

**Principal Funds, Inc. – Real Estate Allocation Fund**  
**Federal Income Tax Information**  
**April 27, 2018**

The following information is being provided to you, prompted by the liquidation of Principal Funds, Inc. – Real Estate Allocation Fund (“Fund”) effective April 27, 2018.

**Dividends Received Deduction (“DRD”).** For corporate shareholders, the percentage of ordinary income distributions (dividend income and short-term gains, if any) for the tax year ended April 27, 2018 that qualifies for the DRD is 0.22%.

**Qualified Dividend Income (“QDI”).** Certain dividends paid by the Fund may be subject to a maximum tax rate of 20%. The QDI percentage of ordinary income distributions for the tax year ended April 27, 2018 is 5.10%.

**Long-Term Capital Gain Distributions.** The Fund distributed long-term capital gain dividends during the tax year ended April 27, 2018. Unless otherwise designated, long-term capital gain dividends are subject to a maximum tax rate of 20-percent, 15-percent, or 0-percent, depending on the shareholder’s taxable income. To the extent necessary to distribute such capital gains, the Fund may also utilize, and hereby designate, earnings and profits distributed to shareholders on redemptions of shares as part of the Dividends Paid Deduction.

Principal Funds, Inc. – Real Estate Allocation Fund

Per Share Long-Term  
Capital Gain Distributions  
\$0.0840

**Reallocation of Distributions: Return of Capital.** A portion of the ordinary income and/or long-term capital gains dividends paid by Principal Funds, Inc. – Real Estate Allocation Fund has been redesignated as non-taxable return of capital. A return of capital affects your cost basis of shares owned during the period of January 1, 2018 through April 27, 2018.

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 you will receive from the fund’s transfer agent. Please consult your tax advisor if you have any questions.

The latest tax reporting supplement is available on Principal’s Tax Center website.

Website: <https://www.principalfunds.com/individual-investor/customer-support/tax-center>