

Principal Preferred Securities Fund

Principal®
Funds

SECOND QUARTER
2017

A Compelling Case for Income and Diversification

CLASS A: PPSAX
CLASS C: PRFCX
CLASS I: PPSIX

In today's volatile, low-yield environment, preferred securities may offer investors higher yields and growth potential.

THE PRINCIPAL PREFERRED SECURITIES FUND OFFERS:

The prospect of high monthly dividends.

High-quality preferred securities have historically paid higher dividends than other investment-grade bonds¹ and may offer:

- An attractive income alternative to both high-grade and speculative-grade bond sectors.
- Dividends paid monthly on a portfolio of over 300 preferred securities diversified by issuer, industry sector, and country.
- Income potential in a challenging, historically low interest rate environment.

The potential for favorable returns.

In short, preferred securities are a potentially effective tool for the diversified fixed-income investor seeking:

- Increased income and total return potential due to inefficiencies between the retail and the over-the-counter markets.
- Potentially positive returns in a rising rate environment.²
- Access to the entire universe of preferred securities, including \$25 par retail value and \$1,000 par institutional value markets.³

Professional management.

With more than \$22.1 billion under management,⁴ Spectrum Asset Management is one of the world's largest managers focused solely on preferred securities, delivering access to:

- A rigorous research and credit analysis process that seeks to identify those securities which may offer the best values and opportunities.
- An approach to credit selection and portfolio construction based on individual security selection and structure analysis.
- Price and yield opportunities with the aim of avoiding negative outcomes.

★★★★
Class I Shares

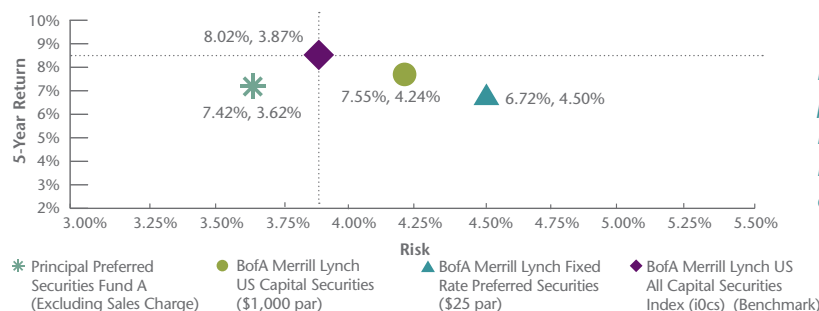
OVERALL
MORNINGSTAR
RATING™

As of 06/30/2017
Among 41
Preferred Stock

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

ACTIVE MANAGEMENT HAS LED TO HIGHER RETURNS WITH LESS VOLATILITY

5 years of historical performance as of 06/30/2017, compared with its benchmark



The Fund delivers access to both \$25 par and \$1,000 par preferred securities—a wider investment universe as most retail investors have access only to the \$25 par market.

Source: Zephyr StyleADVISOR
If sales charges were reflected, performance would be lower.

Past performance does not guarantee future results. Asset allocation and diversification do not guarantee a profit or protect against a loss. Calculations are based on historical index performance and are shown for illustration purposes only. Investors cannot invest directly in an index.

The BofA Merrill Lynch US Capital Securities (\$1,000 par) Index is a subset of The BofA Merrill Lynch US Corporate Index including all fixed-to-floating rate, perpetual callable and capital securities. The BofA Merrill Lynch Fixed Rate Preferred Securities (\$25 par) Index is an unmanaged index of investment-grade exchange-traded preferred stocks with outstanding market values of at least \$50 million that are covered by Merrill Lynch Fixed Income Research.

The BofA Merrill Lynch US All Capital Securities Index (i0cs) tracks the performance of fixed rate, US dollar denominated hybrid corporate and preferred securities publicly issued in the US domestic market.

Risk is measured by standard deviation, a statistical measurement that depicts how widely returns varied over a certain time period.

¹Source: BarCap Live, U.S. Treasury website, Merrill Lynch.

²There is no guarantee that a capital gain or these returns will be achieved, as the value of these investments may also go down.

³Par value is the face or stated value of a preferred issue, such that the issue is worth the amount equal to its original issue value or its value upon redemption at maturity.

⁴As of June 30, 2017.

PORTFOLIO STRATEGY & MANAGEMENT

The Fund seeks to provide current income and invests at least 80 percent of its assets in preferred securities. Preferred securities generally pay fixed-rate dividends (though some are adjustable), and while "senior" to a company's common stock, are "junior" to all forms of the company's debt.

