonprofits, families and individuals.

Brown is the sub-advisor for a portion of the assets of the LargeCap Growth Fund I and a portion of the assets of the SmallCap Growth Fund I.

Sub-Advisor: Causeway Capital Management LLC ("Causeway"), 11111 Santa Monica Boulevard, 15th Floor, Los Angeles, CA 90025, is a registered investment adviser founded in 2001.

Causeway is the sub-advisor for a portion of the assets of the Overseas Fund.

Sub-Advisor: ClearBridge Investments, LLC (“ClearBridge”), 620 8th Avenue, New York, NY 10018, formed in 2005, is a registered investment advisor offering a variety of products and services to institutions and individuals.

ClearBridge is the sub-advisor for a portion of the assets of the LargeCap Blend Fund II.

Sub-Advisor: Colonial First State Asset Management (Australia) Limited (“Colonial First State”), Level 3, Darling Park Tower 1, 201 Sussex Street, Sydney NSW 2000, is a global asset manager, which has experience across a range of asset classes and specialist investment sectors. Colonial First State manages investments on behalf of institutional investors, pension funds, wholesale distributors and platforms, financial advisers and their clients.

Colonial First State is one of the sub-advisors for the publicly-listed infrastructure portion of the Global Diversified Income Fund.

Sub-Advisor: Columbus Circle Investors (“CCI”), Metro Center, One Station Place, Stamford, CT 06902, founded in 1975, is an affiliate of PGI and a member of the Principal Financial Group.

CCI is the sub-advisor for the LargeCap Growth Fund, the MidCap Growth Fund and a portion of the assets of the SmallCap Growth Fund I.

For the LargeCap Growth Fund, Anthony Rizza is the lead portfolio manager, and Thomas J. Bisighini, as co-portfolio manager, has responsibility for research and supports Mr. Rizza on the day-to-day management of the Fund.

For the MidCap Growth Fund, Clifford G. Fox is the lead portfolio manager and Michael Iacono and Katerina Wasserman are the co-portfolio managers. Mr. Fox has the final decision making authority, but Mr. Iacono and Ms. Wasserman have the authority to execute trades in Mr. Fox’s absence.

Thomas J. Bisighini has been with CCI since 2004. He earned a B.S. from Bentley College and an M.B.A. in Finance from Fordham University. Mr. Bisighini has earned the right to use the Chartered Financial Analyst designation.

Clifford G. Fox has been with CCI since 1992. He earned an M.B.A. from the Stern School of Business, New York University and a B.S. from the Wharton School, University of Pennsylvania. Mr. Fox has earned the right to use the Chartered Financial Analyst designation.

Michael Iacono has been with CCI since 1997. He earned a B.S. from Boston College. Mr. Iacono is a CPA and has earned the right to use the Chartered Financial Analyst designation.

Anthony Rizza has been with CCI since 1991. He earned a B.S. in Business from the University of Connecticut. Mr. Rizza has earned the right to use the Chartered Financial Analyst designation.

Katerina Wasserman has been with CCI since 2000. She earned a B.S. in Biochemistry from the State University of New York at Stony Brook and a master’s of Public Administration from the Robert F. Wagner Graduate School at New York University.

Sub-Advisor: DDJ Capital Management, LLC (“DDJ”), 130 Turner Street, Building 3, Suite 600, Waltham, MA 02453, is an SEC registered investment advisor. DDJ was formed in 1996 and presently manages opportunistic high yield, core high yield, senior loan, and strategic income strategies for U.S. and international institutional investors.

DDJ is one of the sub-advisors for the high yield portion of the Global Diversified Income Fund.

Sub-Advisor: Dimensional Fund Advisors LP (“Dimensional”), 6300 Bee Cave Road, Building One, Austin, TX 78746, is a registered investment advisor organized in 1981.

Dimensional is the sub-advisor for a portion of the assets of the SmallCap Value Fund II.

Sub-Advisor: Edge Asset Management, Inc. (“Edge”), 601 Union Street, Suite 2200, Seattle, WA 98101-1377, is an affiliate of Principal and a member of the Principal Financial Group. Edge has been in the business of investment management since 1944.

Edge is the sub-advisor for the Equity Income, Government & High Quality Bond, Income, Principal Capital Appreciation, and Short-Term Income Funds, and the SAM Balanced, SAM Conservative Balanced, SAM Conservative Growth, SAM Flexible Income, and the SAM Strategic Growth Portfolios.

When more than one portfolio manager is identified as being responsible for the day-to-day portfolio management, the portfolio managers operate as a team, sharing authority, with no limitation on the authority of one portfolio manager in relation to another.

Charles D. Averill previously was a senior quantitative analyst and has worked at Edge since 1990. He earned a bachelor’s degree in Economics from Reed College and an M.A. in Economics from Princeton University. Mr. Averill has earned the right to use the Chartered Financial Analyst designation.

Daniel R. Coleman joined Edge in 2001 and has held various investment management roles on the equity team, including Portfolio Manager and some senior management roles. He earned a bachelor’s degree in Finance from the University of Washington and an M.B.A. from New York University.

Jill R. Cuniff became President of Edge in 2009 and became a portfolio manager in 2010. Prior to becoming the President of Edge, Ms. Cuniff was the President of Morley Financial. She earned a bachelor’s degree in Business Finance from Montana State University.

Philip M. Foreman has been with Edge since 2002. He earned a bachelor’s degree in Economics from the University of Washington and an M.B.A. from the University of Puget Sound. Mr. Foreman has earned the right to use the Chartered Financial Analyst designation.

John R. Friedl has been with Edge since 1998. He earned a B.A. in Communications and History from the University of Washington and a master’s degree in Finance from Seattle University. Mr. Friedl has earned the right to use the Chartered Financial Analyst designation.

Todd A. Jablonski has been with Edge since 2010. Previously, he was an Executive Director and Portfolio Manager at UBS. Prior to that, he was the lead portfolio manager of US large cap strategies at Credit Suisse Asset Management. He earned a bachelor’s degree in Economics from the University of Virginia and an M.B.A. with an emphasis in Quantitative Finance from New York University’s Stern School of Business. Mr. Jablonski has earned the right to use the Chartered Financial Analyst designation.

Ryan P. McCann has been a portfolio manager for Edge since 2010. Previously, he was a Portfolio Manager and trader of structured mortgage products for Columbia Asset Management. He earned a B.A. in Business Administration from Washington State University. Mr. McCann has earned the right to use the Chartered Financial Analyst designation.

Scott J. Peterson has been with Edge since 2002. He earned a bachelor’s degree in Mathematics from Brigham Young University and an M.B.A. from New York University’s Stern School of Business. Mr. Peterson has earned the right to use the Chartered Financial Analyst designation.

Sarah E. Radecki joined Edge in 1999. Ms. Radecki earned bachelor’s degrees in Political Science and Economics from Saint Mary’s College of California and a master’s degree in Economics from the University of California at Santa Barbara. She has earned the right to use the Chartered Financial Analyst designation.

David W. Simpson has been with Edge since 2003. He earned a bachelor’s degree from the University of Illinois and an M.B.A. in Finance from the University of Wisconsin. Mr. Simpson has earned the right to use the Chartered Financial Analyst designation.

Greg L. Tornnga joined Edge in 2011. Previously, Mr. Tornnga worked at Payden & Rygel Investment Management in Los Angeles. He earned a bachelor's degree from the University of Michigan and an M.B.A. from the Argyros School of Business at Chapman University. Mr. Tornnga has earned the right to use the Chartered Financial Analyst designation.

Sub-Advisor: Emerald Advisers, Inc. ("Emerald"), 3175 Oregon Pike, Leola, PA 17540, is a wholly owned subsidiary of Emerald Asset Management incorporated in 1991.

Emerald is the sub-advisor for a portion of the assets of the SmallCap Growth Fund II.

The portfolio managers work as a team. Each person has the authority to make buy and sell decisions for the portfolio. Each also has sector-specific research responsibilities as well.

Joseph W. Garner has been with Emerald since 1994. He earned a B.A. in Economics from Millersville University and an M.B.A. from the Katz Graduate School of Business, University of Pittsburgh.

Kenneth G. Mertz II has been with Emerald since 1992. He earned a B.A. in Economics from Millersville University. Mr. Mertz has earned the right to use the Chartered Financial Analyst designation.

Stacey L. Sears has been with Emerald since 1992. She earned a B.S. in Business Administration from Millersville University and an M.B.A. from Villanova University.

Sub-Advisor: Goldman Sachs Asset Management, L.P. ("GSAM"), 200 West Street, New York, NY 10282, has been registered as an investment adviser with the SEC since 1990 and is an affiliate of Goldman, Sachs & Co.

GSAM is the sub-advisor for a portion of the assets of the MidCap Value Fund I.

Sub-Advisor: Guggenheim Partners Investment Management, LLC ("Guggenheim"), 100 Wilshire Boulevard, Suite 500 Santa Monica CA 90401, is an SEC registered investment adviser.

Guggenheim is the sub-advisor for the call option overwriting portion of the Global Diversified Income Fund and one of the sub-advisors for the high yield portion of the Global Diversified Income Fund.

Sub-Advisor: Herndon Capital Management, LLC ("Herndon"), 191 Peachtree Street NE, Suite 2500, Atlanta, GA 30303, has been registered with the SEC as an investment adviser since 2001 and managing assets since 2002. Herndon is an institutional investment management firm specializing in large- and mid-capitalization equity strategies.

Herndon is the sub-advisor for a portion of the assets of the LargeCap Value Fund I.

Sub-Advisor: J.P. Morgan Investment Management Inc. ("J.P. Morgan"), 270 Park Avenue, New York, NY 10017, is an SEC registered investment adviser and an indirect wholly owned subsidiary of JPMorgan Chase & Co.

J.P. Morgan is the sub-advisor for a portion of the assets of the High Yield Fund I.

The portfolio managers operate as a team, sharing authority and responsibility for research and the day-to-day management of the portfolio with no limitation on the authority of one portfolio manager in relation to another.

James E. Gibson has been with J.P. Morgan since 1988. He earned a B.S. in Finance from the University of Cincinnati College of Business Administration.

William J. Morgan has been with J.P. Morgan since 2005. He earned a B.A. in History from Kenyon College and an M.B.A. from Xavier University.

James P. Shanahan, Jr. has been with J.P. Morgan since 2005. He earned a B.A. from Xavier University and a J.D. from the University of Cincinnati College of Law.

Sub-Advisor: Los Angeles Capital Management and Equity Research, Inc. ("Los Angeles Capital"), 11150 Santa Monica Boulevard, Suite 200, Los Angeles, CA 90025, is a California Subchapter S corporation founded in 2002 and is wholly-owned by its working principals. Los Angeles Capital offers risk-controlled, active equity management services to a broad range of institutional investors.

Los Angeles Capital is the sub-advisor for a portion of the assets of the MidCap Value Fund I and a portion of the assets of the SmallCap Value Fund II.

Sub-Advisor: Montag & Caldwell, LLC ("M&C"), 3455 Peachtree Rd., NE, Suite 1200, Atlanta, Georgia 30326, is an employee owned registered investment adviser which on September 24, 2010 succeeded the business of Montag & Caldwell, Inc., a registered investment adviser founded in 1945.

M&C is the sub-advisor for a portion of the assets of the LargeCap Growth Fund II.

Sub-Advisor: Neuberger Berman Fixed Income LLC ("Neuberger Berman"), 190 South LaSalle Street, Chicago, IL 60603, is an investment adviser registered with the SEC.

Neuberger Berman is the sub-advisor for a portion of the assets of the High Yield Fund I.

The day-to-day portfolio management is shared by multiple portfolio managers. The portfolio managers operate as a team, sharing authority and responsibility for research and the day-to-day management of the portfolio with no limitation on the authority of one portfolio manager in relation to another.

Ann H. Benjamin has been with Neuberger Berman (and its predecessors) since 1997. She earned a B.A. in Economics from Chatham College and a master's in Finance from Carnegie Mellon University.

William (Russ) Covode has been with Neuberger Berman since 2006. He earned a B.A. in Economics from Colorado College and an M.B.A. from the University of Chicago.

Daniel Doyle has been with Neuberger Berman since 2012. Prior to that, Mr. Doyle was a managing director at SunTrust Robinson Humphrey. He earned a B.S. from Northern Illinois University and an M.B.A. from the University of Chicago. He has earned the right to use the Chartered Financial Analyst designation.

Thomas P. O'Reilly has been with Neuberger Berman (and its predecessors) since 1997. He earned a B.S. in Finance from Indiana University and an M.B.A. from Loyola University. He has earned the right to use the Chartered Financial Analyst designation.

Sub-Advisor: Pacific Investment Management Company LLC ("PIMCO"), 840 Newport Center Drive, Newport Beach, CA 92660, was organized in 1971 and is an investment adviser. PIMCO manages investments for a wide range of clients, including public and private pension and retirement plans, companies, central banks, educational institutions, financial advisors, foundations and endowments.

PIMCO is the sub-advisor for the Core Plus Bond Fund I.

William H. Gross is a founding partner of PIMCO. He earned a B.A. from Duke University and an M.B.A. from Anderson School of Management at UCLA. Mr. Gross has earned the right to use the Chartered Financial Analyst designation.

Sub-Advisor: Post Advisory Group, LLC ("Post"), 1620 26th Street, Suite 6500N, Santa Monica, CA 90404, founded in 1992, is an indirect subsidiary of Principal Life, an affiliate of PGI and a member of the Principal Financial Group, and is a global investment manager specializing in high yield securities with a multi-strategy, value-oriented investment approach.

Post is one of the sub-advisors for the high yield portion of the Global Diversified Income Fund.

Sub-Advisor: Principal Global Investors, LLC (“PGI”), 801 Grand Avenue, Des Moines, IA 50392, is an indirect wholly owned subsidiary of Principal Life Insurance Company, an affiliate of Principal, and a member of the Principal Financial Group. PGI manages equity, fixed-income, and real estate investments primarily for institutional investors, including Principal Life. PGI's other primary asset management office is in New York, with asset management offices of affiliate advisors in several non-U.S. locations including London, Sydney and Singapore.

PGI is the sub-advisor for the Bond & Mortgage Securities Fund, the Diversified International Fund, the High Yield Fund, the International Emerging Markets Fund, the LargeCap S&P 500 Index Fund, the LargeCap Value Fund, the MidCap Fund, the MidCap S&P 400 Index Fund, the Money Market Fund, the Principal LifeTime 2010 Fund, the Principal LifeTime 2015 Fund, the Principal LifeTime 2020 Fund, the Principal LifeTime 2025 Fund, the Principal LifeTime 2030 Fund, the Principal LifeTime 2035 Fund, the Principal LifeTime 2040 Fund, the Principal LifeTime 2045 Fund, the Principal LifeTime 2050 Fund, the Principal LifeTime 2055 Fund, the Principal LifeTime 2060 Fund, the Principal LifeTime Strategic Income Fund, the SmallCap Blend Fund, the SmallCap S&P 600 Index Fund, the global value equity portion of the Global Diversified Income Fund, and a portion of the assets of the MidCap Value Fund III.

As reflected in the fund summaries, the day-to-day portfolio management, for some funds, is shared by multiple portfolio managers. In each such case, except the MidCap Fund and where noted in the Management of the Funds section describing the management of the Principal LifeTime Funds, the portfolio managers operate as a team, sharing authority and responsibility for research and the day-to-day management of the portfolio with no limitation on the authority of one portfolio manager in relation to another. For the MidCap Fund, Mr. Nolin and Mr. Rozycki work as a team, sharing day-to-day management of the Fund; however, Mr. Nolin has ultimate decision making authority. Mr. Rozycki may execute trades in Mr. Nolin's absence.

Matthew Annenberg has been with PGI since 2012. Prior to PGI, he was a managing director at K2 Advisors and at ABM AMRO Bank. He earned a bachelor's degree in Finance from Harvard College. Mr. Annenberg has earned the right to use the Chartered Financial Analyst designation.

William C. Armstrong has been with PGI since 1992. He earned a bachelor's degree from Kearney State College and a master's degree from the University of Iowa. Mr. Armstrong has earned the right to use the Chartered Financial Analyst designation.

Paul H. Blankenhagen has been with PGI since 1992. He earned a bachelor's degree in Finance from Iowa State University and a master's degree from Drake University. Mr. Blankenhagen has earned the right to use the Chartered Financial Analyst designation.

Juliet Cohn has been with PGI since 2003. As a co-employee of PGI and Principal Global Investors (Europe) Limited (“PGI Europe”), Ms. Cohn manages Principal Fund assets as an employee of PGI. She earned a bachelor's degree in Mathematics from Trinity College, Cambridge, England.

Mark P. Denkinger has been with PGI since 1990. He earned a bachelor's degree in Finance and an M.B.A. with a Finance emphasis from the University of Iowa. Mr. Denkinger has earned the right to use the Chartered Financial Analyst designation.

Mihail Dobrinov has been with PGI since 1995. He earned an M.B.A. in Finance from the University of Iowa and a law degree from Sofia University, Bulgaria. Mr. Dobrinov has earned the right to use the Chartered Financial Analyst designation.

Arild Holm has been with PGI since 2002. He earned a bachelor's degree in Management Sciences from the University of Manchester Institute of Science and Technology (England) and an M.B.A. in Finance from the University of Colorado. Mr. Holm has earned the right to use the Chartered Financial Analyst designation.

Thomas L. Kruchten has been with PGI since 2005. He earned a B.A. in finance from the University of Northern Iowa. Mr. Kruchten has earned the right to use the Chartered Financial Analyst designation and is a member of the CFA Society of Iowa.

Dirk Laschanzky has been with PGI since 1997. He earned a B.A. and an M.B.A., both in Finance, from the University of Iowa. Mr. Laschanzky has earned the right to use the Chartered Financial Analyst designation.

K. William Nolin has been with PGI since 1993. He earned a bachelor's degree in Finance from the University of Iowa and an M.B.A. from the Yale School of Management. Mr. Nolin has earned the right to use the Chartered Financial Analyst designation.

Phil Nordhus has been with PGI since 1990. He earned a bachelor's degree in Economics from Kansas State University and an M.B.A. from Drake University. Mr. Nordhus has earned the right to use the Chartered Financial Analyst designation.

Brian Pattinson has been with Principal Global Investors since 1994. He earned a bachelor's degree and an M.B.A. in Finance from the University of Iowa. Mr. Pattinson has earned the right to use the Chartered Financial Analyst designation.

Tracy Reeg has been with PGI since 1993. She earned a bachelor's degree in Finance from the University of Northern Iowa.

Alice Robertson has been with the Principal Financial Group since 1990. She earned a bachelor's degree in Economics from Northwestern University and a master's degree in Finance and Marketing from DePaul University.

Tom Rozycki has been with PGI since 2001. He has earned a bachelor's degree in Finance from Drake University. Mr. Rozycki has earned the right to use the Chartered Financial Analyst designation.

Jeffrey A. Schwarte has been with PGI since 1993. He earned a bachelor's degree in Accounting from the University of Northern Iowa. Mr. Schwarte is a CPA and has earned the right to use the Chartered Financial Analyst designation.

Darrin E. Smith has been with PGI since 2007. He earned a bachelor's degree in Economics from Iowa State University and an M.B.A. from Drake University. Mr. Smith has earned the right to use the Chartered Financial Analyst designation.

Timothy R. Warrick has been with PGI since 1990. He earned a bachelor's degree in Accounting and Economics from Simpson College and an M.B.A. in Finance from Drake University. Mr. Warrick has earned the right to use the Chartered Financial Analyst designation.

Mohammed Zaidi returned to PGI in 2012, where he formerly worked from 2001 to 2006. As a co-employee of PGI and Principal Global Investors (Singapore) Limited, Mr. Zaidi manages Principal Fund assets as an employee of PGI. Previously, he was with Martin Currie Investment Management and Scottish Widows Investment Partnership. He earned a bachelor's degree in Economics from the Wharton School of University of Pennsylvania and an M.B.A. from Massachusetts Institute of Technology, Sloan School of Management.

Sub-Advisor: **Principal Real Estate Investors, LLC ("Principal - REI")**, 801 Grand Avenue, Des Moines, IA 50392, an indirect wholly owned subsidiary of Principal Life, an affiliate of Principal, and a member of the Principal Financial Group, was founded in 2000.

Principal-REI is the sub-advisor for the Global Real Estate Securities Fund, the Real Estate Securities Fund, and the global real estate portion of the Global Diversified Income Fund.

The day-to-day portfolio management is shared by multiple portfolio managers. In each such case, the portfolio managers operate as a team, sharing authority and responsibility for research and the day-to-day management of the portfolio with no limitation on the authority of one portfolio manager in relation to another.

Keith Bokota has been with Principal - REI since 2007. He earned a bachelor's degree in Finance and International Business from Georgetown University. Mr. Bokota has earned the right to use the Chartered Financial Analyst designation.

Simon Hedger has been with Principal - REI since 2003. As a co-employee of Principal-REI and PGI Europe, Mr. Hedger manages Principal Fund assets as an employee of Principal-REI. He earned an M.B.A. from the University of New England and is an associate member of both the Royal Institute of Chartered Surveyors and of the Australian Property Institute. He is a U.K. qualified chartered surveyor (ARICS).

Anthony Kenkel has been with Principal – REI since 2005. He earned a bachelor’s degree in Finance from Drake University and an M.B.A. from the University of Chicago Graduate School of Business. Mr. Kenkel has earned the right to use the Chartered Financial Analyst and Financial Risk Manager designations.

Kelly D. Rush has been with Principal-REI since 2000 and the predecessor firms since 1987. He earned a B.A. in Finance and an M.B.A. in Business Administration from the University of Iowa. Mr. Rush has earned the right to use the Chartered Financial Analyst designation.

Sub-Advisor: Pyramis Global Advisors, LLC (“Pyramis”), 900 Salem Street, Smithfield, RI 02917, was established by Fidelity Investments in 2005 as a separate business unit to focus on institutional clients. Pyramis offers clearly-defined traditional long-only, equity, fixed income, asset allocation and alternative disciplines to meet specific client investment objectives.

Pyramis is the sub-advisor for a portion of the assets of the International Fund I.

Sub-Advisor: Robert W. Baird & Co. Incorporated (“Baird”), 777 East Wisconsin Avenue, Milwaukee, Wisconsin 53202, was founded in 1919. Baird provides investment management services for individuals and institutional clients including pension and profit sharing plans.

Baird is the sub-advisor for a portion of the assets of the MidCap Growth Fund III.

Sub-Advisor: Schroder Investment Management North America Inc. (“Schroder Inc.”), 875 Third Avenue, New York, NY 10022, a registered investment advisor.

Schroder Inc. has delegated management of the International Fund I’s assets to Schroder Investment Management North America Limited (“Schroder Limited”) through a sub-sub-advisory agreement. See “The Sub-Sub-Advisor” for more information.

Sub-Advisor: Spectrum Asset Management, Inc. (“Spectrum”), 2 High Ridge Park, Stamford, CT 06905, founded in 1987, is an indirect subsidiary of Principal Life, an affiliate of PGI and a member of the Principal Financial Group. Spectrum manages portfolios of preferred securities for corporate, pension fund, insurance and endowment clients, open-end and closed-end mutual funds, and separately managed account programs for high net worth individual investors as well as providing volatility management solutions for some client portfolios.

Spectrum is the sub-advisor for the preferred securities portion of the Global Diversified Income Fund.

Sub-Advisor: Stone Harbor Investment Partners LP (“Stone Harbor”), 31 West 52nd Street, 16th Floor, New York, New York 10019, was established in 2006 and provides investment advisory services to clients located throughout the world.

Stone Harbor is the sub-advisor for the emerging market debt portion of the Global Diversified Income Fund.

Sub-Advisor: T. Rowe Price Associates, Inc. (“T. Rowe Price”), 100 East Pratt Street, Baltimore, MD 21202, a wholly owned subsidiary of T. Rowe Price Group, Inc., a financial services holding company, has over 75 years of investment management experience.

T. Rowe Price is the sub-advisor for a portion of the assets of the LargeCap Blend Fund II and a portion of the assets of the LargeCap Growth Fund I.

Sub-Advisor: Thompson, Siegel & Walmsley LLC (“TS&W”), 6806 Paragon Place, Suite 300, Richmond, VA 23230, is a limited liability company and a SEC registered investment advisor founded in 1969. TS&W is a majority owned subsidiary of Old Mutual (US) Holdings Inc., a subsidiary of Old Mutual plc.

TS&W is the sub-advisor for a portion of the assets of the LargeCap Value Fund I.

Sub-Advisor: Tortoise Capital Advisors, L.L.C. ("Tortoise"), 11550 Ash Street, Suite 300, Leawood, Kansas 66211, formed in October 2002, is wholly owned by Tortoise Holdings, LLC. Tortoise specializes in managing portfolios of investments in MLPs and other energy companies.

Tortoise is the sub-advisor for the master limited partnership portion of the Global Diversified Income Fund.

Sub-Advisor: Vaughan Nelson Investment Management, LP ("Vaughan Nelson"), 600 Travis Street, Suite 6300, Houston, Texas 77002, was founded in 1970 and is a wholly-owned affiliated under Natixis Global Asset Management.

Vaughan Nelson is the sub-advisor for a portion of the assets of the SmallCap Value Fund II.

Sub-Advisor: Westwood Management Corp. ("Westwood"), 200 Crescent Court, Suite 1200, Dallas, Texas 75201, a New York corporation formed in 1983, is a wholly owned subsidiary of Westwood Holdings Group, Inc.

Westwood is the sub-advisor for a portion of the assets of the LargeCap Value Fund III.

Sub-Advisor: W. H. Reaves & Co., Inc. (doing business as Reaves Asset Management), 10 Exchange Place, 18th Floor, Jersey City, NJ 07302, was founded in 1961 as an institutional research firm and is an SEC registered adviser.

Reaves Asset Management is one of the sub-advisors for the publicly-listed infrastructure portion of the Global Diversified Income Fund.

Sub-Advisor: William Blair & Company, L.L.C. ("William Blair"), 222 West Adams Street, Chicago, Illinois 60606, has been an investment advisor since 1947, and provides investment management services to mutual funds, corporate pension plans, endowments and foundations and individual accounts.

William Blair is the sub-advisor for a portion of the assets of the MidCap Growth Fund III.

The Sub-Sub-Advisor

Schroder Inc., Schroder Investment Management North America Limited ("Schroder Limited") and Principal have entered into a sub-sub-advisory agreement for the International Fund I. Under this agreement, Schroder Limited has agreed to carry out the obligations of Schroder Inc. to manage the Fund's assets. Day-to-day management decisions concerning the portion of the International Fund I's portfolio allocated to Schroder Inc. are made by Schroder Limited. Schroder Inc. pays a fee to Schroder Limited.

Sub-Sub-Advisor: Schroder Investment Management North America Limited ("Schroder Limited"), 31 Gresham Street, London, United Kingdom EC2V 7QA, a US registered investment advisor.

Schroder Limited is the sub-sub-advisor for a portion of the assets of the International Fund I.

Fees Paid to Principal

Each Fund pays Principal a fee for its services, which includes the fee Principal pays to the Sub-Advisor. The fee each Fund paid (as a percentage of the average daily net assets) for the fiscal year ended October 31, 2013 was:

BOND & MORTGAGE SECURITIES FUND	0.52%	MONEY MARKET FUND	0.39%
CORE PLUS BOND FUND I	0.55%	OVERSEAS FUND	1.07%
DIVERSIFIED INTERNATIONAL FUND	0.84%	PRINCIPAL CAPITAL APPRECIATION FUND	0.47%
EQUITY INCOME FUND	0.51%	PRINCIPAL LIFETIME 2010 FUND	0.03%
GLOBAL DIVERSIFIED INCOME FUND	0.72%	PRINCIPAL LIFETIME 2015 FUND	0.03%
GLOBAL REAL ESTATE FUND	0.88%	PRINCIPAL LIFETIME 2020 FUND	0.03%
GOVERNMENT & HIGH QUALITY BOND FUND	0.50%	PRINCIPAL LIFETIME 2025 FUND	0.03%
HIGH YIELD FUND	0.51%	PRINCIPAL LIFETIME 2030 FUND	0.03%
HIGH YIELD FUND I	0.63%	PRINCIPAL LIFETIME 2035 FUND	0.03%
INCOME FUND	0.49%	PRINCIPAL LIFETIME 2040 FUND	0.03%
INFLATION PROTECTION FUND	0.39%	PRINCIPAL LIFETIME 2045 FUND	0.03%
INTERNATIONAL EMERGING MARKETS FUND	1.18%	PRINCIPAL LIFETIME 2050 FUND	0.03%
INTERNATIONAL FUND I	0.96%	PRINCIPAL LIFETIME 2055 FUND	0.03%
LARGECAP BLEND FUND II	0.74%	PRINCIPAL LIFETIME 2060 FUND ⁽¹⁾	0.03%
LARGECAP GROWTH FUND	0.63%	PRINCIPAL LIFETIME STRATEGIC INCOME FUND	0.03%
LARGECAP GROWTH FUND I	0.61%	REAL ESTATE SECURITIES FUND	0.83%
LARGECAP GROWTH FUND II	0.87%	SAM BALANCED PORTFOLIO	0.32%
LARGECAP S&P 500 INDEX FUND	0.15%	SAM CONSERVATIVE BALANCED PORTFOLIO	0.32%
LARGECAP VALUE FUND	0.42%	SAM CONSERVATIVE GROWTH PORTFOLIO	0.32%
LARGECAP VALUE FUND I	0.77%	SAM FLEXIBLE INCOME PORTFOLIO	0.32%
LARGECAP VALUE FUND III	0.79%	SAM STRATEGIC GROWTH PORTFOLIO	0.32%
MIDCAP FUND	0.60%	SHORT-TERM INCOME FUND	0.42%
MIDCAP GROWTH FUND	0.65%	SMALLCAP BLEND FUND	0.75%
MIDCAP GROWTH FUND III	0.97%	SMALLCAP GROWTH FUND I	1.08%
MIDCAP S&P 400 INDEX FUND	0.15%	SMALLCAP GROWTH FUND II	1.00%
MIDCAP VALUE FUND I	0.98%	SMALLCAP S&P 600 INDEX FUND	0.15%
MIDCAP VALUE FUND III	0.65%	SMALLCAP VALUE FUND II	0.98%

⁽¹⁾ Operations commenced on March 1, 2013

A discussion regarding the basis for the Board of Directors approval of the management agreement with Principal and the sub-advisory agreement with the sub-advisor for the Principal LifeTime 2060 Fund is available in the semiannual report to shareholders for the period ending April 30, 2013. For the other Funds, a discussion regarding the basis for the Board of Directors approval of the management agreement with Principal and the sub-advisory agreements with each sub-advisor is available in the annual report to shareholders for the fiscal year ended October 31, 2013.

Manager of Managers

The Fund operates as a Manager of Managers. Under an order received from the SEC, the Fund and Principal, may enter into and materially amend agreements with Sub-Advisors, other than those affiliated with Principal, without obtaining shareholder approval. Principal may, without obtaining shareholder approval:

- hire one or more Sub-Advisors;
- change Sub-Advisors; and
- reallocate management fees between itself and Sub-Advisors.

Principal has ultimate responsibility for the investment performance of each Fund that utilizes a Sub-Advisor due to its responsibility to oversee Sub-Advisors and recommend their hiring, termination, and replacement. No Fund will rely on the order until it receives approval from its shareholders or, in the case of a new Fund, the Fund's sole initial shareholder before the Fund is available to the other purchasers. The shareholders of each of the Funds have approved the Fund's reliance on the order.

Voluntary Waiver

Money Market Fund

Principal has voluntarily agreed to limit the Fund's expenses to the extent necessary to maintain a 0% yield. The voluntary expense limit may be terminated at any time.

PRICING OF FUND SHARES

Each Fund's shares are bought and sold at the current share price. The share price of each class of each Fund is calculated each day the New York Stock Exchange ("NYSE") is open (share prices are not calculated on the days on which the NYSE is closed for trading, generally New Year's Day, Martin Luther King, Jr. Day, Washington's Birthday/ Presidents' Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day, and Christmas). The share price is determined as of the close of business of the NYSE (normally 3:00 p.m. Central Time). When an order to buy or sell shares is received, the share price used to fill the order is the next price we calculate after we receive the order at our transaction processing center in Canton, Massachusetts. To process your purchase order on the day we receive it, we must receive the order (with complete information):

- on a day that the NYSE is open and
- prior to the close of trading on the NYSE (normally 3 p.m. Central Time).

Orders received after the close of the NYSE or on days that the NYSE is not open will be processed on the next day that the NYSE is open for normal trading.

If we receive an application or purchase request for a new mutual fund account or subsequent purchase into an existing account that is accompanied by a check and the application or purchase request does not contain complete information, we may hold the application (and check) for up to two business days while we attempt to obtain the necessary information. If we receive the necessary information within two business days, we will process the order using the next share price calculated. If we do not receive the information within two business days, the application and check will be returned to you.

For all Funds, except the Money Market Fund, the share price is calculated by:

- taking the current market value of the total assets of the Fund
- subtracting liabilities of the Fund
- dividing the remainder proportionately into the classes of the Fund
- subtracting the liability of each class
- dividing the remainder by the total number of shares outstanding for that class.

With respect to the Principal LifeTime Funds and SAM Portfolios, which invest in other registered investment company funds, each Fund's NAV is calculated based on the NAV of such other registered investment company funds in which the Fund invests.

The securities of the Money Market Fund are valued at amortized cost. The calculation procedure is described in the Statement of Additional Information.

Notes:

- If market quotations are not readily available for a security owned by a Fund, its fair value is determined using a policy adopted by the Directors. Fair valuation pricing is subjective and creates the possibility that the fair value determined for a security may differ materially from the value that could be realized upon the sale of the security.
- A Fund's securities may be traded on foreign securities markets that generally complete trading at various times during the day prior to the close of the NYSE. Foreign securities and currencies are converted to U.S. dollars using the exchange rate in effect at the close of the NYSE. Securities traded outside of the Western Hemisphere are valued using a fair value policy adopted by the Fund. These fair valuation procedures are intended to discourage shareholders from investing in the Fund for the purpose of engaging in market timing or arbitrage transactions.
- The trading of foreign securities generally or in a particular country or countries may not take place on all days the NYSE is open, or may trade on days the NYSE is closed. Thus, the value of the foreign securities held by the Fund may change on days when shareholders are unable to purchase or redeem shares.
- Certain securities issued by companies in emerging market countries may have more than one quoted valuation at any point in time. These may be referred to as local price and premium price. The premium price is often a negotiated price that may not consistently represent a price at which a specific transaction can be effected. The Fund has a policy to value such securities at a price at which the Sub-Advisor expects the securities may be sold.

PURCHASE OF FUND SHARES

Principal Funds, Inc. offers funds in multiple share classes: A, B, C, J, P, Institutional, R-1, R-2, R-3, R-4, R-5, and S. Funds available in multiple share classes have the same investments, but differing expenses. Classes Institutional, R-1, R-2, R-3, R-4, and R-5 shares are available in this prospectus. PFI will not issue share certificates.

The Fund may reject or cancel any purchase orders for any reason. For example, the Fund does not intend to permit market timing because short-term or other excessive trading into and out of the Funds may harm performance by disrupting portfolio management strategies and by increasing expenses. Accordingly, the Fund may reject any purchase orders from market timers or investors that, in Principal's opinion, may be disruptive to the Fund. For these purposes, Principal may consider an investor's trading history in the Fund or other Funds sponsored by Principal Life and accounts under common ownership or control.

Principal may recommend to the Board, and the Board may elect, to close certain funds or share classes to new and existing investors.

Shares may be purchased from Principal Funds Distributor, Inc. ("PFD" or "the Distributor"). The Distributor is an affiliate of Principal Life Insurance Company and with it are subsidiaries of Principal Financial Group, Inc. and members of the Principal Financial Group. There are no sales charges on Institutional, R-1, R-2, R-3, R-4, and R-5 Class shares of the Fund.

Shareholder accounts for the Fund are maintained under an open account system. Under this system, an account is opened and maintained for each investor (generally an omnibus account, plan level account, or institutional investor). Each investment is confirmed by sending the investor a statement of account showing the current purchase or sale and the total number of shares owned. The statement of account is treated by the Fund as evidence of ownership of Fund shares.

MidCap Fund

For retail investors (i.e., non-employer sponsored retirement plan investors), effective as of the close of the New York Stock Exchange on June 14, 2013 and for employer-sponsored retirement plan investors, effective as of the close of the New York Stock Exchange on August 15, 2013, the MidCap Fund will no longer be available for purchases from new investors except in limited circumstances.

- Shareholders, including those in omnibus accounts, who own shares of the MidCap Fund as of June 14, 2013 (for retail investors, i.e., non-employer sponsored retirement plan investors) or August 15, 2013 (for employer sponsored retirement plan investors), may continue to make purchases, exchanges, and dividend or capital gains reinvestment in existing accounts.
- Registered Investment Advisor (RIA) and bank trust firms that have an investment allocation to the MidCap Fund in a fee-based, wrap or advisory account, may continue to add new clients, purchase shares, and exchange into the MidCap Fund. The MidCap Fund will not be available to new RIA and bank trust firms.
- Shareholders through accounts at private banks may continue to purchase shares and exchange into the MidCap Fund. Private banks that have an investment allocation to the MidCap Fund may add new clients. The MidCap Fund will not be available to private bank or private bank platforms not already investing in the MidCap Fund.
- Shareholders in broker/dealer wrap or fee-based programs that have an investment allocation to the MidCap Fund may continue to purchase shares and exchange into the MidCap Fund. Existing broker/dealer wrap or fee-based programs may add new participants.
- Shareholders in certain types of retirement plans (including 401(k)s, SEPs, SIMPLEs, 403(b)s, etc.) may continue to purchase shares and exchange into the MidCap Fund. New participants in these plans may elect to purchase shares of the MidCap Fund.
- Retirement plans in transition as of the closure date will have until August 15, 2013, to fund any new accounts.
- Shareholders within brokerage accounts may continue to purchase shares of the MidCap Fund; however, new brokerage accounts will not be permitted to begin investing in the MidCap Fund after June 14, 2013.
- 529 plans that include the MidCap Fund within their investment options may continue to purchase shares and exchange into the MidCap Fund.
- Funds of funds, such as the Strategic Asset Management (SAM) Portfolios and Principal LifeTime Funds, may continue to invest in the MidCap Fund.

