



**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.

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**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 ▶ December 15, 2014

Print your name ▶ Layne Rasmussen Title ▶ Vice President & 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 ▶			
Firm's address ▶	Phone no.			



**Principal Funds, Inc. – Government & High Quality Bond Fund (EIN: XX-XXX8144)**  
 Attachment to Form 8937, Report of Organizational Action Affecting Cost Basis  
 December 15, 2014

This notice is provided to inform shareholders of Principal Funds, Inc. – Government & High Quality Bond Fund of an action that affects your cost basis of shares owned during the period of January 2, 2014 through October 31, 2014. A portion of the dividends paid by Principal Funds, Inc. – Government & High Quality Bond Fund for its taxable year ended October 31, 2014 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 2014 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. – Government & High Quality Bond Fund. For further information, please see Publication 550, Investment Income and Expenses and/or consult your tax advisor.

**Principal Funds, Inc. – Government & High Quality Bond Fund 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 A	74254V372	CMPGX	\$.00141892
Class B	74254V364	CBUGX	\$.00098609
Class C	74254V356	CCUGX	\$.00099383
Class J	742553514	PMRJX	\$.00136862
Class P	74255L852	PGSPX	\$.00145819
Institutional	74254U457	PMRIX	\$.00155386
R-1	742553563	PMGRX	\$.00116253
R-2	742553555	PFMRX	\$.00122793
R-3	742553548	PRCMX	\$.00131786
R-4	742553530	PMRDX	\$.00141303
R-5	742553522	PMREX	\$.00147317

\* .54542% of dividends paid during the period 1/2/2014 – 10/31/2014.

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](mailto:investorcontact@principalfunds.com)  
 Website: [www.principalfunds.com/investor/contactus.htm](http://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.