



### Notification of Source of Distributions

Pursuant to Rule 19a-1 of the Investment Company Act of 1940

As noted in the table provided below, certain of the Principal Funds made distributions for the month of August for which a portion is estimated to be in excess of the fund's current and accumulated net income. As of August 31, 2009, the estimated sources of these distributions were as follows:

Fund	Net Income	Realized Gain	Capital Sources
High Yield Fund	56.12%	0.00%	43.88%
Income Fund	0.00	0.00	100.00
Mortgage Securities Fund	57.69	0.00	42.31
Short-Term Bond Fund	0.00	0.00	100.00
Ultra Short Bond Fund	50.08	0.00	49.92

The ultimate composition of these distributions may vary from the estimates provided above due to a variety of factors including future income and expenses, and realized gains and losses from the purchase and sale of securities.

Please note that this information is being provided to satisfy certain notice requirements under the Investment Company Act of 1940. Tax reporting information for shareholders of the funds will not be available until the end of the funds' fiscal year.

**As a result, shareholders should not use the information provided in this notice for tax reporting purposes.**

*This material is not authorized for distribution unless preceded or accompanied by a current prospectus that includes more information regarding the risk factors, expenses, policies, and objectives of the investment. Contact your financial professional or call 800-222-5852 to obtain another copy of the prospectus. 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.*

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