

Part II Organizational Action (continued)

17 List the applicable Internal Revenue Code section(s) and subsection(s) upon which the tax treatment is based ▶ _____

The non-taxable return of capital was determined in accordance with Sections 301, 312, 316 and 851-855 of the Internal Revenue Code.

The non-taxable acquisition was determined in accordance with Sections 354, 357, 358, 361, 362, 368, 381, 851-855, 1032 and 1223 of the Internal Revenue Code.

18 Can any resulting loss be recognized? ▶ See Attachment

19 Provide any other information necessary to implement the adjustment, such as the reportable tax year ▶ See Attachment

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here

Signature ▶ Signed copy maintained in taxpayer's records. Date ▶ June 3, 2015

Print your name ▶ Layne Rasmussen Title ▶ VP & Controller

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name ▶	Firm's EIN ▶		Phone no.	
Firm's address ▶				



Principal Funds, Inc. – LargeCap Blend Fund II (EIN: XX-XXX9833)
Attachment to Form 8937, Report of Organizational Action Affecting Cost Basis
June 3, 2015

This notice is provided to inform shareholders of Principal Funds, Inc. – LargeCap Blend Fund II of an action that affects your cost basis of shares owned during the period of January 1, 2015 through April 24, 2015. A portion of the dividends paid by Principal Funds, Inc. – LargeCap Blend Fund II for its taxable year ended April 24, 2015 is in excess of its earnings and profits and is designated as a non-taxable return of capital.

The non-taxable return of capital reduces your cost basis (see details for each class of shares in the table below). If you receive a 2015 Form 1099-DIV, the non-taxable return of capital amount will be shown in Box 3, Non-dividend distributions. The adjustment to your cost basis will impact your gain or loss calculation when you sell your shares of Principal Funds, Inc. – LargeCap Blend Fund II. For further information, please see Publication 550, Investment Income and Expenses and/or consult your tax advisor.

Principal Funds, Inc. – LargeCap Blend Fund II Return of Capital

Class of Common Shares (Form 8937, Box 9)	CUSIP (Form 8937, Box 10)	Ticker Symbol (Form 8937, Box 12)	Per Share Return of Capital Basis Adjustment *
Class J	74253M712	PLBJX	\$.064867032
Institutional	74253J842	PLBIX	\$.065178363
R-1	74254R280	PLBSX	\$.064202211
R-2	74253J818	PPZNX	\$.064237884
R-3	74253J792	PPZMX	\$.064565430
R-4	74253J834	PPZSX	\$.064766498
R-5	74253J826	PPZPX	\$.064857303

* 2.91% of dividends paid during the period 1/1/2015 – 4/24/2015.

This information is being provided pursuant to Internal Revenue Code Section 6045B(e), as amended. The information in this notice is also reported to the IRS.

Direct questions regarding this notice to: Principal Funds
P.O. Box 8024
Boston, MA 02266-8024
Phone: 1.800.222.5852
Email: investorcontact@principalfunds.com
Website: www.principalfunds.com/investor/contactus.htm

The tax information contained herein is provided for informational purposes only and should not be construed as legal or tax advice.



**Principal Funds, Inc. – LargeCap Blend Fund II (EIN: XX-XXX9833)
Attachment to Form 8937, Report of Organizational Action Affecting Cost Basis
June 3, 2015**

This notice is provided to inform shareholders of Principal Funds, Inc. – LargeCap Blend Fund II of an action that affects your cost basis (per share) of shares owned on April 24, 2015.

Effective April 24, 2015, Principal Funds, Inc. – Principal Capital Appreciation Fund acquired all of the assets and assumed all of the liabilities of Principal Funds, Inc. – LargeCap Blend Fund II. Each shareholder of Principal Funds, Inc. – LargeCap Blend Fund II will, as a result of the acquisition, own shares of Principal Funds, Inc. – Principal Capital Appreciation Fund of equal value and will recognize no gain or loss from the exchange of shares. The acquisition was accomplished by a tax-free exchange of each respective class of shares at an exchange rate shown in the table below.

Principal Funds, Inc. – LargeCap Blend Fund II Acquisition Tax-Free Exchange Rate

Class of Common Shares (Form 8937, Box 9)	CUSIP (Form 8937, Box 10)	Ticker Symbol (Form 8937, Box 12)	LargeCap Blend Fund II 4/24/15 NAV Per Share	Principal Capital Appreciation Fund 4/24/15 NAV Per Share	Tax-Free Exchange Rate
Class J	74253M712	PLBJX	7.5878	59.9689	0.1265
Institutional	74253J842	PLBIX	8.0181	60.8134	0.1318
R-1	74254R280	PLBSX	7.9726	60.0023	0.1329
R-2	74253J818	PPZNX	7.9670	60.0992	0.1326
R-3	74253J792	PPZMX	7.9330	59.9895	0.1322
R-4	74253J834	PPZSX	8.0104	60.3702	0.1327
R-5	74253J826	PPZPX	7.9719	60.5359	0.1317

NAV = net asset value

The acquisition did not impact your overall cost basis, but does change your cost basis per share. To compute your shares owned of Principal Funds, Inc. – Principal Capital Appreciation Fund after the acquisition, multiply shares owned of Principal Funds, Inc. – LargeCap Blend Fund II on April 24, 2015 times the tax-free exchange rate. To compute your new cost basis per share, divide your cost basis by the tax-free exchange rate.

Example for Shareholder XYZ

LargeCap Blend II – Class I Shares Owned by Shareholder XYZ Immediately Prior to Acquisition	Shareholder XYZ’s Cost Basis Per Share of LargeCap Blend II – Class I Shares Owned	Shareholder XYZ’s Total Cost Basis of LargeCap Blend II – Class I Shares Owned	Principal Capital Appreciation Fund – Class I Shares Owned by Shareholder XYZ Immediately After the Acquisition	Shareholder XYZ’s Cost Basis Per Share of Principal Capital Appreciation Fund – Class I Shares Owned	Shareholder XYZ’s Total Cost Basis of Principal Capital Appreciation Fund - Class I Shares Owned
10 shares	\$8	\$80 (10* \$8)	1.318 shares (10*.1318)	\$60.70 (\$8/.1318)	\$80 (1.318 * \$60.70)

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