Procedures for Opening an Account

To help the government fight the funding of terrorism and money laundering activities, Federal law requires financial institutions to obtain, verify, and record information that identifies each person who opens an account. When you open an account, we will ask for your name, address, date of birth, and other information that will allow us to verify your identity. We may also ask to see your driver's license or other identifying documents.

If concerns arise with verification of your identity, no transactions, other than redemptions, will be permitted while we attempt to reconcile the concerns. If we are unable to verify your identity on a timely basis, we may close your account or take such other action as we deem appropriate.

Note: No salesperson, broker-dealer or other person is authorized to give information or make representations about a Fund other than those contained in this Prospectus. Information or representations not contained in this prospectus may not be relied upon as having been provided or made by Principal Funds, a Fund, Principal, any Sub-Advisor, or PFD.

Eligible Purchasers

Only eligible purchasers may buy Institutional, R-1, R-2, R-3, R-4, and R-5 Class shares of the Funds. Principal Management Corporation reserves the right to broaden or limit the designation of eligible purchasers. Not all of the Funds are offered in every state. Please check with your financial advisor or our home office for state availability. Some eligible purchasers (as listed below) purchase shares through plans or other arrangements; such plans or arrangements may impose fees in addition to those charged by the Funds. The services or share classes available to you may vary depending upon how you wish to purchase shares of the Fund. Each investor's financial considerations are different. You should speak with your financial professional to help you decide which share class is best for you.

At the present time, eligible purchasers of Institutional, R-1, R-2, R-3, R-4, and R-5 Class shares include but are not limited to:

- retirement and pension plans to which Principal Life Insurance Company ("Principal Life") provides recordkeeping services;
- separate accounts of Principal Life;
- Principal Life or any of its subsidiaries or affiliates;
- any fund distributed by PFD if the fund seeks to achieve its investment objective by investing primarily in shares of mutual funds;
- clients of Principal Global Investors, LLC;
- certain employer sponsored retirement plans with plan level omnibus accounts;
- certain pension plans and employee benefit plans;
- certain retirement account investment vehicles administered by foreign or domestic pension plans;
- an investor who buys shares through an omnibus account with certain intermediaries, such as a broker-dealer, bank, or other financial institution, pursuant to a written agreement between the intermediary and PFD or its affiliate; and
- certain retirement plan clients that have an organization, approved by Principal Life, for purposes of providing plan recordkeeping services.

For Institutional Class

At the present time, eligible purchasers of Institutional Class shares also include but are not limited to:

- investors investing at least \$1,000,000 per fund;
- sponsors, recordkeepers, or administrators of wrap account or mutual fund asset allocation programs or participants in those programs (such accounts and programs must trade in an omnibus relationship);
- institutional clients that Principal Life has approved for purposes of providing plan recordkeeping;
- institutional investors investing for their own account, including banks, trust companies, financial intermediaries, corporations, endowments and foundations;
- collective trust funds, fund of funds or other pooled investment vehicles, and entities acting for the account of a public entity;
- clients of a private banking division pursuant to a written agreement between the bank and PFD or its affiliate; and
- the portfolio manager of any adviser to the fund.

Payment

Payments are generally to be made through your plan or intermediary. We reserve the right to refuse any payment that we feel presents a fraud or money laundering risk. Examples of the types of payments we will not accept are cash, money orders, travelers' checks, credit card checks, and foreign checks.

REDEMPTION OF FUND SHARES

You may redeem shares of the Fund upon request. Shares are redeemed at the NAV per share next computed after the request is received by the Fund in proper and complete form. There is no charge for the redemption. The Fund Board of Directors has determined that it is not necessary to impose a fee upon the redemption of fund shares, because the Fund has adopted transfer restrictions as described in "Exchange of Fund Shares."

The Fund generally sends payment for shares sold the business day after the sell order is received. Under unusual circumstances, the Fund may suspend redemptions, or postpone payment up to seven days, as permitted by federal securities law.

Distributions in Kind

Payment for shares of the Funds tendered for redemption is ordinarily made by check. However, the Funds may determine that it would be detrimental to the remaining shareholders of a Fund to make payment of a redemption order wholly or partly in cash. Under certain circumstances, therefore, each of the Funds may pay the redemption proceeds in whole or in part by a distribution "in kind" of securities from the Fund's portfolio in lieu of cash. If a Fund pays the redemption proceeds in kind, the redeeming shareholder might incur brokerage or other costs in selling the securities for cash. Each Fund will value securities used to pay redemptions in kind using the same method the Fund uses to value its portfolio securities as described in this prospectus.

EXCHANGE OF FUND SHARES

An exchange between Funds is a redemption of shares of one Fund and a concurrent purchase of shares in another Fund with the redemption proceeds. A shareholder, including a beneficial owner of shares held in nominee name or a participant in a participant-directed employee benefit plan, may exchange Fund shares under certain circumstances. In addition to any restrictions an intermediary or an employee benefit plan imposes, Fund shares may be exchanged, without charge, for shares of any other Fund of the Principal Funds, provided that:

- the shareholder has not exchanged shares of the Fund within 30 days preceding the exchange, unless the shareholder is exchanging into the Money Market Fund,
- the share class of such other Fund is available through the plan, and
- the share class of such other Fund is available in the shareholder's state of residence.

All exchanges completed on the same day are considered a single exchange for purposes of this exchange limitation. In addition, the Fund will reject an order to purchase shares of any Fund, except shares of the Money Market Fund, if the shareholder redeemed shares from that Fund within the preceding 30-day period. The 30-day exchange or purchase restriction does not apply to exchanges or purchases made on a scheduled basis such as scheduled periodic portfolio rebalancing transactions or to transactions by Fund managers of the SAM portfolio, Lifetime Funds, or other fund-of-funds in shares of the underlying Funds.

If Fund shares are purchased through an intermediary that is unable or unwilling to impose the 30-day exchange or repurchase restrictions described above, Fund management may waive these restrictions based on:

- Exchange and repurchase limitations that the intermediary is able to impose if, in management's judgment, such limitations are reasonably likely to prevent excessive trading in Fund shares; or
- The implementation of other transaction monitoring management believes is reasonably likely to identify and prevent excessive trading in Fund shares.

In order to prevent excessive exchanges, and under other circumstances where the Fund Board of Directors or Principal believes it is in the best interests of the Fund, the Fund reserves the right to revise or terminate this exchange privilege, limit the amount or further limit the number of exchanges, reject any exchange or close an account.

DIVIDENDS AND DISTRIBUTIONS

Dividends are based on estimates of income, expenses, and shareholder activity for the Fund. Actual income, expenses, and shareholder activity may differ from estimates; consequently, differences, if any, will be included in the calculation of subsequent dividends. The Funds pay their net investment income to record date shareholders; this record date is the business day prior to the payment date. The payment schedule is as follows:

- The Bond & Mortgage Securities, Government & High Quality Bond, High Yield, High Yield I, Income, and Short-Term Income Funds declare dividends of their daily net investment income each day their shares are priced. The Funds pay out their accumulated declared dividends monthly.
- The Money Market Fund declares dividends of all its daily net investment income each day its shares are priced. On the 20th day of each month (or the previous business day) the Fund will distribute its accumulated declared dividends. You may ask to have your dividends paid to you in cash. If you do not request cash payment, your dividend will be applied to purchase additional shares of the Fund monthly.
- The Global Diversified Income Fund and SAM Flexible Income Portfolio pay their net investment income monthly.
- The Equity Income, Global Real Estate Securities, Inflation Protection, and Real Estate Securities Funds and the SAM Conservative Balanced, and SAM Balanced Portfolios each pay their net investment income quarterly in March, June, September, and December.
- The other Funds pay their net investment income annually in December.

For more details on the payment schedule go to www.principal.com.

Net realized capital gains, if any, are distributed annually in December. Payments are made to shareholders of record on the business day prior to the payable date. Capital gains may be taxable at different rates, depending on the length of time that the Fund holds its assets.

The Money Market Fund does not seek to realize any capital gains or losses. If capital gains or losses were to occur, they could result in an increase or decrease in dividends.

Dividend and capital gains distributions will be reinvested, without a sales charge, in shares of the Fund from which the distribution is paid.

Generally, for federal income tax purposes, Fund distributions are taxable as ordinary income, except that any distributions of long-term capital gains will be taxed as such regardless of how long Fund shares have been held. Special tax rules apply to Fund distributions to retirement plans. A tax advisor should be consulted to determine the suitability of the Fund as an investment by such a plan and the tax treatment of distributions by the Fund. A tax advisor can also provide information on the potential impact of possible foreign, state, and local taxes. A Fund's investments in foreign securities may be subject to foreign withholding taxes. In that case, the Fund's yield on those securities would be decreased.

To the extent that distributions the Fund pays are derived from a source other than net income (such as a return of capital), a notice will be included in your quarterly statement pursuant to Section 19(a) of the Investment Company Act of 1940, as amended, and Rule 19a-1 disclosing the source of such distributions. Furthermore, such notices shall be posted monthly on our web site at www.principalfunds.com. You may request a copy of all such notices, free of charge, by telephoning 1-800-222-5852. The amounts and sources of distributions included in such notices are estimates only and you should not rely upon them for purposes of reporting income taxes. The Fund will send shareholders a Form 1099-DIV for the calendar year that will tell shareholders how to report these distributions for federal income tax purposes.

Notes:

- A Fund's payment of income dividends and capital gains has the effect of reducing the share price by the amount of the payment.
- Distributions from a Fund, whether received in cash or reinvested in additional shares, may be subject to federal (and state) income tax.
- For these reasons, buying shares of a Fund shortly before it makes a distribution may be disadvantageous to you.

FREQUENT PURCHASES AND REDEMPTIONS

The Funds are not designed for, and do not knowingly accommodate, frequent purchases and redemptions of fund shares. If you intend to trade frequently and/or use market timing investment strategies, you should not purchase these Funds.

Frequent purchases and redemptions pose a risk to the Funds because they may:

- Disrupt the management of the Funds by:
 - forcing the Funds to hold short-term (liquid) assets rather than investing for long-term growth, which results in lost investment opportunities for the Funds and
 - causing unplanned portfolio turnover;
- Hurt the portfolio performance of the Funds; and
- Increase expenses of the Funds due to:
 - increased broker-dealer commissions and
 - increased recordkeeping and related costs.

Certain Funds may be at greater risk of harm due to frequent purchases and redemptions. For example, those Funds that invest in foreign securities may appeal to investors attempting to take advantage of time-zone arbitrage. The Funds have adopted procedures to “fair value” foreign securities owned by the Funds each day to discourage these market timing transactions in shares of the Funds.

The Board of Directors of the Fund has also adopted policies and procedures with respect to frequent purchases and redemptions of shares of the Funds. The Funds monitor shareholder trading activity to identify and take action against abuses. When we do identify abusive trading, we will apply our policies and procedures in a fair and uniform manner. While our policies and procedures are designed to identify and protect against abusive trading practices, there can be no certainty that we will identify and prevent abusive trading in all instances. If we are not able to identify such excessive trading practices, the Funds and their shareholders may be harmed. The harm of undetected excessive trading in shares of the underlying funds in which the funds of funds (for example, Principal LifeTime Funds/Accounts, Strategic Asset Management Portfolios, PVC Diversified Balanced Account, PVC Diversified Balanced Managed Volatility Account, PVC Diversified Growth Account, PVC Diversified Growth Managed Volatility Account, and PVC Diversified Income Account) invest could flow through to the funds of funds as they would for any fund shareholder.

The Funds have adopted an exchange frequency restriction, described above in “Exchange of Fund Shares” to limit excessive trading in fund shares.

If we, or a Fund, deem abusive trading practices to be occurring, we will take action that may include, but is not limited to:

- Rejecting exchange instructions from the shareholder or other person authorized by the shareholder to direct exchanges;
- Restricting submission of exchange requests by, for example, allowing exchange requests to be submitted by 1st class U.S. mail only and disallowing requests made by facsimile, overnight courier, telephone or via the internet;
- Limiting the number of exchanges during a year;
- Requiring a holding period of a minimum of 30 days before permitting exchanges among the Funds where there is evidence of at least one round-trip exchange (exchange or redemption of shares that were purchased within 30 days of the exchange/redemption); and
- Taking such other action as directed by the Fund.

The Funds have reserved the right to accept or reject, without prior written notice, any exchange requests. In some instances, an exchange may be completed prior to a determination of abusive trading. In those instances, we will reverse the exchange and return the account holdings to the positions held prior to the exchange. We will give the shareholder written notice in this instance.

TAX CONSIDERATIONS

Shareholders are responsible for federal income tax (and any other taxes, including state and local income taxes, if applicable) on dividends and capital gains distributions whether such dividends or distributions are paid in cash or reinvested in additional shares. Special tax rules apply to distributions from IRAs and other retirement accounts. You should consult a tax advisor to determine the suitability of the Fund as an investment by such a plan and the tax treatment of Fund distributions.

Generally, dividends paid by the Funds from interest, dividends, or net short-term capital gains will be taxed as ordinary income. Distributions properly designated by the Fund as deriving from net gains on securities held for more than one year are taxable as such (generally at a 15% tax rate), regardless of how long you have held your shares. Distributions of investment income properly designated by the Fund as derived from “qualified dividend income” will be taxed at the rates applicable to long-term capital gains.

Investments by a Fund in foreign securities may be subject to foreign withholding taxes. In that case, the Fund’s yield on those securities would be decreased. Shareholders of the Funds that invest in foreign securities may be entitled to claim a credit or deduction with respect to foreign taxes. In addition, the Fund’s investments in foreign securities or foreign currencies may increase or accelerate the Fund’s recognition of ordinary income and may affect the timing or amount of the Fund’s distributions.

Early in each calendar year, each Fund will notify you of the amount and tax status of distributions paid to you for the preceding year.

A dividend or distribution made shortly after the purchase of shares of a Fund by a shareholder, although in effect a return of capital to that shareholder, would be taxable to that shareholder as described above, subject to a holding period requirement for dividends designated as qualified dividend income.

Because of tax law requirements, you must provide the Funds with an accurate and certified taxpayer identification number (for individuals, generally a Social Security number) to avoid “back-up” withholding, which is imposed at a rate of 28%.

Any gain resulting from the redemption or exchange of your shares will generally also be subject to tax. For shares acquired after January 1, 2012, you will need to select a cost basis method to be used to calculate your reported gains and losses prior to or at the time of any redemption or exchange. If you do not select a method, the Funds’ default method of average cost will be applied to the transactions. The cost basis method used on your account could significantly affect your taxes due and should be carefully considered. You should consult your tax advisor for more information on your own tax situation, including possible foreign, state, and local taxes.

Investments by a Fund in certain debt instruments or derivatives may cause the Fund to recognize taxable income in excess of the cash generated by such instruments. As a result, the Fund could be required at times to liquidate other investments in order to satisfy its distribution requirements under the Internal Revenue Code. The Fund’s use of derivatives will also affect the amount, timing, and character of the Fund’s distributions.

The information contained in this prospectus is not a complete description of the federal, state, local, or foreign tax consequences of investing in the Fund. You should consult your tax advisor before investing in the Fund.

THE COSTS OF INVESTING

Fees and Expenses of the Funds

Fund shares are sold without a front-end sales charge and do not have a contingent deferred sales charge. There is no sales charge on Fund shares purchased with reinvested dividends or other distributions.

Ongoing Fees

The ongoing fees are the operating expenses of a Fund, which are described in the “Annual Fund Operating Expenses” table included in the Summary for each Fund. These expenses reduce the value of each share you own. Because they are ongoing, they increase the cost of investing in the Funds.

Each Fund pays ongoing fees to Principal and others who provide services to the Fund. These fees include:

- Management Fee (Institutional, R-1, R-2, R-3, R-4, and R-5 Classes) – Through the Management Agreement with the Fund, Principal has agreed to provide investment advisory services and corporate administrative services to the Fund.
- Distribution Fee (R-1, R-2, R-3, and R-4 Classes) — Each Fund has adopted a distribution plan under Rule 12b-1 of the Investment Company Act of 1940. Under the plan, the R-1, R-2, R-3, and R-4 classes pay a distribution fee based on the average daily net asset value (NAV) of the Fund. These fees pay distribution and other expenses for the sale of Fund shares and for services provided to shareholders. Over time, these fees may exceed other types of sales charges.

- Other Expenses — Other expenses include interest expense and expenses related to fund investments.
 - (Institutional Class) — One example is a Transfer Agent Fee (Principal Shareholder Services, Inc. (“PSS”) has entered into a Transfer Agency Agreement with the Fund under which PSS provides transfer agent services. These services are currently provided at cost.). Institutional Class shares of the Funds also pay expenses of registering and qualifying shares for sale, the cost of producing and distributing reports and prospectuses to Institutional Class shareholders, the cost of shareholder meetings held solely for Institutional Class shares, and other operating expenses of the Fund.
 - (R-1, R-2, R-3, R-4, and R-5 Classes) — Examples include a Service Fee (Principal has entered into a Service Agreement with the Fund under which Principal performs personal services), an Administrative Services Fee (Principal has entered into an Administrative Services Agreement with Principal Funds under which Principal provides shareholder and administrative services for retirement plans and other beneficial owners of Fund shares), and a Transfer Agent Fee (Principal Shareholder Services, Inc. (“PSS”) has entered into a Transfer Agency Agreement with the Fund under which PSS provides transfer agent services. These services are currently provided at cost.).
- Acquired Fund Fees and Expenses (Institutional, R-1, R-2, R-3, R-4, and R-5 Classes) – fees and expenses charged by other investment companies in which a Fund invests a portion of its assets.

DISTRIBUTION PLANS AND INTERMEDIARY COMPENSATION

Distribution and/or Service (12b-1) Fees

Principal Funds has adopted a distribution plan pursuant to Rule 12b-1 under the Investment Company Act for each of the Class R-1, R-2, R-3 and R-4 shares of Principal Funds. Under the 12b-1 Plans, each Fund makes payments from its assets attributable to the particular share class to the Fund's Distributor for distribution-related expenses and for providing services to shareholders of that share class. Payments under the 12b-1 plans are made by the Funds to the Distributor pursuant to the 12b-1 plans regardless of the expenses incurred by the Distributor. When the Distributor receives Rule 12b-1 fees, it may pay some or all of them to intermediaries whose customers are shareholders of the funds for sales support services and for providing services to shareholders of that share class. Intermediaries may include, among others, broker-dealers, registered investment advisors, banks, trust companies, pension plan consultants, retirement plan administrators, and insurance companies. Because Rule 12b-1 fees are paid out of Fund assets and are ongoing fees, over time they will increase the cost of your investment in the Funds and may cost you more than other types of sales charges.

The maximum annual Rule 12b-1 fee for distribution related expenses and/or for providing services to shareholders under each 12b-1 plan (as a percentage of average daily net assets) is:

Share Class	Maximum Annualized Rate 12b-1 Fee
R-1	0.35%
R-2	0.30%
R-3	0.25%
R-4	0.10%

The Distributor generally uses Rule 12b-1 fees to finance any activity that is primarily intended to result in the sale of shares and for providing services to shareholders of the share class. In addition to shareholder services, examples of such sales or distribution related expenses include compensation to salespeople and selected dealers (including financing the commission paid to the dealer at the time of the sale), printing of prospectuses and statements of additional information and reports for other than existing shareholders, and preparing and conducting sales seminars.

Payments under the 12b-1 plans will not automatically terminate for funds that are closed to new investors or to additional purchases by existing shareholders. The fund Board will determine whether to terminate, modify, or leave unchanged the 12b-1 plan at the time the Board directs the implementation of the closure of the fund.

Additional Payments to Intermediaries

Shares of the Fund are sold primarily through intermediaries, such as brokers, dealers, investment advisors, banks, trust companies, pension plan consultants, retirement plan administrators and insurance companies.

In addition to payments pursuant to 12b-1 plans, Principal or its affiliates enter into agreements with some intermediaries pursuant to which the intermediaries receive payments for providing services relating to Fund shares. Examples of such services are administrative, networking, recordkeeping, sub-transfer agency and/or shareholder services. For Class R-1, R-2, R-3, R-4 and R-5 shares, such compensation is generally paid out of the Service Fees and Administrative Service Fees that are disclosed in this prospectus as Other Expenses. For Institutional Class shares, in some situations the Fund will reimburse Principal or its affiliates for making such payments; in others the Fund may make such payments directly to the intermediaries.

In addition, Principal or its affiliates may pay, without reimbursement from the Fund, compensation from their own resources to certain intermediaries that support the distribution of shares of the Fund or provide services to Fund shareholders.

For Institutional Class shares, such payments may vary, but generally do not exceed: (a) 0.10% of the current year's sales of Fund shares by that intermediary or (b) 0.10% of the average net asset value of Fund shares held by clients of such intermediary.

Principal Life Insurance Company is one such intermediary that provides services relating to Fund shares held in retirement plans, and it is typically paid some or all of the Service Fees and Administrative Service Fees pertaining to such plans, and it also receives compensation paid by Principal from its own resources.

Additionally, in some cases the Distributor and its affiliates will provide payments or reimbursements in connection with the costs of conferences, educational seminars, training and marketing efforts related to the Funds. Such activities may be sponsored by intermediaries or the Distributor. The costs associated with such activities may include travel, lodging, entertainment, and meals. In some cases the Distributor will also provide payment or reimbursement for expenses associated with transactions ("ticket") charges and general marketing expenses.

For more information, see the Statement of Additional Information (SAI). The amounts paid to intermediaries vary by share class and by fund.

The payments described in this prospectus may create a conflict of interest by influencing your Financial Professional or your intermediary to recommend the Fund over another investment, or to recommend one share class of the Fund over another share class. Ask your Financial Professional or visit your intermediary's website for more information about the total amounts paid to them by Principal and its affiliates, and by sponsors of other mutual funds your Financial Professional may recommend to you.

Your intermediary may charge you additional fees other than those disclosed in this prospectus. Ask your Financial Professional about any fees and commissions they charge.

FUND ACCOUNT INFORMATION

Statements

Statements are sent on a periodic basis. The statements provide the number and value of shares owned, transactions during the covered time period, dividends declared or paid, and other information.

Orders Placed by Intermediaries

Principal Funds may have an agreement with your intermediary, such as a broker-dealer, third party administrator, or trust company, that permits the intermediary to accept orders on behalf of the Fund until 3 p.m. Central Time. The agreement may include authorization for your intermediary to designate other intermediaries ("sub-designees") to accept orders on behalf of the Fund on the same terms that apply to the intermediary. In such cases, if your intermediary or a sub-designee receives your order in correct form by 3 p.m. Central Time, transmits it to the Fund, and pays for it in accordance with the agreement, the Fund will price the order at the next net asset value per share it computes after your intermediary or sub-designee received your order.

Note: The time at which the Fund prices orders and the time until which the Fund or your intermediary or sub-designee will accept orders may change in the case of an emergency or if the NYSE closes at a time other than 3 p.m. Central Time.

Signature Guarantees

Certain transactions require that your signature be guaranteed. If required, the signature(s) must be guaranteed by a commercial bank, trust company, credit union, savings and loan, national securities exchange member, or brokerage firm. A signature guaranteed by a notary public or savings bank is not acceptable. Signature guarantees are required:

- if you sell more than \$500,000 from any one Fund;
- if a sales proceeds check is payable to other than the account shareholder(s);
- to change ownership of an account;
- to add telephone transaction services and/or wire privileges to an existing account if there is not a common owner between the bank account and mutual fund account;
- to change bank account information designated under an existing telephone withdrawal plan if there is not a common owner between the bank account and mutual fund account;
- to exchange or transfer among accounts with different ownership; and
- to have a sales proceeds check mailed to an address other than the address on the account or to the address on the account if it has been changed within the preceding 15 days.

Reservation of Rights

Principal Funds reserves the right to amend or terminate the special plans described in this prospectus. Shareholders will be notified of any such action to the extent required by law.

Householding

To avoid sending duplicate copies of materials to households, mailings for accounts held by members of your household may be combined so that only one copy of each prospectus, annual and semiannual reports will be mailed. In addition, your account information may be included with other householded accounts on the same quarterly and annual statements. The consolidation of these mailings, called householding, benefits PFI and our shareholders through reduced printing and mailing expenses. If you prefer to receive multiple copies of these materials, you may write or call PFI. Householding will be stopped within thirty (30) days after we receive your request.

Multiple Translations

This prospectus may be translated into other languages. In the event of any inconsistencies or ambiguity as to the meaning of any word or phrase in a translation, the English text will prevail.

Financial Statements

Shareholders will receive annual financial statements for the Funds, audited by the Funds' independent registered public accounting firm. Shareholders will also receive a semiannual financial statement that is unaudited.

FINANCIAL HIGHLIGHTS

The following financial highlights tables are intended to help you understand the Fund's financial performance for the periods shown. Certain information reflects returns for a single Fund share. The total returns in each table represent the rate that an investor would have earned or lost each period on an investment in the Fund (assuming reinvestment of all distributions). This information has been audited by Ernst & Young LLP, Independent Registered Public Accounting Firm, whose report, along with each Fund's financial statements, is included in Principal Funds, Inc. Annual Report to Shareholders for the fiscal year ended October 31, 2013, which is available upon request, and incorporated by reference into the SAI.

To request a free copy of the latest annual or semiannual report for the Fund, you may telephone 1-800-222-5852.

**FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.**

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
BOND & MORTGAGE SECURITIES FUND					
<u>Institutional shares</u>					
2013	\$ 11.09	\$ 0.28	\$ (0.30)	\$ (0.02)	\$ (0.28)
2012	10.62	0.33	0.51	0.84	(0.37)
2011	10.57	0.41	0.07	0.48	(0.42)
2010	9.68	0.45	0.82	1.27	(0.38)
2009	8.51	0.48	1.10	1.58	(0.41)
<u>R-1 shares</u>					
2013	11.09	0.19	(0.31)	(0.12)	(0.18)
2012	10.62	0.24	0.50	0.74	(0.27)
2011	10.57	0.32	0.07	0.39	(0.33)
2010	9.68	0.37	0.81	1.18	(0.29)
2009	8.51	0.40	1.11	1.51	(0.34)
<u>R-2 shares</u>					
2013	10.99	0.20	(0.29)	(0.09)	(0.20)
2012	10.53	0.25	0.50	0.75	(0.29)
2011	10.48	0.33	0.07	0.40	(0.34)
2010	9.61	0.38	0.80	1.18	(0.31)
2009	8.45	0.41	1.10	1.51	(0.35)
<u>R-3 shares</u>					
2013	11.03	0.22	(0.29)	(0.07)	(0.22)
2012	10.57	0.27	0.50	0.77	(0.31)
2011	10.52	0.35	0.07	0.42	(0.36)
2010	9.64	0.40	0.80	1.20	(0.32)
2009	8.48	0.43	1.09	1.52	(0.36)
<u>R-4 shares</u>					
2013	11.22	0.24	(0.30)	(0.06)	(0.24)
2012	10.74	0.29	0.52	0.81	(0.33)
2011	10.68	0.38	0.07	0.45	(0.38)
2010	9.78	0.42	0.82	1.24	(0.34)
2009	8.60	0.45	1.11	1.56	(0.38)
<u>R-5 shares</u>					
2013	11.04	0.25	(0.29)	(0.04)	(0.25)
2012	10.58	0.30	0.50	0.80	(0.34)
2011	10.53	0.38	0.07	0.45	(0.39)
2010	9.65	0.43	0.80	1.23	(0.35)
2009	8.48	0.46	1.10	1.56	(0.39)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Tax Return of Capital Distribution	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ –	\$ (0.28)	\$ 10.79	(0.20)%	\$ 1,925,899	0.52 %(b)	2.58%	205.6%
–	(0.37)	11.09	8.04	1,828,579	0.53 (b)	3.04	218.6
(0.01)	(0.43)	10.62	4.67	1,478,603	0.53 (b)	3.91	265.5
–	(0.38)	10.57	13.41	1,438,541	0.53 (b)	4.53	357.4
–	(0.41)	9.68	19.31	1,512,248	0.53 (b)	5.58	365.1
–	(0.18)	10.79	(1.07)	5,969	1.40	1.71	205.6%
–	(0.27)	11.09	7.10	11,645	1.41	2.18	218.6
(0.01)	(0.34)	10.62	3.75	11,158	1.41	3.03	265.5
–	(0.29)	10.57	12.43	10,669	1.41	3.66	357.4
–	(0.34)	9.68	18.28	9,763	1.41	4.59	365.1
–	(0.20)	10.70	(0.85)	14,978	1.27	1.83	205.6%
–	(0.29)	10.99	7.21	19,392	1.28	2.32	218.6
(0.01)	(0.35)	10.53	3.93	20,576	1.28	3.18	265.5
–	(0.31)	10.48	12.46	28,778	1.28	3.78	357.4
–	(0.35)	9.61	18.45	29,688	1.28	4.77	365.1
–	(0.22)	10.74	(0.67)	32,743	1.09	2.01	205.6%
–	(0.31)	11.03	7.37	38,896	1.10	2.50	218.6
(0.01)	(0.37)	10.57	4.10	41,063	1.10	3.34	265.5
–	(0.32)	10.52	12.73	41,586	1.10	3.97	357.4
–	(0.36)	9.64	18.59	45,851	1.10	4.97	365.1
–	(0.24)	10.92	(0.57)	30,315	0.90	2.20	205.6%
–	(0.33)	11.22	7.64	37,187	0.91	2.67	218.6
(0.01)	(0.39)	10.74	4.32	32,495	0.91	3.53	265.5
–	(0.34)	10.68	12.95	36,175	0.91	4.14	357.4
–	(0.38)	9.78	18.78	25,843	0.91	5.13	365.1
–	(0.25)	10.75	(0.37)	44,281	0.78	2.32	205.6%
–	(0.34)	11.04	7.70	70,930	0.79	2.79	218.6
(0.01)	(0.40)	10.58	4.41	63,753	0.79	3.66	265.5
–	(0.35)	10.53	13.06	59,861	0.79	4.26	357.4
–	(0.39)	9.65	19.08	58,888	0.79	5.27	365.1

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
CORE PLUS BOND FUND I					
<u>Institutional shares</u>					
2013	\$ 11.75	\$ 0.21	\$ (0.24)	\$ (0.03)	\$ (0.35)
2012	11.10	0.29	0.67	0.96	(0.31)
2011	11.65	0.31	(0.28)	0.03	(0.17)
2010	11.04	0.25	0.78	1.03	(0.31)
2009	9.95	0.36	1.01	1.37	(0.24)
<u>R-1 shares</u>					
2013	11.61	0.11	(0.25)	(0.14)	(0.26)
2012	11.00	0.19	0.67	0.86	(0.25)
2011	11.59	0.21	(0.27)	(0.06)	(0.12)
2010	11.00	0.15	0.77	0.92	(0.22)
2009	9.94	0.28	1.01	1.29	(0.19)
<u>R-2 shares</u>					
2013	11.63	0.12	(0.24)	(0.12)	(0.25)
2012	11.01	0.21	0.67	0.88	(0.26)
2011	11.60	0.23	(0.28)	(0.05)	(0.13)
2010	11.00	0.17	0.77	0.94	(0.23)
2009	9.94	0.29	1.02	1.31	(0.21)
<u>R-3 shares</u>					
2013	11.66	0.14	(0.24)	(0.10)	(0.26)
2012	11.03	0.23	0.67	0.90	(0.27)
2011	11.61	0.25	(0.28)	(0.03)	(0.14)
2010	11.01	0.19	0.77	0.96	(0.25)
2009	9.94	0.31	1.01	1.32	(0.21)
<u>R-4 shares</u>					
2013	11.73	0.17	(0.25)	(0.08)	(0.31)
2012	11.09	0.25	0.68	0.93	(0.29)
2011	11.66	0.27	(0.28)	(0.01)	(0.15)
2010	11.06	0.21	0.76	0.97	(0.26)
2009	9.94	0.32	1.05	1.37	(0.21)
<u>R-5 shares</u>					
2013	11.72	0.18	(0.24)	(0.06)	(0.33)
2012	11.08	0.26	0.67	0.93	(0.29)
2011	11.64	0.28	(0.27)	0.01	(0.16)
2010	11.04	0.22	0.77	0.99	(0.28)
2009	9.94	0.34	1.03	1.37	(0.23)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.16)	\$ (0.51)	\$ 11.21	(0.28)%	\$ 3,236,866	0.56%	1.86%	254.1%
–	(0.31)	11.75	8.93	3,396,895	0.56	2.57	274.5
(0.41)	(0.58)	11.10	0.45	2,982,944	0.57	2.81	339.9
(0.11)	(0.42)	11.65	9.57	2,869,003	0.58 (b)	2.26	186.8
(0.04)	(0.28)	11.04	13.92	2,058,784	0.60 (b)	3.39	356.2
(0.16)	(0.42)	11.05	(1.26)	3,303	1.43	0.99	254.1
–	(0.25)	11.61	7.98	3,541	1.44	1.70	274.5
(0.41)	(0.53)	11.00	(0.37)	3,165	1.44	1.94	339.9
(0.11)	(0.33)	11.59	8.56	3,446	1.45 (b)	1.35	186.8
(0.04)	(0.23)	11.00	13.07	1,572	1.47 (b)	2.63	356.2
(0.16)	(0.41)	11.10	(1.05)	4,551	1.30	1.11	254.1
–	(0.26)	11.63	8.14	5,894	1.31	1.90	274.5
(0.41)	(0.54)	11.01	(0.29)	8,343	1.31	2.07	339.9
(0.11)	(0.34)	11.60	8.74	8,899	1.32 (b)	1.51	186.8
(0.04)	(0.25)	11.00	13.25	6,139	1.34 (b)	2.66	356.2
(0.16)	(0.42)	11.14	(0.86)	13,012	1.12	1.28	254.1
–	(0.27)	11.66	8.34	20,281	1.13	2.01	274.5
(0.41)	(0.55)	11.03	(0.11)	22,367	1.13	2.25	339.9
(0.11)	(0.36)	11.61	8.94	24,917	1.14 (b)	1.69	186.8
(0.04)	(0.25)	11.01	13.35	14,771	1.16 (b)	2.89	356.2
(0.16)	(0.47)	11.18	(0.74)	7,955	0.93	1.49	254.1
–	(0.29)	11.73	8.58	13,861	0.94	2.21	274.5
(0.41)	(0.56)	11.09	0.08	11,005	0.94	2.44	339.9
(0.11)	(0.37)	11.66	9.06	8,217	0.95 (b)	1.87	186.8
(0.04)	(0.25)	11.06	13.93	7,675	0.97 (b)	3.01	356.2
(0.16)	(0.49)	11.17	(0.57)	30,866	0.81	1.63	254.1
–	(0.29)	11.72	8.66	35,517	0.82	2.33	274.5
(0.41)	(0.57)	11.08	0.23	27,060	0.82	2.56	339.9
(0.11)	(0.39)	11.64	9.21	30,083	0.83 (b)	1.95	186.8
(0.04)	(0.27)	11.04	13.85	8,281	0.85 (b)	3.15	356.2

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
DIVERSIFIED INTERNATIONAL FUND					
Institutional shares					
2013	\$ 9.87	\$ 0.20	\$ 1.92	\$ 2.12	\$ (0.22)
2012	9.40	0.21	0.41	0.62	(0.15)
2011	9.79	0.20	(0.44)	(0.24)	(0.15)
2010	8.67	0.13	1.15	1.28	(0.16)
2009	7.44	0.14	1.31	1.45	(0.22)
R-1 shares					
2013	9.80	0.11	1.91	2.02	(0.12)
2012	9.33	0.13	0.40	0.53	(0.06)
2011	9.72	0.11	(0.44)	(0.33)	(0.06)
2010	8.62	0.05	1.15	1.20	(0.10)
2009	7.38	0.08	1.29	1.37	(0.13)
R-2 shares					
2013	9.77	0.12	1.92	2.04	(0.14)
2012	9.30	0.14	0.40	0.54	(0.07)
2011	9.69	0.12	(0.44)	(0.32)	(0.07)
2010	8.58	0.06	1.15	1.21	(0.10)
2009	7.34	0.09	1.28	1.37	(0.13)
R-3 shares					
2013	9.83	0.14	1.91	2.05	(0.16)
2012	9.35	0.16	0.41	0.57	(0.09)
2011	9.75	0.14	(0.45)	(0.31)	(0.09)
2010	8.64	0.08	1.15	1.23	(0.12)
2009	7.40	0.10	1.29	1.39	(0.15)
R-4 shares					
2013	9.97	0.16	1.95	2.11	(0.18)
2012	9.49	0.18	0.41	0.59	(0.11)
2011	9.89	0.17	(0.46)	(0.29)	(0.11)
2010	8.75	0.09	1.18	1.27	(0.13)
2009	7.51	0.12	1.30	1.42	(0.18)
R-5 shares					
2013	9.96	0.17	1.94	2.11	(0.19)
2012	9.48	0.19	0.41	0.60	(0.12)
2011	9.88	0.18	(0.46)	(0.28)	(0.12)
2010	8.67	0.11	1.24	1.35	(0.14)
2009	7.44	0.12	1.30	1.42	(0.19)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.22)	\$ 11.77	21.79%	\$ 4,208,838	0.87%	0.87%	1.89%	76.9%
(0.15)	9.87	6.76	2,833,609	0.89	0.89	2.25	74.2
(0.15)	9.40	(2.61)	2,101,900	0.91	0.91	1.95	75.7 (c)
(0.16)	9.79	14.90	1,087,289	0.92	0.92	1.49	105.9
(0.22)	8.67	20.01	736,705	0.91	0.91	1.95	115.6
(0.12)	11.70	20.82	7,021	1.74	–	0.99	76.9
(0.06)	9.80	5.81	7,944	1.76	–	1.42	74.2
(0.06)	9.33	(3.48)	8,504	1.79	–	1.11	75.7 (c)
(0.10)	9.72	13.95	9,424	1.79	–	0.60	105.9
(0.13)	8.62	18.88	9,081	1.79	–	1.04	115.6
(0.14)	11.67	21.04	12,328	1.61	–	1.13	76.9
(0.07)	9.77	5.92	13,572	1.63	–	1.54	74.2
(0.07)	9.30	(3.39)	15,277	1.66	–	1.25	75.7 (c)
(0.10)	9.69	14.18	19,385	1.66	–	0.70	105.9
(0.13)	8.58	18.96	20,324	1.66	–	1.17	115.6
(0.16)	11.72	21.11	56,229	1.43	–	1.30	76.9
(0.09)	9.83	6.24	53,185	1.45	–	1.70	74.2
(0.09)	9.35	(3.25)	61,344	1.48	–	1.44	75.7 (c)
(0.12)	9.75	14.29	67,216	1.48	–	0.88	105.9
(0.15)	8.64	19.23	69,007	1.48	–	1.36	115.6
(0.18)	11.90	21.44	51,609	1.24	–	1.51	76.9
(0.11)	9.97	6.35	41,896	1.26	–	1.91	74.2
(0.11)	9.49	(3.04)	43,879	1.29	–	1.63	75.7 (c)
(0.13)	9.89	14.63	49,117	1.29	–	1.05	105.9
(0.18)	8.75	19.43	50,972	1.29	–	1.55	115.6
(0.19)	11.88	21.51	81,793	1.12	–	1.60	76.9
(0.12)	9.96	6.50	80,363	1.14	–	2.00	74.2
(0.12)	9.48	(2.90)	80,613	1.17	–	1.75	75.7 (c)
(0.14)	9.88	15.71 (d)	76,608	1.17	–	1.18	105.9
(0.19)	8.67	19.54	82,482	1.17	–	1.66	115.6

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager and/or Distributor.

