

**Principal Funds, Inc. – SmallCap Value Fund I**  
**Federal Income Tax Information**  
**December 15, 2010**

The following information is being provided to you, prompted by the acquisition of Principal Funds, Inc. – SmallCap Value Fund I, effective November 12, 2010. This information is given to meet certain requirements of the Internal Revenue Code and should not be used by shareholders for preparing their income tax returns. For tax return preparation purposes, please refer to the information supplied with the 1099-DIV form that you will receive in 2011 from the Fund's transfer agent.

**Dividend Received Deduction.** For corporate shareholders, the percentage of ordinary income distributions (dividend and short-term capital gains, if any) for the tax year ended November 12, 2010 that qualifies for the dividend received deduction is 100%.

**Qualified Dividend Income.** Certain dividends paid by Principal Funds, Inc. – SmallCap Value Fund I may be subject to a maximum tax rate of 15%, as provided for by the Jobs and Growth Tax Relief Reconciliation Act of 2003. The percentage of ordinary income distributions for the tax year ended November 12, 2010, taxed at the maximum rate of 15% is 100%.