- **Mark A. Lieb**
41 Years of Experience
- **L. Phillip Jacoby IV**
35 Years of Experience

SPECTRUM
Asset Management

PORTFOLIO COMPOSITION

PORTFOLIO STATISTICS⁵ (as of 06/30/2017)

Breakout:
 \$25 Pars 19.33%
 \$1,000 Pars 78.71%
 Cash/Other 1.89%

Average Price:
 \$25 Pars \$26.49
 \$1,000 Pars \$112.15
Average Effective Duration (Yrs.).....4.83

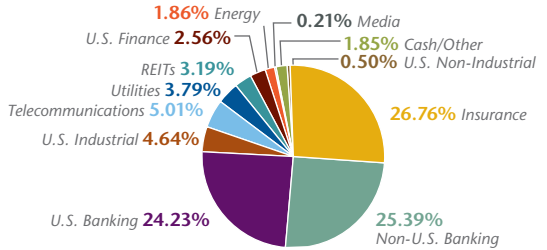
QUALITY BREAKDOWN⁵ (as of 06/30/2017)

AAA0.00%
 AA0.17%
 A5.68%
 BBB.....59.78%
 BB.....31.06%
 B.....1.31%
 Not Rated.....0.15%

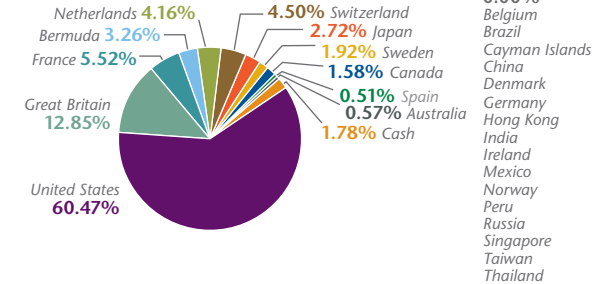
Source: Morningstar. Represents the lower of S&P and Moody's ratings. Ratings indicate an issuer's creditworthiness and typically range from AAA or Aaa (highest) to D (lowest). AAA-rated holdings include cash and cash equivalents.

⁵May not reflect current holdings or allocations. Percentages may not add up to 100% due to rounding.

SECTOR ALLOCATIONS⁵ (as of 06/30/2017)



COUNTRY ALLOCATIONS⁵ (as of 06/30/2017)



PERFORMANCE, PERCENTILES, & RATINGS (as of 06/30/2017)

	Average Annual Total Returns							Yields ¹²	
	Year-To-Date	1-Year	3-Year	5-Year	10-Year	Since Inception ⁶	Expense Ratio	30-Day SEC	12-Month Distribution
Class I ⁷	7.97%	9.27%	6.22%	7.75%	7.06%	6.50%	0.77%	4.11%	4.69%
Class A (Excluding Sales Charge) ⁷	7.85%	8.98%	5.92%	7.42%	6.74%	6.12%	1.08%	3.81%	4.36%
Class A (Including Sales Charge) ⁷	3.78%	4.85%	4.58%	6.60%	6.33%	5.85%	1.08%	3.67%	4.20%
BofA Merrill Lynch US All Capital Securities Index (i0cs) ^{8,9}	8.24%	7.90%	6.49%	8.02%	—	—	—	—	—
Morningstar Rankings and Ratings									
Class I Percentile Rankings ¹⁰	—	43	43	35	7	—	—	—	—
Class A Percentile Rankings ¹⁰	—	54	57	47	25	—	—	—	—
Category and Number of Funds in Category: Preferred Stock	55	55	41	33	17	—	—	—	—
Class I Ratings ¹¹	—	—	★★★	★★★★	★★★★★	Overall I ★★★★★	—	—	—
Class A Ratings ^{7,11}	—	—	★★★	★★★	★★★★★	Overall I ★★★★★	—	—	—

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.

⁶Class A shares were first sold on June 28, 2005. Returns for Class A shares prior to June 28, 2005, including since inception performance, are based on performance of the Institutional Class shares adjusted to reflect the fees and expenses of Class A shares. Institutional Class shares were first sold May 1, 2002.

⁷Performance 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.

⁸The BofA Merrill Lynch US All Capital Securities Index (i0cs) tracks the performance of fixed rate, US dollar denominated hybrid corporate and preferred securities publicly issued in the US domestic market.

⁹Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

¹⁰Morningstar 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.

¹¹The 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.

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

Fixed-income investments are subject to interest rate risk; as interest rates rise their value will decline. Risks of preferred securities differ from risks inherent in other investments. In particular, in a bankruptcy preferred securities are senior to common stock but subordinate to other corporate debt.

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.

Trust preferreds are more senior than other preferred securities in the capital structure of a company. With cumulative preferred securities, dividend payments will accrue in the event the issuer does not make timely dividend payments. These accrued dividends are paid before payment of common stock dividends. Non-cumulative preferreds do not make up any missed dividend payments. 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.



WE'LL GIVE YOU AN EDGE®

principalfunds.com

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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