(c) Portfolio turnover rate excludes approximately \$86,522,000 of sales from portfolio realignment from the acquisition of International Growth Fund.

(d) In March, 2010, the Class experienced a significant one time gain of approximately \$0.08/share as the result of a settlement in an SEC administrative proceeding. If such gain had not been recognized, the total return amounts expressed herein would have been lower.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>EQUITY INCOME FUND</u>					
<u>Institutional shares</u>					
2013	\$ 19.49	\$ 0.64	\$ 3.65	\$ 4.29	\$ (0.61)
2012	17.59	0.58	1.87	2.45	(0.55)
2011	16.93	0.56	0.64	1.20	(0.54)
2010	14.40	0.50	2.49	2.99	(0.46)
2009	13.82	0.45	0.61	1.06	(0.48)
<u>R-1 shares</u>					
2013	19.40	0.45	3.64	4.09	(0.43)
2012	17.52	0.42	1.86	2.28	(0.40)
2011	16.89	0.39	0.66	1.05	(0.42)
2010(b)	15.52	0.23	1.40	1.63	(0.26)
<u>R-2 shares</u>					
2013	19.46	0.48	3.65	4.13	(0.46)
2012	17.57	0.43	1.89	2.32	(0.43)
2011	16.89	0.41	0.66	1.07	(0.39)
2010(b)	15.52	0.21	1.43	1.64	(0.27)
<u>R-3 shares</u>					
2013	19.41	0.51	3.65	4.16	(0.50)
2012	17.53	0.46	1.88	2.34	(0.46)
2011	16.89	0.45	0.64	1.09	(0.45)
2010(b)	15.52	0.25	1.40	1.65	(0.28)
<u>R-4 shares</u>					
2013	19.45	0.55	3.66	4.21	(0.54)
2012	17.56	0.49	1.89	2.38	(0.49)
2011	16.92	0.46	0.66	1.12	(0.48)
2010(b)	15.52	0.20	1.49	1.69	(0.29)
<u>R-5 shares</u>					
2013	19.47	0.59	3.65	4.24	(0.56)
2012	17.58	0.51	1.89	2.40	(0.51)
2011	16.93	0.50	0.65	1.15	(0.50)
2010(b)	15.52	0.15	1.55	1.70	(0.29)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.61)	\$ 23.17	22.39%	\$ 3,791,024	0.52%	2.99%	16.4%
(0.55)	19.49	14.10	3,105,517	0.52	3.09	23.5
(0.54)	17.59	7.15	2,527,743	0.52	3.20	16.6
(0.46)	16.93	21.03	1,828,045	0.52	3.16	22.1
(0.48)	14.40	8.07	1,097,669	0.53	3.47	35.3
(0.43)	23.06	21.36	3,661	1.39	2.11	16.4
(0.40)	19.40	13.09	2,790	1.39	2.24	23.5
(0.42)	17.52	6.23	2,495	1.39	2.24	16.6
(0.26)	16.89	10.62 (c)	374	1.42 (d)	2.13 (d)	22.1 (d)
(0.46)	23.13	21.48	8,608	1.26	2.27	16.4
(0.43)	19.46	13.29	7,317	1.26	2.29	23.5
(0.39)	17.57	6.39	3,313	1.26	2.33	16.6
(0.27)	16.89	10.67 (c)	371	1.29 (d)	1.92 (d)	22.1 (d)
(0.50)	23.07	21.72	72,261	1.08	2.39	16.4
(0.46)	19.41	13.45	44,323	1.08	2.47	23.5
(0.45)	17.53	6.53	22,727	1.08	2.56	16.6
(0.28)	16.89	10.81 (c)	3,815	1.11 (d)	2.39 (d)	22.1 (d)
(0.54)	23.12	21.94	50,967	0.89	2.59	16.4
(0.49)	19.45	13.70	31,695	0.89	2.61	23.5
(0.48)	17.56	6.70	11,013	0.89	2.65	16.6
(0.29)	16.92	11.03 (c)	750	0.92 (d)	1.87 (d)	22.1 (d)
(0.56)	23.15	22.11	142,322	0.77	2.73	16.4
(0.51)	19.47	13.81	106,715	0.77	2.71	23.5
(0.50)	17.58	6.86	27,719	0.77	2.87	16.6
(0.29)	16.93	11.11 (c)	5,904	0.80 (d)	1.37 (d)	22.1 (d)

- (a) Calculated based on average shares outstanding during the period.
(b) Period from March 1, 2010, date operations commenced, through October 31, 2010.
(c) Total return amounts have not been annualized.
(d) Computed on an annualized basis.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>GLOBAL DIVERSIFIED INCOME FUND</u>					
<u>Institutional shares</u>					
2013	\$ 14.10	\$ 0.71	\$ 0.21	\$ 0.92	\$ (0.71)
2012	12.94	0.81	1.15	1.96	(0.76)
2011	13.31	0.83	(0.35)	0.48	(0.74)
2010	12.72	0.77	1.67	2.44	(0.80)
2009(d)	10.00	0.67	2.72	3.39	(0.67)
<u>GLOBAL REAL ESTATE SECURITIES FUND</u>					
<u>Institutional shares</u>					
2013	8.25	0.16	0.99	1.15	(0.46)
2012	7.07	0.15	1.21	1.36	(0.18)
2011	7.18	0.12	(0.07)	0.05	(0.12)
2010	5.67	0.13	1.66	1.79	(0.28)
2009	5.03	0.14	0.77	0.91	(0.27)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Expenses to Average Net Assets (Excluding Dividends and Interest Expense on Shorts and Short Sale Fees)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.12)	\$ (0.83)	\$ 14.19	6.75%	\$ 876,282	0.83%	0.78 % ^{(b),(c)}	5.02%	79.0%
(0.04)	(0.80)	14.10	15.67	751,759	0.80 (c)	N/A	6.01	50.8
(0.11)	(0.85)	12.94	3.61	553,989	0.81 (c)	N/A	6.27	47.6
(1.05)	(1.85)	13.31	21.42	224,071	0.87 (c)	N/A	6.13	75.5
–	(0.67)	12.72	35.24 (e)	72,681	0.90 (c),(f)	N/A	7.00 (f)	182.5 (f)
(0.15)	(0.61)	8.79	14.49	1,470,065	0.92 (c)	N/A	1.86	52.4
–	(0.18)	8.25	19.67	1,077,821	0.93 (c)	N/A	1.92	87.9
(0.04)	(0.16)	7.07	0.74	246,174	0.95 (c)	N/A	1.67	78.8
–	(0.28)	7.18	32.52 (g)	9	0.95 (c)	N/A	2.23	194.8
–	(0.27)	5.67	19.46	1,134	0.95 (c)	N/A	3.12	131.1

(a) Calculated based on average shares outstanding during the period.

(b) Excludes dividends and interest expense on short sales and short sale fees. See "Operating Policies" in notes to financial statements.

(c) Reflects Manager's contractual expense limit.

(d) Period from December 15, 2008, date operations commenced, through October 31, 2009.

(e) Total return amounts have not been annualized.

(f) Computed on an annualized basis.

(g) During 2010, the Class experienced a significant withdrawal of monies by an affiliate. As the remaining shareholders held relatively small positions, the total return amounts expressed herein are greater than those that would have been experienced without the withdrawal.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
GOVERNMENT & HIGH QUALITY BOND FUND					
<u>Institutional shares</u>					
2013	\$ 11.37	\$ 0.27	\$ (0.31)	\$ (0.04)	\$ (0.35)
2012	11.27	0.34	0.19	0.53	(0.43)
2011	11.29	0.40	0.03	0.43	(0.45)
2010	10.90	0.46	0.41	0.87	(0.48)
2009	10.35	0.50	0.56	1.06	(0.51)
<u>R-1 shares</u>					
2013	11.38	0.19	(0.31)	(0.12)	(0.27)
2012	11.27	0.26	0.19	0.45	(0.34)
2011	11.29	0.32	0.02	0.34	(0.36)
2010	10.90	0.37	0.41	0.78	(0.39)
2009(c)	10.68	0.35	0.24	0.59	(0.37)
<u>R-2 shares</u>					
2013	11.38	0.20	(0.31)	(0.11)	(0.28)
2012	11.27	0.27	0.20	0.47	(0.36)
2011	11.29	0.33	0.03	0.36	(0.38)
2010	10.90	0.39	0.41	0.80	(0.41)
2009(c)	10.68	0.36	0.24	0.60	(0.38)
<u>R-3 shares</u>					
2013	11.38	0.22	(0.31)	(0.09)	(0.30)
2012	11.27	0.29	0.20	0.49	(0.38)
2011	11.29	0.35	0.03	0.38	(0.40)
2010	10.90	0.40	0.42	0.82	(0.43)
2009(c)	10.68	0.38	0.24	0.62	(0.40)
<u>R-4 shares</u>					
2013	11.38	0.24	(0.31)	(0.07)	(0.32)
2012	11.27	0.31	0.20	0.51	(0.40)
2011	11.29	0.37	0.03	0.40	(0.42)
2010	10.90	0.42	0.42	0.84	(0.45)
2009(c)	10.68	0.39	0.24	0.63	(0.41)
<u>R-5 shares</u>					
2013	11.39	0.26	(0.32)	(0.06)	(0.33)
2012	11.28	0.32	0.20	0.52	(0.41)
2011	11.30	0.38	0.03	0.41	(0.43)
2010	10.90	0.44	0.42	0.86	(0.46)
2009(c)	10.68	0.41	0.24	0.65	(0.43)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.35)	\$ 10.98	(0.33)%	\$ 1,098,217	0.51%	2.45%	41.1%
(0.43)	11.37	4.80	1,044,466	0.51	3.04	52.8
(0.45)	11.27	3.91	1,020,836	0.51	3.60	104.7
(0.48)	11.29	8.16	980,476	0.51	4.13	51.2
(0.51)	10.90	10.42	893,919	0.51	4.66	26.6
(0.27)	10.99	(1.10)	3,151	1.29 (b)	1.67	41.1
(0.34)	11.38	4.07	3,722	1.29 (b)	2.25	52.8
(0.36)	11.27	3.11	3,517	1.29 (b)	2.84	104.7
(0.39)	11.29	7.32	4,485	1.29 (b)	3.33	51.2
(0.37)	10.90	5.61 (d)	2,796	1.29 (b),(e)	3.66 (e)	26.6 (e)
(0.28)	10.99	(0.97)	5,207	1.16 (b)	1.80	41.1
(0.36)	11.38	4.21	6,464	1.16 (b)	2.39	52.8
(0.38)	11.27	3.24	7,276	1.16 (b)	2.96	104.7
(0.41)	11.29	7.46	8,002	1.16 (b)	3.48	51.2
(0.38)	10.90	5.73 (d)	8,843	1.16 (b),(e)	3.80 (e)	26.6 (e)
(0.30)	10.99	(0.80)	17,952	0.98 (b)	1.98	41.1
(0.38)	11.38	4.40	21,930	0.98 (b)	2.56	52.8
(0.40)	11.27	3.43	20,798	0.98 (b)	3.13	104.7
(0.43)	11.29	7.66	20,070	0.98 (b)	3.63	51.2
(0.40)	10.90	5.90 (d)	11,551	0.98 (b),(e)	3.98 (e)	26.6 (e)
(0.32)	10.99	(0.61)	10,708	0.79 (b)	2.17	41.1
(0.40)	11.38	4.59	11,093	0.79 (b)	2.75	52.8
(0.42)	11.27	3.62	9,295	0.79 (b)	3.31	104.7
(0.45)	11.29	7.86	7,364	0.79 (b)	3.82	51.2
(0.41)	10.90	6.07 (d)	4,235	0.79 (b),(e)	4.17 (e)	26.6 (e)
(0.33)	11.00	(0.49)	19,242	0.67 (b)	2.29	41.1
(0.41)	11.39	4.72	21,996	0.67 (b)	2.87	52.8
(0.43)	11.28	3.74	17,909	0.67 (b)	3.44	104.7
(0.46)	11.30	8.08	15,243	0.67 (b)	3.95	51.2
(0.43)	10.90	6.18 (d)	11,805	0.67 (b),(e)	4.29 (e)	26.6 (e)

- (a) Calculated based on average shares outstanding during the period.
(b) Reflects Manager's contractual expense limit.
(c) Period from December 15, 2008, date operations commenced, through October 31, 2009.
(d) Total return amounts have not been annualized.
(e) Computed on an annualized basis.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
HIGH YIELD FUND					
<u>Institutional shares</u>					
2013	\$ 7.80	\$ 0.51	\$ 0.20	\$ 0.71	\$ (0.54)
2012	7.69	0.55	0.39	0.94	(0.57)
2011	8.15	0.63	(0.28)	0.35	(0.66)
2010	7.59	0.68	0.57	1.25	(0.69)
2009	6.10	0.64	1.54	2.18	(0.69)
HIGH YIELD FUND I					
<u>Institutional shares</u>					
2013	11.37	0.65	0.27	0.92	(1.22)
2012	11.05	0.73	0.54	1.27	(0.73)
2011	11.64	0.83	(0.42)	0.41	(0.85)
2010	10.67	0.94	1.00	1.94	(0.97)
2009	8.19	0.91	2.33	3.24	(0.76)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.07)	\$ (0.61)	\$ 7.90	9.31%	\$ 919,683	0.58%	0.59(b)	6.52%	69.6%
(0.26)	(0.83)	7.80	13.17	721,892	0.56	0.59(b)	7.19	82.6
(0.15)	(0.81)	7.69	4.45	744,655	0.56	0.57(b)	7.91	82.8
–	(0.69)	8.15	17.23	975,311	0.56	0.57(b)	8.64	77.8
–	(0.69)	7.59	37.90	800,853	0.54	–	9.60	57.0
(0.31)	(1.53)	10.76	8.72	1,495,205	0.65	–	6.00	67.0
(0.22)	(0.95)	11.37	12.65	1,189,513	0.65	–	6.75	75.0
(0.15)	(1)	11.05	3.87	1,633,132	0.65	–	7.50	67.4
–	(0.97)	11.64	19.54	1,276,786	0.65	–	8.77	100.0
–	(0.76)	10.67	44.36	1,015,076	0.65	–	10.34	103.8

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>INCOME FUND</u>					
<u>Institutional shares</u>					
2013	\$ 10.00	\$ 0.37	\$ (0.30)	\$ 0.07	\$ (0.40)
2012	9.57	0.44	0.46	0.90	(0.47)
2011	9.68	0.49	(0.08)	0.41	(0.52)
2010	9.28	0.54	0.42	0.96	(0.56)
2009	7.85	0.55	1.44	1.99	(0.56)
<u>R-1 shares</u>					
2013	10.00	0.29	(0.29)	–	(0.32)
2012	9.57	0.36	0.45	0.81	(0.38)
2011	9.68	0.40	(0.07)	0.33	(0.44)
2010(b)	9.27	0.30	0.40	0.70	(0.29)
<u>R-2 shares</u>					
2013	10.01	0.30	(0.30)	–	(0.33)
2012	9.58	0.37	0.46	0.83	(0.40)
2011	9.67	0.42	(0.06)	0.36	(0.45)
2010(b)	9.27	0.30	0.40	0.70	(0.30)
<u>R-3 shares</u>					
2013	10.01	0.32	(0.29)	0.03	(0.35)
2012	9.58	0.39	0.45	0.84	(0.41)
2011	9.68	0.43	(0.06)	0.37	(0.47)
2010(b)	9.27	0.31	0.41	0.72	(0.31)
<u>R-4 shares</u>					
2013	10.01	0.34	(0.30)	0.04	(0.37)
2012	9.58	0.41	0.45	0.86	(0.43)
2011	9.68	0.45	(0.06)	0.39	(0.49)
2010(b)	9.27	0.32	0.41	0.73	(0.32)
<u>R-5 shares</u>					
2013	10.00	0.35	(0.30)	0.05	(0.38)
2012	9.57	0.42	0.45	0.87	(0.44)
2011	9.67	0.46	(0.06)	0.40	(0.50)
2010(b)	9.27	0.35	0.38	0.73	(0.33)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.40)	\$ 9.67	0.74%	\$ 1,907,327	0.50%	3.82%	20.7%
(0.47)	10.00	9.62	1,763,464	0.51	4.56	14.1
(0.52)	9.57	4.41	1,157,481	0.52	5.13	16.9
(0.56)	9.68	10.65	930,550	0.52	5.69	13.1
(0.56)	9.28	26.21	809,271	0.51	6.49	30.6
(0.32)	9.68	(0.02)	5,593	1.37	2.94	20.7
(0.38)	10.00	8.68	1,084	1.38	3.69	14.1
(0.44)	9.57	3.51	415	1.38	4.14	16.9
(0.29)	9.68	7.68 (c)	18	1.40 (d)	4.69 (d)	13.1 (d)
(0.33)	9.68	0.00	1,208	1.24	3.07	20.7
(0.40)	10.01	8.81	1,157	1.25	3.77	14.1
(0.45)	9.58	3.85	291	1.25	4.37	16.9
(0.30)	9.67	7.67 (c)	172	1.27 (d)	4.71 (d)	13.1 (d)
(0.35)	9.69	0.28	21,640	1.06	3.25	20.7
(0.41)	10.01	9.00	16,508	1.07	4.01	14.1
(0.47)	9.58	3.93	8,180	1.07	4.52	16.9
(0.31)	9.68	7.91 (c)	1,472	1.09 (d)	4.95 (d)	13.1 (d)
(0.37)	9.68	0.37	15,785	0.87	3.45	20.7
(0.43)	10.01	9.21	8,155	0.88	4.17	14.1
(0.49)	9.58	4.13	2,835	0.88	4.74	16.9
(0.32)	9.68	8.04 (c)	1,361	0.90 (d)	5.03 (d)	13.1 (d)
(0.38)	9.67	0.50	15,858	0.75	3.56	20.7
(0.44)	10.00	9.35	13,785	0.76	4.31	14.1
(0.50)	9.57	4.26	10,322	0.76	4.80	16.9
(0.33)	9.67	8.03 (c)	393	0.78 (d)	5.43 (d)	13.1 (d)

- (a) Calculated based on average shares outstanding during the period.
(b) Period from March 1, 2010, date operations commenced, through October 31, 2010.
(c) Total return amounts have not been annualized.
(d) Computed on an annualized basis.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
INFLATION PROTECTION FUND					
Institutional shares					
2013	\$ 9.29	\$ 0.07	\$ (0.62)	\$ (0.55)	\$ (0.05)
2012	8.65	0.09	0.58	0.67	(0.03)
2011	8.24	0.28	0.38	0.66	(0.25)
2010	7.57	0.16	0.67	0.83	(0.16)
2009	7.08	0.11	0.39	0.50	(0.01)
R-1 shares					
2013	9.09	(0.02)	(0.6)	(0.62)	(0.01)
2012	8.51	0.02	0.57	0.59	(0.01)
2011	8.13	0.19	0.38	0.57	(0.19)
2010	7.48	0.09	0.67	0.76	(0.11)
2009	7.05	(0.02)	0.46	0.44	(0.01)
R-2 shares					
2013	9.11	–	(0.61)	(0.61)	(0.01)
2012	8.52	0.03	0.57	0.60	(0.01)
2011	8.13	0.20	0.39	0.59	(0.2)
2010	7.48	0.10	0.66	0.76	(0.11)
2009	7.05	0.06	0.38	0.44	(0.01)
R-3 shares					
2013	9.16	0.02	(0.62)	(0.60)	(0.02)
2012	8.55	0.04	0.58	0.62	(0.01)
2011	8.16	0.22	0.38	0.60	(0.21)
2010	7.50	0.12	0.66	0.78	(0.12)
2009	7.06	0.08	0.37	0.45	(0.01)
R-4 shares					
2013	9.20	0.04	(0.63)	(0.59)	(0.03)
2012	8.58	0.08	0.55	0.63	(0.01)
2011	8.18	0.27	0.35	0.62	(0.22)
2010	7.52	0.13	0.67	0.80	(0.14)
2009	7.06	0.09	0.38	0.47	(0.01)
R-5 shares					
2013	9.24	0.06	(0.65)	(0.59)	(0.03)
2012	8.61	0.07	0.58	0.65	(0.02)
2011	8.21	0.25	0.38	0.63	(0.23)
2010	7.54	0.14	0.67	0.81	(0.14)
2009	7.07	0.04	0.44	0.48	(0.01)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.05)	\$ 8.69	(6.00)%	\$ 773,261	0.40%	0.79%	100.9%
(0.03)	9.29	7.78	740,023	0.40	1.04	152.9
(0.25)	8.65	8.19	720,534	0.40	3.37	131.9
(0.16)	8.24	11.10	550,781	0.41	2.04	85.3
(0.01)	7.57	7.10	439,388	0.41	1.55	109.5
(0.01)	8.46	(6.83)	910	1.28	(0.21)	100.9
(0.01)	9.09	6.89	1,821	1.28	0.19	152.9
(0.19)	8.51	7.23	1,315	1.28	2.39	131.9
(0.11)	8.13	10.20	660	1.29	1.16	85.3
(0.01)	7.48	6.21	367	1.29	(0.31)	109.5
(0.01)	8.49	(6.73)	752	1.15	0.01	100.9
(0.01)	9.11	7.01	1,263	1.15	0.35	152.9
(0.20)	8.52	7.46	1,063	1.15	2.50	131.9
(0.11)	8.13	10.30	1,078	1.16	1.26	85.3
(0.01)	7.48	6.22	732	1.16	0.86	109.5
(0.02)	8.54	(6.54)	6,353	0.97	0.22	100.9
(0.01)	9.16	7.24	5,447	0.97	0.47	152.9
(0.21)	8.55	7.57	4,487	0.97	2.74	131.9
(0.12)	8.16	10.56	2,759	0.98	1.49	85.3
(0.01)	7.50	6.37	1,041	0.98	1.12	109.5
(0.03)	8.58	(6.42)	1,655	0.78	0.47	100.9
(0.01)	9.20	7.38	1,995	0.78	0.88	152.9
(0.22)	8.58	7.83	837	0.78	3.36	131.9
(0.14)	8.18	10.70	896	0.79	1.67	85.3
(0.01)	7.52	6.67	359	0.79	1.28	109.5
(0.03)	8.62	(6.37)	2,516	0.66	0.71	100.9
(0.02)	9.24	7.55	4,539	0.66	0.81	152.9
(0.23)	8.61	7.90	2,309	0.66	3.06	131.9
(0.14)	8.21	10.91	1,230	0.67	1.73	85.3
(0.01)	7.54	6.81	635	0.67	0.53	109.5

(a) Calculated based on average shares outstanding during the period.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
INTERNATIONAL EMERGING MARKETS FUND					
Institutional shares					
2013	\$ 24.42	\$ 0.33	\$ 0.64	\$ 0.97	\$ (0.38)
2012	23.67	0.34	0.73	1.07	(0.32)
2011	25.60	0.39	(2.16)	(1.77)	(0.16)
2010	20.66	0.21	4.92	5.13	(0.19)
2009	13.78	0.25	6.84	7.09	(0.21)
R-1 shares					
2013	24.20	0.11	0.64	0.75	(0.16)
2012	23.37	0.13	0.75	0.88	(0.05)
2011	25.35	0.14	(2.12)	(1.98)	–
2010	20.51	0.02	4.87	4.89	(0.05)
2009	13.60	0.10	6.83	6.93	(0.02)
R-2 shares					
2013	24.03	0.13	0.65	0.78	(0.18)
2012	23.26	0.16	0.74	0.90	(0.13)
2011	25.20	0.17	(2.11)	(1.94)	–
2010	20.37	0.03	4.86	4.89	(0.06)
2009	13.50	0.12	6.78	6.90	(0.03)
R-3 shares					
2013	24.15	0.19	0.64	0.83	(0.24)
2012	23.38	0.22	0.72	0.94	(0.17)
2011	25.31	0.23	(2.13)	(1.90)	(0.03)
2010	20.46	0.08	4.87	4.95	(0.10)
2009	13.59	0.15	6.80	6.95	(0.08)
R-4 shares					
2013	24.35	0.24	0.64	0.88	(0.30)
2012	23.59	0.25	0.74	0.99	(0.23)
2011	25.52	0.28	(2.14)	(1.86)	(0.07)
2010	20.62	0.12	4.91	5.03	(0.13)
2009	13.72	0.18	6.86	7.04	(0.14)
R-5 shares					
2013	24.43	0.27	0.65	0.92	(0.33)
2012	23.67	0.29	0.72	1.01	(0.25)
2011	25.60	0.32	(2.15)	(1.83)	(0.10)
2010	20.67	0.15	4.93	5.08	(0.15)
2009	13.75	0.21	6.85	7.06	(0.14)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.38)	\$ 25.01	3.96%	\$ 1,537,280	1.24%	1.24%	1.35%	117.2%
(0.32)	24.42	4.67	1,219,393	1.25	1.25	1.45	104.8
(0.16)	23.67	(7.00)	1,042,690	1.27	1.27	1.51	88.4
(0.19)	25.60	24.94	1,048,491	1.28	1.28	0.91	102.1
(0.21)	20.66	52.25	830,134	1.27	1.27	1.50	133.4
(0.16)	24.79	3.09	4,467	2.11	–	0.43	117.2
(0.05)	24.20	3.77	5,362	2.11	–	0.56	104.8
–	23.37	(7.81)	6,019	2.13	–	0.56	88.4
(0.05)	25.35	23.87	10,335	2.14	–	0.07	102.1
(0.02)	20.51	51.00	7,457	2.13	–	0.62	133.4
(0.18)	24.63	3.21	6,610	1.98	–	0.53	117.2
(0.13)	24.03	3.93	9,010	1.98	–	0.69	104.8
–	23.26	(7.70)	10,638	2.00	–	0.67	88.4
(0.06)	25.20	24.02	13,900	2.01	–	0.15	102.1
(0.03)	20.37	51.18	11,600	2.00	–	0.77	133.4
(0.24)	24.74	3.42	19,344	1.80	–	0.77	117.2
(0.17)	24.15	4.08	37,931	1.80	–	0.94	104.8
(0.03)	23.38	(7.52)	32,869	1.82	–	0.89	88.4
(0.10)	25.31	24.26	42,741	1.83	–	0.38	102.1
(0.08)	20.46	51.48	31,084	1.82	–	0.91	133.4
(0.30)	24.93	3.57	20,951	1.61	–	0.98	117.2
(0.23)	24.35	4.28	21,453	1.61	–	1.05	104.8
(0.07)	23.59	(7.33)	24,222	1.63	–	1.08	88.4
(0.13)	25.52	24.48	31,507	1.64	–	0.54	102.1
(0.14)	20.62	51.79	25,197	1.63	–	1.08	133.4
(0.33)	25.02	3.73	33,812	1.49	–	1.08	117.2
(0.25)	24.43	4.41	37,421	1.49	–	1.21	104.8
(0.10)	23.67	(7.21)	33,187	1.51	–	1.25	88.4
(0.15)	25.60	24.65	37,391	1.52	–	0.65	102.1
(0.14)	20.67	51.90	33,821	1.51	–	1.26	133.4

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager and/or Distributor.

**FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.**

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
INTERNATIONAL FUND I					
Institutional shares					
2013	\$ 10.79	\$ 0.15	\$ 2.32	\$ 2.47	\$ (0.21)
2012	10.31	0.20	0.45	0.65	(0.17)
2011	11.32	0.15	(0.99)	(0.84)	(0.17)
2010	10.31	0.14	1.03	1.17	(0.16)
2009	8.81	0.14	1.63	1.77	(0.27)
R-1 shares					
2013	10.70	0.06	2.29	2.35	(0.11)
2012	10.20	0.11	0.46	0.57	(0.07)
2011	11.21	0.05	(0.99)	(0.94)	(0.07)
2010	10.23	0.04	1.03	1.07	(0.09)
2009	8.73	0.06	1.62	1.68	(0.18)
R-2 shares					
2013	10.72	0.07	2.30	2.37	(0.13)
2012	10.21	0.12	0.46	0.58	(0.07)
2011	11.21	0.06	(0.99)	(0.93)	(0.07)
2010	10.22	0.05	1.04	1.09	(0.10)
2009	8.71	0.07	1.62	1.69	(0.18)
R-3 shares					
2013	10.71	0.10	2.29	2.39	(0.13)
2012	10.22	0.14	0.46	0.60	(0.11)
2011	11.22	0.08	(0.98)	(0.90)	(0.10)
2010	10.23	0.08	1.03	1.11	(0.12)
2009	8.73	0.09	1.61	1.70	(0.20)
R-4 shares					
2013	10.74	0.12	2.30	2.42	(0.16)
2012	10.26	0.16	0.45	0.61	(0.13)
2011	11.27	0.10	(0.98)	(0.88)	(0.13)
2010	10.26	0.10	1.03	1.13	(0.12)
2009	8.77	0.11	1.61	1.72	(0.23)
R-5 shares					
2013	10.76	0.14	2.31	2.45	(0.19)
2012	10.28	0.17	0.45	0.62	(0.14)
2011	11.28	0.11	(0.97)	(0.86)	(0.14)
2010	10.28	0.11	1.03	1.14	(0.14)
2009	8.77	0.12	1.62	1.74	(0.23)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Expenses to Average Net Assets (Excluding Interest Expense Fees)	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.21)	\$ 13.05	23.23%	\$ 610,764	0.97%	N/A	1.02%	1.27%	50.6%
(0.17)	10.79	6.53	1,069,269	0.98	N/A	1.01	1.95	57.3
(0.17)	10.31	(7.62)	1,170,084	1.10	N/A	1.13	1.34	90.5
(0.16)	11.32	11.49	1,323,249	1.10	N/A	1.13	1.31	103.4
(0.27)	10.31	20.69	1,464,299	1.12	1.11	1.13	1.62	102.4
(0.11)	12.94	22.17	4,758	1.83 (c)	N/A	–	0.54	50.6
(0.07)	10.70	5.61	4,294	1.85 (c)	N/A	–	1.04	57.3
(0.07)	10.20	(8.45)	4,972	1.97 (c)	N/A	–	0.48	90.5
(0.09)	11.21	10.53	6,727	1.97 (c)	N/A	–	0.43	103.4
(0.18)	10.23	19.63	6,204	2.00 (c)	1.99	–	0.74	102.4
(0.13)	12.96	22.25	4,108	1.70 (c)	N/A	–	0.63	50.6
(0.07)	10.72	5.79	4,182	1.72 (c)	N/A	–	1.22	57.3
(0.07)	10.21	(8.35)	5,052	1.84 (c)	N/A	–	0.55	90.5
(0.10)	11.21	10.72	10,031	1.84 (c)	N/A	–	0.53	103.4
(0.18)	10.22	19.73	11,435	1.87 (c)	1.86	–	0.86	102.4
(0.13)	12.97	22.51	6,505	1.52 (c)	N/A	–	0.88	50.6
(0.11)	10.71	5.97	7,223	1.54 (c)	N/A	–	1.42	57.3
(0.10)	10.22	(8.15)	10,939	1.66 (c)	N/A	–	0.75	90.5
(0.12)	11.22	10.90	13,026	1.66 (c)	N/A	–	0.74	103.4
(0.20)	10.23	19.95	12,634	1.69 (c)	1.68	–	1.07	102.4
(0.16)	13.00	22.82	8,174	1.33 (c)	N/A	–	1.04	50.6
(0.13)	10.74	6.07	6,264	1.35 (c)	N/A	–	1.56	57.3
(0.13)	10.26	(7.96)	11,057	1.47 (c)	N/A	–	0.90	90.5
(0.12)	11.27	11.13	14,358	1.47 (c)	N/A	–	0.95	103.4
(0.23)	10.26	20.10	13,714	1.50 (c)	1.49	–	1.27	102.4
(0.19)	13.02	23.02	8,295	1.21 (c)	N/A	–	1.15	50.6
(0.14)	10.76	6.17	6,265	1.23 (c)	N/A	–	1.69	57.3
(0.14)	10.28	(7.79)	8,738	1.35 (c)	N/A	–	0.93	90.5
(0.14)	11.28	11.21	25,067	1.35 (c)	N/A	–	1.07	103.4
(0.23)	10.28	20.39	22,619	1.38 (c)	1.37	–	1.36	102.4

- (a) Calculated based on average shares outstanding during the period.
(b) Excludes expense reimbursement from Manager.
(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>LARGECAP BLEND FUND II</u>					
<u>Institutional shares</u>					
2013	\$ 10.73	\$ 0.16	\$ 2.51	\$ 2.67	\$ (0.18)
2012	9.48	0.14	1.23	1.37	(0.12)
2011	9.03	0.11	0.42	0.53	(0.08)
2010	7.95	0.10	1.09	1.19	(0.11)
2009	7.23	0.11	0.73	0.84	(0.12)
<u>R-1 shares</u>					
2013	10.65	0.06	2.50	2.56	(0.08)
2012	9.40	0.05	1.23	1.28	(0.03)
2011	8.95	0.03	0.42	0.45	–
2010	7.90	0.03	1.07	1.10	(0.05)
2009	7.17	0.05	0.73	0.78	(0.05)
<u>R-2 shares</u>					
2013	10.61	0.07	2.50	2.57	(0.08)
2012	9.35	0.06	1.22	1.28	(0.02)
2011	8.90	0.04	0.42	0.46	(0.01)
2010	7.85	0.04	1.07	1.11	(0.06)
2009	7.10	0.06	0.73	0.79	(0.04)
<u>R-3 shares</u>					
2013	10.63	0.09	2.50	2.59	(0.12)
2012	9.38	0.08	1.23	1.31	(0.06)
2011	8.94	0.06	0.41	0.47	(0.03)
2010	7.88	0.05	1.08	1.13	(0.07)
2009	7.15	0.08	0.72	0.80	(0.07)
<u>R-4 shares</u>					
2013	10.70	0.12	2.50	2.62	(0.13)
2012	9.45	0.10	1.23	1.33	(0.08)
2011	9.00	0.08	0.42	0.50	(0.05)
2010	7.93	0.07	1.08	1.15	(0.08)
2009	7.20	0.09	0.73	0.82	(0.09)
<u>R-5 shares</u>					
2013	10.68	0.13	2.51	2.64	(0.15)
2012	9.44	0.11	1.23	1.34	(0.10)
2011	8.99	0.09	0.41	0.50	(0.05)
2010	7.92	0.08	1.08	1.16	(0.09)
2009	7.19	0.10	0.72	0.82	(0.09)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.18)	\$ 13.22	25.27%	\$ 520,980	0.74 % ^(b)	1.39%	47.0%
(0.12)	10.73	14.66	897,545	0.75 (b)	1.34	44.4
(0.08)	9.48	5.84	817,773	0.74 (b)	1.14	43.7
(0.11)	9.03	15.02	538,314	0.76 (b)	1.15	36.2
(0.12)	7.95	12.05	479,632	0.77 (b)	1.64	79.8
(0.08)	13.13	24.21	3,323	1.61 (b)	0.49	47.0
(0.03)	10.65	13.71	3,093	1.61 (b)	0.48	44.4
–	9.40	5.03	2,976	1.61 (b)	0.29	43.7
(0.05)	8.95	13.97	3,297	1.62 (b)	0.30	36.2
(0.05)	7.90	11.10	3,337	1.63 (b)	0.75	79.8
(0.08)	13.10	24.39	5,134	1.48 (b)	0.64	47.0
(0.02)	10.61	13.76	6,383	1.48 (b)	0.63	44.4
(0.01)	9.35	5.12	8,374	1.48 (b)	0.43	43.7
(0.06)	8.90	14.12	14,969	1.49 (b)	0.43	36.2
(0.04)	7.85	11.27	15,413	1.50 (b)	0.91	79.8
(0.12)	13.10	24.59	21,726	1.30 (b)	0.79	47.0
(0.06)	10.63	14.06	19,168	1.30 (b)	0.80	44.4
(0.03)	9.38	5.22	21,931	1.30 (b)	0.60	43.7
(0.07)	8.94	14.41	25,154	1.31 (b)	0.60	36.2
(0.07)	7.88	11.43	21,135	1.32 (b)	1.12	79.8
(0.13)	13.19	24.82	10,944	1.11 (b)	1.01	47.0
(0.08)	10.70	14.26	12,353	1.11 (b)	1.00	44.4
(0.05)	9.45	5.52	14,417	1.11 (b)	0.79	43.7
(0.08)	9.00	14.56	13,836	1.12 (b)	0.80	36.2
(0.09)	7.93	11.63	13,463	1.13 (b)	1.27	79.8
(0.15)	13.17	25.06	26,085	0.99 (b)	1.08	47.0
(0.10)	10.68	14.31	20,971	0.99 (b)	1.11	44.4
(0.05)	9.44	5.59	21,778	0.99 (b)	0.90	43.7
(0.09)	8.99	14.75	21,473	1.00 (b)	0.92	36.2
(0.09)	7.92	11.68	25,707	1.01 (b)	1.40	79.8

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
LARGECAP GROWTH FUND					
<u>Institutional shares</u>					
2013	\$ 8.93	\$ 0.07	\$ 2.64	\$ 2.71	\$ (0.07)
2012	8.07	0.04	0.85	0.89	(0.03)
2011	7.69	0.02	0.36	0.38	–
2010	6.35	–	1.34	1.34	–
2009	6.13	0.01	0.22	0.23	(0.01)
<u>R-1 shares</u>					
2013	8.49	(0.01)	2.50	2.49	–
2012	7.72	(0.03)	0.80	0.77	–
2011	7.42	(0.05)	0.35	0.30	–
2010	6.17	(0.06)	1.31	1.25	–
2009	6.00	(0.04)	0.21	0.17	–
<u>R-2 shares</u>					
2013	8.57	–	2.52	2.52	–
2012	7.77	(0.02)	0.82	0.80	–
2011	7.46	(0.04)	0.35	0.31	–
2010	6.20	(0.05)	1.31	1.26	–
2009	6.03	(0.03)	0.20	0.17	–
<u>R-3 shares</u>					
2013	9.12	0.02	2.68	2.70	–
2012	8.26	–	0.86	0.86	–
2011	7.92	(0.03)	0.37	0.34	–
2010	6.52	(0.04)	1.44	1.40	–
2009	6.32	(0.02)	0.22	0.20	–
<u>R-4 shares</u>					
2013	9.06	0.03	2.68	2.71	(0.03)
2012	8.19	0.01	0.86	0.87	–
2011	7.83	(0.01)	0.37	0.36	–
2010	6.48	(0.02)	1.37	1.35	–
2009	6.28	(0.01)	0.21	0.20	–
<u>R-5 shares</u>					
2013	8.98	0.06	2.62	2.68	(0.04)
2012	8.11	0.02	0.85	0.87	–
2011	7.75	–	0.36	0.36	–
2010	6.41	(0.01)	1.35	1.34	–
2009	6.20	–	0.21	0.21	–

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.07)	\$ 11.57	30.52%	\$ 2,513,518	0.64%	0.69%	79.3%
(0.03)	8.93	11.01	1,852,751	0.64	0.51	64.3
–	8.07	4.94	1,699,349	0.65	0.23	64.8
–	7.69	21.12	1,680,577	0.65	0.04	65.5
(0.01)	6.35	3.79	1,673,544	0.65	0.24	86.5
–	10.98	29.33	6,534	1.51	(0.10)	79.3
–	8.49	9.97	8,500	1.52	(0.37)	64.3
–	7.72	4.04	15,012	1.52	(0.64)	64.8
–	7.42	20.26	17,427	1.52	(0.82)	65.5
–	6.17	2.83	10,130	1.53	(0.65)	86.5
–	11.09	29.40	7,383	1.38	0.01	79.3
–	8.57	10.30	8,616	1.39	(0.23)	64.3
–	7.77	4.16	9,353	1.39	(0.51)	64.8
–	7.46	20.32	17,137	1.39	(0.69)	65.5
–	6.20	2.82	16,407	1.40	(0.50)	86.5
–	11.82	29.67	22,527	1.20	0.19	79.3
–	9.12	10.41	25,611	1.21	(0.05)	64.3
–	8.26	4.29	38,490	1.21	(0.33)	64.8
–	7.92	21.47 (b)	52,360	1.21	(0.52)	65.5
–	6.52	3.16	56,773	1.22	(0.34)	86.5
(0.03)	11.74	29.94	18,484	1.01	0.32	79.3
–	9.06	10.62	13,612	1.02	0.14	64.3
–	8.19	4.60	22,675	1.02	(0.13)	64.8
–	7.83	20.83	30,517	1.02	(0.33)	65.5
–	6.48	3.18	35,761	1.03	(0.13)	86.5
(0.04)	11.62	30.01	67,568	0.89	0.56	79.3
–	8.98	10.77	129,852	0.90	0.26	64.3
–	8.11	4.65	124,763	0.90	(0.02)	64.8
–	7.75	20.90	130,991	0.90	(0.20)	65.5
–	6.41	3.39	74,628	0.91	(0.02)	86.5

(a) Calculated based on average shares outstanding during the period.

