

Third Quarter 2009

Quarterly Commentary

Ticker	WMCA
Investment Advisor	Edge Asset Management, Inc.
Benchmark	Standard and Poor's 400 Midcap Stock Index
Morningstar Category	Mid Cap Blend
Investment Objective	Growth

Manager(s)	Start Date	Degree	Alma Mater
Daniel R. Coleman	12/01/2001	M.B.A.	New York U

Economy & Market Overview

A tenacious market rally - which began in mid-March and extended through the second quarter - plowed ahead in the third quarter as well. Investors responded positively to the Federal Reserve's commitment to keep the Fed Funds target interest rate very low (0.0% - 0.25%) for "an extended period," and a stream of more-positive-than-negative economic reports raised hopes that the U.S. had exited its worst recession in more than 50 years.

Data released during the quarter revealed a slowly improving U.S. economy. Some key reports: 1. The economy (as measured by real Gross Domestic Product, or GDP) contracted at a much slower pace in the second quarter (-0.7% annualized rate) than it did in the first quarter (-6.4% annualized rate). (Real GDP is the economy's total output of all goods and services, adjusted for price changes that may have occurred between the time periods being compared.) 2. Home prices in the top 20 metro areas rose 1.6% from June to July.[a] This was the third consecutive monthly price increase. 3. 263,000 non-farm jobs were lost in September - a huge number, but down from recent months. On average, 307,000 jobs were lost each month from May through September 2009, as compared to 645,000 per month from November 2008-April 2009.[b]

But serious challenges remain. The jobs situation is seen by many economists as a critical headwind to economic recovery. A sobering 7.2 million jobs were lost from December 2007-September 2009, and the unemployment rate has continued to climb, reaching 9.8% in September.[c] Economists warned that the unemployment rate could continue to worsen for a time, and that both consumer spending and consumer confidence could weaken further as a result. Meanwhile, concerns that real estate issues may flare up again presents another possible roadblock to recovery. A round of commercial real estate losses would inhibit new real estate development and create an overhang of potential loan losses for banks, especially regional and community banks. Also, home prices could resume their decline, based on expanding mortgage delinquencies and a large supply of distressed properties that need to be liquidated.

In U.S. equities, all sectors within the Russell 3000 Index delivered positive returns. The financial sector led the way for the second quarter in a row, returning 24.2%.[d] As most financial stocks reside in value rather than growth indexes, the strong returns within financials led to value beating growth across all market capitalizations. Meanwhile, though small-caps outperformed large-cap stocks, mid-caps posted the strongest returns, delivering 23.6% for the quarter.[e] Developed and emerging international stocks returned 19.5%[f] and 20.9%[g] beating the broad U.S. stock market, which rose 16.3%.[h] A falling U.S. dollar gave a big boost to non-U.S. stocks during the quarter, adding nearly 5% to their returns in U.S. dollars as compared to returns in their local currency.[i]

In the credit markets, investors showed their appetite for risk as high-yield bonds beat duration-adjusted U.S. Treasuries by 12.3%.[j] Meanwhile, commercial mortgage-backed securities led investment-grade bonds for the second quarter in a row, outperforming duration-adjusted Treasuries by 10.9%.[k]

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Performance Contributors

Positive Contributors

During last quarter:

Stock selection within the industrial sector was the top positive contributor to performance. Continental Airlines and AMR Corp. (the parent company of American Airlines) were the strongest drivers of performance as high load factors and improving liquidity positions drove the shares higher. In the information technology sector, Lender Processing Services (a provider of technology-related services to the mortgage lending industry) outperformed as high rates of foreclosure starts and an elevated delinquency pipeline led to an improved outlook for the company's default services segment. Finally, stock selection within the materials sector was a positive contributor. Cabot Corp. (a specialty chemicals and performance materials company) benefited from aggressive cost containment efforts and an improving volume outlook.

During last 12 months:

The top positive contributor was stock selection in the financial sector. Fidelity National Financial (a provider of title insurance) added the most due to an accretive acquisition of a competitor and renewed optimism about the outlook for mortgage origination activity. Stock selection within the information technology sector also benefited performance. In particular, BMC Software (a provider of system, service and automation solutions to large enterprises) outperformed due to a high recurring revenue stream and relatively resilient bookings. Finally, stock selection within the materials sector also helped returns. Lubrizol Corp. (a manufacturer of lubricant additives and performance coatings) outperformed as the company was able to maintain price increases while its raw material prices fell.

Negative Contributors

During last quarter:

Stock selection within the consumer discretionary sector was the largest drag on performance. Magna International (an auto parts supplier) underperformed as uncertainty about the company's purchase of a stake in GM's European Opel/Vauxhall operations kept investors on the sidelines. Stock selection within the financial sector was the second largest detractor. TCF Financial (a regional bank headquartered in Minnesota) underperformed as robust deposit growth was not enough to allay investor concerns about deteriorating credit trends. The portfolio's underweight position within the real estate investment trust (REIT) sector also hurt performance. The REIT industry rallied strongly as a number of companies reduced leverage and improved liquidity with aggressive equity issuances.

