

Principal Small-MidCap Dividend Income Fund

An actively managed strategy with a focus on dividend-paying companies with potential for dividend growth and excess returns

2017 fourth quarter

Ticker:

Class A: PMDAX
Class C: PMDDX
Class I: PMDIX

Morningstar Rating

Class I Shares



Overall Morningstar Rating™ as of 12/31/2017 among 366 Mid-Cap Value funds.

Morningstar ratings may vary between share classes, are based on historical risk-adjusted total returns and are subject to change.

Get opportunities for growth, income, and lower volatility.

Consider the Principal Small-MidCap Dividend Income Fund for:

A powerful combination.

Looking for the potential for growth, income, and lower volatility? A portfolio that includes dividend-paying companies could help you access:

- Dividend payouts for income — despite today’s low interest rates.
- Higher historical returns than non-dividend-paying companies¹.
- Less volatility than non-dividend-paying companies¹.

Access to well-managed companies.

Small- and mid-sized companies that pay dividends offer some interesting benefits. We look to invest in those that offer:

- Greater growth potential historically than large-cap companies.
- Added diversification, which helps to manage risk.
- “Best in class” organizations with well-disciplined management teams.

A legacy of expertise.

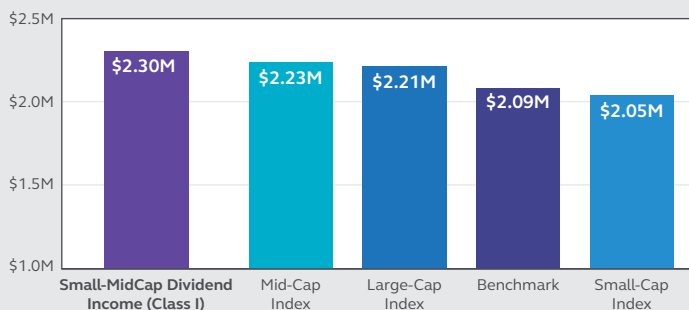
You can feel confident in Edge Asset Management. With a history dating back more than 75 years, today Edge's tenured investment team:

- Manages over \$13 billion in dividend-oriented strategies.
- Averages over 20 years of experience.
- Possesses deep research capabilities to identify quality companies with the capacity to pay dividends that can grow over time.



Growth of \$1 Million

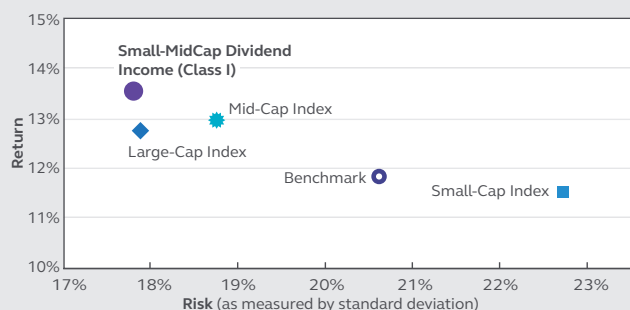
The Fund has outperformed small-, mid-, and large-cap benchmarks.



Source: Morningstar 06/07/2011 – 12/31/2017. Large-Cap Index represented by the Russell 1000® Value Index, which measures the performance of the large-cap value segment of the U.S. equity universe; Benchmark represented by the Russell 2500® Value Index, which measures the performance of the small to mid-cap value segment of the U.S. equity universe; Small-Cap Index represented by the Russell 2000® Value Index, which measures the performance of small-cap value segment of the U.S. equity universe. Mid-Cap Index represented by the Russell Midcap Value Index, which measures the performance of the mid-cap value segment of the U.S. equity universe.

Active management makes a difference

The Fund has had better returns with less volatility than passive indices.



Past performance does not guarantee future results. Asset allocation and diversification do not ensure a profit or protect against a loss. Investors cannot invest directly in an index. For illustrative purposes only. Does not reflect fees, taxes, or expenses. Small and mid-cap stocks may have additional risks, including greater price volatility.

¹Ned Davis Research, 2015.

Dividends are not guaranteed. Dividend Paying vs. Non-Paying: A stock is classified as dividend-paying if it pays a cash dividend during the previous 12 months. The dividend figure used to categorize the stock is the company's indicated annual dividend, which may be different from the actual dividends paid in a particular month.

Portfolio strategy & management

The Principal Small-MidCap Dividend Income Fund is managed by Edge Asset Management. The Fund seeks to provide current income and long-term growth of income and capital.

Dan Coleman

30+ Years of Experience

David Simpson, CFA

30+ Years of Experience

Portfolio composition

Top 10 holdings ² (as of 12/31/2017)	% of net assets	12-month dividend change
1. Bank of the Ozarks	2.68%	12.70%
2. New Flyer Industries Inc	2.66%	36.62%
3. B&G Foods Inc	2.58%	7.83%
4. Snap-on Inc	2.39%	16.14%
5. Omega Healthcare Investors Inc	2.37%	7.63%
6. Medical Properties Trust Inc	2.24%	0.00%
7. PacWest Bancorp	2.23%	5.49%
8. Sinclair Broadcast Group Inc	2.19%	2.13%
9. Adient PLC	2.13%	—
10. STERIS PLC	2.10%	11.32%

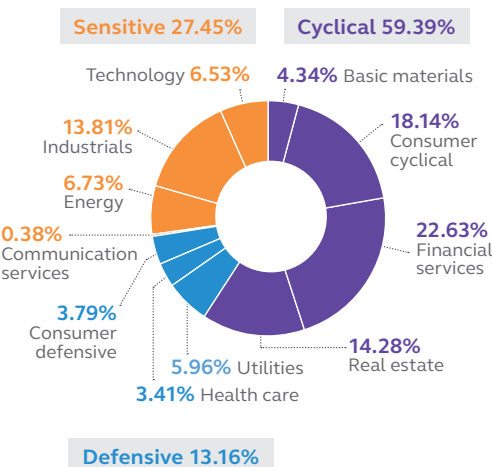
Total 23.58%

Calculations exclude cash and derivatives, where applicable. May not reflect current holdings or allocations. All current and future holdings are subject to risk.