(b) In March, 2010, the Class experienced a significant one time gain of approximately \$0.06/share as the result of a settlement in an SEC administrative proceeding. If such gain had not been recognized, the total return amounts expressed herein would have been lower.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>LARGECAP GROWTH FUND I</u>					
<u>Institutional shares</u>					
2013	\$ 10.04	\$ 0.05	\$ 3.15	\$ 3.20	\$ (0.05)
2012	9.48	0.03	0.88	0.91	(0.01)
2011	8.66	0.02	0.81	0.83	(0.01)
2010	7.02	0.01	1.64	1.65	(0.01)
2009	5.45	0.01	1.56	1.57	–
<u>R-1 shares</u>					
2013	9.40	(0.05)	2.95	2.90	–
2012	8.97	(0.06)	0.83	0.77	–
2011	8.25	(0.06)	0.78	0.72	–
2010	6.75	(0.05)	1.55	1.50	–
2009	5.28	(0.04)	1.51	1.47	–
<u>R-2 shares</u>					
2013	9.21	(0.03)	2.89	2.86	–
2012	8.78	(0.04)	0.81	0.77	–
2011	8.07	(0.05)	0.76	0.71	–
2010	6.59	(0.04)	1.52	1.48	–
2009	5.15	(0.03)	1.47	1.44	–
<u>R-3 shares</u>					
2013	9.61	(0.02)	3.03	3.01	(0.01)
2012	9.13	(0.03)	0.85	0.82	–
2011	8.38	(0.04)	0.79	0.75	–
2010	6.82	(0.03)	1.59	1.56	–
2009	5.33	(0.02)	1.51	1.49	–
<u>R-4 shares</u>					
2013	9.65	–	3.03	3.03	(0.02)
2012	9.15	(0.01)	0.85	0.84	–
2011	8.38	(0.02)	0.79	0.77	–
2010	6.82	(0.02)	1.58	1.56	–
2009	5.31	(0.01)	1.52	1.51	–
<u>R-5 shares</u>					
2013	9.84	0.02	3.09	3.11	(0.03)
2012	9.31	–	0.87	0.87	–
2011	8.51	(0.01)	0.81	0.80	–
2010	6.91	(0.01)	1.61	1.60	–
2009	5.38	(0.01)	1.54	1.53	–

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.43)	\$ (0.48)	\$ 12.76	33.23%	\$ 6,240,772	0.61 %(c)	– %	0.41%	37.0%
(0.34)	(0.35)	10.04	10.22	4,523,083	0.61 (c)	–	0.29	33.7
–	(0.01)	9.48	9.60	3,025,782	0.61 (c)	–	0.18	52.0
–	(0.01)	8.66	23.44	2,685,536	0.64	0.69	0.15	49.8
–	–	7.02	28.83	1,514,796	0.73 (c)	–	0.17	98.9
(0.43)	(0.43)	11.87	32.09	8,519	1.47 (c)	–	(0.44)	37.0
(0.34)	(0.34)	9.40	9.14	5,708	1.48 (c)	–	(0.60)	33.7
–	–	8.97	8.73	3,664	1.49 (c)	–	(0.71)	52.0
–	–	8.25	22.22	2,882	1.52	1.57	(0.73)	49.8
–	–	6.75	27.84	1,717	1.61 (c)	–	(0.71)	98.9
(0.43)	(0.43)	11.64	32.32	16,060	1.34 (c)	–	(0.30)	37.0
(0.34)	(0.34)	9.21	9.34	13,403	1.35 (c)	–	(0.46)	33.7
–	–	8.78	8.80	9,498	1.36 (c)	–	(0.58)	52.0
–	–	8.07	22.46	7,759	1.39	1.44	(0.60)	49.8
–	–	6.59	27.96	9,273	1.48 (c)	–	(0.58)	98.9
(0.43)	(0.44)	12.18	32.55	152,377	1.16 (c)	–	(0.16)	37.0
(0.34)	(0.34)	9.61	9.54	91,042	1.17 (c)	–	(0.28)	33.7
–	–	9.13	8.95	59,494	1.18 (c)	–	(0.40)	52.0
–	–	8.38	22.87	31,002	1.21	1.26	(0.42)	49.8
–	–	6.82	27.95	13,590	1.30 (c)	–	(0.40)	98.9
(0.43)	(0.45)	12.23	32.75	95,501	0.97 (c)	–	0.04	37.0
(0.34)	(0.34)	9.65	9.74	58,532	0.98 (c)	–	(0.09)	33.7
–	–	9.15	9.19	29,668	0.99 (c)	–	(0.23)	52.0
–	–	8.38	22.87	12,655	1.02	1.07	(0.22)	49.8
–	–	6.82	28.44	4,213	1.11 (c)	–	(0.20)	98.9
(0.43)	(0.46)	12.49	32.90	250,770	0.85 (c)	–	0.18	37.0
(0.34)	(0.34)	9.84	9.91	182,770	0.86 (c)	–	0.02	33.7
–	–	9.31	9.40	117,302	0.87 (c)	–	(0.09)	52.0
–	–	8.51	23.15	65,597	0.90	0.95	(0.12)	49.8
–	–	6.91	28.44	16,770	0.99 (c)	–	(0.09)	98.9

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager and/or Distributor.

(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>LARGECAP GROWTH FUND II</u>					
<u>Institutional shares</u>					
2013	\$ 8.53	\$ 0.08	\$ 2.04	\$ 2.12	\$ (0.08)
2012	8.39	0.06	0.81	0.87	(0.04)
2011	7.85	0.05	0.60	0.65	(0.07)
2010	6.83	0.05	1.00	1.05	(0.03)
2009	6.01	0.03	0.83	0.86	(0.04)
<u>R-1 shares</u>					
2013	8.11	–	1.96	1.96	–
2012	8.04	(0.02)	0.78	0.76	–
2011	7.52	(0.02)	0.58	0.56	–
2010	6.58	(0.02)	0.96	0.94	–
2009	5.80	(0.02)	0.80	0.78	–
<u>R-2 shares</u>					
2013	7.86	0.01	1.89	1.90	(0.01)
2012	7.81	–	0.74	0.74	–
2011	7.31	(0.01)	0.56	0.55	(0.01)
2010	6.38	(0.01)	0.94	0.93	–
2009	5.62	(0.01)	0.77	0.76	–
<u>R-3 shares</u>					
2013	8.03	0.03	1.93	1.96	(0.03)
2012	7.95	0.01	0.77	0.78	(0.01)
2011	7.45	–	0.57	0.57	(0.03)
2010	6.49	–	0.96	0.96	–
2009	5.71	–	0.78	0.78	–
<u>R-4 shares</u>					
2013	8.23	0.05	1.98	2.03	(0.04)
2012	8.13	0.02	0.78	0.80	(0.01)
2011	7.61	0.02	0.58	0.60	(0.04)
2010	6.63	0.02	0.97	0.99	(0.01)
2009	5.81	0.01	0.81	0.82	–
<u>R-5 shares</u>					
2013	8.31	0.06	2.00	2.06	(0.06)
2012	8.20	0.04	0.78	0.82	(0.02)
2011	7.67	0.03	0.59	0.62	(0.05)
2010	6.68	0.03	0.98	1.01	(0.02)
2009	5.87	0.02	0.81	0.83	(0.02)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.12)	\$ (0.20)	\$ 10.45	25.46%	\$ 1,191,048	0.87 % (b)	0.91%	63.6%
(0.69)	(0.73)	8.53	11.87	1,107,456	0.87 (b)	0.71	64.8
(0.04)	(0.11)	8.39	8.32	1,019,620	0.93 (b)	0.62	73.7
–	(0.03)	7.85	15.38	1,291,759	0.92 (b)	0.62	70.8
–	(0.04)	6.83	14.40	1,499,432	0.93 (b)	0.56	140.0
(0.12)	(0.12)	9.95	24.54	1,293	1.74 (b)	0.06	63.6
(0.69)	(0.69)	8.11	10.82	1,806	1.75 (b)	(0.19)	64.8
(0.04)	(0.04)	8.04	7.46	1,316	1.81 (b)	(0.25)	73.7
–	–	7.52	14.29	1,473	1.80 (b)	(0.26)	70.8
–	–	6.58	13.45	1,472	1.81 (b)	(0.34)	140.0
(0.12)	(0.13)	9.63	24.65	3,250	1.61 (b)	0.16	63.6
(0.69)	(0.69)	7.86	10.90	3,038	1.62 (b)	0.00	64.8
(0.04)	(0.05)	7.81	7.54	5,215	1.68 (b)	(0.11)	73.7
–	–	7.31	14.58	7,359	1.67 (b)	(0.13)	70.8
–	–	6.38	13.52	7,619	1.68 (b)	(0.18)	140.0
(0.12)	(0.15)	9.84	24.87	11,438	1.43 (b)	0.34	63.6
(0.69)	(0.70)	8.03	11.21	11,537	1.44 (b)	0.13	64.8
(0.04)	(0.07)	7.95	7.65	9,751	1.50 (b)	0.03	73.7
–	–	7.45	14.79	8,490	1.49 (b)	0.05	70.8
–	–	6.49	13.66	9,327	1.50 (b)	(0.02)	140.0
(0.12)	(0.16)	10.10	25.12	5,436	1.24 (b)	0.54	63.6
(0.69)	(0.70)	8.23	11.29	5,291	1.25 (b)	0.31	64.8
(0.04)	(0.08)	8.13	7.95	7,458	1.31 (b)	0.25	73.7
–	(0.01)	7.61	14.95	9,396	1.30 (b)	0.24	70.8
–	–	6.63	14.11	6,499	1.31 (b)	0.19	140.0
(0.12)	(0.18)	10.19	25.28	17,351	1.12 (b)	0.64	63.6
(0.69)	(0.71)	8.31	11.41	22,643	1.13 (b)	0.45	64.8
(0.04)	(0.09)	8.20	8.13	15,637	1.19 (b)	0.38	73.7
–	(0.02)	7.67	15.07	24,655	1.18 (b)	0.36	70.8
–	(0.02)	6.68	14.13	17,233	1.19 (b)	0.30	140.0

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>LARGECAP S&P 500 INDEX FUND</u>					
<u>Institutional shares</u>					
2013	\$ 10.02	\$ 0.23	\$ 2.42	\$ 2.65	\$ (0.20)
2012	8.89	0.19	1.11	1.30	(0.17)
2011	8.35	0.16	0.50	0.66	(0.12)
2010	7.31	0.15	1.03	1.18	(0.14)
2009	6.87	0.14	0.48	0.62	(0.18)
<u>R-1 shares</u>					
2013	9.96	0.13	2.41	2.54	(0.11)
2012	8.83	0.11	1.11	1.22	(0.09)
2011	8.31	0.08	0.50	0.58	(0.06)
2010	7.29	0.08	1.03	1.11	(0.09)
2009	6.81	0.09	0.49	0.58	(0.10)
<u>R-2 shares</u>					
2013	10.02	0.14	2.44	2.58	(0.13)
2012	8.88	0.12	1.12	1.24	(0.10)
2011	8.34	0.10	0.49	0.59	(0.05)
2010	7.31	0.09	1.03	1.12	(0.09)
2009	6.84	0.10	0.48	0.58	(0.11)
<u>R-3 shares</u>					
2013	10.02	0.16	2.42	2.58	(0.15)
2012	8.89	0.13	1.13	1.26	(0.13)
2011	8.35	0.11	0.50	0.61	(0.07)
2010	7.32	0.11	1.03	1.14	(0.11)
2009	6.85	0.11	0.49	0.60	(0.13)
<u>R-4 shares</u>					
2013	10.05	0.18	2.44	2.62	(0.17)
2012	8.92	0.15	1.12	1.27	(0.14)
2011	8.38	0.13	0.50	0.63	(0.09)
2010	7.34	0.12	1.04	1.16	(0.12)
2009	6.89	0.12	0.48	0.60	(0.15)
<u>R-5 shares</u>					
2013	10.13	0.20	2.45	2.65	(0.18)
2012	8.98	0.17	1.13	1.30	(0.15)
2011	8.44	0.14	0.50	0.64	(0.10)
2010	7.39	0.13	1.05	1.18	(0.13)
2009	6.93	0.13	0.49	0.62	(0.16)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.20)	\$ 12.47	26.98%	\$ 2,231,434	0.16%	0.16%	2.02%	3.0%
(0.17)	10.02	14.97	1,687,068	0.16	0.16	1.97	3.5
(0.12)	8.89	7.89	1,292,005	0.17	0.17	1.82	4.3
(0.14)	8.35	16.27	1,343,467	0.18	0.18	1.87	8.0
(0.18)	7.31	9.53	136,579	0.19	0.25	2.26	7.6
(0.11)	12.39	25.81	18,762	1.03	–	1.17	3.0
(0.09)	9.96	13.98	16,940	1.04	–	1.11	3.5
(0.06)	8.83	6.94	16,169	1.04	–	0.95	4.3
(0.09)	8.31	15.32	16,843	1.04	–	1.02	8.0
(0.10)	7.29	8.71	12,677	1.04	–	1.35	7.6
(0.13)	12.47	26.00	43,560	0.90	–	1.29	3.0
(0.10)	10.02	14.12	37,824	0.91	–	1.24	3.5
(0.05)	8.88	7.05	36,188	0.91	–	1.09	4.3
(0.09)	8.34	15.47	47,540	0.91	–	1.15	8.0
(0.11)	7.31	8.82	47,447	0.91	–	1.55	7.6
(0.15)	12.45	26.14	219,693	0.72	–	1.47	3.0
(0.13)	10.02	14.35	170,210	0.73	–	1.41	3.5
(0.07)	8.89	7.31	127,726	0.73	–	1.26	4.3
(0.11)	8.35	15.61	115,162	0.73	–	1.34	8.0
(0.13)	7.32	9.13	136,863	0.73	–	1.72	7.6
(0.17)	12.50	26.43	179,047	0.53	–	1.64	3.0
(0.14)	10.05	14.50	120,923	0.54	–	1.61	3.5
(0.09)	8.92	7.51	120,723	0.54	–	1.45	4.3
(0.12)	8.38	15.88	106,514	0.54	–	1.51	8.0
(0.15)	7.34	9.18	83,855	0.54	–	1.90	7.6
(0.18)	12.60	26.58	354,869	0.41	–	1.77	3.0
(0.15)	10.13	14.74	260,492	0.42	–	1.73	3.5
(0.10)	8.98	7.58	224,128	0.42	–	1.57	4.3
(0.13)	8.44	16.03	190,814	0.42	–	1.63	8.0
(0.16)	7.39	9.31	173,787	0.42	–	2.02	7.6

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager and/or Distributor.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
LARGECAP VALUE FUND					
<u>Institutional shares</u>					
2013	\$ 10.90	\$ 0.25	\$ 2.66	\$ 2.91	\$ (0.23)
2012	9.32	0.20	1.52	1.72	(0.14)
2011	8.81	0.14	0.49	0.63	(0.12)
2010	7.85	0.13	0.99	1.12	(0.16)
2009	7.95	0.17	(0.06)	0.11	(0.21)
<u>R-1 shares</u>					
2013	10.80	0.15	2.65	2.80	(0.13)
2012	9.23	0.10	1.52	1.62	(0.05)
2011	8.72	0.05	0.50	0.55	(0.04)
2010	7.79	0.06	0.99	1.05	(0.12)
2009	7.88	0.11	(0.07)	0.04	(0.13)
<u>R-2 shares</u>					
2013	10.84	0.16	2.67	2.83	(0.15)
2012	9.25	0.12	1.52	1.64	(0.05)
2011	8.74	0.07	0.49	0.56	(0.05)
2010	7.80	0.07	0.98	1.05	(0.11)
2009	7.88	0.12	(0.06)	0.06	(0.14)
<u>R-3 shares</u>					
2013	10.83	0.18	2.67	2.85	(0.18)
2012	9.26	0.14	1.51	1.65	(0.08)
2011	8.72	0.08	0.49	0.57	(0.03)
2010	7.78	0.09	0.98	1.07	(0.13)
2009	7.87	0.12	(0.05)	0.07	(0.16)
<u>R-4 shares</u>					
2013	10.81	0.20	2.65	2.85	(0.19)
2012	9.24	0.16	1.51	1.67	(0.10)
2011	8.74	0.10	0.49	0.59	(0.09)
2010	7.79	0.10	0.99	1.09	(0.14)
2009	7.89	0.15	(0.07)	0.08	(0.18)
<u>R-5 shares</u>					
2013	10.91	0.22	2.66	2.88	(0.22)
2012	9.32	0.17	1.53	1.70	(0.11)
2011	8.81	0.11	0.51	0.62	(0.11)
2010	7.85	0.12	0.98	1.10	(0.14)
2009	7.95	0.15	(0.06)	0.09	(0.19)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.23)	\$ 13.58	27.26%	\$ 2,998,720	0.43%	2.04%	121.4%
(0.14)	10.90	18.71	1,612,943	0.44	1.94	117.4
(0.12)	9.32	7.21	1,274,154	0.45	1.45	130.9
(0.16)	8.81	14.45	950,085	0.46	1.54	192.9
(0.21)	7.85	1.69	571,990	0.47	2.45	170.2
(0.13)	13.47	26.24	1,517	1.30	1.21	121.4
(0.05)	10.80	17.65	1,115	1.31	1.05	117.4
(0.04)	9.23	6.32	1,191	1.31	0.57	130.9
(0.12)	8.72	13.51	1,300	1.32	0.75	192.9
(0.13)	7.79	0.70	1,420	1.33	1.49	170.2
(0.15)	13.52	26.40	3,487	1.17	1.29	121.4
(0.05)	10.84	17.83	2,032	1.18	1.19	117.4
(0.05)	9.25	6.45	2,131	1.18	0.70	130.9
(0.11)	8.74	13.56	3,191	1.19	0.87	192.9
(0.14)	7.80	0.94	3,025	1.20	1.62	170.2
(0.18)	13.50	26.67	3,725	0.99	1.52	121.4
(0.08)	10.83	18.03	2,753	1.00	1.37	117.4
(0.03)	9.26	6.59	2,700	1.00	0.89	130.9
(0.13)	8.72	13.86	3,466	1.01	1.13	192.9
(0.16)	7.78	1.10	5,783	1.02	1.74	170.2
(0.19)	13.47	26.81	2,721	0.80	1.65	121.4
(0.10)	10.81	18.26	2,117	0.81	1.58	117.4
(0.09)	9.24	6.80	2,275	0.81	1.06	130.9
(0.14)	8.74	14.09	2,289	0.82	1.24	192.9
(0.18)	7.79	1.23	2,009	0.83	2.04	170.2
(0.22)	13.57	26.89	9,285	0.68	1.85	121.4
(0.11)	10.91	18.44	5,500	0.69	1.69	117.4
(0.11)	9.32	6.99	4,363	0.69	1.19	130.9
(0.14)	8.81	14.16	5,627	0.70	1.38	192.9
(0.19)	7.85	1.31	7,054	0.71	2.09	170.2

(a) Calculated based on average shares outstanding during the period.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>LARGECAP VALUE FUND I</u>					
<u>Institutional shares</u>					
2013	\$ 11.73	\$ 0.24	\$ 2.69	\$ 2.93	\$ (0.24)
2012	10.45	0.21	1.24	1.45	(0.17)
2011	10.07	0.16	0.37	0.53	(0.15)
2010	9.12	0.12	0.96	1.08	(0.13)
2009	8.77	0.15	0.39	0.54	(0.19)
<u>R-1 shares</u>					
2013	11.67	0.12	2.68	2.80	(0.13)
2012	10.37	0.11	1.25	1.36	(0.06)
2011	10.00	0.06	0.37	0.43	(0.06)
2010	9.08	0.04	0.95	0.99	(0.07)
2009	8.70	0.08	0.39	0.47	(0.09)
<u>R-2 shares</u>					
2013	11.67	0.13	2.69	2.82	(0.15)
2012	10.39	0.13	1.24	1.37	(0.09)
2011	9.98	0.08	0.37	0.45	(0.04)
2010	9.04	0.06	0.94	1.00	(0.06)
2009	8.68	0.09	0.38	0.47	(0.11)
<u>R-3 shares</u>					
2013	11.68	0.16	2.68	2.84	(0.17)
2012	10.39	0.15	1.24	1.39	(0.10)
2011	10.00	0.09	0.38	0.47	(0.08)
2010	9.07	0.07	0.95	1.02	(0.09)
2009	8.71	0.10	0.39	0.49	(0.13)
<u>R-4 shares</u>					
2013	11.67	0.19	2.68	2.87	(0.20)
2012	10.39	0.17	1.24	1.41	(0.13)
2011	10.01	0.12	0.37	0.49	(0.11)
2010	9.08	0.09	0.94	1.03	(0.10)
2009	8.73	0.11	0.40	0.51	(0.16)
<u>R-5 shares</u>					
2013	11.77	0.20	2.69	2.89	(0.23)
2012	10.44	0.18	1.25	1.43	(0.10)
2011	10.05	0.13	0.38	0.51	(0.12)
2010	9.10	0.10	0.95	1.05	(0.10)
2009	8.74	0.12	0.40	0.52	(0.16)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$(0.24)	\$14.42	25.39 %(c)	\$ 898,307	0.76 %(b)	1.89%	68.2%
(0.17)	11.73	14.18	2,180,941	0.76 (b)	1.89	68.2
(0.15)	10.45	5.21	1,975,267	0.76 (b)	1.47	95.4
(0.13)	10.07	11.89	2,235,141	0.77 (b)	1.28	73.6
(0.19)	9.12	6.56	1,245,238	0.79 (b)	1.82	114.5
(0.13)	14.34	24.19 (c)	2,966	1.64 (b)	0.96	68.2
(0.06)	11.67	13.25	4,014	1.64 (b)	1.02	68.2
(0.06)	10.37	4.24	4,025	1.64 (b)	0.58	95.4
(0.07)	10.00	10.89	5,335	1.64 (b)	0.41	73.6
(0.09)	9.08	5.59	4,784	1.66 (b)	0.93	114.5
(0.15)	14.34	24.43	2,696	1.51 (b)	1.03	68.2
(0.09)	11.67	13.28	2,332	1.51 (b)	1.14	68.2
(0.04)	10.39	4.53	2,158	1.51 (b)	0.72	95.4
(0.06)	9.98	11.04	4,021	1.51 (b)	0.58	73.6
(0.11)	9.04	5.64	5,336	1.53 (b)	1.12	114.5
(0.17)	14.35	24.56 (c)	3,034	1.33 (b)	1.26	68.2
(0.10)	11.68	13.51	2,854	1.33 (b)	1.33	68.2
(0.08)	10.39	4.65	3,168	1.33 (b)	0.89	95.4
(0.09)	10.00	11.27	5,526	1.33 (b)	0.73	73.6
(0.13)	9.07	5.85	5,509	1.35 (b)	1.27	114.5
(0.20)	14.34	24.87 (c)	3,156	1.14 (b)	1.49	68.2
(0.13)	11.67	13.76	3,250	1.14 (b)	1.53	68.2
(0.11)	10.39	4.86	3,400	1.14 (b)	1.09	95.4
(0.10)	10.01	11.38	4,096	1.14 (b)	0.91	73.6
(0.16)	9.08	6.11	3,486	1.16 (b)	1.41	114.5
(0.23)	14.43	25.03	1,911	1.02 (b)	1.54	68.2
(0.10)	11.77	13.86	1,800	1.02 (b)	1.63	68.2
(0.12)	10.44	5.06	2,399	1.02 (b)	1.20	95.4
(0.10)	10.05	11.60	6,332	1.02 (b)	1.08	73.6
(0.16)	9.10	6.29	9,613	1.04 (b)	1.51	114.5

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

(c) Total return is calculated using the traded net asset value which may differ from the reported net asset value.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>LARGECAP VALUE FUND III</u>					
<u>Institutional shares</u>					
2013	\$ 11.07	\$ 0.19	\$ 2.75	\$ 2.94	\$ (0.27)
2012	9.86	0.20	1.19	1.39	(0.18)
2011	9.70	0.15	0.16	0.31	(0.15)
2010	8.67	0.13	1.05	1.18	(0.15)
2009	8.49	0.16	0.24	0.40	(0.22)
<u>R-1 shares</u>					
2013	11.02	0.10	2.74	2.84	(0.15)
2012	9.79	0.10	1.19	1.29	(0.06)
2011	9.63	0.05	0.17	0.22	(0.06)
2010	8.61	0.05	1.05	1.10	(0.08)
2009	8.40	0.09	0.24	0.33	(0.12)
<u>R-2 shares</u>					
2013	10.98	0.11	2.74	2.85	(0.17)
2012	9.76	0.12	1.18	1.30	(0.08)
2011	9.59	0.07	0.17	0.24	(0.07)
2010	8.58	0.06	1.04	1.10	(0.09)
2009	8.35	0.10	0.25	0.35	(0.12)
<u>R-3 shares</u>					
2013	11.39	0.14	2.83	2.97	(0.18)
2012	10.13	0.14	1.23	1.37	(0.11)
2011	9.93	0.09	0.18	0.27	(0.07)
2010	8.86	0.08	1.07	1.15	(0.08)
2009	8.64	0.12	0.25	0.37	(0.15)
<u>R-4 shares</u>					
2013	11.03	0.16	2.73	2.89	(0.21)
2012	9.82	0.16	1.19	1.35	(0.14)
2011	9.66	0.11	0.16	0.27	(0.11)
2010	8.63	0.09	1.05	1.14	(0.11)
2009	8.43	0.13	0.24	0.37	(0.17)
<u>R-5 shares</u>					
2013	11.11	0.17	2.74	2.91	(0.25)
2012	9.87	0.17	1.20	1.37	(0.13)
2011	9.71	0.12	0.16	0.28	(0.12)
2010	8.68	0.10	1.05	1.15	(0.12)
2009	8.47	0.14	0.25	0.39	(0.18)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.27)	\$ 13.74	27.13%	\$ 1,657,474	0.79 % ^(b)	1.56%	64.8%
(0.18)	11.07	14.38	677,325	0.78 (b)	1.92	58.3
(0.15)	9.86	3.16	1,056,201	0.78 (b)	1.42	70.9
(0.15)	9.70	13.73	1,601,614	0.77 (b)	1.39	80.6
(0.22)	8.67	5.12	1,688,856	0.78 (b)	2.04	98.7
(0.15)	13.71	26.10	2,175	1.67 (b)	0.79	64.8
(0.06)	11.02	13.31	2,369	1.66 (b)	0.99	58.3
(0.06)	9.79	2.22	2,821	1.66 (b)	0.53	70.9
(0.08)	9.63	12.79	4,179	1.65 (b)	0.50	80.6
(0.12)	8.61	4.17	4,470	1.66 (b)	1.19	98.7
(0.17)	13.66	26.27	5,605	1.54 (b)	0.92	64.8
(0.08)	10.98	13.42	6,283	1.53 (b)	1.15	58.3
(0.07)	9.76	2.43	9,411	1.53 (b)	0.67	70.9
(0.09)	9.59	12.83	15,933	1.52 (b)	0.64	80.6
(0.12)	8.58	4.36	19,786	1.53 (b)	1.35	98.7
(0.18)	14.18	26.47	10,306	1.36 (b)	1.09	64.8
(0.11)	11.39	13.64	9,792	1.35 (b)	1.31	58.3
(0.07)	10.13	2.67	13,446	1.35 (b)	0.85	70.9
(0.08)	9.93	13.05	23,390	1.34 (b)	0.83	80.6
(0.15)	8.86	4.48	34,970	1.35 (b)	1.55	98.7
(0.21)	13.71	26.67	5,773	1.17 (b)	1.27	64.8
(0.14)	11.03	13.93	5,167	1.16 (b)	1.58	58.3
(0.11)	9.82	2.74	10,525	1.16 (b)	1.04	70.9
(0.11)	9.66	13.32	13,028	1.15 (b)	1.02	80.6
(0.17)	8.63	4.71	20,289	1.16 (b)	1.70	98.7
(0.25)	13.77	26.72	8,642	1.05 (b)	1.40	64.8
(0.13)	11.11	14.10	8,898	1.04 (b)	1.63	58.3
(0.12)	9.87	2.86	10,476	1.04 (b)	1.15	70.9
(0.12)	9.71	13.38	22,321	1.03 (b)	1.13	80.6
(0.18)	8.68	4.92	32,818	1.04 (b)	1.81	98.7

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
MIDCAP FUND(c)					
Institutional shares					
2013	\$ 15.67	\$ 0.10	\$ 4.80	\$ 4.90	\$ (0.19)
2012	14.22	0.12	2.22	2.34	(0.08)
2011	13.18	0.07	1.65	1.72	(0.19)
2010	10.56	0.15	2.56	2.71	(0.09)
2009	9.59	0.06	1.43	1.49	–
R-1 shares					
2013	14.92	(0.04)	4.56	4.52	(0.12)
2012	13.62	–	2.11	2.11	–
2011	12.65	(0.04)	1.58	1.54	(0.08)
2010	10.17	0.05	2.45	2.50	(0.02)
2009	9.34	(0.03)	1.38	1.35	–
R-2 shares					
2013	15.00	(0.02)	4.59	4.57	(0.11)
2012	13.66	0.01	2.14	2.15	–
2011	12.71	(0.03)	1.59	1.56	(0.12)
2010	10.21	0.07	2.46	2.53	(0.03)
2009	9.36	(0.02)	1.39	1.37	–
R-3 shares					
2013	15.32	0.01	4.68	4.69	(0.14)
2012	13.91	0.04	2.18	2.22	–
2011	12.93	–	1.61	1.61	(0.14)
2010	10.38	0.08	2.51	2.59	(0.04)
2009	9.48	–	1.42	1.42	–
R-4 shares					
2013	15.66	0.05	4.79	4.84	(0.15)
2012	14.23	0.07	2.22	2.29	(0.05)
2011	13.21	0.02	1.66	1.68	(0.17)
2010	10.59	0.10	2.57	2.67	(0.05)
2009	9.65	0.02	1.44	1.46	–
R-5 shares					
2013	15.55	0.07	4.75	4.82	(0.16)
2012	14.12	0.08	2.21	2.29	(0.05)
2011	13.09	0.04	1.65	1.69	(0.17)
2010	10.50	0.11	2.55	2.66	(0.07)
2009	9.56	0.03	1.43	1.46	–

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.23)	\$ (0.42)	\$ 20.15	32.04%	\$ 2,828,522	0.66%	0.66%	0.59%	13.0%
(0.81)	(0.89)	15.67	17.72	1,389,161	0.65	0.65	0.80	21.1
(0.49)	(0.68)	14.22	13.48	580,128	0.65	0.65	0.53	33.2
–	(0.09)	13.18	25.78	392,309	0.66	0.66	1.22	26.7
(0.52)	(0.52)	10.56	17.09	423,084	0.69	0.70	0.60	12.9
(0.23)	(0.35)	19.09	30.96	20,791	1.48	–	(0.25)	13.0
(0.81)	(0.81)	14.92	16.68	7,778	1.50	–	(0.03)	21.1
(0.49)	(0.57)	13.62	12.57	1,985	1.51	–	(0.32)	33.2
–	(0.02)	12.65	24.64	2,261	1.52	–	0.40	26.7
(0.52)	(0.52)	10.17	15.99	1,879	1.53	–	(0.33)	12.9
(0.23)	(0.34)	19.23	31.09	40,741	1.35	–	(0.10)	13.0
(0.81)	(0.81)	15.00	16.93	21,181	1.37	–	0.08	21.1
(0.49)	(0.61)	13.66	12.66	8,697	1.38	–	(0.21)	33.2
–	(0.03)	12.71	24.81	5,421	1.39	–	0.56	26.7
(0.52)	(0.52)	10.21	16.18	4,048	1.40	–	(0.19)	12.9
(0.23)	(0.37)	19.64	31.30	155,477	1.17	–	0.08	13.0
(0.81)	(0.81)	15.32	17.17	77,423	1.19	–	0.28	21.1
(0.49)	(0.63)	13.91	12.85	20,680	1.20	–	(0.03)	33.2
–	(0.04)	12.93	25.01	18,958	1.21	–	0.72	26.7
(0.52)	(0.52)	10.38	16.51	11,000	1.22	–	(0.01)	12.9
(0.23)	(0.38)	20.12	31.59	163,047	0.98	–	0.28	13.0
(0.81)	(0.86)	15.66	17.33	90,257	1.00	–	0.44	21.1
(0.49)	(0.66)	14.23	13.08	44,862	1.01	–	0.16	33.2
–	(0.05)	13.21	25.32	9,201	1.02	–	0.86	26.7
(0.52)	(0.52)	10.59	16.65	8,038	1.03	–	0.19	12.9
(0.23)	(0.39)	19.98	31.74	196,640	0.86	–	0.37	13.0
(0.81)	(0.86)	15.55	17.46	77,833	0.88	–	0.57	21.1
(0.49)	(0.66)	14.12	13.34	50,417	0.89	–	0.28	33.2
–	(0.07)	13.09	25.42	36,636	0.90	–	0.96	26.7
(0.52)	(0.52)	10.50	16.82	15,132	0.91	–	0.31	12.9

- (a) Calculated based on average shares outstanding during the period.
(b) Excludes expense reimbursement from Manager and/or Distributor.
(c) Effective March 1, 2013, MidCap Blend Fund changed its name to MidCap Fund.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Distributions from Realized Gains
MIDCAP GROWTH FUND					
Institutional shares					
2013	\$ 7.31	\$ –	\$ 2.19	\$ 2.19	\$ (0.42)
2012	7.86	–	0.36	0.36	(0.91)
2011	7.10	(0.03)	0.79	0.76	–
2010	5.56	(0.02)	1.56	1.54	–
2009	5.43	(0.01)	0.14	0.13	–
R-1 shares					
2013	6.74	(0.06)	2.01	1.95	(0.42)
2012	7.38	(0.06)	0.33	0.27	(0.91)
2011	6.73	(0.09)	0.74	0.65	–
2010	5.31	(0.07)	1.49	1.42	–
2009	5.24	(0.06)	0.13	0.07	–
R-2 shares					
2013	6.98	(0.05)	2.09	2.04	(0.42)
2012	7.61	(0.05)	0.33	0.28	(0.91)
2011	6.92	(0.08)	0.77	0.69	–
2010	5.46	(0.06)	1.52	1.46	–
2009	5.38	(0.05)	0.13	0.08	–
R-3 shares					
2013	7.18	(0.04)	2.15	2.11	(0.42)
2012	7.78	(0.04)	0.35	0.31	(0.91)
2011	7.07	(0.07)	0.78	0.71	–
2010	5.57	(0.05)	1.55	1.50	–
2009	5.47	(0.05)	0.15	0.10	–
R-4 shares					
2013	7.36	(0.03)	2.21	2.18	(0.42)
2012	7.93	(0.03)	0.37	0.34	(0.91)
2011	7.19	(0.05)	0.79	0.74	–
2010	5.65	(0.04)	1.58	1.54	–
2009	5.54	(0.03)	0.14	0.11	–
R-5 shares					
2013	7.48	(0.02)	2.26	2.24	(0.42)
2012	8.05	(0.02)	0.36	0.34	(0.91)
2011	7.29	(0.05)	0.81	0.76	–
2010	5.72	(0.04)	1.61	1.57	–
2009	5.60	(0.03)	0.15	0.12	–

