

Principal High Yield Fund

Balancing risk and reward: opportunities in high yield investing

2017 First Quarter

Ticker:

Class A: CPHYX
Class C: CCHIX
Class I: PHYTX
Class P: PYHPX

Morningstar Rating

Class I Shares



Overall Morningstar Rating™ as of 03/31/2017 among 596 High Yield Bond Funds

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

Attractive income potential if your risk tolerance tilts in the right direction.

The Principal High Yield Fund offers:

Income aligned with your needs.

If you're looking for high monthly income and can handle a slightly riskier fixed-income investment opportunity, this strategy may fit your needs as:

- The securities represent the debt financing of companies rated below-investment-grade, which typically offers higher yields than government or investment-grade-rated corporate bonds.
- It may help reduce overall portfolio risk due to historically low correlation to other asset classes.¹

More risk, more potential reward.

In a relatively low interest rate environment, high yield bonds may offer you a source of above-average income, as well as:

- An opportunity for enhanced returns with potentially less risk than equities.²
- Less sensitivity to interest rate changes than other types of fixed-income securities.³
- A continued income stream even during periods of market volatility.

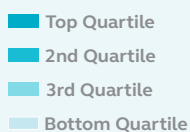
A dependable team and process.

The portfolio management team has delivered consistent results in a variety of market conditions as a result of:

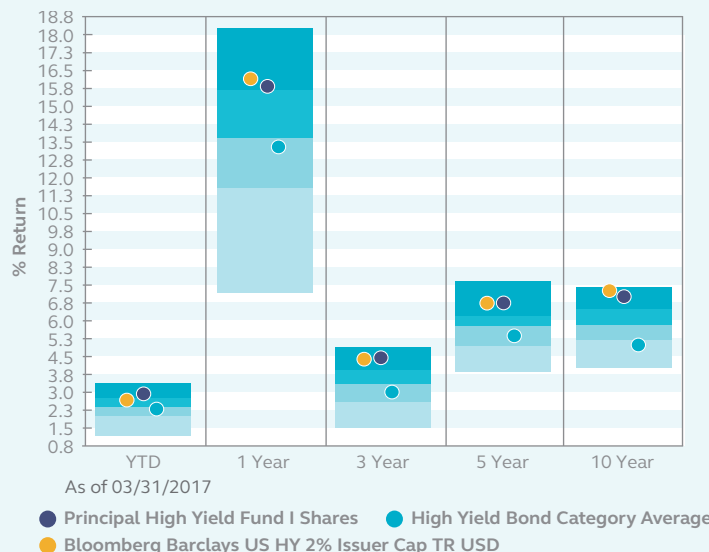
- Internal credit analysis of each holding before it is purchased.
- Predetermined and well-defined exit strategies to help avoid credit losses.
- The tenure of a 10-member high yield team averaging more than 16 years of experience.

Seeking consistency in an inconsistent world

The chart shows the performance of the Principal High Yield Fund relative to other funds in the high yield bond category over the last ten years.



Source: Morningstar



When it comes to high yield investing, active management can be key to delivering consistent returns. In relation to the high yield investment peer group, you'll see the Principal High Yield Fund has steadily delivered results.

Past performance does not guarantee future results. Asset allocation and diversification do not ensure a profit or protect against a loss.

¹ Source: Zephyr StyleADVISOR. 10-year correlation (April 2007–March 2017), to Treasuries, municipal, and investment-grade bonds.

² Source: Zephyr StyleADVISOR. 10-year standard deviation as of March 31, 2017.

³ Source: Zephyr StyleADVISOR. (Oct 1993–Dec 1994, Oct 1998–Jan 2000, Mar 2004–May 2006).

Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline.

Lower-rated securities are subject to additional credit and default risks.

Portfolio Strategy & Management

The Principal High Yield Fund seeks to provide a relatively high level of current income and invests at least 80% of its net assets in high-yield, below-investment-grade fixed-income securities, which are rated at the time of purchase BB+ or lower by S&P, or Ba1 or lower by Moody's.