3-year-risk/return stats (as of 12/31/2017)

	Principal Small-MidCap Dividend Income A	Russell 2500® Value Index
Alpha	3.45%	—
Beta	0.90	1.00
Std Dev	11.30%	11.98%
R-Squared	91.32%	100.00%
Sharpe Ratio	1.04%	0.77%

Stock sector breakdown² (as of 12/31/2017)



²May not reflect current allocations/holdings. Percentages may not add up to 100% due to rounding. Source: Morningstar

Performance, percentiles, & ratings (as of 12/31/2017)

	Average annual total returns						Yields ⁹	
	Year-to-date	1-year	3-year	5-year	Since inception 06/06/2011	Expense ratio ⁸ (gross/net)	30-day SEC (unsubsidized/subsidized)	12-month distribution
Class I ³	13.30%	13.30%	12.54%	14.82%	13.50%	1.12%/1.09%	2.62%/2.62%	1.20%
Class A (Excluding Sales Charge) ³	12.94%	12.94%	12.19%	14.40%	13.06%	1.40%/1.36%	2.29%/2.32%	0.92%
Class A (Including Sales Charge) ³	6.74%	6.74%	10.09%	13.11%	12.09%	1.40%/1.36%	2.17%/2.19%	0.87%
Russell 2500® Value Index ^{4,5}	10.36%	10.36%	9.30%	13.27%	—	—	—	—
Morningstar rankings and ratings								
Class I Percentile Ranking ⁶	—	49	3	21	—	—	—	—
Class A Percentile Ranking	—	52	5	34	—	—	—	—
Category and Number of Funds in Category: Mid-Cap Value	405	405	366	311	—	—	—	—
Class I Ratings ⁷	—	—	★★★★★	★★★★	Overall ★★★★★	—	—	—
Class A Ratings ⁷	—	—	★★★★★	★★★★	Overall ★★★★★	—	—	—
Calendar year total returns								
	2012	2013	2014	2015	2016	2017		
Class I	16.13%	30.08%	7.62%	-3.26%	30.05%	13.30%		
Class A (Excluding Sales Charge)	15.54%	29.45%	7.21%	-3.60%	29.68%	12.94%		

Returns represent past performance and do not guarantee future results. Share price, principal value, and return will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For the most recent monthend performance, visit principalfunds.com. A maximum sales charge of 5.50% may apply for Class A shares. Performance reflects this maximum sales charge when a sales charge is indicated.

³Performance assumes reinvestment of all dividends and capital gains. Only certain investors, such as retirement plan participants, can purchase class A shares without a sales charge; see the prospectus for details.

⁴Russell 2500® Value Index measures the performance of the small- to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500® Index companies with lower price-to-book ratios and lower forecasted growth values.

⁵Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

⁶Morningstar percentile rankings are based on total returns and do not reflect the inclusion of sales charges. If sales charges were reflected, rankings could be lower.

⁷The Morningstar Rating™ for funds, or "star rating," is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36–59 months of total returns, 60% five-year rating/40% three-year rating for 60–119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most recent three-year period actually has the greatest impact because it is included in all three rating periods. Morningstar Ratings do not reflect the inclusion of sales charges: If sales charges were reflected, rankings could be lower. © 2017 Morningstar, Inc. All rights reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

⁸Where gross and net expense ratios differ, the investment adviser has contractually agreed to limit the investment option's expenses. Differences also may be due to the investment adviser's decision to pay (through 12/30/2018) certain expenses that would normally be payable by the fund.

⁹30-Day SEC yield represents net investment income earned by a fund over a 30-day period, stated as an annual percentage. Unsubsidized yield reflects the SEC yield when some fund expenses are not waived. Subsidized yield reflects a fund's yield when all expense waivers are included. 12-month yield is based on actual distributions paid over a trailing 12-month period, stated as an annual percentage. Small and mid-cap stocks may have additional risks including greater price volatility.

Class I shares are available only to eligible investors, including various institutional investors and investors in certain mutual fund wrap or asset allocation programs. See the prospectus for eligibility requirements. Principal Funds Class P shares automatically converted to Institutional Class shares effective close of business June 23, 2017.

Edge Asset Management is a specialized investment boutique of Principal Global Investors. Effective December 1, 2016, the Principal Small-MidCap Dividend Income Fund closed to new investors. Please see the prospectus for more complete information.

Alpha: The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta:** An investment's sensitivity to market movements. **R-Squared:** Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation:** Measures how much an investment's returns are likely to fluctuate. **Sharpe Ratio:** Measures how an investment balances risks and rewards. The higher the Sharpe Ratio, the better the investment's historical risk-adjusted performance.

Not authorized for distribution unless preceded or accompanied by a current prospectus, or a summary prospectus if available, that includes information about the Fund's objectives, risks, charges, and expenses. Please read it carefully before investing.

Investing involves risk, including possible loss of principal. Principal Funds are distributed by Principal Funds Distributor, Inc.

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