

**Report of Organizational Actions
Affecting Basis of Securities**

► See separate instructions.

Part I Reporting Issuer

1 Issuer's name		2 Issuer's employer identification number (EIN)	
Principal Funds, Inc. - LargeCap Value Fund I		XX-XXX1323	
3 Name of contact for additional information	4 Telephone No. of contact	5 Email address of contact	
Principal Funds	1-800-222-5852	investorcontact@principalfunds.com	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact		7 City, town, or post office, state, and Zip code of contact	
P.O. Box 8024		Boston, MA 02266-8024	
8 Date of action		9 Classification and description	
See Attachment		See Attachment	
10 CUSIP number	11 Serial number(s)	12 Ticker symbol	13 Account number(s)
See Attachment		See Attachment	

Part II Organizational Action Attach additional statements if needed. See back of form for additional questions.

14 Describe the organizational action and, if applicable, the date of the action or the date against which shareholders' ownership is measured for the action ► [See Attachment](#)

15 Describe the quantitative effect of the organizational action on the basis of the security in the hands of a U.S. taxpayer as an adjustment per share or as a percentage of old basis ► [See Attachment](#)

16 Describe the calculation of the change in basis and the data that supports the calculation, such as the market values of securities and the valuation dates ► [See Attachment](#)

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 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 ▶ July 16, 2014

Print your name ▶ Layne Rasmussen Title ▶ VP, Controller & CFO

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 Value Fund I (EIN: XX-XXX1323)
Attachment to Form 8937, Report of Organizational Action Affecting Cost Basis
July 16, 2014

This notice is provided to inform shareholders of Principal Funds, Inc. – LargeCap Value Fund I of an action that affects your cost basis (per share) of shares owned on June 6, 2014.

Effective June 6, 2014, Principal Funds, Inc. – LargeCap Value Fund III acquired all of the assets and assumed all of the liabilities of Principal Funds, Inc. – LargeCap Value Fund I. Each shareholder of Principal Funds, Inc. – LargeCap Value Fund I will, as a result of the acquisition, own shares of Principal Funds, Inc. – LargeCap Value Fund III 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 Value Fund I 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 Value Fund I 6/06/14 NAV Per Share	LargeCap Value Fund III 6/06/14 NAV Per Share	Tax-Free Exchange Rate
Institutional	74254R751	PVPIX	6.7773	15.3438	0.4417
R-1	74254R223	PVUAX	6.8695	15.3271	0.4482
R-2	74254R777	PABEX	6.8045	15.2850	0.4452
R-3	74254R769	PABDX	6.7720	15.8637	0.4269
R-4	74254R793	PAGBX	6.7377	15.3355	0.4394
R-5	74254R785	PAFBX	6.9355	15.4294	0.4495

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. – LargeCap Value Fund III after the acquisition, multiply shares owned of Principal Funds, Inc. – LargeCap Value Fund I on June 6, 2014 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 Value Fund I – Class I Shares Owned by Shareholder XYZ Immediately Prior to Acquisition	Shareholder XYZ’s Cost Basis Per Share of LargeCap Value Fund I – Class I Shares Owned	Shareholder XYZ’s Total Cost Basis of LargeCap Value Fund I – Class I Shares Owned	LargeCap Value Fund III – Class I Shares Owned by Shareholder XYZ Immediately After the Acquisition	Shareholder XYZ’s Cost Basis Per Share of LargeCap Value Fund III – Class I Shares Owned	Shareholder XYZ’s Total Cost Basis of LargeCap Value Fund III – Class I Shares Owned
10 shares	\$8	\$80 (10* \$8)	4.417 shares (10*.4417)	\$18.1118 (\$8/.4417)	\$80 (4.417 * \$18.1118)

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.