

Principal MidCap Fund

A long-term, bottom-up, fundamental approach

2017
third quarter

Ticker:

Class A: PEMGX
Class C: PMBCX
Class I: PCBIX

Morningstar rating

Class I Shares



Overall Morningstar Rating™ as of 09/30/2017 among 563 Mid-Cap Growth Funds

Morningstar ratings may vary between share classes, are based on historical risk-adjusted total returns and are subject to change.

Invest for the long term in high quality companies led by owner-operators.

The Principal MidCap Fund¹ offers:

The best of both worlds.

Mid-cap stocks—stocks from medium-sized companies—offer a potential mix of benefits, including:

- Better organic growth potential than mega-company stocks, but more established and less volatile than smaller firms.
- A rich selection universe, combining the best attributes of growth, value, quality, and liquidity.
- Potential diversification benefits, as mid-cap equities are often overlooked in favor of large- and small-cap stocks.
- Acquisition premiums, when mid-cap companies are occasionally bought by larger companies.

A distinctive approach.

Aligned Investors believes in owning companies for full market cycles. Its process has four cornerstones:

- Competitive advantage: something special that distinguishes the company from upstarts and new entrants.
- Owner-operators: companies led by passionate owners, as well as firms that possess that culture.
- Valuation discipline: companies that trade at a discount to intrinsic value, building a margin of safety.
- Risk reduction: monitoring companies for changes or early warning signals.

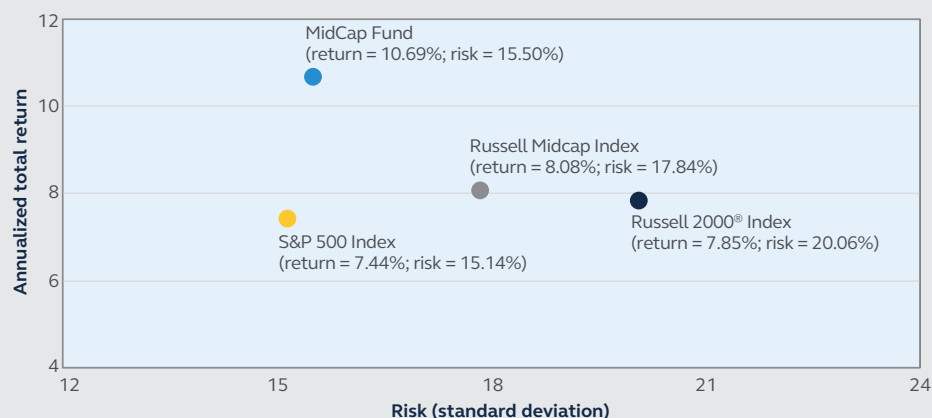
Aligned commitment.

Named after their conviction in the power of aligned incentives, Aligned Investors, an investment boutique within Principal Global Investors:

- Has had stable leadership for over 15 years with CIO and Portfolio Manager, Bill Nolin. Co-Portfolio Manager Tom Rozycki joined Nolin in 2001.
- Has a track record of delivering distinguished risk-adjusted results over full-market cycles.²
- Invests their own money in the strategy, due to their belief that an investment team should be aligned with its shareholders.

Track record of delivering distinguished results

Risk & return of Principal MidCap Fund vs. industry benchmarks over 10 years (October 2007 – September 2017)



Source: Morningstar.

Past performance does not guarantee future results. Asset allocation and diversification do not guarantee a profit or protect against a loss.

¹ Effective June 14, 2013, the Principal MidCap Fund closed to certain new investors. Please see the prospectus for more complete information.

² Morningstar. Based on historical performance and standard deviation, a measure of risk, of the Principal MidCap Fund performance vs. the Morningstar Mid-Cap Growth Category, September 2007 – September 2017.

The Russell Midcap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000® Index.

The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Russell 2000® serves as a benchmark for small-cap stocks in the United States.

S&P 500 Index is a market-capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

Portfolio strategy & management

Using a long-term, bottom-up, fundamental investment approach, Aligned Investors seeks to own high quality companies led by owner-operator management teams, with a constant focus on valuation discipline and risk reduction.

The Fund invests at least 80 percent of its net assets in equity securities of companies with medium market capitalizations (those with market capitalizations within the range of companies found in the Russell Midcap® Index).

