

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

► See separate instructions.

Part I Reporting Issuer

1 Issuer's name <u>Principal Funds, Inc. - SmallCap Growth Fund</u>		2 Issuer's employer identification number (EIN) <u>XX-XXX9845</u>	
3 Name of contact for additional information <u>Principal Funds</u>	4 Telephone No. of contact <u>1-800-222-5852</u>	5 Email address of contact <u>investorcontact@principalfunds.com</u>	
6 Number and street (or P.O. box if mail is not delivered to street address) of contact <u>P.O. Box 8024</u>		7 City, town, or post office, state, and Zip code of contact <u>Boston, MA 02266-8024</u>	
8 Date of action <u>See Attachment</u>		9 Classification and description <u>See Attachment</u>	
10 CUSIP number <u>See Attachment</u>	11 Serial number(s) <u>See Attachment</u>	12 Ticker symbol <u>See Attachment</u>	13 Account number(s) <u>See Attachment</u>

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 ▶ March 30, 2012

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 (EIN: XX-XXX9845)
Attachment to Form 8937, Report of Organizational Action Affecting Cost Basis
March 30, 2012

This notice is provided to inform shareholders of Principal Funds, Inc. – SmallCap Growth Fund of an action that affects your cost basis (per share) of shares owned on February 17, 2012.

Effective February 17, 2012, Principal Funds, Inc. – SmallCap Blend Fund acquired all of the assets and assumed all of the liabilities of Principal Funds, Inc. – SmallCap Growth Fund. Each shareholder of Principal Funds, Inc. – SmallCap Growth Fund will, as a result of the acquisition, own shares of Principal Funds, Inc. – SmallCap Blend 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 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 2/17/12 NAV Per Share	SmallCap Blend Fund 2/17/12 NAV Per Share	Tax-Free Exchange Rate
Class A	74254V778	PMAAX	8.5067	15.5911	.5456
Class B	74254V760	PSCBX	8.1152	14.5937	.5561
Class C	74254V752	PSOWX	8.2415	15.0540	.5475
Class J	74253Q556	PSGJX	8.0520	15.0574	.5348
Institutional	74253Q549	SCPGX	9.1515	16.1739	.5658
R-1	74254T708	PSAGX	8.2916	15.2855	.5424
R-2	74253J248	PSARX	8.4625	15.3222	.5523
R-3	74253J230	PSLPX	8.6235	15.6357	.5515
R-4	74253J263	PVARX	8.9014	15.9472	.5582
R-5	74253J255	PTARX	8.9890	16.1389	.5570

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 Blend Fund after the acquisition, multiply shares owned of Principal Funds, Inc. – SmallCap Growth Fund on February 17, 2012 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 – Class A Shares Owned by Shareholder XYZ Immediately Prior to Acquisition	Shareholder XYZ's Cost Basis Per Share of SmallCap Growth – Class A Shares Owned	Shareholder XYZ's Total Cost Basis of SmallCap Growth – Class A Shares Owned	SmallCap Blend – Class A Shares Owned by Shareholder XYZ Immediately After the Acquisition	Shareholder XYZ's Cost Basis Per Share of SmallCap Blend – Class A Shares Owned	Shareholder XYZ's Total Cost Basis of SmallCap Blend – Class A Shares Owned
10 shares	\$8	\$80 (10* \$8)	5.456 shares (10*.5456)	\$14.6628 (\$8/.5456)	\$80 (5.456 * \$14.6628)

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.