Mark Denkinger, CFA

27 Years of Experience

Darrin Smith, CFA

26 Years of Experience

Josh Rank, CFA

17 Years of Experience

Portfolio Composition

Quality Breakdown* (as of 03/31/2017)

AAA	1.41%
AA	0.00%
A	0.00%
BBB	4.75%
BB	40.50%
B	38.07%
CCC and below	14.35%
NR	0.77%
NA	0.16%

Source: Morningstar. Represents the lower of S&P and Moody's ratings. The ratings are an indication of an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). The NR category consists of rateable securities that have not been rated by a Nationally Recognized Statistical Rating Organization. AAA-rated holdings include cash and cash equivalents.

Duration Breakdown* (as of 03/31/2017)

Years	% of Net Assets	Years	% of Net Assets
0-2	24.39%	12-15	1.97%
2-4	28.71%	15+	0.00%
4-6	34.14%	NA	0.00%
6-8	10.19%		
8-12	0.61%		

Average Effective Duration (Yrs.): 3.75

*May not reflect current allocations/holdings. Percentages may not add up to 100% due to rounding.

Top Sectors* (as of 03/31/2017)

Consumer	25.44%
Communications	18.74%
Industry/Goods	19.79%
Financials	13.51%
Energy	12.08%
Cash	1.83%
Technology	4.45%
Transportation	2.57%
Utilities	1.59%
Treasury	0.00%

5-Yr Risk and Return Statistics

(as of 03/31/2017)

	Principal High Yield A	BarCap U.S. High Yield 2% Issuer Cap
Alpha	2.11%	2.11
Beta	0.33	0.35
Std Dev	4.94%	5.38%
R-Squared	45.41%	43.78%
Sharpe Ratio	1.28	1.23

Source: Morningstar

Performance, Percentiles & Ratings (as of 03/31/2017)

	Average Annual Total Returns							Yields ⁵	
	Year-To-Date	1-Year	3-Year	5-Year	10-Year	Since Inception ⁴	Expense Ratio (Gross/Net)	30-Day SEC	12-Month Distribution
Class I	2.93%	15.80%	4.62%	6.85%	7.24%	7.89%	0.60%	5.19%	5.74%
Class A (Excluding Sales Charge) ⁶	2.83%	15.54%	4.33%	6.53%	6.89%	7.55%	0.88%	4.89%	5.44%
Class A (Including Sales Charge) ⁶	-1.08%	11.28%	2.99%	5.71%	6.48%	7.33%	0.91%	4.71%	5.23%
Bloomberg Barclays US Corp High Yld 2% Issuer Capped Index ^{7,8}	2.70%	16.39%	4.58%	6.82%	7.54%	—	—	—	—
Morningstar Rankings and Ratings									
Percentile Ranking ⁹	—	26	16	17	12	—	—	—	—
Category and Number of Funds in Category: High Yield Bond	727	697	596	471	318	—	—	—	—
Class I Ratings ¹⁰	—	—	★★★★	★★★★	★★★★★	Overall ★★★★★		—	—
Class A Ratings ¹⁰	—	—	★★★★	★★★★	★★★★	Overall ★★★★★		—	—

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 month-end performance, visit principalfunds.com. A maximum sales charge of 3.75% may apply for Class A shares. Performance reflects this maximum sales charge when a sales charge is indicated.

⁴ Class I shares were first sold July 28, 1998. Returns for Class I shares prior to July 28, 1998, are based on performance of Class A shares adjusted to reflect the fees and expenses of Class I shares. Class A shares were first sold April 8, 1998.

⁵ 12-month yield is based on actual distributions paid over a trailing 12-month period, stated as an annual percentage. 30-Day SEC yield represents net investment income earned by a fund over a 30-day period, stated as an annual percentage.

⁶ Performance represents results of Class A shares and 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.

⁷ Bloomberg Barclays US Corp High Yld 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

⁸ Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

⁹ Morningstar 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.

¹⁰ The 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, ratings 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. Past performance does not guarantee future results.

Class I & P shares are available only to eligible investors including, but not limited to, various institutional/platform, certain mutual fund wrap or asset allocation program investors.

Alpha measures risk-adjusted performance, showing excess return delivered at the same risk level as the benchmark. Beta measures the volatility of a fund relative to the overall market. R-Squared represents the percentage of the portfolio's movement that can be explained by the general movement of the market. Standard Deviation measures the historic volatility of a fund. Sharpe Ratio uses standard deviation and excess return to determine reward per unit of risk. Duration is a time measure of a bond's interest-rate sensitivity, based on the weighted average of the time periods over which a bond's cash flows accrue to the bondholder.

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.

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