

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. - SmallCap Value Fund		XX-XXX9847
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
See Attachment	See Attachment	13 Account number(s)

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

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 ▶ 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 Value Fund (EIN: XX-XXX9847)
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 Value 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 Value Fund. Each shareholder of Principal Funds, Inc. – SmallCap Value 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 Value 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 Value Fund 2/17/12 NAV Per Share	SmallCap Blend Fund 2/17/12 NAV Per Share	Tax-Free Exchange Rate
Class A	74254T385	PSUAX	16.2099	15.5911	1.0397
Class B	74254T377	PSVBX	15.5682	14.5937	1.0668
Class C	74254V745	PSUCX	15.8377	15.0540	1.0521
Class J	74253Q515	PSVJX	15.6613	15.0574	1.0401
Institutional	74253Q499	PVSIX	16.3110	16.1739	1.0085
R-1	74254T880	PSAVX	15.9550	15.2855	1.0438
R-2	74253J156	PSVNX	15.9199	15.3222	1.0390
R-3	74253J149	PSVMX	16.2024	15.6357	1.0362
R-4	74253J172	PSVSX	16.2961	15.9472	1.0219
R-5	74253J164	PSVPX	16.3852	16.1389	1.0153

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 Value 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 Value – Class A Shares Owned by Shareholder XYZ Immediately Prior to Acquisition	Shareholder XYZ’s Cost Basis Per Share of SmallCap Value – Class A Shares Owned	Shareholder XYZ’s Total Cost Basis of SmallCap Value – 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	\$15	\$150 (10* \$15)	10.397 shares (10*1.0397)	\$14.4272 (\$15/1.0397)	\$150 (10.397 * \$14.4272)

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.