During last 12 months:

Stock selection within the consumer staples sector was a detractor to portfolio performance. Estee Lauder (a manufacturer of cosmetics products) underperformed due to the more discretionary nature of its merchandise and concerns about the impact of falling travel demand on its airport retail locations. Another drag on performance was stock selection within the REIT sector. Alexandria Real Estate Equities (a REIT focused on laboratory space) was hurt by the dilutive raising of capital and investor concerns about future funding for the company's biotech tenant base. Stock selection within the industrial sector hurt returns as well. Lincoln Electric Holdings (a manufacturer of welding and cutting products) suffered due to the rapid decline in industrial production and steel demand as global economic conditions deteriorated.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

MidCap Stock Fund (A)

Performance

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. The gross fund expense figure does not reflect any waivers or caps on the mutual fund. Performance shown reflects the application of net expenses of the fund. For more performance information, including most recent month-end performance, visit www.principalfunds.com, or contact your financial representative of The Principal.

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

Average Annual Total Returns (%) as of 09/30/2009	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	03/01/2000
MidCap Stock Fund (A) (excl. sales charge)	20.81	22.86	-3.90	-5.15	2.48	-	7.44	Ext. Perf. Inc. Date	03/01/2000
MidCap Stock Fund (A) (incl. sales charge)	14.19	16.12	-9.16	-6.92	1.33	-	6.81	Total Inv. Exp Gross	1.33
Standard and Poor's 400 Midcap Stock Index	19.98	30.14	-3.11	-1.40	4.53	7.47	-	Total Inv Exp Net	1.33
Mid Cap Blend Category	18.96	31.10	-3.19	-3.87	2.60	5.30	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	50	64	57	-	-	Contractual Cap Date	-
Total Funds in Category	499	477	469	387	306	146	-	Contingent Deferred Sales Charge	-
								Maximum Up-front Sales Charge	5.50

Risk and Return Statistics Summary as of 09/30/2009

	3 Year Return vs. Rank						5 Year Return vs. Risk					
	Alpha	Beta	R2	Sharpe Ratio	Info Ratio	Std Dev	Alpha	Beta	R2	Sharpe Ratio	Info Ratio	Std Dev
MidCap Stock Fund (A)	-4.27	0.92	91.87	-0.25	-0.56	22.46	-1.89	0.90	91.35	0.06	-0.36	18.35

Relative to Standard and Poor's 400 Midcap Stock Index

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

MidCap Stock Fund (A)

Upside/Downside Capture Ratio Summary as of 09/30/2009

	3 Year Upside/Downside Capture Ratio						5 Year Upside/Downside Capture Ratio					
	# of Months		Avg Returns %		Market Benchmark %		# of Months		Avg Returns %		Market Benchmark %	
	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down	Up	Down
MidCap Stock Fund (A)	20	16	3.74	-5.78	84.41	97.72	37	23	3.23	-4.30	85.74	91.58
Standard and Poor's 400 Midcap Stock Index	21	15	4.43	-5.92	100.00	100.00	37	23	3.77	-4.69	100.00	100.00

Top Ten Holdings as of 08/31/2009

Security	Net Assets (%)
Lincoln Electric Holdings, Inc.	3.27
Wisconsin Energy Corporation	3.26
Northeast Utilities	3.22
Tiffany & Co.	2.92
Microchip Technology, Inc.	2.90
Covance, Inc.	2.80
Lender Processing Services Inc	2.80
Fidelity National Financial, Inc.	2.76
Weight Watchers International, Inc.	2.73
HCC Insurance Holdings Inc.	2.72
Total % in Top 10	29.36

Portfolio holdings may not reflect the current portfolio composition and do not constitute a recommendation to purchase or sell a particular security. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk.

Fund Strategy

The investment seeks long-term capital appreciation. The fund invests at least 80% of net assets (plus any borrowings for investment purposes) in common stocks of companies with medium market capitalizations (those with market capitalizations between approximately \$1 billion and \$10 billion at the time of purchase). It may invest up to 20% of assets in REIT securities. The fund may invest in fixed-income securities of any maturity, including mortgage-backed securities, and may invest up to 20% of assets in below-investment grade fixed-income securities.

About Edge Asset Management, Inc.

Edge Asset Management (formerly WM Advisors, Inc.) has been a pioneer in the field of actively managed asset allocation investments and has over \$11.2 billion in asset allocation assets under management (as of December 31, 2008). Its primary areas of investment expertise are target-risk funds, large-cap and mid-cap value equities, and taxable fixed-income securities. Based in Seattle, Washington, the firm has a heritage dating back to 1939, when it launched one of the first 50 mutual funds in the United States.

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

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

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Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

Formerly known as the WM Mid Cap Stock Fund.

Effective October 23, 2009, the Principal MidCap Stock Fund will merge into the Principal MidCap Blend Fund.

Standard and Poor's 400 Midcap Stock Index includes approximately 10% of the capitalization of U.S. equity securities. These are comprised of stocks in the middle capitalization range.

[a] Source: S&P/Case-Shiller Residential Real Estate Index

[b] Source: U.S. Bureau of Labor Statistics

[c] Source: U.S. Bureau of Labor Statistics

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Important Notes

[d] Source: Russell 3000 Index

[e] Source: Russell Midcap Value Index

[f] Source: MSCI EAFE Index

[g] Source: MSCI Emerging Markets Index

[h] Source: Russell 3000 Index

[i] Source: MSCI EAFE Index U.S. dollar return 19.5%; MSCI EAFE Index local currency return 14.8%

[j] Source: Barclays Capital US High Yield Index

[k] Source: Barclays Capital Aggregate Bond Index

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