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.42)	\$ 9.08	31.57%	\$ 65,325	0.74%	0.77%	(0.04)%	222.6%
(0.91)	7.31	6.40	49,383	0.70	0.78	(0.02)	167.6
–	7.86	10.70	53,210	0.70	0.73	(0.32)	155.1
–	7.10	27.72	34,798	0.70	0.75	(0.25)	214.7
–	5.56	2.39	34,450	0.70	0.77	(0.29)	227.2
(0.42)	8.27	30.63	1,518	1.56	–	(0.85)	222.6
(0.91)	6.74	5.48	1,503	1.56	–	(0.88)	167.6
–	7.38	9.66	1,441	1.55	–	(1.18)	155.1
–	6.73	26.74	1,158	1.56	–	(1.12)	214.7
–	5.31	1.34	1,109	1.55	–	(1.15)	227.2
(0.42)	8.60	30.86	2,699	1.43	–	(0.72)	222.6
(0.91)	6.98	5.45	2,609	1.43	–	(0.76)	167.6
–	7.61	9.97	3,331	1.42	–	(1.04)	155.1
–	6.92	26.74	3,152	1.43	–	(0.99)	214.7
–	5.46	1.49	2,390	1.42	–	(1.02)	227.2
(0.42)	8.87	30.99	3,830	1.25	–	(0.52)	222.6
(0.91)	7.18	5.75	5,306	1.25	–	(0.58)	167.6
–	7.78	10.04	6,698	1.24	–	(0.86)	155.1
–	7.07	26.93	7,430	1.25	–	(0.75)	214.7
–	5.57	1.83	10,722	1.24	–	(0.86)	227.2
(0.42)	9.12	31.20	2,239	1.06	–	(0.35)	222.6
(0.91)	7.36	6.05	2,608	1.06	–	(0.45)	167.6
–	7.93	10.29	9,194	1.05	–	(0.67)	155.1
–	7.19	27.26	8,584	1.06	–	(0.62)	214.7
–	5.65	1.99	6,889	1.05	–	(0.64)	227.2
(0.42)	9.30	31.51	15,380	0.94	–	(0.26)	222.6
(0.91)	7.48	5.95	19,913	0.94	–	(0.30)	167.6
–	8.05	10.43	33,603	0.93	–	(0.55)	155.1
–	7.29	27.45	33,306	0.94	–	(0.55)	214.7
–	5.72	2.14	8,446	0.93	–	(0.52)	227.2

- (a) Calculated based on average shares outstanding during the period.
(b) Excludes expense reimbursement from Manager and/or Distributor.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
MIDCAP GROWTH FUND III					
<u>Institutional shares</u>					
2013	\$10.87	\$ –	\$3.38	\$3.38	\$(0.04)
2012	10.59	0.01	0.27	0.28	–
2011	9.57	(0.01)	1.03	1.02	–
2010	7.44	(0.01)	2.14	2.13	–
2009	6.37	(0.01)	1.08	1.07	–
<u>R-1 shares</u>					
2013	10.12	(0.10)	3.13	3.03	–
2012	9.95	(0.08)	0.25	0.17	–
2011	9.07	(0.10)	0.98	0.88	–
2010	7.11	(0.08)	2.04	1.96	–
2009	6.13	(0.07)	1.05	0.98	–
<u>R-2 shares</u>					
2013	10.30	(0.09)	3.19	3.10	–
2012	10.11	(0.07)	0.26	0.19	–
2011	9.21	(0.08)	0.98	0.90	–
2010	7.21	(0.07)	2.07	2.00	–
2009	6.21	(0.06)	1.06	1.00	–
<u>R-3 shares</u>					
2013	10.70	(0.07)	3.32	3.25	–
2012	10.48	(0.05)	0.27	0.22	–
2011	9.53	(0.07)	1.02	0.95	–
2010	7.45	(0.06)	2.14	2.08	–
2009	6.41	(0.05)	1.09	1.04	–
<u>R-4 shares</u>					
2013	10.79	(0.05)	3.35	3.30	–
2012	10.55	(0.04)	0.28	0.24	–
2011	9.57	(0.05)	1.03	0.98	–
2010	7.47	(0.04)	2.14	2.10	–
2009	6.42	(0.03)	1.08	1.05	–
<u>R-5 shares</u>					
2013	10.99	(0.03)	3.41	3.38	–
2012	10.74	(0.02)	0.27	0.25	–
2011	9.73	(0.04)	1.05	1.01	–
2010	7.58	(0.04)	2.19	2.15	–
2009	6.51	(0.03)	1.10	1.07	–

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.24)	\$ (0.28)	\$ 13.97	31.78%	\$ 1,406,949	0.95 %(b)	(0.04)%	105.0%
–	–	10.87	2.64	1,310,305	0.95 (b)	0.07	127.6
–	–	10.59	10.66	1,340,389	0.95 (b)	(0.08)	107.8
–	–	9.57	28.63	1,206,656	0.96 (b)	(0.14)	98.1
–	–	7.44	16.80	1,000,791	0.98 (b)	(0.16)	126.2
(0.24)	(0.24)	12.91	30.57	3,446	1.83 (b)	(0.88)	105.0
–	–	10.12	1.71	3,731	1.83 (b)	(0.82)	127.6
–	–	9.95	9.70	4,645	1.83 (b)	(0.94)	107.8
–	–	9.07	27.57	5,095	1.84 (b)	(1.01)	98.1
–	–	7.11	15.99	4,498	1.86 (b)	(1.04)	126.2
(0.24)	(0.24)	13.16	30.72	6,205	1.70 (b)	(0.78)	105.0
–	–	10.30	1.88	6,229	1.70 (b)	(0.69)	127.6
–	–	10.11	9.77	7,782	1.70 (b)	(0.77)	107.8
–	–	9.21	27.74	11,680	1.71 (b)	(0.88)	98.1
–	–	7.21	16.10	10,939	1.73 (b)	(0.90)	126.2
(0.24)	(0.24)	13.71	30.98	22,048	1.52 (b)	(0.58)	105.0
–	–	10.70	2.10	23,334	1.52 (b)	(0.50)	127.6
–	–	10.48	9.97	32,650	1.52 (b)	(0.64)	107.8
–	–	9.53	27.92	38,227	1.53 (b)	(0.70)	98.1
–	–	7.45	16.22	31,998	1.55 (b)	(0.72)	126.2
(0.24)	(0.24)	13.85	31.19	27,086	1.33 (b)	(0.39)	105.0
–	–	10.79	2.27	24,559	1.33 (b)	(0.32)	127.6
–	–	10.55	10.24	33,364	1.33 (b)	(0.45)	107.8
–	–	9.57	28.11	32,907	1.34 (b)	(0.51)	98.1
–	–	7.47	16.36	27,501	1.36 (b)	(0.53)	126.2
(0.24)	(0.24)	14.13	31.38	20,890	1.21 (b)	(0.22)	105.0
–	–	10.99	2.33	37,395	1.21 (b)	(0.19)	127.6
–	–	10.74	10.38	35,709	1.21 (b)	(0.34)	107.8
–	–	9.73	28.36	22,341	1.22 (b)	(0.41)	98.1
–	–	7.58	16.44	14,817	1.24 (b)	(0.41)	126.2

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
MIDCAP S&P 400 INDEX FUND					
Institutional shares					
2013	\$ 14.73	\$ 0.22	\$ 4.47	\$ 4.69	\$ (0.19)
2012	13.87	0.17	1.36	1.53	(0.13)
2011	13.04	0.14	0.95	1.09	(0.13)
2010	10.36	0.14	2.67	2.81	(0.13)
2009	9.59	0.13	1.35	1.48	(0.16)
R-1 shares					
2013	14.60	0.08	4.46	4.54	(0.07)
2012	13.74	0.05	1.36	1.41	(0.01)
2011	12.94	0.03	0.93	0.96	(0.03)
2010	10.31	0.04	2.65	2.69	(0.06)
2009	9.50	0.05	1.37	1.42	(0.06)
R-2 shares					
2013	14.89	0.10	4.55	4.65	(0.07)
2012	13.99	0.07	1.39	1.46	(0.02)
2011	13.16	0.05	0.95	1.00	(0.04)
2010	10.47	0.06	2.70	2.76	(0.07)
2009	9.64	0.07	1.38	1.45	(0.07)
R-3 shares					
2013	14.88	0.13	4.54	4.67	(0.12)
2012	14.01	0.09	1.39	1.48	(0.07)
2011	13.19	0.07	0.95	1.02	(0.07)
2010	10.49	0.08	2.71	2.79	(0.09)
2009	9.68	0.08	1.38	1.46	(0.10)
R-4 shares					
2013	14.93	0.16	4.55	4.71	(0.15)
2012	14.04	0.12	1.40	1.52	(0.09)
2011	13.21	0.10	0.95	1.05	(0.09)
2010	10.51	0.10	2.70	2.80	(0.10)
2009	9.70	0.10	1.39	1.49	(0.13)
R-5 shares					
2013	15.02	0.19	4.57	4.76	(0.16)
2012	14.12	0.14	1.40	1.54	(0.10)
2011	13.28	0.12	0.95	1.07	(0.10)
2010	10.55	0.12	2.72	2.84	(0.11)
2009	9.74	0.11	1.38	1.49	(0.13)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.49)	\$ (0.68)	\$ 18.74	33.09%	\$ 402,962	0.21%	0.21%	1.30%	11.2%
(0.54)	(0.67)	14.73	11.86	250,683	0.20	0.24	1.18	14.5
(0.13)	(0.26)	13.87	8.35	177,993	0.20	0.26	1.01	15.8
–	(0.13)	13.04	27.35	90,574	0.20	0.35	1.19	17.5
(0.55)	(0.71)	10.36	17.57	50,551	0.19	0.42	1.43	32.9
(0.49)	(0.56)	18.58	32.08	12,674	1.04	–	0.50	11.2
(0.54)	(0.55)	14.60	10.92	9,930	1.04	–	0.34	14.5
(0.13)	(0.16)	13.74	7.43	9,042	1.04	–	0.18	15.8
–	(0.06)	12.94	26.17	8,529	1.05	–	0.36	17.5
(0.55)	(0.61)	10.31	16.71	6,267	1.05	–	0.56	32.9
(0.49)	(0.56)	18.98	32.24	20,660	0.91	–	0.62	11.2
(0.54)	(0.56)	14.89	11.08	17,916	0.91	–	0.47	14.5
(0.13)	(0.17)	13.99	7.55	19,215	0.91	–	0.31	15.8
–	(0.07)	13.16	26.43	22,947	0.92	–	0.49	17.5
(0.55)	(0.62)	10.47	16.76	18,523	0.92	–	0.73	32.9
(0.49)	(0.61)	18.94	32.42	133,208	0.73	–	0.79	11.2
(0.54)	(0.61)	14.88	11.31	83,360	0.73	–	0.64	14.5
(0.13)	(0.20)	14.01	7.68	61,273	0.73	–	0.49	15.8
–	(0.09)	13.19	26.68	49,027	0.74	–	0.68	17.5
(0.55)	(0.65)	10.49	16.94	39,053	0.74	–	0.90	32.9
(0.49)	(0.64)	19.00	32.66	89,068	0.54	–	0.97	11.2
(0.54)	(0.63)	14.93	11.54	53,385	0.54	–	0.84	14.5
(0.13)	(0.22)	14.04	7.94	43,311	0.54	–	0.68	15.8
–	(0.10)	13.21	26.82	37,573	0.55	–	0.86	17.5
(0.55)	(0.68)	10.51	17.28	25,880	0.55	–	1.07	32.9
(0.49)	(0.65)	19.13	32.85	181,266	0.42	–	1.09	11.2
(0.54)	(0.64)	15.02	11.62	113,313	0.42	–	0.96	14.5
(0.13)	(0.23)	14.12	8.08	93,033	0.42	–	0.80	15.8
–	(0.11)	13.28	27.11	89,087	0.43	–	0.98	17.5
(0.55)	(0.68)	10.55	17.28	74,072	0.43	–	1.18	32.9

- (a) Calculated based on average shares outstanding during the period.
(b) Excludes expense reimbursement from Manager and/or Distributor.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
MIDCAP VALUE FUND I					
Institutional shares					
2013	\$ 14.14	\$ 0.15	\$ 4.34	\$ 4.49	\$ (0.18)
2012	12.57	0.15	1.51	1.66	(0.09)
2011	12.17	0.10	0.45	0.55	(0.15)
2010	9.69	0.14	2.44	2.58	(0.10)
2009	8.56	0.09	1.16	1.25	(0.12)
R-1 shares					
2013	13.83	–	4.27	4.27	(0.05)
2012	12.32	0.03	1.48	1.51	–
2011	11.94	(0.02)	0.45	0.43	(0.05)
2010	9.53	0.05	2.40	2.45	(0.04)
2009	8.40	0.02	1.15	1.17	(0.04)
R-2 shares					
2013	13.87	0.02	4.28	4.30	(0.07)
2012	12.34	0.05	1.48	1.53	–
2011	11.94	–	0.45	0.45	(0.05)
2010	9.54	0.06	2.39	2.45	(0.05)
2009	8.41	0.03	1.16	1.19	(0.06)
R-3 shares					
2013	13.99	0.05	4.31	4.36	(0.10)
2012	12.43	0.07	1.50	1.57	(0.01)
2011	12.04	0.02	0.46	0.48	(0.09)
2010	9.61	0.08	2.41	2.49	(0.06)
2009	8.46	0.04	1.17	1.21	(0.06)
R-4 shares					
2013	14.03	0.08	4.32	4.40	(0.13)
2012	12.46	0.09	1.52	1.61	(0.04)
2011	12.08	0.05	0.44	0.49	(0.11)
2010	9.63	0.10	2.42	2.52	(0.07)
2009	8.50	0.06	1.16	1.22	(0.09)
R-5 shares					
2013	14.08	0.10	4.33	4.43	(0.15)
2012	12.52	0.11	1.51	1.62	(0.06)
2011	12.12	0.06	0.46	0.52	(0.12)
2010	9.66	0.11	2.43	2.54	(0.08)
2009	8.53	0.07	1.16	1.23	(0.10)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.18)	\$ 18.45	32.12%	\$ 1,279,003	0.98 % ^(b)	0.93%	98.6%
(0.09)	14.14	13.28	1,431,810	0.98 (b)	1.09	87.3
(0.15)	12.57	4.49	1,256,845	0.98 (b)	0.73	80.3
(0.10)	12.17	26.78	1,269,331	0.98 (b)	1.30	83.6
(0.12)	9.69	15.00	1,010,989	1.00 (b)	1.11	95.7
(0.05)	18.05	30.99	6,643	1.84 (b)	0.00	98.6
–	13.83	12.26	6,229	1.85 (b)	0.22	87.3
(0.05)	12.32	3.59	5,985	1.85 (b)	(0.14)	80.3
(0.04)	11.94	25.75	7,222	1.85 (b)	0.43	83.6
(0.04)	9.53	14.02	5,741	1.86 (b)	0.22	95.7
(0.07)	18.10	31.14	15,229	1.71 (b)	0.16	98.6
–	13.87	12.40	14,689	1.72 (b)	0.35	87.3
(0.05)	12.34	3.79	15,380	1.72 (b)	0.01	80.3
(0.05)	11.94	25.77	19,875	1.72 (b)	0.56	83.6
(0.06)	9.54	14.29	15,242	1.73 (b)	0.30	95.7
(0.10)	18.25	31.32	39,275	1.53 (b)	0.31	98.6
(0.01)	13.99	12.66	32,137	1.54 (b)	0.53	87.3
(0.09)	12.43	3.95	39,064	1.54 (b)	0.17	80.3
(0.06)	12.04	26.02	34,752	1.54 (b)	0.76	83.6
(0.06)	9.61	14.48	34,211	1.55 (b)	0.47	95.7
(0.13)	18.30	31.60	35,447	1.34 (b)	0.50	98.6
(0.04)	14.03	12.92	27,235	1.35 (b)	0.71	87.3
(0.11)	12.46	4.04	28,916	1.35 (b)	0.36	80.3
(0.07)	12.08	26.32	28,066	1.35 (b)	0.93	83.6
(0.09)	9.63	14.59	19,074	1.36 (b)	0.71	95.7
(0.15)	18.36	31.77	68,821	1.22 (b)	0.64	98.6
(0.06)	14.08	12.98	57,052	1.23 (b)	0.85	87.3
(0.12)	12.52	4.26	40,902	1.23 (b)	0.47	80.3
(0.08)	12.12	26.44	31,022	1.23 (b)	1.04	83.6
(0.10)	9.66	14.67	27,117	1.24 (b)	0.79	95.7

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
MIDCAP VALUE FUND III					
<u>Institutional shares</u>					
2013	\$ 14.31	\$ 0.24	\$ 4.55	\$ 4.79	\$ (0.22)
2012	12.59	0.23	1.66	1.89	(0.17)
2011	11.85	0.17	0.76	0.93	(0.19)
2010	9.62	0.17	2.24	2.41	(0.18)
2009	8.68	0.15	0.99	1.14	(0.20)
<u>R-1 shares</u>					
2013	13.69	0.10	4.36	4.46	(0.08)
2012	12.03	0.10	1.60	1.70	(0.04)
2011	11.34	0.08	0.70	0.78	(0.09)
2010	9.26	0.08	2.12	2.20	(0.12)
2009	8.33	0.10	0.93	1.03	(0.10)
<u>R-2 shares</u>					
2013	13.79	0.12	4.39	4.51	(0.12)
2012	12.11	0.12	1.61	1.73	(0.05)
2011	11.42	0.08	0.72	0.80	(0.11)
2010	9.31	0.09	2.15	2.24	(0.13)
2009	8.38	0.11	0.93	1.04	(0.11)
<u>R-3 shares</u>					
2013	13.73	0.14	4.37	4.51	(0.17)
2012	12.08	0.15	1.59	1.74	(0.09)
2011	11.39	0.10	0.72	0.82	(0.13)
2010	9.28	0.11	2.14	2.25	(0.14)
2009	8.36	0.13	0.92	1.05	(0.13)
<u>R-4 shares</u>					
2013	13.61	0.17	4.33	4.50	(0.19)
2012	11.98	0.17	1.58	1.75	(0.12)
2011	11.29	0.13	0.71	0.84	(0.15)
2010	9.18	0.13	2.12	2.25	(0.14)
2009	8.28	0.15	0.91	1.06	(0.16)
<u>R-5 shares</u>					
2013	13.70	0.20	4.33	4.53	(0.20)
2012	12.05	0.18	1.60	1.78	(0.13)
2011	11.36	0.14	0.71	0.85	(0.16)
2010	9.25	0.15	2.12	2.27	(0.16)
2009	8.36	0.15	0.92	1.07	(0.18)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.22)	\$ 18.88	33.96%	\$ 640,181	0.66%	0.67%	1.40%	88.3%
(0.17)	14.31	15.18	1,893	0.69	2.25	1.68	52.9
(0.19)	12.59	7.86	817	0.70	4.18	1.39	86.4
(0.18)	11.85	25.32	183	0.70	10.72	1.58	92.4
(0.20)	9.62	13.58	116	0.70	51.56	1.61	111.4
(0.08)	18.07	32.79	452	1.53 (c)	–	0.64	88.3
(0.04)	13.69	14.20	318	1.56 (c)	–	0.79	52.9
(0.09)	12.03	6.88	332	1.55 (c)	–	0.63	86.4
(0.12)	11.34	23.90	520	1.56 (c)	–	0.73	92.4
(0.10)	9.26	12.67	435	1.55	–	1.25	111.4
(0.12)	18.18	32.94	1,176	1.40 (c)	–	0.77	88.3
(0.05)	13.79	14.38	871	1.43 (c)	–	0.93	52.9
(0.11)	12.11	6.97	981	1.42 (c)	–	0.68	86.4
(0.13)	11.42	24.22	1,455	1.43 (c)	–	0.88	92.4
(0.11)	9.31	12.64	1,325	1.42	–	1.39	111.4
(0.17)	18.07	33.18	4,319	1.22 (c)	–	0.90	88.3
(0.09)	13.73	14.52	2,188	1.25 (c)	–	1.12	52.9
(0.13)	12.08	7.23	1,834	1.24 (c)	–	0.85	86.4
(0.14)	11.39	24.38	1,758	1.25 (c)	–	1.03	92.4
(0.13)	9.28	12.88	1,244	1.24	–	1.64	111.4
(0.19)	17.92	33.44	4,061	1.03 (c)	–	1.04	88.3
(0.12)	13.61	14.72	1,125	1.06 (c)	–	1.30	52.9
(0.15)	11.98	7.46	1,049	1.05 (c)	–	1.07	86.4
(0.14)	11.29	24.66	1,252	1.06 (c)	–	1.24	92.4
(0.16)	9.18	13.17	1,368	1.05	–	1.90	111.4
(0.20)	18.03	33.53	11,095	0.91 (c)	–	1.26	88.3
(0.13)	13.70	14.96	6,614	0.94 (c)	–	1.41	52.9
(0.16)	12.05	7.52	5,595	0.93 (c)	–	1.18	86.4
(0.16)	11.36	24.74	6,425	0.94 (c)	–	1.39	92.4
(0.18)	9.25	13.22	9,344	0.93	–	1.83	111.4

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager and/or Distributor.

(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>MONEY MARKET FUND</u>					
<u>Institutional shares</u>					
2013	\$ 1.00	\$ –	\$ –	\$ –	\$ –
2012	1.00	–	–	–	–
2011	1.00	–	–	–	–
2010	1.00	–	–	–	–
2009	1.00	0.01	–	0.01	(0.01)
<u>OVERSEAS FUND</u>					
<u>Institutional shares</u>					
2013	9.96	0.24	2.13	2.37	(0.22)
2012	9.89	0.24	0.47	0.71	(0.23)
2011	11.44	0.24	(0.88)	(0.64)	(0.14)
2010	10.70	0.18	1.01	1.19	(0.18)
2009	8.62	0.20	1.90	2.10	(0.02)
<u>R-1 shares</u>					
2013	9.90	0.15	2.11	2.26	(0.15)
2012(c)	9.89	0.15	(0.14)	0.01	–
<u>R-2 shares</u>					
2013	9.91	0.16	2.11	2.27	(0.16)
2012(c)	9.89	0.16	(0.14)	0.02	–
<u>R-3 shares</u>					
2013	9.92	0.20	2.09	2.29	(0.17)
2012(c)	9.89	0.17	(0.14)	0.03	–
<u>R-4 shares</u>					
2013	9.94	0.07	2.25	2.32	(0.19)
2012(c)	9.89	0.18	(0.13)	0.05	–
<u>R-5 shares</u>					
2013	9.95	0.21	2.12	2.33	(0.22)
2012(c)	9.89	0.19	(0.13)	0.06	–

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(f)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ -	\$ -	\$ 1.00	0.00%	\$ 357,925	0.21%	0.41%	0.00%	NA
-	-	1.00	0.00	353,584	0.28	0.43	0.00	NA
-	-	1.00	0.00	263,071	0.28	0.41	0.00	NA
-	-	1.00	0.00	202,082	0.35	0.42	0.00	NA
-	(0.01)	1.00	0.59	231,887	0.43	0.44	0.63	NA
-	(0.22)	12.11	24.16	2,280,703	1.07 (b)	—	2.25	35.3
(0.41)	(0.64)	9.96	8.29	1,707,927	1.08 (b)	—	2.58	27.9
(0.77)	(0.91)	9.89	(6.01)	1,351,191	1.08 (b)	—	2.25	38.6
(0.27)	(0.45)	11.44	11.38	1,137,569	1.09 (b)	—	1.73	87.2
-	(0.02)	10.70	24.39	963,192	1.12 (b)	—	2.22	77.7
-	(0.15)	12.01	23.09	12	1.94 (b)	—	1.35	35.3
-	-	9.90	0.10 (d)	10	1.94 (b),(e)	—	2.31 (e)	27.9 (e)
-	(0.16)	12.02	23.19	12	1.81 (b)	—	1.48	35.3
-	-	9.91	0.20 (d)	10	1.82 (b),(e)	—	2.45 (e)	27.9 (e)
-	(0.17)	12.04	23.42	172	1.63 (b)	—	1.85	35.3
-	-	9.92	0.30 (d)	10	1.64 (b),(e)	—	2.61 (e)	27.9 (e)
-	(0.19)	12.07	23.65	469	1.44 (b)	—	0.61	35.3
-	-	9.94	0.51 (d)	10	1.45 (b),(e)	—	2.79 (e)	27.9 (e)
-	(0.22)	12.06	23.75	606	1.32 (b)	—	1.99	35.3
-	-	9.95	0.61 (d)	10	1.33 (b),(e)	—	2.94 (e)	27.9 (e)

- (a) Calculated based on average shares outstanding during the period.
- (b) Reflects Manager's contractual expense limit.
- (c) Period from March 1, 2012, date operations commenced, through October 31, 2012.
- (d) Total return amounts have not been annualized.
- (e) Computed on an annualized basis.
- (f) Excludes expense reimbursement from Manager and/or Distributor.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>PRINCIPAL CAPITAL APPRECIATION FUND</u>					
<u>Institutional shares</u>					
2013	\$ 42.34	\$ 0.77	\$ 11.42	\$ 12.19	\$ (0.73)
2012	38.63	0.56	4.05	4.61	(0.42)
2011	37.63	0.47	2.21	2.68	(0.57)
2010	32.93	0.67	4.56	5.23	(0.31)
2009	31.12	0.32	3.37	3.69	(0.36)
<u>R-1 shares</u>					
2013	41.64	0.38	11.24	11.62	(0.37)
2012	38.18	0.20	4.01	4.21	(0.27)
2011	37.42	0.08	2.24	2.32	(0.45)
2010(b)	35.15	0.05	2.22	2.27	–
<u>R-2 shares</u>					
2013	41.78	0.41	11.30	11.71	(0.44)
2012	38.26	0.26	4.00	4.26	(0.26)
2011	37.44	0.14	2.25	2.39	(0.46)
2010(b)	35.15	0.53	1.76	2.29	–
<u>R-3 shares</u>					
2013	41.85	0.46	11.33	11.79	(0.57)
2012	38.31	0.33	4.01	4.34	(0.32)
2011	37.49	0.21	2.25	2.46	(0.53)
2010(b)	35.15	0.02	2.32	2.34	–
<u>R-4 shares</u>					
2013	42.05	0.58	11.37	11.95	(0.60)
2012	38.42	0.40	4.03	4.43	(0.32)
2011	37.53	0.31	2.23	2.54	(0.54)
2010(b)	35.15	0.11	2.27	2.38	–
<u>R-5 shares</u>					
2013	42.15	0.64	11.39	12.03	(0.63)
2012	38.50	0.47	4.01	4.48	(0.35)
2011	37.57	0.37	2.22	2.59	(0.55)
2010(b)	35.15	0.15	2.27	2.42	–

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.49)	\$ (1.22)	\$ 53.31	29.52%	\$ 1,357,704	0.48%	1.63%	14.3%
(0.48)	(0.9)	42.34	12.28	1,053,972	0.50	1.38	8.2
(1.11)	(1.68)	38.63	7.15	907,061	0.52	1.19	12.7
(0.22)	(0.53)	37.63	16.02	578,458	0.58	1.89	15.3
(1.52)	(1.88)	32.93	13.12	409,987	0.59	1.12	23.8
(0.49)	(0.86)	52.40	28.39	1,424	1.35	0.82	14.3
(0.48)	(0.75)	41.64	11.32	1,789	1.37	0.50	8.2
(1.11)	(1.56)	38.18	6.22	1,585	1.39	0.22	12.7
–	–	37.42	6.46 (c)	245	1.47 (d)	0.21 (d)	15.3 (d)
(0.49)	(0.93)	52.56	28.56	2,228	1.22	0.88	14.3
(0.48)	(0.74)	41.78	11.43	1,800	1.24	0.65	8.2
(1.11)	(1.57)	38.26	6.41	1,840	1.26	0.36	12.7
–	–	37.44	6.51 (c)	82	1.34 (d)	2.28 (d)	15.3 (d)
(0.49)	(1.06)	52.58	28.79	19,700	1.04	0.97	14.3
(0.48)	(0.8)	41.85	11.64	9,790	1.06	0.82	8.2
(1.11)	(1.64)	38.31	6.59	7,551	1.08	0.54	12.7
–	–	37.49	6.66 (c)	1,084	1.16 (d)	0.07 (d)	15.3 (d)
(0.49)	(1.09)	52.91	29.05	16,588	0.85	1.22	14.3
(0.48)	(0.8)	42.05	11.83	9,840	0.87	0.98	8.2
(1.11)	(1.65)	38.42	6.80	7,661	0.89	0.81	12.7
–	–	37.53	6.77 (c)	2,816	0.97 (d)	0.46 (d)	15.3 (d)
(0.49)	(1.12)	53.06	29.20	29,179	0.73	1.35	14.3
(0.48)	(0.83)	42.15	11.96	16,559	0.75	1.15	8.2
(1.11)	(1.66)	38.50	6.91	17,231	0.77	0.94	12.7
–	–	37.57	6.88 (c)	11,504	0.85 (d)	0.64 (d)	15.3 (d)

- (a) Calculated based on average shares outstanding during the period.
(b) Period from March 1, 2010, date operations commenced, through October 31, 2010.
(c) Total return amounts have not been annualized.
(d) Computed on an annualized basis.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2010 FUND					
<u>Institutional shares</u>					
2013	\$ 12.14	\$ 0.30	\$ 0.99	\$ 1.29	\$ (0.30)
2012	11.37	0.25	0.81	1.06	(0.29)
2011	11.16	0.29	0.21	0.50	(0.29)
2010	9.86	0.29	1.33	1.62	(0.32)
2009	9.22	0.27	1.02	1.29	(0.35)
<u>R-1 shares</u>					
2013	12.01	0.19	0.98	1.17	(0.18)
2012	11.24	0.15	0.80	0.95	(0.18)
2011	11.03	0.19	0.21	0.40	(0.19)
2010	9.77	0.20	1.31	1.51	(0.25)
2009	9.14	0.19	1.02	1.21	(0.28)
<u>R-2 shares</u>					
2013	12.00	0.22	0.97	1.19	(0.19)
2012	11.22	0.17	0.80	0.97	(0.19)
2011	11.02	0.22	0.19	0.41	(0.21)
2010	9.75	0.22	1.30	1.52	(0.25)
2009	9.10	0.21	1.01	1.22	(0.27)
<u>R-3 shares</u>					
2013	12.01	0.23	0.98	1.21	(0.23)
2012	11.24	0.19	0.79	0.98	(0.21)
2011	11.03	0.22	0.21	0.43	(0.22)
2010	9.76	0.23	1.31	1.54	(0.27)
2009	9.13	0.22	1.01	1.23	(0.30)
<u>R-4 shares</u>					
2013	12.03	0.24	1.00	1.24	(0.24)
2012	11.27	0.21	0.79	1.00	(0.24)
2011	11.07	0.25	0.20	0.45	(0.25)
2010	9.79	0.25	1.32	1.57	(0.29)
2009	9.16	0.23	1.01	1.24	(0.31)
<u>R-5 shares</u>					
2013	12.07	0.27	0.99	1.26	(0.27)
2012	11.30	0.22	0.81	1.03	(0.26)
2011	11.10	0.28	0.18	0.46	(0.26)
2010	9.81	0.28	1.31	1.59	(0.30)
2009	9.18	0.25	1.00	1.25	(0.32)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ –	\$ (0.30)	\$ 13.13	10.81%	\$ 1,093,311	0.04%	2.42%	15.2%
–	(0.29)	12.14	9.58	1,148,980	0.04	2.14	28.7
–	(0.29)	11.37	4.52	1,074,682	0.04	2.55	16.4
–	(0.32)	11.16	16.79	1,130,797	0.04	2.83	36.2
(0.30)	(0.65)	9.86	15.40	1,025,862	0.10	3.13	28.4
–	(0.18)	13.00	9.90	18,403	0.91	1.53	15.2
–	(0.18)	12.01	8.62	20,503	0.91	1.31	28.7
–	(0.19)	11.24	3.63	21,110	0.92	1.65	16.4
–	(0.25)	11.03	15.66	24,103	0.92	1.96	36.2
(0.30)	(0.58)	9.77	14.39	22,134	0.97	2.22	28.4
–	(0.19)	13.00	10.09	20,762	0.78	1.76	15.2
–	(0.19)	12.00	8.77	25,982	0.78	1.48	28.7
–	(0.21)	11.22	3.70	30,298	0.79	1.91	16.4
–	(0.25)	11.02	15.84	42,654	0.79	2.13	36.2
(0.30)	(0.57)	9.75	14.57	41,310	0.84	2.43	28.4
–	(0.23)	12.99	10.20	76,245	0.60	1.83	15.2
–	(0.21)	12.01	8.94	80,009	0.60	1.61	28.7
–	(0.22)	11.24	3.95	81,172	0.61	1.98	16.4
–	(0.27)	11.03	16.09	96,491	0.61	2.29	36.2
(0.30)	(0.60)	9.76	14.69	93,186	0.66	2.60	28.4
–	(0.24)	13.03	10.52	68,271	0.41	1.94	15.2
–	(0.24)	12.03	9.12	68,441	0.41	1.85	28.7
–	(0.25)	11.27	4.09	77,085	0.42	2.17	16.4
–	(0.29)	11.07	16.34	80,377	0.42	2.45	36.2
(0.30)	(0.61)	9.79	14.88	70,260	0.47	2.65	28.4
–	(0.27)	13.06	10.59	113,248	0.29	2.16	15.2
–	(0.26)	12.07	9.31	114,530	0.29	1.90	28.7
–	(0.26)	11.30	4.16	115,406	0.30	2.44	16.4
–	(0.30)	11.10	16.52	145,309	0.30	2.72	36.2
(0.30)	(0.62)	9.81	14.99	166,419	0.35	2.90	28.4

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2015 FUND					
<u>Institutional shares</u>					
2013	\$ 10.27	\$ 0.22	\$ 1.09	\$ 1.31	\$ (0.23)
2012	9.70	0.20	0.73	0.93	(0.22)
2011	9.71	0.22	0.19	0.41	(0.22)
2010	8.48	0.20	1.23	1.43	(0.20)
2009	7.52	0.12	0.98	1.10	(0.14)
<u>R-1 shares</u>					
2013	10.03	0.14	1.05	1.19	(0.14)
2012	9.48	0.12	0.71	0.83	(0.14)
2011	9.52	0.14	0.17	0.31	(0.15)
2010	8.34	0.12	1.22	1.34	(0.16)
2009	7.44	0.08	0.95	1.03	(0.13)
<u>R-2 shares</u>					
2013	10.08	0.16	1.04	1.20	(0.16)
2012	9.51	0.13	0.72	0.85	(0.14)
2011	9.54	0.14	0.18	0.32	(0.15)
2010	8.35	0.14	1.22	1.36	(0.17)
2009	7.45	0.10	0.93	1.03	(0.13)
<u>R-3 shares</u>					
2013	10.09	0.16	1.07	1.23	(0.18)
2012	9.54	0.14	0.72	0.86	(0.17)
2011	9.57	0.16	0.18	0.34	(0.17)
2010	8.37	0.15	1.22	1.37	(0.17)
2009	7.46	0.12	0.92	1.04	(0.13)
<u>R-4 shares</u>					
2013	10.15	0.19	1.05	1.24	(0.19)
2012	9.59	0.18	0.71	0.89	(0.19)
2011	9.61	0.18	0.19	0.37	(0.19)
2010	8.40	0.17	1.22	1.39	(0.18)
2009	7.47	0.12	0.95	1.07	(0.14)
<u>R-5 shares</u>					
2013	10.17	0.19	1.08	1.27	(0.21)
2012	9.61	0.15	0.75	0.90	(0.20)
2011	9.63	0.21	0.16	0.37	(0.19)
2010	8.41	0.19	1.22	1.41	(0.19)
2009	7.47	0.14	0.94	1.08	(0.14)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.22)	\$ (0.45)	\$ 11.13	13.25%	\$ 735,777	0.04 %(c)	2.13%	21.4%
(0.14)	(0.36)	10.27	10.01	580,784	0.04 (c)	1.99	22.7
(0.20)	(0.42)	9.70	4.22	451,374	0.04 (c)	2.21	14.0
–	(0.20)	9.71	17.17	362,671	0.05 (c)	2.23	32.0
–	(0.14)	8.48	15.03	225,418	0.10 (c)	1.56	9.1
(0.22)	(0.36)	10.86	12.27	16,354	0.91	1.38	21.4
(0.14)	(0.28)	10.03	9.08	15,687	0.92	1.21	22.7
(0.20)	(0.35)	9.48	3.22	14,925	0.92	1.47	14.0
–	(0.16)	9.52	16.21	13,567	0.92 (c)	1.41	32.0
–	(0.13)	8.34	14.07	8,570	0.96 (c)	1.04	9.1
(0.22)	(0.38)	10.90	12.31	14,150	0.78	1.57	21.4
(0.14)	(0.28)	10.08	9.26	13,920	0.79	1.30	22.7
(0.20)	(0.35)	9.51	3.42	12,704	0.79	1.49	14.0
–	(0.17)	9.54	16.44	11,681	0.79 (c)	1.58	32.0
–	(0.13)	8.35	14.16	7,304	0.83 (c)	1.36	9.1
(0.22)	(0.40)	10.92	12.58	82,506	0.60	1.55	21.4
(0.14)	(0.31)	10.09	9.39	66,650	0.61	1.43	22.7
(0.20)	(0.37)	9.54	3.62	49,584	0.61	1.62	14.0
–	(0.17)	9.57	16.58	38,096	0.61 (c)	1.73	32.0
–	(0.13)	8.37	14.27	21,602	0.65 (c)	1.55	9.1
(0.22)	(0.41)	10.98	12.68	61,034	0.41	1.83	21.4
(0.14)	(0.33)	10.15	9.63	50,724	0.42	1.88	22.7
(0.20)	(0.39)	9.59	3.84	57,060	0.42	1.85	14.0
–	(0.18)	9.61	16.80	42,226	0.42 (c)	1.88	32.0
–	(0.14)	8.40	14.60	28,026	0.46 (c)	1.54	9.1
(0.22)	(0.43)	11.01	12.93	87,721	0.29	1.83	21.4
(0.14)	(0.34)	10.17	9.72	66,279	0.30	1.53	22.7
(0.20)	(0.39)	9.61	3.92	36,237	0.30	2.12	14.0
–	(0.19)	9.63	16.99	33,843	0.30 (c)	2.09	32.0
–	(0.14)	8.41	14.73	23,592	0.34 (c)	1.88	9.1

