

Investment Strategy

The investment seeks to provide long-term growth of capital. The fund invests primarily in equity securities of companies with any market capitalization, but may have a greater exposure to large market capitalization companies than small or medium capitalization companies. It 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.

Portfolio Managers

Philip M. Foreman, CFA

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

Daniel R. Coleman

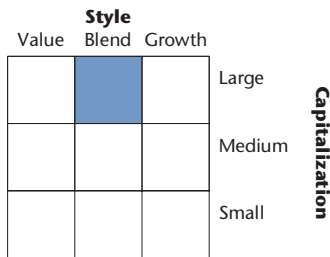
Since 05/19/2010, M.B.A., New York University



Morningstar Category & Style Box™

as of 02/29/2012

Category: Large Blend



Average Annual Total Returns¹ as of 03/31/2012

	Year-to-Date	1-Year	3-Year	5-Year	10-Year	Since Inception
Capital Appreciation Fund (A)						
Excluding Sales Charge	11.25%	5.38%	22.18%	3.30%	5.77%	12.21%
Including Sales Charge	5.14%	-0.43%	19.89%	2.14%	5.17%	11.95%
Morningstar Percentile Rankings	–	54	44	11	6	–
Number of Funds in Category	1888	1778	1578	1387	843	–
Capital Appreciation Fund (C)						
Excluding Sales Charge	11.06%	4.49%	21.04%	2.34%	4.82%	11.22%
Including Sales Charge	10.06%	3.49%	21.04%	2.34%	4.82%	11.22%
Capital Appreciation Fund (P)						
	11.32%	5.62%	22.32%	3.37%	5.81%	12.22%

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

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

Operations

Total Net Assets (mil.)	\$1,783.92
Class A Inception Date	11/24/1986
Class C Inception Date	03/01/2002
Class P Inception Date	09/27/2010
Extended Performance Inception Date	11/24/1986

Total Investment Expense

	Gross Expense Ratio	Net Expense Ratio	Expiration Date	
			Contractual Cap	Waiver
Class A	0.94%	0.94%	N/A	N/A
Class C	1.82%	1.82%	02/28/2013	02/28/2013
Class P	0.98%	0.71%	02/28/2013	02/28/2013

Value of a \$10,000 Investment¹ (Represents performance for Class A shares adjusted for the maximum sales charge and assumes the reinvestment of distributions)



¹ Performance assumes reinvestment of all dividends and capital gains. Extended performance is calculated based on the historical performance of the fund's oldest share class, adjusted for the fees and expenses of the share class shown. Periods of less than one year are not annualized. Morningstar percentile rankings are based on total returns and do not reflect the inclusion of sales charges. If sales charges were reflected, rankings could be lower.

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

Portfolio Information as of 02/29/2012

Asset Distribution	Asset Type	Net %	Short %	Long %
	U.S. Stocks	94.20	0.00	94.20
	Non-U.S. Stocks	3.53	0.00	3.53
	Cash	2.27	0.00	2.27

Analysis

Number of Holdings	188
Turnover Ratio	13%
P/E Ratio	13.90

Top Ten Holdings

	% of Net Assets
1. Chevron Corp	2.81
2. Microsoft Corporation	2.30
3. Occidental Petroleum Corporation	1.87
4. Costco Wholesale Corporation	1.70
5. Apache Corporation	1.70
6. Sempra Energy	1.69
7. Wells Fargo & Co	1.66
8. Apple, Inc.	1.59
9. Walt Disney Co	1.56
10. Exxon Mobil Corporation	1.46
% of net assets in top ten holdings*	18.34

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

Stock Sector Breakdown as of 02/29/2012

Cyclical	31.05%	Defensive	23.40%
Real Estate	3.49	Utilities	2.89
Financial Svcs	10.79	Healthcare	11.33
Consumer Cyclical	12.74	Consumer Defensive	9.18
Basic Materials	4.03		
Sensitive	45.55%		
Energy	11.79		
Comm Svcs	2.75		
Industrials	13.07		
Technology	17.94		

Risk & Return Statistics as of 03/31/2012

Class A Shares

Relative to Russell 3000 Index

	3-Year	5-Year
Alpha	-1.38	1.10
Beta	0.98	0.97
R-Squared	98.25	97.82
Standard Deviation	16.91	19.35

Risk and return statistical data is calculated by Morningstar, Inc.

The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit principalfunds.com.

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

Class P shares are available only to certain investors. See the prospectus for more information.

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

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

Alpha: The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta:** An investment's sensitivity to market movements. **R-Squared:** Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation:** Measures how much an investment's returns are likely to fluctuate.

Web Site: principalfunds.com

Investors should carefully consider a fund's investment objectives, risks, charges, and expenses prior to investing. A prospectus, or summary prospectus if available, containing this and other information can be obtained by contacting a financial professional, visiting principalfunds.com, or calling 800-222-5852. Read the prospectus carefully before investing.

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

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