

Principal SmallCap Fund

Blending value and growth to more fully tap small-cap opportunities.

2017 fourth quarter

Ticker:

Class A: PLLAX
Class C: PSMCX
Class I: PSLIX

Morningstar rating

Class I shares



Overall Morningstar Rating™ as of 12/31/2017 among 652 Small Blend Funds

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

Stock selection is the key to excess return potential.

The Principal SmallCap Fund offers:

Small company growth potential.

The performance of small-cap stocks has historically outstripped that of large caps over the long term¹.

Why? Because typically small companies are:

- Younger businesses with much of their growth potential still to come.
- Potentially able to grow at a faster rate than more established businesses.
- Frequently better able to adapt quickly to sudden changes in the business and economic cycle.

A consistent style profile.

The Fund simultaneously provides attractive value and growth attributes.

- Growth stocks offer potentially higher earnings.
- Value stocks—which are stocks that investors perceive as undervalued relative to the value of their assets—offer capital gain and dividend potential.
- And since value and growth stocks often outperform at different times, combining them may help an investor better navigate a changing market environment.
- By focusing on fundamental change, and not just on good fundamentals, stock selection provides an opportunity for excess return potential.

A diverse, experienced team.

Our diverse team has deep experience in small-cap equities. They believe that:

- Stock selection, based on fundamental, bottom-up research, is the key to excess return potential.
- Our combination of quantitative and qualitative research provides us with a robust indication of a stock's potential.
- Our globally integrated team and analytical systems enable us to efficiently identify and pursue small-cap opportunities the world over.



Mind the gap in potential performance

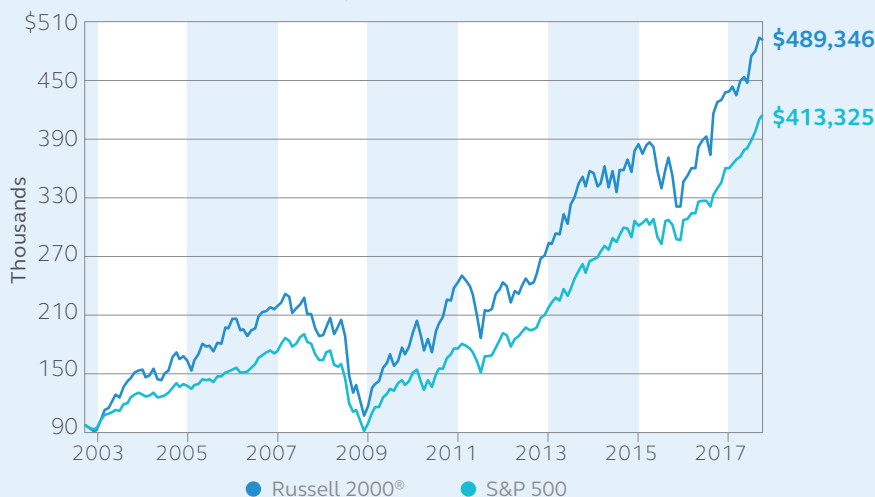
Historically, small-cap stocks have outperformed large caps over the long term. Over the last 15 years, for example, the performance gap has been at least 10%.²

The Principal SmallCap Fund's mix of value and growth stocks may help it perform well in a variety of market environments—which has the potential to translate into enhanced performance.

Source: Morningstar.

Small-cap stocks outperformed large-cap stocks

Growth of \$100,000 (12/31/02 – 12/31/17)



Past performance does not guarantee future results. Asset allocation and diversification do not ensure a profit or protect against a loss. Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index. Small- and mid-cap stocks may have additional risks including greater price volatility.

¹Morningstar. 15-year returns ending 12/31/2017. Russell 2000® is a small-cap stock market index. The S&P 500 is a market-capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. ²Based on the performance of the Russell 2000® and S&P 500 indices from 12/31/2002 to 12/31/2017.

Portfolio strategy & management

The Principal SmallCap Fund aims to provide long-term capital growth by investing primarily in the shares of U.S. small-cap companies.³

Phil Nordhus, CFA

27 years of experience

Brian Pattinson, CFA

23 years of experience

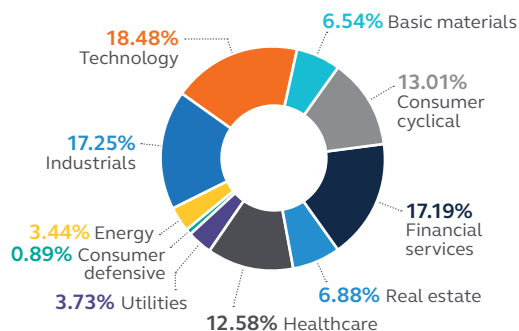
Portfolio composition

Top five holdings (as of 12/31/2017)

	% of net assets
1. PRA Health Sciences Inc	1.59%
2. Entegris Inc	1.57%
3. Synnex Corp	1.50%
4. HealthSouth Corp	1.50%
5. Blackbaud Inc	1.49%
Total % in top five	7.65%

Calculations exclude cash and derivatives, where applicable. May not reflect current holdings or allocations. Percentages may not add up to 100% due to rounding.

Sector allocations (as of 12/31/2017)



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

	Average annual total returns						
	Year-to-date	1-year	3-year	5-year	10-year	Since inception ³	Expense ratio ⁴ (gross/net)
Class I ⁴	12.93%	12.93%	9.81%	15.55%	8.36%	9.19%	0.84%/0.82%
Class A (excluding sales charge) ⁴	12.41%	12.41%	9.32%	15.03%	7.75%	8.53%	1.26%/1.26%
Class A (including sales charge) ⁴	6.24%	6.24%	7.28%	13.74%	7.14%	8.17%	1.26%/1.26%
Russell 2000 [®] Index ^{5,6}	14.65%	14.65%	9.96%	14.12%	8.71%	—	—
Morningstar rankings and ratings							
Class I percentile rankings	—	47	38	7	49	—	—
Class A percentile rankings ⁷	—	52	46	16	64	—	—
Category and number of funds in category: Small Blend	802	802	652	558	400	—	—
Class I ratings ⁸	—	—	★★★	★★★★★	★★★	Overall ★★★★★	—
Class A ratings ^{4,8}	—	—	★★★	★★★★	★★★	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 5.5% may apply for Class A shares. Performance reflects this maximum sales charge when a sales charge is indicated.

³ Companies with market capitalizations within the range of companies that comprise the Russell 2000[®] Index. Class A shares were first sold on 06/28/2005, and Class I shares were first sold on 03/01/2001. Returns for these shares prior to those dates, including since inception performance, are based on performance of R3 shares adjusted to reflect the fees and expenses of these shares. R3 shares were first sold on 12/06/2000.

⁴ Performance 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. Where gross and net expense ratios differ, the investment adviser has contractually agreed to limit the investment option's expense. Expense limits apply through 06/30/2018. Returns displayed are based on net total investment expense.

⁵ Russell 2000[®] Index consists of the smallest 2,000 companies in the Russell 3000[®] Index, representing approximately 10% of the Russell 3000[®] total market capitalization.

⁶ Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

⁷ 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.

⁸ 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. © 2018 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.

Results were achieved during highly favorable market conditions and may not be sustainable.

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.

Carefully consider a fund's objectives, risks, charges, and expenses. Contact your financial professional or visit principalfunds.com for a prospectus, or summary prospectus if available, containing this and other information. Please read it carefully before investing.

Investing involves risk, including possible loss of principal.

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