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2020 FUND					
<u>Institutional shares</u>					
2013	\$ 12.61	\$ 0.30	\$ 1.66	\$ 1.96	\$ (0.30)
2012	11.65	0.25	0.98	1.23	(0.27)
2011	11.48	0.26	0.17	0.43	(0.26)
2010	10.04	0.26	1.47	1.73	(0.29)
2009	9.32	0.25	1.12	1.37	(0.29)
<u>R-1 shares</u>					
2013	12.48	0.19	1.64	1.83	(0.19)
2012	11.53	0.14	0.98	1.12	(0.17)
2011	11.36	0.15	0.18	0.33	(0.16)
2010	9.96	0.16	1.46	1.62	(0.22)
2009	9.25	0.17	1.11	1.28	(0.21)
<u>R-2 shares</u>					
2013	12.47	0.20	1.63	1.83	(0.20)
2012	11.50	0.17	0.97	1.14	(0.17)
2011	11.33	0.18	0.17	0.35	(0.18)
2010	9.93	0.18	1.44	1.62	(0.22)
2009	9.20	0.19	1.10	1.29	(0.20)
<u>R-3 shares</u>					
2013	12.49	0.22	1.64	1.86	(0.23)
2012	11.54	0.18	0.97	1.15	(0.20)
2011	11.36	0.19	0.19	0.38	(0.20)
2010	9.96	0.20	1.44	1.64	(0.24)
2009	9.24	0.20	1.11	1.31	(0.23)
<u>R-4 shares</u>					
2013	12.51	0.23	1.66	1.89	(0.25)
2012	11.56	0.21	0.97	1.18	(0.23)
2011	11.39	0.21	0.18	0.39	(0.22)
2010	9.98	0.21	1.46	1.67	(0.26)
2009	9.26	0.21	1.12	1.33	(0.25)
<u>R-5 shares</u>					
2013	12.55	0.26	1.66	1.92	(0.27)
2012	11.60	0.22	0.97	1.19	(0.24)
2011	11.42	0.24	0.17	0.41	(0.23)
2010	10.00	0.24	1.45	1.69	(0.27)
2009	9.28	0.23	1.11	1.34	(0.26)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ – \$	(0.30)	\$ 14.27	15.82%	\$ 4,348,221	0.04%	2.22%	25.7%
–	(0.27)	12.61	10.84	3,856,280	0.04	2.03	21.9
–	(0.26)	11.65	3.76	3,310,509	0.04	2.17	8.8
–	(0.29)	11.48	17.51	3,146,852	0.04	2.40	32.0
(0.36)	(0.65)	10.04	16.13	2,628,327	0.09	2.88	15.7
–	(0.19)	14.12	14.81	57,842	0.91	1.43	25.7
–	(0.17)	12.48	9.84	62,546	0.91	1.21	21.9
–	(0.16)	11.53	2.93	58,270	0.91	1.30	8.8
–	(0.22)	11.36	16.43	58,931	0.92	1.56	32.0
(0.36)	(0.57)	9.96	15.05	50,924	0.97	1.98	15.7
–	(0.20)	14.10	14.87	78,817	0.78	1.51	25.7
–	(0.17)	12.47	10.06	77,610	0.78	1.40	21.9
–	(0.18)	11.50	3.05	80,491	0.78	1.54	8.8
–	(0.22)	11.33	16.54	107,791	0.79	1.70	32.0
(0.36)	(0.56)	9.93	15.34	94,161	0.84	2.19	15.7
–	(0.23)	14.12	15.10	291,200	0.60	1.64	25.7
–	(0.20)	12.49	10.19	263,407	0.60	1.49	21.9
–	(0.20)	11.54	3.32	227,897	0.60	1.58	8.8
–	(0.24)	11.36	16.70	234,218	0.61	1.91	32.0
(0.36)	(0.59)	9.96	15.53	212,779	0.66	2.33	15.7
–	(0.25)	14.15	15.32	263,543	0.41	1.74	25.7
–	(0.23)	12.51	10.40	212,684	0.41	1.78	21.9
–	(0.22)	11.56	3.44	227,971	0.41	1.77	8.8
–	(0.26)	11.39	16.97	216,623	0.42	2.00	32.0
(0.36)	(0.61)	9.98	15.73	167,470	0.47	2.41	15.7
–	(0.27)	14.20	15.54	439,570	0.29	1.98	25.7
–	(0.24)	12.55	10.50	384,604	0.29	1.83	21.9
–	(0.23)	11.60	3.61	341,102	0.29	2.05	8.8
–	(0.27)	11.42	17.14	365,913	0.30	2.25	32.0
(0.36)	(0.62)	10.00	15.84	356,589	0.35	2.63	15.7

- (a) Calculated based on average shares outstanding during the period.
(b) Does not include expenses of the investment companies in which the Fund invests.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2025 FUND					
<u>Institutional shares</u>					
2013	\$ 10.22	\$ 0.22	\$ 1.49	\$ 1.71	\$ (0.22)
2012	9.47	0.19	0.82	1.01	(0.22)
2011	9.45	0.17	0.18	0.35	(0.19)
2010	8.20	0.17	1.27	1.44	(0.19)
2009	7.27	0.09	0.98	1.07	(0.14)
<u>R-1 shares</u>					
2013	10.04	0.14	1.45	1.59	(0.14)
2012	9.30	0.12	0.80	0.92	(0.14)
2011	9.30	0.10	0.16	0.26	(0.12)
2010	8.10	0.10	1.24	1.34	(0.14)
2009	7.22	0.06	0.94	1.00	(0.12)
<u>R-2 shares</u>					
2013	10.06	0.16	1.44	1.60	(0.16)
2012	9.32	0.13	0.80	0.93	(0.15)
2011	9.31	0.10	0.18	0.28	(0.13)
2010	8.11	0.11	1.24	1.35	(0.15)
2009	7.23	0.08	0.94	1.02	(0.14)
<u>R-3 shares</u>					
2013	10.08	0.15	1.47	1.62	(0.17)
2012	9.35	0.13	0.81	0.94	(0.17)
2011	9.34	0.12	0.18	0.30	(0.15)
2010	8.13	0.12	1.25	1.37	(0.16)
2009	7.23	0.10	0.93	1.03	(0.13)
<u>R-4 shares</u>					
2013	10.14	0.18	1.48	1.66	(0.19)
2012	9.40	0.19	0.77	0.96	(0.18)
2011	9.39	0.14	0.17	0.31	(0.16)
2010	8.16	0.13	1.27	1.40	(0.17)
2009	7.25	0.09	0.96	1.05	(0.14)
<u>R-5 shares</u>					
2013	10.17	0.19	1.48	1.67	(0.20)
2012	9.43	0.16	0.81	0.97	(0.19)
2011	9.41	0.16	0.17	0.33	(0.17)
2010	8.18	0.16	1.24	1.40	(0.17)
2009	7.26	0.13	0.92	1.05	(0.13)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.21)	\$ (0.43)	\$ 11.50	17.4%	\$ 1,067,809	0.04 %(c)	2.03%	22.2%
(0.04)	(0.26)	10.22	10.92	751,118	0.04 (c)	1.95	15.4
(0.14)	(0.33)	9.47	3.72	528,466	0.04 (c)	1.80	12.7
–	(0.19)	9.45	17.77	401,632	0.05 (c)	1.94	25.2
–	(0.14)	8.20	15.14	233,404	0.10 (c)	1.30	8.5
(0.21)	(0.35)	11.28	16.33	18,515	0.91	1.35	22.2
(0.04)	(0.18)	10.04	10.04	16,380	0.92	1.25	15.4
(0.14)	(0.26)	9.30	2.81	15,335	0.92	1.10	12.7
–	(0.14)	9.30	16.74	14,338	0.92 (c)	1.16	25.2
–	(0.12)	8.10	14.22	8,486	0.96 (c)	0.87	8.5
(0.21)	(0.37)	11.29	16.41	19,431	0.78	1.49	22.2
(0.04)	(0.19)	10.06	10.13	17,174	0.79	1.38	15.4
(0.14)	(0.27)	9.32	3.02	15,375	0.79	1.07	12.7
–	(0.15)	9.31	16.79	11,582	0.79 (c)	1.23	25.2
–	(0.14)	8.11	14.41	6,788	0.83 (c)	1.07	8.5
(0.21)	(0.38)	11.32	16.65	127,846	0.60	1.44	22.2
(0.04)	(0.21)	10.08	10.28	90,350	0.61	1.37	15.4
(0.14)	(0.29)	9.35	3.22	62,421	0.61	1.27	12.7
–	(0.16)	9.34	16.98	47,011	0.61 (c)	1.41	25.2
–	(0.13)	8.13	14.60	23,811	0.65 (c)	1.35	8.5
(0.21)	(0.4)	11.40	16.93	72,332	0.41	1.70	22.2
(0.04)	(0.22)	10.14	10.50	51,138	0.42	1.95	15.4
(0.14)	(0.3)	9.40	3.33	53,261	0.42	1.49	12.7
–	(0.17)	9.39	17.31	42,079	0.42 (c)	1.55	25.2
–	(0.14)	8.16	14.77	23,462	0.46 (c)	1.25	8.5
(0.21)	(0.41)	11.43	17.04	133,941	0.29	1.79	22.2
(0.04)	(0.23)	10.17	10.59	92,048	0.30	1.60	15.4
(0.14)	(0.31)	9.43	3.53	56,588	0.30	1.69	12.7
–	(0.17)	9.41	17.36	47,050	0.30 (c)	1.87	25.2
–	(0.13)	8.18	14.86	31,597	0.34 (c)	1.87	8.5

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2030 FUND					
<u>Institutional shares</u>					
2013	\$ 12.44	\$ 0.29	\$ 2.01	\$ 2.30	\$ (0.28)
2012	11.47	0.24	0.99	1.23	(0.26)
2011	11.28	0.22	0.20	0.42	(0.23)
2010	9.78	0.23	1.52	1.75	(0.25)
2009	9.07	0.22	1.09	1.31	(0.24)
<u>R-1 shares</u>					
2013	12.31	0.19	1.98	2.17	(0.17)
2012	11.35	0.14	0.98	1.12	(0.16)
2011	11.16	0.12	0.20	0.32	(0.13)
2010	9.70	0.14	1.50	1.64	(0.18)
2009	8.99	0.14	1.09	1.23	(0.16)
<u>R-2 shares</u>					
2013	12.33	0.21	1.97	2.18	(0.18)
2012	11.36	0.16	0.98	1.14	(0.17)
2011	11.17	0.14	0.19	0.33	(0.14)
2010	9.70	0.16	1.50	1.66	(0.19)
2009	8.97	0.15	1.10	1.25	(0.16)
<u>R-3 shares</u>					
2013	12.37	0.21	2.01	2.22	(0.21)
2012	11.41	0.18	0.97	1.15	(0.19)
2011	11.21	0.15	0.21	0.36	(0.16)
2010	9.74	0.18	1.49	1.67	(0.20)
2009	9.02	0.17	1.09	1.26	(0.18)
<u>R-4 shares</u>					
2013	12.68	0.23	2.08	2.31	(0.23)
2012	11.69	0.21	1.00	1.21	(0.22)
2011	11.49	0.18	0.20	0.38	(0.18)
2010	9.97	0.19	1.55	1.74	(0.22)
2009	9.22	0.18	1.13	1.31	(0.20)
<u>R-5 shares</u>					
2013	12.41	0.26	2.01	2.27	(0.25)
2012	11.45	0.22	0.97	1.19	(0.23)
2011	11.26	0.21	0.18	0.39	(0.20)
2010	9.77	0.21	1.51	1.72	(0.23)
2009	9.05	0.19	1.10	1.29	(0.21)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate	
\$	– \$	(0.28) \$	14.46	18.85%	\$ 4,198,702	0.04%	2.17%	25.1%
–	(0.26)	12.44	11.03	3,573,298	0.04	2.02	20.0	
–	(0.23)	11.47	3.66	3,001,123	0.04	1.87	10.7	
–	(0.25)	11.28	18.17	2,804,667	0.04	2.23	32.1	
(0.36)	(0.60)	9.78	15.88	2,333,820	0.09	2.55	9.5	
–	(0.17)	14.31	17.83	47,197	0.91	1.41	25.1	
–	(0.16)	12.31	10.01	53,082	0.91	1.22	20.0	
–	(0.13)	11.35	2.85	50,502	0.91	1.00	10.7	
–	(0.18)	11.16	17.11	50,109	0.92	1.34	32.1	
(0.36)	(0.52)	9.70	14.91	41,365	0.97	1.66	9.5	
–	(0.18)	14.33	17.93	75,964	0.78	1.55	25.1	
–	(0.17)	12.33	10.17	76,588	0.78	1.40	20.0	
–	(0.14)	11.36	2.94	79,776	0.78	1.22	10.7	
–	(0.19)	11.17	17.27	99,779	0.79	1.52	32.1	
(0.36)	(0.52)	9.70	15.16	88,072	0.84	1.83	9.5	
–	(0.21)	14.38	18.22	263,892	0.60	1.59	25.1	
–	(0.19)	12.37	10.31	230,818	0.60	1.52	20.0	
–	(0.16)	11.41	3.21	208,383	0.60	1.30	10.7	
–	(0.20)	11.21	17.40	222,202	0.61	1.73	32.1	
(0.36)	(0.54)	9.74	15.32	193,474	0.66	2.00	9.5	
–	(0.23)	14.76	18.50	246,295	0.41	1.69	25.1	
–	(0.22)	12.68	10.55	197,788	0.41	1.77	20.0	
–	(0.18)	11.69	3.33	199,240	0.41	1.50	10.7	
–	(0.22)	11.49	17.67	194,301	0.42	1.83	32.1	
(0.36)	(0.56)	9.97	15.52	153,804	0.47	2.10	9.5	
–	(0.25)	14.43	18.60	416,542	0.29	1.93	25.1	
–	(0.23)	12.41	10.65	346,730	0.29	1.81	20.0	
–	(0.20)	11.45	3.42	305,169	0.29	1.78	10.7	
–	(0.23)	11.26	17.85	337,439	0.30	2.06	32.1	
(0.36)	(0.57)	9.77	15.68	316,224	0.35	2.23	9.5	

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2035 FUND					
<u>Institutional shares</u>					
2013	\$ 10.12	\$ 0.21	\$ 1.82	\$ 2.03	\$ (0.22)
2012	9.33	0.17	0.85	1.02	(0.20)
2011	9.32	0.16	0.17	0.33	(0.16)
2010	8.05	0.15	1.29	1.44	(0.17)
2009	7.13	0.07	0.99	1.06	(0.14)
<u>R-1 shares</u>					
2013	9.95	0.14	1.76	1.90	(0.13)
2012	9.18	0.10	0.82	0.92	(0.12)
2011	9.18	0.08	0.17	0.25	(0.09)
2010	7.96	0.08	1.26	1.34	(0.12)
2009	7.10	0.04	0.94	0.98	(0.12)
<u>R-2 shares</u>					
2013	9.96	0.14	1.78	1.92	(0.16)
2012	9.19	0.11	0.82	0.93	(0.13)
2011	9.18	0.08	0.19	0.27	(0.10)
2010	7.96	0.09	1.26	1.35	(0.13)
2009	7.10	0.03	0.96	0.99	(0.13)
<u>R-3 shares</u>					
2013	10.00	0.14	1.81	1.95	(0.17)
2012	9.23	0.12	0.83	0.95	(0.15)
2011	9.23	0.10	0.18	0.28	(0.12)
2010	7.99	0.11	1.27	1.38	(0.14)
2009	7.10	0.08	0.93	1.01	(0.12)
<u>R-4 shares</u>					
2013	10.05	0.17	1.81	1.98	(0.19)
2012	9.27	0.16	0.81	0.97	(0.16)
2011	9.26	0.13	0.17	0.30	(0.13)
2010	8.02	0.11	1.27	1.38	(0.14)
2009	7.12	0.09	0.94	1.03	(0.13)
<u>R-5 shares</u>					
2013	10.08	0.18	1.81	1.99	(0.20)
2012	9.30	0.14	0.85	0.99	(0.18)
2011	9.29	0.14	0.17	0.31	(0.14)
2010	8.04	0.14	1.26	1.40	(0.15)
2009	7.13	0.11	0.93	1.04	(0.13)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.18)	\$ (0.40)	\$ 11.75	20.69%	\$ 734,686	0.04 %(c)	1.94%	22.2%
(0.03)	(0.23)	10.12	11.23	490,889	0.04 (c)	1.78	13.0
(0.16)	(0.32)	9.33	3.48	335,624	0.05 (c)	1.62	6.1
–	(0.17)	9.32	18.04	248,902	0.05 (c)	1.71	25.0
–	(0.14)	8.05	15.17	143,330	0.10 (c)	0.95	7.0
(0.18)	(0.31)	11.54	19.61	14,704	0.91	1.28	22.2
(0.03)	(0.15)	9.95	10.23	14,603	0.92	1.01	13.0
(0.16)	(0.25)	9.18	2.68	12,855	0.92	0.85	6.1
–	(0.12)	9.18	16.99	11,246	0.92 (c)	0.89	25.0
–	(0.12)	7.96	14.10	6,405	0.97 (c)	0.55	7.0
(0.18)	(0.34)	11.54	19.77	11,998	0.78	1.30	22.2
(0.03)	(0.16)	9.96	10.30	9,549	0.79	1.10	13.0
(0.16)	(0.26)	9.19	2.89	7,776	0.79	0.89	6.1
–	(0.13)	9.18	17.10	6,266	0.79 (c)	1.03	25.0
–	(0.13)	7.96	14.23	3,378	0.84 (c)	0.46	7.0
(0.18)	(0.35)	11.60	20.03	91,530	0.60	1.36	22.2
(0.03)	(0.18)	10.00	10.55	62,383	0.61	1.26	13.0
(0.16)	(0.28)	9.23	2.95	44,844	0.61	1.09	6.1
–	(0.14)	9.23	17.37	34,593	0.61 (c)	1.23	25.0
–	(0.12)	7.99	14.61	19,038	0.66 (c)	1.20	7.0
(0.18)	(0.37)	11.66	20.25	53,662	0.41	1.61	22.2
(0.03)	(0.19)	10.05	10.79	40,305	0.42	1.70	13.0
(0.16)	(0.29)	9.27	3.20	36,070	0.42	1.32	6.1
–	(0.14)	9.26	17.43	29,669	0.42 (c)	1.28	25.0
–	(0.13)	8.02	14.77	15,202	0.47 (c)	1.27	7.0
(0.18)	(0.38)	11.69	20.32	95,411	0.29	1.65	22.2
(0.03)	(0.21)	10.08	10.90	57,005	0.30	1.45	13.0
(0.16)	(0.30)	9.30	3.29	35,360	0.30	1.44	6.1
–	(0.15)	9.29	17.62	26,306	0.30 (c)	1.63	25.0
–	(0.13)	8.04	14.91	17,760	0.35 (c)	1.49	7.0

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2040 FUND					
<u>Institutional shares</u>					
2013	\$ 12.59	\$ 0.28	\$ 2.42	\$ 2.70	\$ (0.27)
2012	11.57	0.22	1.04	1.26	(0.24)
2011	11.37	0.20	0.20	0.40	(0.20)
2010	9.82	0.21	1.56	1.77	(0.22)
2009	9.09	0.19	1.09	1.28	(0.21)
<u>R-1 shares</u>					
2013	12.44	0.17	2.38	2.55	(0.16)
2012	11.42	0.12	1.04	1.16	(0.14)
2011	11.24	0.10	0.18	0.28	(0.10)
2010	9.73	0.12	1.54	1.66	(0.15)
2009	9.01	0.11	1.08	1.19	(0.13)
<u>R-2 shares</u>					
2013	12.45	0.19	2.38	2.57	(0.18)
2012	11.43	0.14	1.03	1.17	(0.15)
2011	11.24	0.12	0.18	0.30	(0.11)
2010	9.73	0.14	1.53	1.67	(0.16)
2009	8.99	0.13	1.08	1.21	(0.13)
<u>R-3 shares</u>					
2013	12.45	0.20	2.39	2.59	(0.20)
2012	11.44	0.16	1.02	1.18	(0.17)
2011	11.24	0.13	0.20	0.33	(0.13)
2010	9.73	0.15	1.54	1.69	(0.18)
2009	9.01	0.14	1.08	1.22	(0.16)
<u>R-4 shares</u>					
2013	12.47	0.22	2.41	2.63	(0.23)
2012	11.46	0.18	1.03	1.21	(0.20)
2011	11.27	0.15	0.20	0.35	(0.16)
2010	9.74	0.17	1.55	1.72	(0.19)
2009	9.02	0.14	1.09	1.23	(0.17)
<u>R-5 shares</u>					
2013	12.54	0.25	2.40	2.65	(0.24)
2012	11.52	0.19	1.04	1.23	(0.21)
2011	11.32	0.20	0.17	0.37	(0.17)
2010	9.79	0.18	1.55	1.73	(0.20)
2009	9.06	0.16	1.09	1.25	(0.18)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ —	\$ (0.27)	\$ 15.02	21.87%	\$ 2,718,326	0.04%	2.07%	30.1%
—	(0.24)	12.59	11.18	2,235,924	0.04	1.83	12.5
—	(0.20)	11.57	3.46	1,851,739	0.04	1.69	12.6
—	(0.22)	11.37	18.27	1,716,164	0.04	2.02	31.4
(0.34)	(0.55)	9.82	15.45	1,387,751	0.09	2.20	5.8
—	(0.16)	14.83	20.71	33,757	0.91	1.26	30.1
—	(0.14)	12.44	10.29	37,999	0.91	0.98	12.5
—	(0.10)	11.42	2.51	33,918	0.91	0.81	12.6
—	(0.15)	11.24	17.26	32,593	0.92	1.12	31.4
(0.34)	(0.47)	9.73	14.41	25,814	0.97	1.28	5.8
—	(0.18)	14.84	20.94	55,940	0.78	1.40	30.1
—	(0.15)	12.45	10.36	47,947	0.78	1.17	12.5
—	(0.11)	11.43	2.68	45,698	0.78	1.02	12.6
—	(0.16)	11.24	17.33	55,281	0.79	1.31	31.4
(0.34)	(0.47)	9.73	14.65	46,331	0.84	1.48	5.8
—	(0.20)	14.84	21.11	151,677	0.60	1.50	30.1
—	(0.17)	12.45	10.54	132,770	0.60	1.36	12.5
—	(0.13)	11.44	2.94	122,973	0.60	1.10	12.6
—	(0.18)	11.24	17.50	125,392	0.61	1.47	31.4
(0.34)	(0.50)	9.73	14.77	104,315	0.66	1.64	5.8
—	(0.23)	14.87	21.39	153,849	0.41	1.59	30.1
—	(0.20)	12.47	10.76	123,706	0.41	1.53	12.5
—	(0.16)	11.46	3.06	111,132	0.41	1.29	12.6
—	(0.19)	11.27	17.87	101,237	0.42	1.67	31.4
(0.34)	(0.51)	9.74	14.98	86,178	0.47	1.69	5.8
—	(0.24)	14.95	21.50	260,420	0.29	1.84	30.1
—	(0.21)	12.54	10.93	204,880	0.29	1.63	12.5
—	(0.17)	11.52	3.24	177,248	0.29	1.68	12.6
—	(0.20)	11.32	17.89	200,260	0.30	1.74	31.4
(0.34)	(0.52)	9.79	15.16	165,669	0.35	1.85	5.8

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>PRINCIPAL LIFETIME 2045 FUND</u>					
<u>Institutional shares</u>					
2013	\$ 10.06	\$ 0.20	\$ 2.00	\$ 2.20	\$ (0.21)
2012	9.26	0.16	0.85	1.01	(0.18)
2011	9.23	0.14	0.19	0.33	(0.14)
2010	7.95	0.13	1.30	1.43	(0.15)
2009	7.04	0.05	0.99	1.04	(0.13)
<u>R-1 shares</u>					
2013	9.82	0.14	1.92	2.06	(0.14)
2012	9.04	0.08	0.84	0.92	(0.11)
2011	9.05	0.06	0.17	0.23	(0.08)
2010	7.82	0.05	1.29	1.34	(0.11)
2009	6.97	0.01	0.96	0.97	(0.12)
<u>R-2 shares</u>					
2013	9.84	0.14	1.94	2.08	(0.16)
2012	9.06	0.08	0.85	0.93	(0.12)
2011	9.06	0.07	0.18	0.25	(0.09)
2010	7.83	0.07	1.28	1.35	(0.12)
2009	6.98	0.03	0.95	0.98	(0.13)
<u>R-3 shares</u>					
2013	9.89	0.14	1.96	2.10	(0.16)
2012	9.11	0.12	0.83	0.95	(0.14)
2011	9.10	0.09	0.18	0.27	(0.10)
2010	7.85	0.10	1.27	1.37	(0.12)
2009	6.99	0.08	0.90	0.98	(0.12)
<u>R-4 shares</u>					
2013	9.94	0.18	1.96	2.14	(0.19)
2012	9.15	0.11	0.86	0.97	(0.15)
2011	9.14	0.11	0.18	0.29	(0.12)
2010	7.88	0.09	1.30	1.39	(0.13)
2009	7.00	0.08	0.92	1.00	(0.12)
<u>R-5 shares</u>					
2013	9.97	0.16	1.98	2.14	(0.19)
2012	9.17	0.13	0.86	0.99	(0.16)
2011	9.16	0.12	0.18	0.30	(0.13)
2010	7.90	0.12	1.28	1.40	(0.14)
2009	7.01	0.07	0.95	1.02	(0.13)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.15)	\$ (0.36)	\$ 11.90	22.58%	\$ 399,463	0.05 % (c)	1.87%	23.3%
(0.03)	(0.21)	10.06	11.27	244,484	0.05 (c)	1.63	8.1
(0.16)	(0.30)	9.26	3.57	154,522	0.06 (c)	1.48	4.5
–	(0.15)	9.23	18.22	105,004	0.08 (c)	1.50	23.8
–	(0.13)	7.95	15.09	53,836	0.10 (c)	0.69	4.8
(0.15)	(0.29)	11.59	21.44	9,201	0.92	1.28	23.3
(0.03)	(0.14)	9.82	10.40	9,027	0.92	0.85	8.1
(0.16)	(0.24)	9.04	2.53	7,195	0.92 (c)	0.70	4.5
–	(0.11)	9.05	17.33	5,821	0.93 (c)	0.65	23.8
–	(0.12)	7.82	14.23	2,675	0.97 (c)	0.18	4.8
(0.15)	(0.31)	11.61	21.65	9,204	0.79	1.29	23.3
(0.03)	(0.15)	9.84	10.53	6,674	0.79	0.89	8.1
(0.16)	(0.25)	9.06	2.73	4,130	0.79 (c)	0.71	4.5
–	(0.12)	9.06	17.42	2,780	0.80 (c)	0.79	23.8
–	(0.13)	7.83	14.32	1,160	0.84 (c)	0.38	4.8
(0.15)	(0.31)	11.68	21.79	46,505	0.61	1.35	23.3
(0.03)	(0.17)	9.89	10.69	30,592	0.61	1.32	8.1
(0.16)	(0.26)	9.11	2.96	28,181	0.61 (c)	0.96	4.5
–	(0.12)	9.10	17.64	20,005	0.62 (c)	1.16	23.8
–	(0.12)	7.85	14.40	11,557	0.66 (c)	1.21	4.8
(0.15)	(0.34)	11.74	22.11	27,277	0.42	1.68	23.3
(0.03)	(0.18)	9.94	10.90	29,088	0.42	1.20	8.1
(0.16)	(0.28)	9.15	3.10	16,819	0.42 (c)	1.17	4.5
–	(0.13)	9.14	17.84	12,730	0.43 (c)	1.08	23.8
–	(0.12)	7.88	14.68	5,832	0.47 (c)	1.13	4.8
(0.15)	(0.34)	11.77	22.13	69,834	0.30	1.52	23.3
(0.03)	(0.19)	9.97	11.15	28,899	0.30	1.36	8.1
(0.16)	(0.29)	9.17	3.19	17,728	0.30 (c)	1.26	4.5
–	(0.14)	9.16	17.91	11,045	0.31 (c)	1.45	23.8
–	(0.13)	7.90	14.87	6,559	0.35 (c)	0.95	4.8

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2050 FUND					
<u>Institutional shares</u>					
2013	\$ 12.07	\$ 0.27	\$ 2.49	\$ 2.76	\$ (0.26)
2012	11.05	0.20	1.04	1.24	(0.22)
2011	10.86	0.18	0.18	0.36	(0.17)
2010	9.34	0.18	1.53	1.71	(0.19)
2009	8.70	0.16	1.02	1.18	(0.18)
<u>R-1 shares</u>					
2013	11.92	0.16	2.46	2.62	(0.15)
2012	10.91	0.10	1.03	1.13	(0.12)
2011	10.74	0.08	0.18	0.26	(0.09)
2010	9.26	0.09	1.52	1.61	(0.13)
2009	8.62	0.08	1.03	1.11	(0.11)
<u>R-2 shares</u>					
2013	11.94	0.18	2.46	2.64	(0.18)
2012	10.92	0.12	1.03	1.15	(0.13)
2011	10.74	0.10	0.17	0.27	(0.09)
2010	9.26	0.11	1.50	1.61	(0.13)
2009	8.61	0.11	1.01	1.12	(0.11)
<u>R-3 shares</u>					
2013	11.95	0.19	2.47	2.66	(0.19)
2012	10.95	0.14	1.01	1.15	(0.15)
2011	10.76	0.11	0.19	0.30	(0.11)
2010	9.27	0.13	1.51	1.64	(0.15)
2009	8.63	0.12	1.01	1.13	(0.13)
<u>R-4 shares</u>					
2013	11.99	0.21	2.50	2.71	(0.22)
2012	10.99	0.15	1.03	1.18	(0.18)
2011	10.80	0.13	0.19	0.32	(0.13)
2010	9.30	0.15	1.51	1.66	(0.16)
2009	8.66	0.13	1.02	1.15	(0.15)
<u>R-5 shares</u>					
2013	12.03	0.23	2.48	2.71	(0.23)
2012	11.01	0.17	1.04	1.21	(0.19)
2011	10.82	0.16	0.18	0.34	(0.15)
2010	9.32	0.15	1.52	1.67	(0.17)
2009	8.67	0.13	1.04	1.17	(0.16)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ -	\$(0.26)	\$14.57	23.28%	\$ 1,370,372	0.04%	2.01%	29.5%
-	(0.22)	12.07	11.45	1,031,138	0.04	1.72	10.5
-	(0.17)	11.05	3.30	829,516	0.04	1.58	15.5
-	(0.19)	10.86	18.51	788,351	0.04	1.83	30.1
(0.36)	(0.54)	9.34	14.95	629,384	0.10	2.02	15.2
-	(0.15)	14.39	22.20	16,286	0.91	1.19	29.5
-	(0.12)	11.92	10.49	17,885	0.91	0.84	10.5
-	(0.09)	10.91	2.38	14,614	0.92	0.67	15.5
-	(0.13)	10.74	17.49	13,401	0.92	0.90	30.1
(0.36)	(0.47)	9.26	14.01	9,869	0.97	1.03	15.2
-	(0.18)	14.40	22.39	29,353	0.78	1.35	29.5
-	(0.13)	11.94	10.64	21,922	0.78	1.04	10.5
-	(0.09)	10.92	2.52	20,121	0.79	0.90	15.5
-	(0.13)	10.74	17.55	24,165	0.79	1.13	30.1
(0.36)	(0.47)	9.26	14.17	20,114	0.84	1.33	15.2
-	(0.19)	14.42	22.59	68,416	0.60	1.43	29.5
-	(0.15)	11.95	10.73	52,457	0.60	1.26	10.5
-	(0.11)	10.95	2.79	46,829	0.61	0.94	15.5
-	(0.15)	10.76	17.82	42,918	0.61	1.30	30.1
(0.36)	(0.49)	9.27	14.36	35,212	0.66	1.45	15.2
-	(0.22)	14.48	22.93	69,616	0.41	1.60	29.5
-	(0.18)	11.99	10.91	57,975	0.41	1.30	10.5
-	(0.13)	10.99	2.96	45,442	0.42	1.15	15.5
-	(0.16)	10.80	18.05	39,183	0.42	1.50	30.1
(0.36)	(0.51)	9.30	14.55	33,076	0.47	1.56	15.2
-	(0.23)	14.51	22.91	133,924	0.29	1.76	29.5
-	(0.19)	12.03	11.19	90,201	0.29	1.48	10.5
-	(0.15)	11.01	3.08	72,123	0.30	1.42	15.5
-	(0.17)	10.82	18.11	71,470	0.30	1.55	30.1
(0.36)	(0.52)	9.32	14.78	58,596	0.35	1.59	15.2

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME 2055 FUND					
<u>Institutional shares</u>					
2013	\$ 10.02	\$ 0.19	\$ 2.09	\$ 2.28	\$ (0.21)
2012	9.22	0.14	0.87	1.01	(0.17)
2011	9.21	0.13	0.14	0.27	(0.13)
2010	7.93	0.12	1.31	1.43	(0.15)
2009	6.99	0.06	1.00	1.06	(0.12)
<u>R-1 shares</u>					
2013	9.78	0.13	2.00	2.13	(0.14)
2012	9.01	0.07	0.85	0.92	(0.11)
2011	9.02	0.04	0.15	0.19	(0.07)
2010	7.80	0.06	1.27	1.33	(0.11)
2009	6.95	0.02	0.95	0.97	(0.12)
<u>R-2 shares</u>					
2013	9.81	0.13	2.03	2.16	(0.16)
2012	9.02	0.06	0.87	0.93	(0.10)
2011	9.05	0.07	0.13	0.20	(0.10)
2010	7.82	0.02	1.33	1.35	(0.12)
2009	6.95	0.03	0.96	0.99	(0.12)
<u>R-3 shares</u>					
2013	9.86	0.12	2.07	2.19	(0.17)
2012	9.08	0.08	0.87	0.95	(0.13)
2011	9.09	0.08	0.13	0.21	(0.09)
2010	7.85	0.09	1.28	1.37	(0.13)
2009	6.96	0.02	0.99	1.01	(0.12)
<u>R-4 shares</u>					
2013	9.91	0.15	2.06	2.21	(0.18)
2012	9.12	0.11	0.86	0.97	(0.14)
2011	9.12	0.09	0.15	0.24	(0.11)
2010	7.88	0.09	1.29	1.38	(0.14)
2009	6.97	0.02	1.01	1.03	(0.12)
<u>R-5 shares</u>					
2013	9.93	0.15	2.08	2.23	(0.19)
2012	9.15	0.10	0.87	0.97	(0.15)
2011	9.14	0.11	0.15	0.26	(0.12)
2010	7.89	0.11	1.28	1.39	(0.14)
2009	6.98	0.09	0.94	1.03	(0.12)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.11)	\$ (0.32)	\$ 11.98	23.32%	\$ 84,497	0.09 %(c)	1.77%	29.1%
(0.04)	(0.21)	10.02	11.27	47,528	0.08 (c)	1.46	15.1
(0.13)	(0.26)	9.22	2.97	26,746	0.08 (c)	1.35	22.5
–	(0.15)	9.21	18.18	17,421	0.08 (c)	1.35	44.0
–	(0.12)	7.93	15.43	8,036	0.08 (c)	0.78	34.0
(0.11)	(0.25)	11.66	22.21	1,453	0.93 (c)	1.21	29.1
(0.04)	(0.15)	9.78	10.36	1,148	0.94 (c)	0.79	15.1
(0.13)	(0.20)	9.01	2.06	868	0.96 (c)	0.48	22.5
–	(0.11)	9.02	17.22	532	0.96 (c)	0.76	44.0
–	(0.12)	7.80	14.21	382	0.80 (c)	0.29	34.0
(0.11)	(0.27)	11.70	22.47	1,142	0.80 (c)	1.26	29.1
(0.04)	(0.14)	9.81	10.43	715	0.81 (c)	0.59	15.1
(0.13)	(0.23)	9.02	2.16	345	0.83 (c)	0.70	22.5
–	(0.12)	9.05	17.38	398	0.83 (c)	0.26	44.0
–	(0.12)	7.82	14.50	71	0.70 (c)	0.42	34.0
(0.11)	(0.28)	11.77	22.65	7,790	0.62 (c)	1.13	29.1
(0.04)	(0.17)	9.86	10.69	3,765	0.63 (c)	0.83	15.1
(0.13)	(0.22)	9.08	2.33	2,066	0.65 (c)	0.82	22.5
–	(0.13)	9.09	17.54	1,345	0.65 (c)	1.12	44.0
–	(0.12)	7.85	14.77	906	0.52 (c)	0.33	34.0
(0.11)	(0.29)	11.83	22.84	6,590	0.43 (c)	1.37	29.1
(0.04)	(0.18)	9.91	10.89	3,511	0.44 (c)	1.18	15.1
(0.13)	(0.24)	9.12	2.61	2,397	0.46 (c)	0.99	22.5
–	(0.14)	9.12	17.64	1,477	0.46 (c)	1.07	44.0
–	(0.12)	7.88	15.04	764	0.23 (c)	0.33	34.0
(0.11)	(0.30)	11.86	23.01	11,694	0.31 (c)	1.36	29.1
(0.04)	(0.19)	9.93	10.91	4,519	0.32 (c)	1.07	15.1
(0.13)	(0.25)	9.15	2.80	2,023	0.34 (c)	1.17	22.5
–	(0.14)	9.14	17.82	1,398	0.34 (c)	1.30	44.0
–	(0.12)	7.89	15.02	917	0.20 (c)	1.27	34.0

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Net Asset Value, End of Period
<u>PRINCIPAL LIFETIME 2060 FUND</u>					
<u>Institutional shares</u>					
2013(b)	\$ 10.00	\$ 0.02	\$ 1.50	\$ 1.52	\$ 11.52
<u>R-1 shares</u>					
2013(b)	10.00	(0.04)	1.49	1.45	11.45
<u>R-2 shares</u>					
2013(b)	10.00	(0.03)	1.49	1.46	11.46
<u>R-3 shares</u>					
2013(b)	10.00	(0.02)	1.52	1.50	11.50
<u>R-4 shares</u>					
2013(b)	10.00	(0.01)	1.50	1.49	11.49
<u>R-5 shares</u>					
2013(b)	10.00	-	1.50	1.50	11.50

