

## MARKET CONDITIONS

The first quarter of 2009 marked another volatile, unsettling period for U.S. equity investors. For the first nine weeks, sharp selling pressure and negative sentiment prevailed. Then the stock market abruptly reversed course, shooting upward during the final three weeks.

The market's direction generally tracked investor sentiment regarding the new U.S. administration's monetary and fiscal stimulus plans. A sharp sell-off in early February immediately followed the U.S. Treasury's unveiling of its eagerly-awaited plan for cleansing the troubled banking system. Amid confusion as to specific steps the government planned to take to unfreeze credit, the market continued to drop. Then in March, when the Treasury released key details of the actions it would be taking to bolster banks, the market responded with a sharp advance. Investors were buoyed also by the Federal Reserve's purchase of Treasury debt, as well as by fiscal stimulus efforts undertaken in Europe (particularly in the United Kingdom) and China.

A steady stream of predominantly dismal economic news reflected the depth of the U.S. economy's struggles: Job losses continued, pushing the total number of jobs lost to 5.1 million since the recession began in December 2007 (per the U.S. Bureau of Labor Statistics); housing prices continued their fall, down 19% year-over-year through January 2009 (per data released through March 31, 2009, for the 20-city composite of the Case-Shiller Home Price Index); retail sales were off 8.8% for the quarter from the same period last year (per the U.S. Dept. of Commerce); and, real gross domestic product (GDP) declined in the fourth quarter of 2008, falling 6.3% - its largest single-quarter decline since the first quarter of 1982 (as reported by the U.S. Bureau of Economic Analysis).

In the bleak economic environment, the broad U.S. market (as measured by the S&P 500 Stock Index) shed nearly 11% for the quarter. However, it gained nearly 9% in March, reflecting positive investor response to the government's announcement of specific economic stimulus plans. Strength in the information technology sector helped growth stocks outperform value (as measured by comparing the returns of the Russell 3000 Growth Index and Russell 3000 Value Index). Meanwhile, mid-cap stocks (as measured by the Russell Midcap Index) beat both large- and small-caps (as measured, respectively, by the Russell 1000 and Russell 2000 Indexes). Commercial real estate markets remained weak during the quarter, as investors' ongoing fears were stoked by rising vacancies, defaults and delinquencies.

While international emerging markets substantially outpaced the broad U.S. market, rallying in March to finish the quarter with nearly a 1% total return (as measured by the MSCI Emerging Markets Index), international developed markets trailed the U.S. broad market, returning nearly -14% for the quarter (as measured by the MSCI EAFE Index).

Surprisingly, asset-backed securities (ABS) and mortgage-backed securities (MBS) led the investment-grade market to a modestly positive return for the quarter. ABS and MBS experienced a first-quarter turnaround following extensive U.S. government intervention via programs designed to loosen up the credit markets. The commercial mortgage-backed securities sector (CMBS) was the worst-performing investment-grade sector, underperforming like-duration Treasuries by 1.4%. Despite their overall first-quarter loss, CMBS enjoyed a 4% monthly gain in March following the announcement that CMBS would be included in the revised TALF program (as measured by Barclays Capital U.S. Aggregate Bond Index for all bond sectors mentioned above). Meanwhile, high-yield bonds enjoyed a strong rally for the quarter, generating a nearly 6% absolute return (as measured by the Barclays U.S. Corporate High Yield Index).

## PERFORMANCE ANALYSIS

### Primary Contributors and Detractors to Fund Performance during the last quarter:

An overweight to the information technology sector contributed positively to returns as this was the strongest-performing sector in the index. Also, stock selection in the consumer staples sector was positive. Additionally, the portfolio held stocks that in aggregate exhibited fewer momentum characteristics (upwards price or earnings trends) than the index, which benefited returns as investors preferred stocks with this profile. On the negative side: Stock selection was negative in nine of 10 sectors, particularly in the financial sector. Also, the portfolio had a lower price-to-book ratio than the index, which detracted from performance as this valuation metric was out of favor. Finally, holding stocks that in aggregate exhibited more volatility than the stocks held in the index hurt relative returns as investors sought stability.

### Primary Contributors and Detractors to Fund Performance during the last 12 months:

Although stock selection in the financial sector was negative during the quarter, it was strong over the 12-month period. Sector weights relative to the index contributed positively to returns, led by an overweight to the health care sector. Similar to the quarter, having a portfolio of stocks that in aggregate exhibited less momentum characteristics than the index benefited returns. On the negative side: Overall stock selection was negative, led by the consumer discretionary sector. Similar to the quarter, holding stocks that exhibited higher volatility than the index detracted from relative returns as well. Also similar to the quarter, having a lower price-to-book ratio than the index hurt returns.

## EFFECT OF INVESTMENT STRATEGIES AND TECHNIQUES ON PORTFOLIO PERFORMANCE

Jacobs Levy believes the market is permeated with inefficiencies that are substantial enough in number and effect to offer opportunities for profitable active investment. They use intensive statistical modeling of a wide range of stocks and a variety of proprietary factors to detect and exploit these opportunities. Jacobs Levy uses a quantitative approach to build a diversified portfolio of mid-cap stocks.

## CHANGES TO THE INVESTMENT OPTION'S STRUCTURE OR PORTFOLIO

In May 2009 this portfolio merged into the Principal MidCap Value I investment option, sub-advised by Goldman Sachs and LA Capital.

## TOP TEN HOLDINGS

Top 10 Holdings (% of Assets) as of 03/31/2009			
S&P MID 400 EMINI JUN09	2.89	Forest Laboratories, Inc.	1.31
Consolidated Edison Company	1.81	AmerisourceBergen Corporation	1.30
Safeway Inc.	1.81	RenaissanceRe Holdings, Ltd	1.30
Coca-Cola Enterprises Inc.	1.35	First Horizon National Corporation	1.28
PartnerRe, Ltd.	1.32	Manpower, Inc.	1.22

## DISCLOSURES

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