

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

Sign Here

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.

Signature ▶ Signed copy maintained in taxpayer's records. Date ▶ June 5, 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. – SmallCap Growth Fund II (EIN: XX-XXX9842)
Attachment to Form 8937, Report of Organizational Action Affecting Cost Basis
June 5, 2014

This notice is provided to inform shareholders of Principal Funds, Inc. – SmallCap Growth Fund II of an action that affects your cost basis (per share) of shares owned on April 25, 2014.

Effective April 25, 2014, Principal Funds, Inc. – SmallCap Growth Fund I acquired all of the assets and assumed all of the liabilities of Principal Funds, Inc. – SmallCap Growth Fund II. Each shareholder of Principal Funds, Inc. – SmallCap Growth Fund II will, as a result of the acquisition, own shares of Principal Funds, Inc. – SmallCap Growth Fund I 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. – SmallCap Growth 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)	SmallCap Growth Fund II 4/25/14 NAV Per Share	SmallCap Growth Fund I 4/25/14 NAV Per Share	Tax-Free Exchange Rate
Class J	74253M811	PPMIX	8.8580	11.0811	0.7994
Institutional	74253J412	PSIIX	10.8164	13.2739	0.8149
R-1	74254R132	PPASX	9.7084	11.9498	0.8124
R-2	74253J370	PPMNX	9.3369	11.6827	0.7992
R-3	74253J362	PPMMX	9.7911	12.0802	0.8105
R-4	74253J396	PPMSX	10.0803	12.4909	0.8070
R-5	74253J388	PPMPX	10.3423	12.8173	0.8069

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. – SmallCap Growth Fund I after the acquisition, multiply shares owned of Principal Funds, Inc. – SmallCap Growth Fund II on April 25, 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

SmallCap Growth II – Class J Shares Owned by Shareholder XYZ Immediately Prior to Acquisition	Shareholder XYZ's Cost Basis Per Share of SmallCap Growth II – Class J Shares Owned	Shareholder XYZ's Total Cost Basis of SmallCap Growth II – Class J Shares Owned	SmallCap Growth I – Class J Shares Owned by Shareholder XYZ Immediately After the Acquisition	Shareholder XYZ's Cost Basis Per Share of SmallCap Growth I – Class J Shares Owned	Shareholder XYZ's Total Cost Basis of SmallCap Growth I – Class J Shares Owned
10 shares	\$8	\$80 (10* \$8)	7.994 shares (10*.7994)	\$10.0075 (\$8/.7994)	\$80 (7.994 * \$10.0075)

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
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Phone: 1.800.222.5852
Email: investorcontact@principalfunds.com
Website: www.principalfunds.com/investor/contactus.htm

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