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate	
15.20 %(c)	\$	13	0.13 %(d),(e),(f)	0.25 %(d)	42.5 %(d)
14.50 (c)		11	0.96 %(d),(e),(f)	(0.59)(d)	42.5 (d)
14.60 (c)		11	0.83 %(d),(e),(f)	(0.46)(d)	42.5 (d)
15.00 (c)		69	0.65 %(d),(e),(f)	(0.26)(d)	42.5 (d)
14.90 (c)		11	0.46 %(d),(e),(f)	(0.10)(d)	42.5 (d)
15.00 (c)		12	0.34 %(d),(e),(f)	0.02 (d)	42.5 (d)

- (a) Calculated based on average shares outstanding during the period.
- (b) Period from March 1, 2013, date operations commenced, through October 31, 2013.
- (c) Total return amounts have not been annualized.
- (d) Computed on an annualized basis.
- (e) Reflects Manager's contractual expense limit.
- (f) Does not include expenses of the investment companies in which the Fund invests.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
PRINCIPAL LIFETIME STRATEGIC INCOME FUND					
<u>Institutional shares</u>					
2013	\$ 11.55	\$ 0.30	\$ 0.34	\$ 0.64	\$ (0.30)
2012	10.96	0.25	0.66	0.91	(0.32)
2011	10.89	0.35	0.06	0.41	(0.34)
2010	9.91	0.35	1.01	1.36	(0.38)
2009	9.40	0.30	0.84	1.14	(0.50)
<u>R-1 shares</u>					
2013	11.46	0.20	0.34	0.54	(0.19)
2012	10.87	0.17	0.63	0.80	(0.21)
2011	10.80	0.25	0.07	0.32	(0.25)
2010	9.86	0.25	1.00	1.25	(0.31)
2009	9.32	0.22	0.84	1.06	(0.39)
<u>R-2 shares</u>					
2013	11.47	0.22	0.34	0.56	(0.21)
2012	10.89	0.17	0.64	0.81	(0.23)
2011	10.79	0.27	0.07	0.34	(0.24)
2010	9.83	0.30	0.96	1.26	(0.30)
2009	9.30	0.23	0.84	1.07	(0.41)
<u>R-3 shares</u>					
2013	11.42	0.22	0.35	0.57	(0.24)
2012	10.83	0.18	0.66	0.84	(0.25)
2011	10.77	0.28	0.07	0.35	(0.29)
2010	9.81	0.30	0.98	1.28	(0.32)
2009	9.30	0.25	0.83	1.08	(0.44)
<u>R-4 shares</u>					
2013	11.44	0.25	0.35	0.60	(0.25)
2012	10.87	0.23	0.62	0.85	(0.28)
2011	10.80	0.30	0.07	0.37	(0.30)
2010	9.83	0.31	1.00	1.31	(0.34)
2009	9.33	0.26	0.84	1.10	(0.47)
<u>R-5 shares</u>					
2013	11.52	0.27	0.34	0.61	(0.27)
2012	10.93	0.22	0.66	0.88	(0.29)
2011	10.87	0.32	0.06	0.38	(0.32)
2010	9.89	0.35	0.98	1.33	(0.35)
2009	9.38	0.28	0.83	1.11	(0.47)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ —	\$ (0.30)	\$ 11.89	5.64%	\$ 543,521	0.04%	2.57%	14.6%
—	(0.32)	11.55	8.52	551,533	0.04	2.25	31.1
—	(0.34)	10.96	3.88	468,065	0.04	3.18	19.8
—	(0.38)	10.89	14.08	459,110	0.04	3.42	46.9
(0.13)	(0.63)	9.91	13.23	365,053	0.10	3.32	35.9
—	(0.19)	11.81	4.79	9,473	0.91	1.77	14.6
—	(0.21)	11.46	7.55	10,740	0.92	1.51	31.1
—	(0.25)	10.87	3.00	11,393	0.92	2.33	19.8
—	(0.31)	10.80	13.03	11,735	0.92	2.48	46.9
(0.13)	(0.52)	9.86	12.25	8,850	0.98	2.43	35.9
—	(0.21)	11.82	4.93	9,572	0.78	1.93	14.6
—	(0.23)	11.47	7.63	11,148	0.79	1.57	31.1
—	(0.24)	10.89	3.20	11,365	0.79	2.53	19.8
—	(0.30)	10.79	13.15	16,425	0.79	3.00	46.9
(0.13)	(0.54)	9.83	12.47	19,416	0.85	2.62	35.9
—	(0.24)	11.75	5.04	38,997	0.60	1.95	14.6
—	(0.25)	11.42	7.97	39,193	0.61	1.66	31.1
—	(0.29)	10.83	3.30	32,636	0.61	2.60	19.8
—	(0.32)	10.77	13.43	31,798	0.61	2.91	46.9
(0.13)	(0.57)	9.81	12.59	26,642	0.67	2.79	35.9
—	(0.25)	11.79	5.33	22,865	0.41	2.18	14.6
—	(0.28)	11.44	8.01	24,227	0.42	2.08	31.1
—	(0.30)	10.87	3.51	28,249	0.42	2.77	19.8
—	(0.34)	10.80	13.73	27,722	0.42	3.04	46.9
(0.13)	(0.60)	9.83	12.80	23,304	0.48	2.95	35.9
—	(0.27)	11.86	5.39	45,658	0.29	2.34	14.6
—	(0.29)	11.52	8.26	43,874	0.30	2.00	31.1
—	(0.32)	10.93	3.54	38,375	0.30	2.99	19.8
—	(0.35)	10.87	13.86	37,720	0.30	3.40	46.9
(0.13)	(0.60)	9.89	12.89	38,223	0.36	3.09	35.9

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Fund invests.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
REAL ESTATE SECURITIES FUND					
<u>Institutional shares</u>					
2013	\$ 19.54	\$ 0.39	\$ 2.02	\$ 2.41	\$ (0.31)
2012	17.41	0.28	2.07	2.35	(0.22)
2011	15.84	0.14	1.65	1.79	(0.22)
2010	11.62	0.30	4.23	4.53	(0.31)
2009	11.83	0.31	(0.20)	0.11	(0.32)
<u>R-1 shares</u>					
2013	19.36	0.21	1.99	2.20	(0.13)
2012	17.25	0.12	2.06	2.18	(0.07)
2011	15.70	(0.01)	1.64	1.63	(0.08)
2010	11.52	0.17	4.20	4.37	(0.19)
2009	11.74	0.22	(0.20)	0.02	(0.24)
<u>R-2 shares</u>					
2013	18.87	0.23	1.94	2.17	(0.16)
2012	16.82	0.14	2.01	2.15	(0.10)
2011	15.31	0.01	1.60	1.61	(0.10)
2010	11.24	0.19	4.09	4.28	(0.21)
2009	11.46	0.24	(0.20)	0.04	(0.26)
<u>R-3 shares</u>					
2013	19.20	0.27	1.98	2.25	(0.20)
2012	17.11	0.17	2.05	2.22	(0.13)
2011	15.57	0.04	1.63	1.67	(0.13)
2010	11.42	0.22	4.17	4.39	(0.24)
2009	11.64	0.26	(0.21)	0.05	(0.27)
<u>R-4 shares</u>					
2013	19.05	0.30	1.97	2.27	(0.24)
2012	16.98	0.21	2.02	2.23	(0.16)
2011	15.45	0.07	1.62	1.69	(0.16)
2010	11.34	0.24	4.13	4.37	(0.26)
2009	11.56	0.27	(0.20)	0.07	(0.29)
<u>R-5 shares</u>					
2013	19.08	0.33	1.96	2.29	(0.26)
2012	17.00	0.23	2.03	2.26	(0.18)
2011	15.48	0.09	1.61	1.70	(0.18)
2010	11.36	0.26	4.14	4.40	(0.28)
2009	11.57	0.28	(0.19)	0.09	(0.30)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.31)	\$ 21.64	12.38%	\$ 807,558	0.88%	1.86%	42.1%
(0.22)	19.54	13.55	897,798	0.86	1.52	44.6
(0.22)	17.41	11.39	1,252,657	0.85	0.81	29.3
(0.31)	15.84	39.37	1,303,556	0.85	2.14	52.2
(0.32)	11.62	1.74	1,137,929	0.85	3.22	57.3
(0.13)	21.43	11.39	6,737	1.71	1.00	42.1
(0.07)	19.36	12.63	7,692	1.71	0.62	44.6
(0.08)	17.25	10.44	6,951	1.71	(0.05)	29.3
(0.19)	15.70	38.22	6,794	1.71	1.22	52.2
(0.24)	11.52	0.82	4,205	1.72	2.30	57.3
(0.16)	20.88	11.54	14,360	1.58	1.12	42.1
(0.10)	18.87	12.76	15,354	1.58	0.76	44.6
(0.10)	16.82	10.56	13,043	1.58	0.08	29.3
(0.21)	15.31	38.36	14,881	1.58	1.38	52.2
(0.26)	11.24	0.95	11,684	1.59	2.56	57.3
(0.20)	21.25	11.75	47,905	1.40	1.30	42.1
(0.13)	19.20	12.97	48,924	1.40	0.94	44.6
(0.13)	17.11	10.77	39,405	1.40	0.25	29.3
(0.24)	15.57	38.69	39,463	1.40	1.58	52.2
(0.27)	11.42	1.12	32,669	1.41	2.70	57.3
(0.24)	21.08	11.97	48,216	1.21	1.47	42.1
(0.16)	19.05	13.16	40,509	1.21	1.13	44.6
(0.16)	16.98	11.02	32,332	1.21	0.42	29.3
(0.26)	15.45	38.89	23,587	1.21	1.73	52.2
(0.29)	11.34	1.32	14,963	1.22	2.85	57.3
(0.26)	21.11	12.08	105,831	1.09	1.61	42.1
(0.18)	19.08	13.33	107,275	1.09	1.26	44.6
(0.18)	17.00	11.07	95,630	1.09	0.53	29.3
(0.28)	15.48	39.05	59,168	1.09	1.91	52.2
(0.30)	11.36	1.52	52,653	1.10	2.90	57.3

(a) Calculated based on average shares outstanding during the period.

**FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.**

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>SAM BALANCED PORTFOLIO</u>					
<u>Institutional shares</u>					
2013	\$ 13.54	\$ 0.30	\$ 1.89	\$ 2.19	\$ (0.31)
2012	12.52	0.27	1.05	1.32	(0.30)
2011	12.31	0.31	0.23	0.54	(0.33)
2010	10.88	0.28	1.46	1.74	(0.31)
2009	10.74	0.30	1.07	1.37	(0.32)
<u>R-1 shares</u>					
2013	13.51	0.19	1.88	2.07	(0.19)
2012	12.50	0.20	1.00	1.20	(0.19)
2011	12.29	0.21	0.22	0.43	(0.22)
2010	10.86	0.19	1.45	1.64	(0.21)
2009	10.73	0.21	1.08	1.29	(0.25)
<u>R-2 shares</u>					
2013	13.48	0.20	1.87	2.07	(0.21)
2012	12.48	0.20	1.01	1.21	(0.21)
2011	12.27	0.22	0.22	0.44	(0.23)
2010	10.86	0.18	1.47	1.65	(0.24)
2009	10.73	0.21	1.09	1.30	(0.26)
<u>R-3 shares</u>					
2013	13.50	0.21	1.89	2.10	(0.23)
2012	12.50	0.22	1.01	1.23	(0.23)
2011	12.29	0.25	0.22	0.47	(0.26)
2010	10.87	0.22	1.45	1.67	(0.25)
2009	10.73	0.26	1.07	1.33	(0.28)
<u>R-4 shares</u>					
2013	13.52	0.24	1.90	2.14	(0.26)
2012	12.52	0.23	1.03	1.26	(0.26)
2011	12.31	0.25	0.24	0.49	(0.28)
2010	10.88	0.23	1.47	1.70	(0.27)
2009	10.74	0.25	1.09	1.34	(0.29)
<u>R-5 shares</u>					
2013	13.52	0.26	1.89	2.15	(0.27)
2012	12.52	0.25	1.02	1.27	(0.27)
2011	12.31	0.26	0.24	0.50	(0.29)
2010	10.88	0.27	1.45	1.72	(0.29)
2009	10.74	0.26	1.09	1.35	(0.30)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Gross Expenses to Average Net Assets(b),(c)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ –	\$ (0.31)	\$ 15.42	16.42%	\$ 719,100	0.33%	0.33%	2.11%	16.9%
–	(0.3)	13.54	10.71	612,372	0.35	0.35	2.06	9.6
–	(0.33)	12.52	4.36	227,083	0.36	0.36	2.44	29.6
–	(0.31)	12.31	16.23	122,317	0.38	0.38	2.43	13.2
(0.91)	(1.23)	10.88	14.89	65,662	0.39	0.42	2.99	5.1
–	(0.19)	15.39	15.45	4,303	1.20	–	1.29	16.9
–	(0.19)	13.51	9.67	4,166	1.22	–	1.52	9.6
–	(0.22)	12.50	3.48	5,207	1.22	–	1.65	29.6
–	(0.21)	12.29	15.28	4,716	1.23	–	1.63	13.2
(0.91)	(1.16)	10.86	13.94	3,442	1.24	–	2.14	5.1
–	(0.21)	15.34	15.51	9,478	1.07	–	1.36	16.9
–	(0.21)	13.48	9.83	9,131	1.09	–	1.50	9.6
–	(0.23)	12.48	3.62	6,834	1.09	–	1.72	29.6
–	(0.24)	12.27	15.40	4,134	1.10	–	1.56	13.2
(0.91)	(1.17)	10.86	14.07	907	1.11	–	2.07	5.1
–	(0.23)	15.37	15.77	64,428	0.89	–	1.46	16.9
–	(0.23)	13.50	9.99	43,574	0.91	–	1.65	9.6
–	(0.26)	12.50	3.84	26,556	0.91	–	1.94	29.6
–	(0.25)	12.29	15.55	17,127	0.92	–	1.94	13.2
(0.91)	(1.19)	10.87	14.36	10,185	0.93	–	2.59	5.1
–	(0.26)	15.40	16.03	48,779	0.70	–	1.66	16.9
–	(0.26)	13.52	10.16	31,774	0.72	–	1.77	9.6
–	(0.28)	12.52	4.01	19,290	0.72	–	2.00	29.6
–	(0.27)	12.31	15.80	8,067	0.73	–	2.02	13.2
(0.91)	(1.2)	10.88	14.53	5,895	0.74	–	2.45	5.1
–	(0.27)	15.40	16.16	86,523	0.58	–	1.83	16.9
–	(0.27)	13.52	10.29	69,681	0.60	–	1.94	9.6
–	(0.29)	12.52	4.11	39,852	0.60	–	2.08	29.6
–	(0.29)	12.31	15.97	21,643	0.61	–	2.31	13.2
(0.91)	(1.21)	10.88	14.64	13,328	0.62	–	2.61	5.1

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Portfolio invests.

(c) Excludes expense reimbursement from Manager and/or Distributor.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>SAM CONSERVATIVE BALANCED PORTFOLIO</u>					
<u>Institutional shares</u>					
2013	\$ 11.13	\$ 0.28	\$ 0.90	\$ 1.18	\$ (0.29)
2012	10.48	0.29	0.71	1.00	(0.30)
2011	10.39	0.32	0.10	0.42	(0.33)
2010	9.41	0.31	1.00	1.31	(0.33)
2009	8.78	0.34	1.00	1.34	(0.34)
<u>R-1 shares</u>					
2013	11.10	0.18	0.88	1.06	(0.19)
2012	10.45	0.21	0.70	0.91	(0.21)
2011	10.36	0.24	0.09	0.33	(0.24)
2010	9.39	0.22	1.01	1.23	(0.26)
2009	8.78	0.26	0.99	1.25	(0.27)
<u>R-2 shares</u>					
2013	11.15	0.19	0.90	1.09	(0.21)
2012	10.50	0.23	0.69	0.92	(0.22)
2011	10.39	0.26	0.09	0.35	(0.24)
2010	9.42	0.23	1.01	1.24	(0.27)
2009	8.78	0.26	1.02	1.28	(0.27)
<u>R-3 shares</u>					
2013	11.12	0.23	0.87	1.10	(0.23)
2012	10.47	0.24	0.70	0.94	(0.24)
2011	10.38	0.27	0.10	0.37	(0.28)
2010	9.40	0.27	0.99	1.26	(0.28)
2009	8.78	0.28	1.01	1.29	(0.30)
<u>R-4 shares</u>					
2013	11.13	0.23	0.90	1.13	(0.25)
2012	10.48	0.24	0.72	0.96	(0.26)
2011	10.38	0.30	0.09	0.39	(0.29)
2010	9.40	0.29	0.99	1.28	(0.30)
2009	8.78	0.30	1.00	1.30	(0.31)
<u>R-5 shares</u>					
2013	11.13	0.25	0.89	1.14	(0.26)
2012	10.48	0.27	0.70	0.97	(0.27)
2011	10.38	0.28	0.13	0.41	(0.31)
2010	9.41	0.29	0.99	1.28	(0.31)
2009	8.78	0.32	1.00	1.32	(0.32)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Gross Expenses to Average Net Assets(b),(c)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.06)	\$ (0.35)	\$ 11.96	10.83%	\$ 268,881	0.34%	0.34%	2.46%	13.1%
(0.05)	(0.35)	11.13	9.74	236,776	0.35	0.35	2.64	6.8
–	(0.33)	10.48	4.08	92,804	0.37	0.37	3.06	21.4
–	(0.33)	10.39	14.18	60,420	0.39	0.39	3.18	11.4
(0.37)	(0.71)	9.41	16.57	36,114	0.39	0.44	3.89	9.2
(0.06)	(0.25)	11.91	9.75	4,436	1.20	–	1.60	13.1
(0.05)	(0.26)	11.10	8.86	3,753	1.22	–	1.94	6.8
–	(0.24)	10.45	3.23	3,256	1.22	–	2.24	21.4
–	(0.26)	10.36	13.27	2,580	1.23	–	2.25	11.4
(0.37)	(0.64)	9.39	15.47	983	1.24	–	2.98	9.2
(0.06)	(0.27)	11.97	9.93	3,019	1.07	–	1.64	13.1
(0.05)	(0.27)	11.15	8.92	2,532	1.09	–	2.17	6.8
–	(0.24)	10.50	3.43	3,083	1.09	–	2.43	21.4
–	(0.27)	10.39	13.32	4,251	1.10	–	2.29	11.4
(0.37)	(0.64)	9.42	15.74	1,167	1.11	–	2.99	9.2
(0.06)	(0.29)	11.93	10.05	20,157	0.89	–	2.04	13.1
(0.05)	(0.29)	11.12	9.18	22,210	0.91	–	2.20	6.8
–	(0.28)	10.47	3.57	15,468	0.91	–	2.52	21.4
–	(0.28)	10.38	13.63	8,726	0.92	–	2.69	11.4
(0.37)	(0.67)	9.40	15.90	5,014	0.93	–	3.18	9.2
(0.06)	(0.31)	11.95	10.34	17,604	0.70	–	1.99	13.1
(0.05)	(0.31)	11.13	9.39	11,581	0.72	–	2.26	6.8
–	(0.29)	10.48	3.83	4,674	0.72	–	2.81	21.4
–	(0.30)	10.38	13.82	4,294	0.73	–	2.90	11.4
(0.37)	(0.68)	9.40	16.04	3,438	0.74	–	3.43	9.2
(0.06)	(0.32)	11.95	10.48	29,141	0.58	–	2.14	13.1
(0.05)	(0.32)	11.13	9.49	18,477	0.60	–	2.46	6.8
–	(0.31)	10.48	3.96	11,243	0.60	–	2.67	21.4
–	(0.31)	10.38	13.86	4,233	0.61	–	2.98	11.4
(0.37)	(0.69)	9.41	16.29	1,605	0.62	–	3.68	9.2

- (a) Calculated based on average shares outstanding during the period.
(b) Does not include expenses of the investment companies in which the Portfolio invests.
(c) Excludes expense reimbursement from Manager and/or Distributor.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>SAM CONSERVATIVE GROWTH PORTFOLIO</u>					
<u>Institutional shares</u>					
2013	\$ 14.52	\$ 0.26	\$ 2.78	\$ 3.04	\$ (0.29)
2012	13.29	0.20	1.28	1.48	(0.25)
2011	12.94	0.23	0.36	0.59	(0.24)
2010	11.22	0.20	1.75	1.95	(0.23)
2009	11.45	0.21	0.98	1.19	(0.27)
<u>R-1 shares</u>					
2013	14.29	0.13	2.74	2.87	(0.17)
2012	13.07	0.12	1.23	1.35	(0.13)
2011	12.76	0.12	0.33	0.45	(0.14)
2010	11.09	0.09	1.74	1.83	(0.16)
2009	11.36	0.14	0.95	1.09	(0.21)
<u>R-2 shares</u>					
2013	14.29	0.13	2.76	2.89	(0.17)
2012	13.08	0.12	1.24	1.36	(0.15)
2011	12.77	0.13	0.34	0.47	(0.16)
2010	11.09	0.10	1.75	1.85	(0.17)
2009	11.37	0.15	0.95	1.10	(0.23)
<u>R-3 shares</u>					
2013	14.35	0.16	2.76	2.92	(0.22)
2012	13.15	0.15	1.24	1.39	(0.19)
2011	12.83	0.18	0.32	0.50	(0.18)
2010	11.15	0.14	1.74	1.88	(0.20)
2009	11.40	0.15	0.98	1.13	(0.23)
<u>R-4 shares</u>					
2013	14.46	0.21	2.76	2.97	(0.23)
2012	13.24	0.16	1.27	1.43	(0.21)
2011	12.90	0.17	0.37	0.54	(0.20)
2010	11.19	0.15	1.75	1.90	(0.19)
2009	11.41	0.17	0.99	1.16	(0.23)
<u>R-5 shares</u>					
2013	14.43	0.22	2.77	2.99	(0.26)
2012	13.21	0.18	1.26	1.44	(0.22)
2011	12.87	0.16	0.39	0.55	(0.21)
2010	11.17	0.18	1.74	1.92	(0.22)
2009	11.42	0.19	0.97	1.16	(0.26)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Gross Expenses to Average Net Assets(b),(c)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate	
\$	– \$	(0.29) \$	17.27	21.30%	\$ 487,967	0.33%	0.33%	1.67%	20.2%
–	(0.25)	14.52	11.37	401,459	0.34	0.34	1.40	13.1	
–	(0.24)	13.29	4.51	146,347	0.35	0.35	1.68	31.9	
–	(0.23)	12.94	17.60	94,846	0.38	0.38	1.63	15.4	
(1.15)	(1.42)	11.22	12.76	54,041	0.39	0.42	2.10	4.2	
–	(0.17)	16.99	20.30	4,190	1.20	–	0.83	20.2	
–	(0.13)	14.29	10.40	3,657	1.21	–	0.86	13.1	
–	(0.14)	13.07	3.52	3,541	1.22	–	0.92	31.9	
–	(0.16)	12.76	16.63	3,766	1.23	–	0.75	15.4	
(1.15)	(1.36)	11.09	11.80	2,213	1.24	–	1.44	4.2	
–	(0.17)	17.01	20.45	8,384	1.07	–	0.82	20.2	
–	(0.15)	14.29	10.54	5,916	1.08	–	0.90	13.1	
–	(0.16)	13.08	3.67	5,411	1.09	–	0.99	31.9	
–	(0.17)	12.77	16.80	5,194	1.10	–	0.82	15.4	
(1.15)	(1.38)	11.09	11.95	2,476	1.11	–	1.54	4.2	
–	(0.22)	17.05	20.60	26,667	0.89	–	1.01	20.2	
–	(0.19)	14.35	10.76	17,863	0.90	–	1.06	13.1	
–	(0.18)	13.15	3.86	12,199	0.91	–	1.36	31.9	
–	(0.20)	12.83	16.98	10,094	0.92	–	1.14	15.4	
(1.15)	(1.38)	11.15	12.11	7,308	0.93	–	1.43	4.2	
–	(0.23)	17.20	20.87	21,406	0.70	–	1.31	20.2	
–	(0.21)	14.46	10.96	15,442	0.71	–	1.15	13.1	
–	(0.20)	13.24	4.14	10,662	0.72	–	1.29	31.9	
–	(0.19)	12.90	17.16	7,704	0.73	–	1.23	15.4	
(1.15)	(1.38)	11.19	12.40	6,393	0.74	–	1.66	4.2	
–	(0.26)	17.16	21.04	67,284	0.58	–	1.37	20.2	
–	(0.22)	14.43	11.10	47,638	0.59	–	1.32	13.1	
–	(0.21)	13.21	4.23	31,447	0.60	–	1.18	31.9	
–	(0.22)	12.87	17.35	12,668	0.61	–	1.47	15.4	
(1.15)	(1.41)	11.17	12.53	8,327	0.62	–	1.84	4.2	

- (a) Calculated based on average shares outstanding during the period.
(b) Does not include expenses of the investment companies in which the Portfolio invests.
(c) Excludes expense reimbursement from Manager and/or Distributor.

**FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.**

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
SAM FLEXIBLE INCOME PORTFOLIO					
<u>Institutional shares</u>					
2013	\$ 11.96	\$ 0.37	\$ 0.50	\$ 0.87	\$ (0.38)
2012	11.29	0.39	0.69	1.08	(0.39)
2011	11.28	0.42	0.02	0.44	(0.43)
2010	10.42	0.41	0.91	1.32	(0.46)
2009	9.48	0.44	1.18	1.62	(0.44)
<u>R-1 shares</u>					
2013	11.92	0.26	0.50	0.76	(0.27)
2012	11.25	0.30	0.68	0.98	(0.29)
2011	11.25	0.33	0.01	0.34	(0.34)
2010	10.39	0.32	0.91	1.23	(0.37)
2009	9.47	0.36	1.17	1.53	(0.37)
<u>R-2 shares</u>					
2013	11.94	0.28	0.50	0.78	(0.29)
2012	11.27	0.31	0.68	0.99	(0.30)
2011	11.27	0.35	–	0.35	(0.35)
2010	10.41	0.33	0.91	1.24	(0.38)
2009	9.48	0.37	1.17	1.54	(0.37)
<u>R-3 shares</u>					
2013	11.94	0.30	0.50	0.80	(0.31)
2012	11.27	0.33	0.68	1.01	(0.32)
2011	11.27	0.37	–	0.37	(0.37)
2010	10.41	0.36	0.90	1.26	(0.40)
2009	9.47	0.38	1.19	1.57	(0.39)
<u>R-4 shares</u>					
2013	11.95	0.31	0.50	0.81	(0.33)
2012	11.28	0.35	0.69	1.04	(0.35)
2011	11.27	0.38	0.02	0.40	(0.39)
2010	10.41	0.37	0.91	1.28	(0.42)
2009	9.47	0.40	1.19	1.59	(0.41)
<u>R-5 shares</u>					
2013	11.94	0.33	0.51	0.84	(0.35)
2012	11.28	0.36	0.68	1.04	(0.36)
2011	11.27	0.39	0.03	0.42	(0.41)
2010	10.41	0.40	0.89	1.29	(0.43)
2009	9.47	0.41	1.19	1.60	(0.42)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Gross Expenses to Average Net Assets(b),(c)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.11)	\$ (0.49)	\$ 12.34	7.45%	\$ 174,501	0.34%	0.34%	3.05%	10.5%
(0.02)	(0.41)	11.96	9.68	168,309	0.36	0.36	3.30	5.5
–	(0.43)	11.29	3.96	58,782	0.39	0.39	3.71	19.6
–	(0.46)	11.28	12.91	37,271	0.40	0.43	3.79	9.5
(0.24)	(0.68)	10.42	18.12	18,965	0.39	0.58	4.50	11.4
(0.11)	(0.38)	12.30	6.56	1,044	1.20	–	2.16	10.5
(0.02)	(0.31)	11.92	8.78	820	1.21	–	2.58	5.5
–	(0.34)	11.25	3.02	801	1.22	–	2.95	19.6
–	(0.37)	11.25	12.01	908	1.23	–	2.97	9.5
(0.24)	(0.61)	10.39	17.06	377	1.24	–	3.70	11.4
(0.11)	(0.40)	12.32	6.68	1,682	1.07	–	2.31	10.5
(0.02)	(0.32)	11.94	8.90	1,767	1.08	–	2.67	5.5
–	(0.35)	11.27	3.16	1,312	1.09	–	3.04	19.6
–	(0.38)	11.27	12.15	955	1.10	–	3.05	9.5
(0.24)	(0.61)	10.41	17.19	332	1.11	–	3.83	11.4
(0.11)	(0.42)	12.32	6.87	10,544	0.89	–	2.47	10.5
(0.02)	(0.34)	11.94	9.11	8,821	0.90	–	2.85	5.5
–	(0.37)	11.27	3.35	6,181	0.91	–	3.30	19.6
–	(0.40)	11.27	12.34	5,283	0.92	–	3.31	9.5
(0.24)	(0.63)	10.41	17.56	2,547	0.93	–	3.88	11.4
(0.11)	(0.44)	12.32	6.99	12,416	0.70	–	2.55	10.5
(0.02)	(0.37)	11.95	9.31	6,962	0.71	–	3.01	5.5
–	(0.39)	11.28	3.62	4,365	0.72	–	3.37	19.6
–	(0.42)	11.27	12.54	2,535	0.73	–	3.40	9.5
(0.24)	(0.65)	10.41	17.74	1,065	0.74	–	4.15	11.4
(0.11)	(0.46)	12.32	7.20	17,297	0.58	–	2.77	10.5
(0.02)	(0.38)	11.94	9.35	12,966	0.59	–	3.08	5.5
–	(0.41)	11.28	3.74	4,862	0.60	–	3.47	19.6
–	(0.43)	11.27	12.69	3,039	0.61	–	3.68	9.5
(0.24)	(0.66)	10.41	17.87	1,683	0.62	–	4.21	11.4

- (a) Calculated based on average shares outstanding during the period.
(b) Does not include expenses of the investment companies in which the Portfolio invests.
(c) Excludes expense reimbursement from Manager and/or Distributor.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>SAM STRATEGIC GROWTH PORTFOLIO</u>					
<u>Institutional shares</u>					
2013	\$ 15.89	\$ 0.25	\$ 3.73	\$ 3.98	\$ (0.26)
2012	14.40	0.14	1.53	1.67	(0.18)
2011	13.97	0.15	0.47	0.62	(0.19)
2010	11.97	0.16	2.04	2.20	(0.20)
2009	12.12	0.18	0.97	1.15	(0.14)
<u>R-1 shares</u>					
2013	15.65	0.09	3.69	3.78	(0.13)
2012	14.18	0.06	1.46	1.52	(0.05)
2011	13.78	0.05	0.43	0.48	(0.08)
2010	11.84	0.05	2.02	2.07	(0.13)
2009	12.02	0.10	0.95	1.05	(0.07)
<u>R-2 shares</u>					
2013	15.68	0.09	3.72	3.81	(0.13)
2012	14.22	0.05	1.49	1.54	(0.08)
2011	13.83	0.04	0.47	0.51	(0.12)
2010	11.88	0.05	2.04	2.09	(0.14)
2009	12.03	0.13	0.94	1.07	(0.06)
<u>R-3 shares</u>					
2013	15.72	0.14	3.71	3.85	(0.18)
2012	14.25	0.08	1.49	1.57	(0.10)
2011	13.85	0.07	0.46	0.53	(0.13)
2010	11.89	0.09	2.03	2.12	(0.16)
2009	12.06	0.12	0.96	1.08	(0.09)
<u>R-4 shares</u>					
2013	15.81	0.11	3.79	3.90	(0.21)
2012	14.34	0.11	1.50	1.61	(0.14)
2011	13.92	0.09	0.47	0.56	(0.14)
2010	11.92	0.11	2.04	2.15	(0.15)
2009	12.07	0.14	0.97	1.11	(0.10)
<u>R-5 shares</u>					
2013	15.78	0.21	3.70	3.91	(0.23)
2012	14.30	0.12	1.50	1.62	(0.14)
2011	13.89	0.07	0.50	0.57	(0.16)
2010	11.92	0.14	2.02	2.16	(0.19)
2009	12.09	0.17	0.95	1.12	(0.13)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets(b)	Ratio of Gross Expenses to Average Net Assets(b),(c)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ -	\$ (0.26)	\$ 19.61	25.43%	\$ 255,114	0.33%	0.33%	1.41%	26.5%
-	(0.18)	15.89	11.74	199,595	0.36	0.36	0.88	13.6
-	(0.19)	14.40	4.40	72,005	0.37	0.37	1.05	37.7
-	(0.20)	13.97	18.53	46,704	0.40	0.40	1.23	15.6
(1.16)	(1.30)	11.97	11.51	27,844	0.39	0.48	1.66	3.7
-	(0.13)	19.30	24.35	4,215	1.20	-	0.52	26.5
-	(0.05)	15.65	10.74	2,904	1.22	-	0.41	13.6
-	(0.08)	14.18	3.49	3,184	1.22	-	0.34	37.7
-	(0.13)	13.78	17.54	3,515	1.23	-	0.41	15.6
(1.16)	(1.23)	11.84	10.59	2,477	1.24	-	0.91	3.7
-	(0.13)	19.36	24.51	4,290	1.07	-	0.54	26.5
-	(0.08)	15.68	10.88	2,597	1.09	-	0.31	13.6
-	(0.12)	14.22	3.66	2,097	1.09	-	0.25	37.7
-	(0.14)	13.83	17.74	1,449	1.10	-	0.42	15.6
(1.16)	(1.22)	11.88	10.75	508	1.11	-	1.21	3.7
-	(0.18)	19.39	24.77	19,357	0.89	-	0.79	26.5
-	(0.10)	15.72	11.13	13,780	0.91	-	0.56	13.6
-	(0.13)	14.25	3.81	9,964	0.91	-	0.48	37.7
-	(0.16)	13.85	17.91	6,761	0.92	-	0.72	15.6
(1.16)	(1.25)	11.89	10.89	4,093	0.93	-	1.15	3.7
-	(0.21)	19.50	24.94	15,061	0.70	-	0.63	26.5
-	(0.14)	15.81	11.33	6,644	0.72	-	0.70	13.6
-	(0.14)	14.34	4.04	4,660	0.72	-	0.63	37.7
-	(0.15)	13.92	18.17	2,638	0.73	-	0.85	15.6
(1.16)	(1.26)	11.92	11.12	2,638	0.74	-	1.33	3.7
-	(0.23)	19.46	25.09	27,490	0.58	-	1.17	26.5
-	(0.14)	15.78	11.48	18,765	0.60	-	0.81	13.6
-	(0.16)	14.30	4.10	12,656	0.60	-	0.51	37.7
-	(0.19)	13.89	18.27	4,517	0.61	-	1.11	15.6
(1.16)	(1.29)	11.92	11.27	1,324	0.62	-	1.60	3.7

(a) Calculated based on average shares outstanding during the period.

(b) Does not include expenses of the investment companies in which the Portfolio invests.

(c) Excludes expense reimbursement from Manager and/or Distributor.

**FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.**

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
SHORT-TERM INCOME FUND					
<u>Institutional shares</u>					
2013	\$ 12.28	\$ 0.20	\$ (0.03)	\$ 0.17	\$ (0.19)
2012	11.96	0.25	0.32	0.57	(0.25)
2011	12.16	0.31	(0.18)	0.13	(0.33)
2010	11.84	0.36	0.32	0.68	(0.36)
2009	11.17	0.46	0.67	1.13	(0.46)
<u>R-1 shares</u>					
2013	12.28	0.10	(0.03)	0.07	(0.09)
2012	11.96	0.15	0.32	0.47	(0.15)
2011	12.17	0.21	(0.19)	0.02	(0.23)
2010(e)	12.00	0.07	0.17	0.24	(0.07)
<u>R-2 shares</u>					
2013	12.28	0.12	(0.03)	0.09	(0.11)
2012	11.96	0.16	0.32	0.48	(0.16)
2011	12.17	0.22	(0.19)	0.03	(0.24)
2010(e)	12.00	0.07	0.17	0.24	(0.07)
<u>R-3 shares</u>					
2013	12.28	0.14	(0.02)	0.12	(0.13)
2012	11.96	0.19	0.31	0.50	(0.18)
2011	12.17	0.25	(0.20)	0.05	(0.26)
2010(e)	12.00	0.08	0.17	0.25	(0.08)
<u>R-4 shares</u>					
2013	12.28	0.16	(0.02)	0.14	(0.15)
2012	11.97	0.21	0.31	0.52	(0.21)
2011	12.17	0.27	(0.18)	0.09	(0.29)
2010(e)	12.00	0.09	0.16	0.25	(0.08)
<u>R-5 shares</u>					
2013	12.28	0.18	(0.02)	0.16	(0.17)
2012	11.96	0.23	0.31	0.54	(0.22)
2011	12.17	0.28	(0.19)	0.09	(0.30)
2010(e)	12.00	0.09	0.17	0.26	(0.09)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.19)	\$ 12.26	1.43%	\$ 1,134,768	0.45%	0.45%	1.67%	50.1%
(0.25)	12.28	4.79	897,254	0.46	0.46	2.10	47.9
(0.33)	11.96	1.05	626,736	0.47	0.47	2.55	43.6
(0.36)	12.16	5.82	473,931	0.50	0.50	3.04	54.7 (c)
(0.46)	11.84	10.35	291,633	0.53	0.53	4.01	40.8
(0.09)	12.26	0.57	1,851	1.30 (d)	–	0.82	50.1
(0.15)	12.28	3.92	2,247	1.30 (d)	–	1.22	47.9
(0.23)	11.96	0.14	1,076	1.30 (d)	–	1.73	43.6
(0.07)	12.17	1.97 (f)	788	1.30 (d),(g)	–	1.88 (g)	54.7 (c),(g)
(0.11)	12.26	0.70	1,640	1.18 (d)	–	0.94	50.1
(0.16)	12.28	4.04	1,194	1.18 (d)	–	1.30	47.9
(0.24)	11.96	0.26	243	1.18 (d)	–	1.80	43.6
(0.07)	12.17	2.01 (f)	229	1.18 (d),(g)	–	2.00 (g)	54.7 (c),(g)
(0.13)	12.27	0.96	10,748	0.99 (d)	–	1.13	50.1
(0.18)	12.28	4.24	10,336	0.99 (d)	–	1.56	47.9
(0.26)	11.96	0.45	2,997	0.99 (d)	–	2.04	43.6
(0.08)	12.17	2.06 (f)	3,302	0.99 (d),(g)	–	2.19 (g)	54.7 (c),(g)
(0.15)	12.27	1.17	4,377	0.79 (d)	–	1.33	50.1
(0.21)	12.28	4.36	3,106	0.79 (d)	–	1.72	47.9
(0.29)	11.97	0.73	1,063	0.79 (d)	–	2.22	43.6
(0.08)	12.17	2.13 (f)	505	0.79 (d),(g)	–	2.40 (g)	54.7 (c),(g)
(0.17)	12.27	1.28	4,735	0.68 (d)	–	1.44	50.1
(0.22)	12.28	4.56	3,373	0.68 (d)	–	1.89	47.9
(0.30)	11.96	0.77	2,377	0.68 (d)	–	2.33	43.6
(0.09)	12.17	2.16 (f)	1,540	0.68 (d),(g)	–	2.51 (g)	54.7 (c),(g)

- (a) Calculated based on average shares outstanding during the period.
- (b) Excludes expense reimbursement from Manager and/or Distributor.
- (c) Portfolio turnover rate excludes approximately \$13,017,000 of sales from portfolio realignment from the acquisition of Short-Term Bond Fund.
- (d) Reflects Manager's contractual expense limit.
- (e) Period from July 12, 2010, date operations commenced, through October 31, 2010.
- (f) Total return amounts have not been annualized.
- (g) Computed on an annualized basis.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>SMALLCAP BLEND FUND</u>					
<u>Institutional shares</u>					
2013	\$ 16.14	\$ 0.13	\$ 6.47	\$ 6.60	\$ (0.14)
2012	14.24	0.09	1.81	1.90	–
2011	13.37	0.01	0.86	0.87	–
2010	10.74	0.05	2.63	2.68	(0.05)
2009	10.62	0.08	0.11	0.19	(0.07)
<u>R-1 shares</u>					
2013	15.16	(0.02)	6.08	6.06	(0.01)
2012	13.50	(0.01)	1.67	1.66	–
2011	12.78	(0.10)	0.82	0.72	–
2010	10.31	(0.05)	2.52	2.47	–
2009	10.20	–	0.11	0.11	–
<u>R-2 shares</u>					
2013	15.21	–	6.11	6.11	(0.01)
2012	13.52	(0.01)	1.70	1.69	–
2011	12.78	(0.09)	0.83	0.74	–
2010	10.30	(0.04)	2.52	2.48	–
2009	10.18	0.01	0.11	0.12	–
<u>R-3 shares</u>					
2013	15.54	0.03	6.23	6.26	(0.06)
2012	13.79	0.03	1.72	1.75	–
2011	13.01	(0.06)	0.84	0.78	–
2010	10.47	(0.02)	2.56	2.54	–
2009	10.32	0.03	0.12	0.15	–
<u>R-4 shares</u>					
2013	15.87	0.07	6.37	6.44	(0.08)
2012	14.06	0.04	1.77	1.81	–
2011	13.24	(0.04)	0.86	0.82	–
2010	10.65	0.01	2.60	2.61	(0.02)
2009	10.51	0.05	0.12	0.17	(0.03)
<u>R-5 shares</u>					
2013	16.08	0.09	6.44	6.53	(0.10)
2012	14.22	0.07	1.79	1.86	–
2011	13.38	(0.02)	0.86	0.84	–
2010	10.76	0.02	2.63	2.65	(0.03)
2009	10.61	0.06	0.12	0.18	(0.03)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.09)	\$ (0.23)	\$ 22.51	41.38%	\$ 65,062	0.80%	0.80%	0.70%	95.2%
–	–	16.14	13.34	45,620	0.79	0.79	0.61	90.2
–	–	14.24	6.51	38,016	0.80	0.80	0.09	76.1
–	(0.05)	13.37	25.03	35,729	0.80	0.83	0.39	65.2
–	(0.07)	10.74	1.92	28,365	0.79	0.85	0.84	89.5
(0.09)	(0.10)	21.12	40.21	2,401	1.64	–	(0.11)	95.2
–	–	15.16	12.30	2,001	1.64	–	(0.10)	90.2
–	–	13.50	5.63	151	1.65	–	(0.74)	76.1
–	–	12.78	23.96	232	1.65	–	(0.46)	65.2
–	–	10.31	1.08	203	1.65	–	(0.02)	89.5
(0.09)	(0.10)	21.22	40.35	3,018	1.51	–	0.01	95.2
–	–	15.21	12.50	2,852	1.51	–	(0.05)	90.2
–	–	13.52	5.79	1,169	1.52	–	(0.62)	76.1
–	–	12.78	24.08	1,195	1.52	–	(0.33)	65.2
–	–	10.30	1.18	1,091	1.52	–	0.12	89.5
(0.09)	(0.15)	21.65	40.62	6,143	1.33	–	0.18	95.2
–	–	15.54	12.69	4,907	1.33	–	0.22	90.2
–	–	13.79	6.00	629	1.34	–	(0.44)	76.1
–	–	13.01	24.26	889	1.34	–	(0.15)	65.2
–	–	10.47	1.45	700	1.34	–	0.30	89.5
(0.09)	(0.17)	22.14	40.93	4,200	1.14	–	0.37	95.2
–	–	15.87	12.87	2,944	1.14	–	0.26	90.2
–	–	14.06	6.19	2,011	1.15	–	(0.25)	76.1
–	(0.02)	13.24	24.52	2,139	1.15	–	0.04	65.2
–	(0.03)	10.65	1.63	1,914	1.15	–	0.50	89.5
(0.09)	(0.19)	22.42	41.04	11,690	1.02	–	0.49	95.2
–	–	16.08	13.08	8,943	1.02	–	0.45	90.2
–	–	14.22	6.28	3,418	1.03	–	(0.13)	76.1
–	(0.03)	13.38	24.72	3,314	1.03	–	0.16	65.2
–	(0.03)	10.76	1.76	2,856	1.03	–	0.60	89.5

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager and/or Distributor.

**FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.**

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Distributions from Realized Gains
SMALLCAP GROWTH FUND I					
<u>Institutional shares</u>					
2013	\$ 11.47	\$ (0.09)	\$ 4.14	\$ 4.05	\$ (0.72)
2012	10.89	(0.07)	1.23	1.16	(0.58)
2011	9.62	(0.08)	1.35	1.27	–
2010	7.03	(0.06)	2.65	2.59	–
2009	6.16	(0.04)	0.91	0.87	–
<u>R-1 shares</u>					
2013	10.63	(0.18)	3.79	3.61	(0.72)
2012	10.22	(0.16)	1.15	0.99	(0.58)
2011	9.11	(0.17)	1.28	1.11	–
2010	6.72	(0.13)	2.52	2.39	–
2009	5.92	(0.10)	0.90	0.80	–
<u>R-2 shares</u>					
2013	10.42	(0.16)	3.71	3.55	(0.72)
2012	10.01	(0.14)	1.13	0.99	(0.58)
2011	8.91	(0.15)	1.25	1.10	–
2010	6.56	(0.11)	2.46	2.35	–
2009	5.78	(0.08)	0.86	0.78	–
<u>R-3 shares</u>					
2013	10.68	(0.15)	3.83	3.68	(0.72)
2012	10.24	(0.13)	1.15	1.02	(0.58)
2011	9.09	(0.14)	1.29	1.15	–
2010	6.69	(0.10)	2.50	2.40	–
2009	5.88	(0.08)	0.89	0.81	–
<u>R-4 shares</u>					
2013	10.96	(0.13)	3.93	3.80	(0.72)
2012	10.46	(0.11)	1.19	1.08	(0.58)
2011	9.28	(0.12)	1.30	1.18	–
2010	6.81	(0.09)	2.56	2.47	–
2009	5.97	(0.07)	0.91	0.84	–
<u>R-5 shares</u>					
2013	11.18	(0.11)	4.01	3.90	(0.72)
2012	10.65	(0.10)	1.21	1.11	(0.58)
2011	9.43	(0.11)	1.33	1.22	–
2010	6.91	(0.08)	2.60	2.52	–
2009	6.06	(0.06)	0.91	0.85	–

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ (0.72)	\$ 14.80	37.45%	\$ 1,729,462	1.07%	1.09%	(0.68)%	74.7%
(0.58)	11.47	11.58	1,329,439	1.08	1.10	(0.65)	79.9
–	10.89	13.20	1,185,260	1.07	1.09	(0.74)	90.3
–	9.62	36.85	748,898	1.09	1.12	(0.71)	125.2
–	7.03	14.12	367,233	1.11	1.12	(0.69)	159.5
(0.72)	13.52	36.19	2,783	1.94 (c)	–	(1.54)	74.7
(0.58)	10.63	10.63	2,531	1.95 (c)	–	(1.52)	79.9
–	10.22	12.18	2,314	1.95 (c)	–	(1.61)	90.3
–	9.11	35.57	1,905	1.97 (c)	–	(1.59)	125.2
–	6.72	13.51	1,139	1.98 (c)	–	(1.55)	159.5
(0.72)	13.25	36.36	4,061	1.81 (c)	–	(1.41)	74.7
(0.58)	10.42	10.86	3,100	1.82 (c)	–	(1.39)	79.9
–	10.01	12.35	2,867	1.82 (c)	–	(1.48)	90.3
–	8.91	35.82	3,735	1.84 (c)	–	(1.45)	125.2
–	6.56	13.49	2,280	1.85 (c)	–	(1.44)	159.5
(0.72)	13.64	36.70	18,858	1.63 (c)	–	(1.25)	74.7
(0.58)	10.68	10.91	11,606	1.64 (c)	–	(1.21)	79.9
–	10.24	12.65	12,559	1.64 (c)	–	(1.31)	90.3
–	9.09	35.87	7,952	1.66 (c)	–	(1.27)	125.2
–	6.69	13.78	4,753	1.67 (c)	–	(1.26)	159.5
(0.72)	14.04	36.88	16,584	1.44 (c)	–	(1.05)	74.7
(0.58)	10.96	11.27	12,347	1.45 (c)	–	(1.01)	79.9
–	10.46	12.72	8,266	1.45 (c)	–	(1.11)	90.3
–	9.28	36.27	5,503	1.47 (c)	–	(1.08)	125.2
–	6.81	14.07	3,536	1.48 (c)	–	(1.07)	159.5
(0.72)	14.36	37.05	31,647	1.32 (c)	–	(0.93)	74.7
(0.58)	11.18	11.36	23,202	1.33 (c)	–	(0.90)	79.9
–	10.65	12.94	21,633	1.33 (c)	–	(1.00)	90.3
–	9.43	36.47	13,515	1.35 (c)	–	(0.97)	125.2
–	6.91	14.03	6,124	1.36 (c)	–	(0.97)	159.5

- (a) Calculated based on average shares outstanding during the period.
(b) Excludes expense reimbursement from Manager and/or Distributor.
(c) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Net Asset Value, End of Period
SMALLCAP GROWTH FUND II					
<u>Institutional shares</u>					
2013	\$ 9.46	\$ (0.07)	\$ 4.29	\$ 4.22	\$ 13.68
2012	8.39	(0.06)	1.13	1.07	9.46
2011	7.79	(0.06)	0.66	0.60	8.39
2010	6.03	(0.05)	1.81	1.76	7.79
2009	5.66	(0.04)	0.41	0.37	6.03
<u>R-1 shares</u>					
2013	8.80	(0.15)	3.96	3.81	12.61
2012	7.87	(0.14)	1.07	0.93	8.80
2011	7.38	(0.13)	0.62	0.49	7.87
2010	5.76	(0.10)	1.72	1.62	7.38
2009	5.45	(0.08)	0.39	0.31	5.76
<u>R-2 shares</u>					
2013	8.52	(0.14)	3.85	3.71	12.23
2012	7.61	(0.12)	1.03	0.91	8.52
2011	7.12	(0.11)	0.60	0.49	7.61
2010	5.55	(0.09)	1.66	1.57	7.12
2009	5.25	(0.07)	0.37	0.30	5.55
<u>R-3 shares</u>					
2013	8.81	(0.12)	3.99	3.87	12.68
2012	7.86	(0.11)	1.06	0.95	8.81
2011	7.34	(0.10)	0.62	0.52	7.86
2010	5.71	(0.08)	1.71	1.63	7.34
2009	5.40	(0.06)	0.37	0.31	5.71
<u>R-4 shares</u>					
2013	8.99	(0.11)	4.08	3.97	12.96
2012	8.01	(0.09)	1.07	0.98	8.99
2011	7.47	(0.09)	0.63	0.54	8.01
2010	5.80	(0.07)	1.74	1.67	7.47
2009	5.47	(0.05)	0.38	0.33	5.80
<u>R-5 shares</u>					
2013	9.16	(0.10)	4.16	4.06	13.22
2012	8.14	(0.09)	1.11	1.02	9.16
2011	7.59	(0.08)	0.63	0.55	8.14
2010	5.88	(0.06)	1.77	1.71	7.59
2009	5.54	(0.05)	0.39	0.34	5.88

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
44.61%	\$ 166,118	1.02 % ^(b)	(0.62)%	78.5%
12.75	120,222	1.01 (b)	(0.69)	88.9
7.70	132,587	1.01 (b)	(0.62)	77.0
29.19	215,546	1.01 (b)	(0.67)	81.0
6.54	271,187	1.01 (b)	(0.65)	131.8
43.30	1,157	1.88 (b)	(1.47)	78.5
11.82	1,192	1.89 (b)	(1.57)	88.9
6.64	1,007	1.89 (b)	(1.53)	77.0
28.12	1,239	1.89 (b)	(1.55)	81.0
5.69	1,212	1.89 (b)	(1.52)	131.8
43.54	2,952	1.75 (b)	(1.34)	78.5
11.96	2,448	1.76 (b)	(1.44)	88.9
6.88	3,061	1.76 (b)	(1.37)	77.0
28.29	5,723	1.76 (b)	(1.42)	81.0
5.71	6,173	1.76 (b)	(1.39)	131.8
43.93	3,774	1.57 (b)	(1.16)	78.5
12.09	3,276	1.58 (b)	(1.26)	88.9
7.08	5,675	1.58 (b)	(1.23)	77.0
28.55	5,728	1.58 (b)	(1.24)	81.0
5.74	6,620	1.58 (b)	(1.21)	131.8
44.16	3,970	1.38 (b)	(0.98)	78.5
12.23	2,833	1.39 (b)	(1.07)	88.9
7.23	4,035	1.39 (b)	(1.04)	77.0
28.79	4,205	1.39 (b)	(1.05)	81.0
6.03	5,824	1.39 (b)	(1.03)	131.8
44.32	6,207	1.26 (b)	(0.90)	78.5
12.53	3,944	1.27 (b)	(0.96)	88.9
7.25	8,033	1.27 (b)	(0.92)	77.0
29.08	10,129	1.27 (b)	(0.93)	81.0
6.14	16,391	1.27 (b)	(0.91)	131.8

(a) Calculated based on average shares outstanding during the period.

(b) Reflects Manager's contractual expense limit.

FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
<u>SMALLCAP S&P 600 INDEX FUND</u>					
<u>Institutional shares</u>					
2013	\$ 17.58	\$ 0.26	\$ 6.44	\$ 6.70	\$ (0.26)
2012	15.63	0.19	1.88	2.07	(0.12)
2011	14.31	0.15	1.32	1.47	(0.15)
2010	11.48	0.11	2.83	2.94	(0.11)
2009	11.91	0.12	0.36	0.48	(0.18)
<u>R-1 shares</u>					
2013	17.35	0.09	6.38	6.47	(0.11)
2012	15.43	0.05	1.87	1.92	–
2011	14.15	0.02	1.29	1.31	(0.03)
2010	11.37	–	2.81	2.81	(0.03)
2009	11.77	0.03	0.37	0.40	(0.07)
<u>R-2 shares</u>					
2013	17.67	0.12	6.50	6.62	(0.12)
2012	15.70	0.07	1.90	1.97	–
2011	14.39	0.04	1.31	1.35	(0.04)
2010	11.54	0.02	2.86	2.88	(0.03)
2009	11.94	0.05	0.36	0.41	(0.08)
<u>R-3 shares</u>					
2013	17.82	0.15	6.55	6.70	(0.18)
2012	15.83	0.10	1.92	2.02	(0.03)
2011	14.50	0.07	1.33	1.40	(0.07)
2010	11.63	0.04	2.88	2.92	(0.05)
2009	12.04	0.07	0.36	0.43	(0.11)
<u>R-4 shares</u>					
2013	17.93	0.19	6.59	6.78	(0.20)
2012	15.94	0.13	1.93	2.06	(0.07)
2011	14.61	0.10	1.33	1.43	(0.10)
2010	11.71	0.07	2.90	2.97	(0.07)
2009	12.13	0.09	0.36	0.45	(0.14)
<u>R-5 shares</u>					
2013	18.00	0.22	6.61	6.83	(0.22)
2012	16.00	0.16	1.92	2.08	(0.08)
2011	14.65	0.12	1.35	1.47	(0.12)
2010	11.75	0.08	2.90	2.98	(0.08)
2009	12.15	0.10	0.38	0.48	(0.15)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate
\$ –	\$ (0.26)	\$ 24.02	38.62%	\$ 384,824	0.21%	0.21%	1.24%	14.6%
–	(0.12)	17.58	13.36	203,079	0.20	0.25	1.12	16.0
–	(0.15)	15.63	10.25	143,892	0.20	0.28	0.94	19.1
–	(0.11)	14.31	25.70	85,231	0.20	0.30	0.83	30.1
(0.73)	(0.91)	11.48	5.40	201,800	0.19	0.22	1.18	22.8
–	(0.11)	23.71	37.53	14,560	1.04	–	0.43	14.6
–	–	17.35	12.44	9,183	1.04	–	0.28	16.0
–	(0.03)	15.43	9.26	8,033	1.04	–	0.11	19.1
–	(0.03)	14.15	24.71	7,286	1.05	–	(0.02)	30.1
(0.73)	(0.80)	11.37	4.57	5,360	1.04	–	0.31	22.8
–	(0.12)	24.17	37.71	19,526	0.91	–	0.57	14.6
–	–	17.67	12.55	14,892	0.91	–	0.42	16.0
–	(0.04)	15.70	9.39	15,045	0.91	–	0.26	19.1
–	(0.03)	14.39	24.98	19,492	0.92	–	0.11	30.1
(0.73)	(0.81)	11.54	4.58	16,679	0.91	–	0.46	22.8
–	(0.18)	24.34	37.91	106,891	0.73	–	0.73	14.6
–	(0.03)	17.82	12.78	58,655	0.73	–	0.59	16.0
–	(0.07)	15.83	9.66	46,472	0.73	–	0.43	19.1
–	(0.05)	14.50	25.18	47,049	0.74	–	0.30	30.1
(0.73)	(0.84)	11.63	4.78	41,150	0.73	–	0.65	22.8
–	(0.20)	24.51	38.20	84,904	0.54	–	0.92	14.6
–	(0.07)	17.93	12.99	47,925	0.54	–	0.78	16.0
–	(0.10)	15.94	9.79	45,058	0.54	–	0.61	19.1
–	(0.07)	14.61	25.44	36,410	0.55	–	0.49	30.1
(0.73)	(0.87)	11.71	4.98	28,218	0.54	–	0.83	22.8
–	(0.22)	24.61	38.36	197,548	0.42	–	1.04	14.6
–	(0.08)	18.00	13.09	108,147	0.42	–	0.92	16.0
–	(0.12)	16.00	10.02	101,159	0.42	–	0.73	19.1
–	(0.08)	14.65	25.49	87,847	0.43	–	0.61	30.1
(0.73)	(0.88)	11.75	5.17	71,575	0.42	–	0.95	22.8

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager and/or Distributor.

**FINANCIAL HIGHLIGHTS
PRINCIPAL FUNDS, INC.**

Selected data for a share of Capital Stock outstanding throughout each year ended October 31 (except as noted):

	Net Asset Value, Beginning of Period	Net Investment Income (Loss)(a)	Net Realized and Unrealized Gain (Loss) on Investments	Total From Investment Operations	Dividends from Net Investment Income
SMALLCAP VALUE FUND II					
<u>Institutional shares</u>					
2013	\$ 10.19	\$ 0.11	\$ 3.62	\$ 3.73	\$ (0.13)
2012	9.06	0.08	1.09	1.17	(0.04)
2011	8.67	0.04	0.39	0.43	(0.04)
2010	6.87	0.03	1.80	1.83	(0.03)
2009	6.97	0.03	0.50	0.53	(0.05)
<u>R-1 shares</u>					
2013	9.69	0.01	3.45	3.46	(0.05)
2012	8.65	–	1.04	1.04	–
2011	8.33	(0.04)	0.37	0.33	(0.01)
2010	6.64	(0.04)	1.73	1.69	–
2009	6.75	(0.03)	0.50	0.47	–
<u>R-2 shares</u>					
2013	9.74	0.03	3.47	3.50	(0.06)
2012	8.69	0.01	1.04	1.05	–
2011	8.36	(0.03)	0.38	0.35	(0.02)
2010	6.65	(0.03)	1.74	1.71	–
2009	6.76	(0.02)	0.49	0.47	–
<u>R-3 shares</u>					
2013	9.93	0.04	3.55	3.59	(0.06)
2012	8.84	0.02	1.07	1.09	–
2011	8.48	(0.01)	0.37	0.36	–
2010	6.74	(0.01)	1.75	1.74	–
2009	6.83	(0.01)	0.50	0.49	–
<u>R-4 shares</u>					
2013	10.00	0.07	3.56	3.63	(0.09)
2012	8.90	0.04	1.08	1.12	(0.02)
2011	8.54	–	0.39	0.39	(0.03)
2010	6.78	–	1.76	1.76	–
2009	6.88	–	0.51	0.51	(0.03)
<u>R-5 shares</u>					
2013	10.08	0.08	3.59	3.67	(0.11)
2012	8.96	0.06	1.08	1.14	(0.02)
2011	8.59	0.02	0.38	0.40	(0.03)
2010	6.82	0.01	1.77	1.78	(0.01)
2009	6.92	0.01	0.51	0.52	(0.04)

FINANCIAL HIGHLIGHTS (CONTINUED)
PRINCIPAL FUNDS, INC.

Distributions from Realized Gains	Total Dividends and Distributions	Net Asset Value, End of Period	Total Return	Net Assets, End of Period (in thousands)	Ratio of Expenses to Average Net Assets	Ratio of Gross Expenses to Average Net Assets(b)	Ratio of Net Investment Income to Average Net Assets	Portfolio Turnover Rate	
\$ –	–	\$ (0.13)	13.79	37.05%	\$ 1,475,200	0.98%	1.00%	0.93%	60.5%
–	(0.04)	10.19	13.00	1,046,022	0.99	1.01	0.83	53.5	
–	(0.04)	9.06	4.93	957,766	0.98	1.00	0.45	54.4	
–	(0.03)	8.67	26.64	736,530	1.00	1.02	0.41	54.5	
(0.58)	(0.63)	6.87	10.02	319,448	1.01	1.03	0.43	79.1	
–	(0.05)	13.10	35.82	2,106	1.85 (c)	–	0.07	60.5	
–	–	9.69	12.02	1,901	1.86 (c)	–	(0.05)	53.5	
–	(0.01)	8.65	3.95	2,059	1.86 (c)	–	(0.43)	54.4	
–	–	8.33	25.45	1,038	1.87 (c)	–	(0.47)	54.5	
(0.58)	(0.58)	6.64	9.18	741	1.88 (c)	–	(0.45)	79.1	
–	(0.06)	13.18	36.09	6,141	1.72 (c)	–	0.24	60.5	
–	–	9.74	12.08	5,677	1.73 (c)	–	0.08	53.5	
–	(0.02)	8.69	4.12	5,607	1.73 (c)	–	(0.31)	54.4	
–	–	8.36	25.71	2,189	1.74 (c)	–	(0.33)	54.5	
(0.58)	(0.58)	6.65	9.16	2,226	1.75 (c)	–	(0.31)	79.1	
–	(0.06)	13.46	36.35	11,825	1.54 (c)	–	0.37	60.5	
–	–	9.93	12.33	8,601	1.55 (c)	–	0.26	53.5	
–	–	8.84	4.29	11,461	1.55 (c)	–	(0.11)	54.4	
–	–	8.48	25.82	12,722	1.56 (c)	–	(0.15)	54.5	
(0.58)	(0.58)	6.74	9.42	10,045	1.57 (c)	–	(0.13)	79.1	
–	(0.09)	13.54	36.58	11,430	1.35 (c)	–	0.58	60.5	
–	(0.02)	10.00	12.56	9,258	1.36 (c)	–	0.44	53.5	
–	(0.03)	8.90	4.53	11,939	1.36 (c)	–	0.05	54.4	
–	–	8.54	26.03	2,703	1.37 (c)	–	0.06	54.5	
(0.58)	(0.61)	6.78	9.71	2,456	1.38 (c)	–	0.08	79.1	
–	(0.11)	13.64	36.78	21,954	1.23 (c)	–	0.72	60.5	
–	(0.02)	10.08	12.69	19,962	1.24 (c)	–	0.60	53.5	
–	(0.03)	8.96	4.63	12,994	1.24 (c)	–	0.20	54.4	
–	(0.01)	8.59	26.16	6,871	1.25 (c)	–	0.16	54.5	
(0.58)	(0.62)	6.82	9.76	7,404	1.26 (c)	–	0.19	79.1	

(a) Calculated based on average shares outstanding during the period.

(b) Excludes expense reimbursement from Manager and/or Distributor.

(c) Reflects Manager's contractual expense limit.

APPENDIX A - DESCRIPTION OF BOND RATINGS:

Moody's Investors Service, Inc. Rating Definitions:

Long-Term Obligation Ratings

Moody's long-term obligation ratings are opinions of the relative credit risk of fixed-income obligations with an original maturity of one year or more. They address the possibility that a financial obligation will not be honored as promised. Such ratings reflect both the likelihood of default and any financial loss suffered in the event of default.

- Aaa: Obligations rated Aaa are judged to be of the highest quality, with minimal credit risk.
- Aa: Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.
- A: Obligations rated A are considered upper-medium grade and are subject to low credit risk.
- Baa: Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess certain speculative characteristics.
- Ba: Obligations rated Ba are judged to have speculative elements and are subject to substantial credit risk.
- B: Obligations rated B are considered speculative and are subject to high credit risk.
- Caa: Obligations rated Caa are judged to be of poor standing and are subject to very high credit risk.
- Ca: Obligations rated Ca are highly speculative and are likely in, or very near, default, with some prospect of recovery of principal and interest.
- C: Obligations rated C are the lowest rated class of bonds and are typically in default, with little prospect for recovery of principal or interest.

NOTE: Moody's appends numerical modifiers, 1, 2, and 3 to each generic rating classification from Aa through Caa. The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category, the modifier 2 indicates a mid-range ranking, and the modifier 3 indicates a ranking in the lower end of that generic rating category.

SHORT-TERM NOTES: The four ratings of Moody's for short-term notes are MIG 1, MIG 2, MIG 3, and MIG 4. MIG 1 denotes "best quality, enjoying strong protection from established cash flows." MIG 2 denotes "high quality" with "ample margins of protection." MIG 3 notes are of "favorable quality...but lacking the undeniable strength of the preceding grades." MIG 4 notes are of "adequate quality, carrying specific risk for having protection...and not distinctly or predominantly speculative."

Description of Moody's Commercial Paper Ratings:

Moody's Commercial Paper ratings are opinions of the ability to repay punctually promissory obligations not having an original maturity in excess of nine months. Moody's employs the following three designations, all judged to be investment grade, to indicate the relative repayment capacity of rated issuers:

Issuers rated Prime-1 (or related supporting institutions) have a superior capacity for repayment of short-term promissory obligations.

Issuers rated Prime-2 (or related supporting institutions) have a strong capacity for repayment of short-term promissory obligations.

Issuers rated Prime-3 (or related supporting institutions) have an acceptable capacity for repayment of short-term promissory obligations.

Issuers rated Not Prime do not fall within any of the Prime rating categories.

Description of Standard & Poor's Corporation's Debt Ratings:

A Standard & Poor's debt rating is a current assessment of the creditworthiness of an obligor with respect to a specific obligation. This assessment may take into consideration obligors such as guarantors, insurers, or lessees.

The debt rating is not a recommendation to purchase, sell or hold a security, inasmuch as it does not comment as to market price or suitability for a particular investor.

The ratings are based on current information furnished by the issuer or obtained by Standard & Poor's from other sources Standard & Poor's considers reliable. Standard & Poor's does not perform an audit in connection with any rating and may, on occasion, rely on unaudited financial information. The ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information, or for other circumstances.

The ratings are based, in varying degrees, on the following considerations:

- I. Likelihood of default - capacity and willingness of the obligor as to the timely payment of interest and repayment of principal in accordance with the terms of the obligation;
 - II. Nature of and provisions of the obligation;
 - III. Protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditor's rights.
- AAA: Debt rated "AAA" has the highest rating assigned by Standard & Poor's. Capacity to pay interest and repay principal is extremely strong.
- AA: Debt rated "AA" has a very strong capacity to pay interest and repay principal and differs from the highest-rated issues only in small degree.
- A: Debt rated "A" has a strong capacity to pay interest and repay principal although they are somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than debt in higher-rated categories.
- BBB: Debt rated "BBB" is regarded as having an adequate capacity to pay interest and repay principal. Whereas it normally exhibits adequate protection parameters, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal for debt in this category than for debt in higher-rated categories.
- BB, B, CCC, CC: Debt rated "BB," "B," "CCC," and "CC" is regarded, on balance, as predominantly speculative with respect to capacity to pay interest and repay principal in accordance with the terms of the obligation. "BB" indicates the lowest degree of speculation and "CC" the highest degree of speculation. While such debt will likely have some quality and protective characteristics, these are outweighed by large uncertainties or major risk exposures to adverse conditions.
- C: The rating "C" is reserved for income bonds on which no interest is being paid.
- D: Debt rated "D" is in default, and payment of interest and/or repayment of principal is in arrears.

Plus (+) or Minus (-): The ratings from "AA" to "B" may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Provisional Ratings: The letter "p" indicates that the rating is provisional. A provisional rating assumes the successful completion of the project being financed by the bonds being rated and indicates that payment of debt service requirements is largely or entirely dependent upon the successful and timely completion of the project. This rating, however, while addressing credit quality subsequent to completion of the project, makes no comment on the likelihood of, or the risk of default upon failure of, such completion. The investor should exercise his own judgment with respect to such likelihood and risk.

NR: Indicates that no rating has been requested, that there is insufficient information on which to base a rating or that Standard & Poor's does not rate a particular type of obligation as a matter of policy.

Standard & Poor's, Commercial Paper Ratings

A Standard & Poor's Commercial Paper Rating is a current assessment of the likelihood of timely payment of debt having an original maturity of no more than 365 days. Ratings are graded into four categories, ranging from "A" for the highest quality obligations to "D" for the lowest. Ratings are applicable to both taxable and tax-exempt commercial paper. The four categories are as follows:

- A: Issues assigned the highest rating are regarded as having the greatest capacity for timely payment. Issues in this category are delineated with the numbers 1, 2, and 3 to indicate the relative degree of safety.
- A-1: This designation indicates that the degree of safety regarding timely payment is either overwhelming or very strong. Issues that possess overwhelming safety characteristics will be given a "+" designation.
- A-2: Capacity for timely payment on issues with this designation is strong. However, the relative degree of safety is not as high as for issues designated "A-1."
- A-3: Issues carrying this designation have a satisfactory capacity for timely payment. They are, however, somewhat more vulnerable to the adverse effects of changes in circumstances than obligations carrying the highest designations.
- B: Issues rated "B" are regarded as having only an adequate capacity for timely payment. However, such capacity may be damaged by changing conditions or short-term adversities.
- C: This rating is assigned to short-term debt obligations with a doubtful capacity for payment.
- D: This rating indicates that the issue is either in default or is expected to be in default upon maturity.

The Commercial Paper Rating is not a recommendation to purchase or sell a security. The ratings are based on current information furnished to Standard & Poor's by the issuer and obtained by Standard & Poor's from other sources it considers reliable. The ratings may be changed, suspended, or withdrawn as a result of changes in or unavailability of, such information.

Standard & Poor's rates notes with a maturity of less than three years as follows:

- SP-1: A very strong, or strong, capacity to pay principal and interest. Issues that possess overwhelming safety characteristics will be given a "+" designation.
- SP-2: A satisfactory capacity to pay principal and interest.
- SP-3: A speculative capacity to pay principal and interest.

Fitch, Inc. Long-Term Credit Ratings

Investment Grade

- AAA: Highest credit quality. 'AAA' ratings denote the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
- AA: Very high credit quality. "AA" ratings denote expectations of very low credit risk. They indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
- A: High credit quality. "A" ratings denote low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings.
- BBB: Good credit quality. "BBB" ratings indicate that expectations of credit risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.

Speculative Grade

BB: Speculative. 'BB' ratings indicate an elevated vulnerability to credit risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial alternatives may be available to allow financial commitments to be met.

B: Highly speculative. 'B' ratings indicate that material credit risk is present.

CCC: Substantial credit risk. 'CCC' ratings indicate that substantial credit risk is present.

CC: Very high levels of credit risk. 'CC' ratings indicate very high levels of credit risk.

C: Exceptionally high levels of credit risk. 'C' indicates exceptionally high levels of credit risk.

Defaulted obligations typically are not assigned 'D' ratings, but are instead rated in the 'B' to 'C' rating categories, depending upon their recovery prospects and other relevant characteristics. This approach better aligns obligations that have comparable overall expected loss but varying vulnerability to default and loss.

Recovery Ratings

Recovery Ratings are assigned to selected individual securities and obligations. These currently are published for most individual obligations of corporate issuers with IDRs in the 'B' rating category and below, and for selected structured finance obligations in low speculative grade.

Among the factors that affect recovery rates for securities are the collateral, the seniority relative to other obligations in the capital structure (where appropriate), and the expected value of the company or underlying collateral in distress.

The Recovery Rating scale is based upon the expected relative recovery characteristics of an obligation upon the curing of a default, emergence from insolvency or following the liquidation or termination of the obligor or its associated collateral. For structured finance, Recovery Ratings are designed to estimate recoveries on a forward-looking basis while taking into account the time value of money.

Recovery Ratings are an ordinal scale and do not attempt to precisely predict a given level of recovery. As a guideline in developing the rating assessments, the agency employs broad theoretical recovery bands in its ratings approach based on historical averages, but actual recoveries for a given security may deviate materially from historical averages.

RR1: *Outstanding recovery prospects given default.* 'RR1' rated securities have characteristics consistent with securities historically recovering 91%-100% of current principal and related interest.

RR2: *Superior recovery prospects given default.* 'RR2' rated securities have characteristics consistent with securities historically recovering 71%-90% of current principal and related interest.

RR3: *Good recovery prospects given default.* 'RR3' rated securities have characteristics consistent with securities historically recovering 51%-70% of current principal and related interest.

RR4: *Average recovery prospects given default.* 'RR4' rated securities have characteristics consistent with securities historically recovering 31%-50% of current principal and related interest.

RR5: *Below average recovery prospects given default.* 'RR5' rated securities have characteristics consistent with securities historically recovering 11%-30% of current principal and related interest.

RR6: *Poor recovery prospects given default.* 'RR6' rated securities have characteristics consistent with securities historically recovering 0%-10% of current principal and related interest.

Short-Term Credit Ratings

A short-term issuer or obligation rating is based in all cases on the short-term vulnerability to default of the rated entity or security stream, and relates to the capacity to meet financial obligations in accordance with the documentation governing the relevant obligation. Short-Term Ratings are assigned to obligations whose initial maturity is viewed as “short term” based on market convention. Typically, this means up to 13 months for corporate, structured and sovereign obligations, and up to 36 months for obligations in US public finance markets.

- F1: Highest short-term credit quality. Indicates the strongest intrinsic capacity for timely payment of financial commitments; may have an added “+” to denote any exceptionally strong credit feature.
- F2: Good short-term credit quality. Good intrinsic capacity for timely payment of financial commitments.
- F3: Fair short-term credit quality. The intrinsic capacity for timely payment of financial commitments is adequate.
- B: Speculative short-term credit quality. Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.
- C: High short-term default risk. Default is a real possibility.
- RD: Restricted default. Indicates an entity that has defaulted on one or more of its financial commitments, although it continues to meet other financial obligations. Applicable to entity ratings only.
- D: Default. Indicates a broad-based default event for an entity, or the default of a specific short-term obligation.

ADDITIONAL INFORMATION

Additional information about the Fund is available in the Statement of Additional Information dated March 1, 2014, which is incorporated by reference into this prospectus. Additional information about the Funds' investments is available in the Fund's annual and semiannual reports to shareholders. In the Fund's annual report, you will find a discussion of the market conditions and investment strategies that significantly affected the Funds' performance during the last fiscal year. The Statement of Additional Information and the Fund's annual and semiannual reports can be obtained free of charge by writing Principal Funds, P.O. Box 8024, Boston, MA 02266-8024. In addition, the Fund makes its Statement of Additional Information and annual and semiannual reports available, free of charge, on our website www.principalfunds.com/prospectuses. To request this and other information about the Fund and to make shareholder inquiries, telephone 1-800-222-5852.

Information about the Fund (including the Statement of Additional Information) can be reviewed and copied at the Securities and Exchange Commission's Public Reference Room in Washington, D.C. Information on the operation of the Public Reference Room may be obtained by calling the Commission at 1-202-551-8090. Reports and other information about the Fund are available on the EDGAR Database on the Commission's internet site at <http://www.sec.gov>. Copies of this information may be obtained, upon payment of a duplicating fee, by electronic request at the following e-mail address: publicinfo@sec.gov, or by writing the Commission's Public Reference Section, 100 F Street, N.E., Washington, D.C. 20549-1520.

The U.S. government does not insure or guarantee an investment in any of the Funds. There can be no assurance that the Money Market Fund will be able to maintain a stable share price of \$1.00 per share.

Shares of the Funds are not deposits or obligations of, or guaranteed or endorsed by, any financial institution, nor are shares of the Funds federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other agency.

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