Bill Nolin, CFA

24 Years of experience

Thomas Rozycki, CFA

17 Years of experience

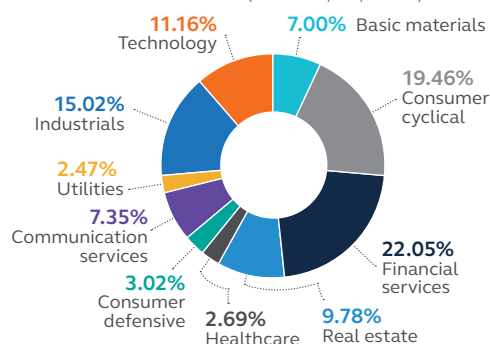
Portfolio composition

Top ten holdings³ (as of 08/31/2017)

	% of net assets
1. Brookfield Asset Management Inc Class A	4.78%
2. SBA Communications Corp	4.19%
3. Aon PLC	3.73%
4. TransDigm Group Inc	3.37%
5. Markel Corp	3.35%
6. Moody's Corporation	3.07%
7. CarMax Inc	2.90%
8. Restaurant Brands International Inc	2.60%
9. Air Products & Chemicals Inc	2.38%
10. Autodesk Inc	2.37%
Total % in top ten	32.74%

The holdings listed do not constitute a recommendation to purchase or sell a particular security.

Sector allocations³ (as of 09/30/2017)



³ May not reflect current holdings or allocations. Percentages may not add up to 100 percent due to rounding.

Portfolio statistics (as of 09/30/2017)

	Principal MidCap I	Russell Midcap® Index
Market capitalization (wtg avg) - Mil	\$19,104	\$14,025
Active share	89.42%	—
Number of holdings	83	783
Operating margin	18.87%	16.72%
10-year sharpe ratio	0.71	0.50
10-year downside capture	80.16%	100%
Turnover (last 12 months)	22.40%	—

Source: FactSet, Morningstar.

Performance, percentiles, & ratings (as of 09/30/2017)

	Average annual total returns							Expense ratio		
	Year-to-date	1-year	3-year	5-year	10-year	Since inception ⁵				
Class I ⁴	19.48%	20.59%	12.61%	15.76%	10.69%	10.74%	0.68%			
Class A (excluding sales charge) ⁴	19.18%	20.19%	12.26%	15.37%	10.25%	10.24%	0.99%			
Class A (including sales charge) ⁴	12.61%	13.60%	10.16%	14.07%	9.63%	9.87%	0.99%			
Russell Midcap Index ^{6,7}	11.74%	15.32%	9.54%	14.26%	8.08%	—	—			
Morningstar rankings and ratings										
Class I percentile rankings ⁸	—	24	7	8	2	—	—			
Class A percentile rankings ⁸	—	27	9	10	3	—	—			
Category and number of funds in category: Mid-Cap Growth	627	614	563	484	362	—	—			
Class I ratings ⁹	—	—	★★★★★	★★★★★	★★★★★	Overall	★★★★★			
Class A ratings ^{4,9}	—	—	★★★★★	★★★★★	★★★★★	Overall	★★★★★			
Calendar year total returns										
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Class I	9.39%	-33.75%	33.08%	23.78%	8.02%	19.15%	33.60%	12.69%	1.47%	10.25%
Class A (excluding sales charge)	9.01%	-34.09%	32.50%	23.12%	7.63%	18.57%	33.15%	12.33%	1.13%	9.93%

Returns represent past performance and do not guarantee future results. Share price, principal value, and return will vary and you may have a gain or loss when shares are sold. Current performance may be lower or higher than quoted. For the most recent month-end performance, visit principalfunds.com. A maximum sales charge of 5.5% may apply for Class A shares. Performance reflects this maximum sales charge when a sales charge is indicated.

⁴ Performance assumes reinvestment of all dividends and capital gains. Only certain investors, such as retirement plan participants, can purchase Class A shares without a sales charge; see the prospectus for details.

⁵ Class A shares were first sold on 06/28/2005. Class I shares were first sold on 03/01/2001. Returns for Class A and I shares prior to inception dates, including since inception performance, are based on performance of the R3 Class shares adjusted to reflect the fees and expenses of respective share classes. Class R3 shares were first sold on 12/06/2000.

⁶ Russell Midcap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000® Index.

⁷ Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

⁸ Morningstar percentile rankings are based on total returns and do not reflect the inclusion of sales charges. If sales charges were reflected, rankings could be lower.

⁹ The Morningstar Rating™ for funds, or “star rating”, is calculated for managed products (including mutual funds, variable annuity and variable life subaccounts, exchange-traded funds, closed-end funds, and separate accounts) with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product’s monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star. The Overall Morningstar Rating for a managed product is derived from a weighted average of the performance figures associated with its three-, five-, and 10-year (if applicable) Morningstar Rating metrics. The weights are: 100% three-year rating for 36-59 months of total returns, 60% five-year rating/40% three-year rating for 60-119 months of total returns, and 50% 10-year rating/30% five-year rating/20% three-year rating for 120 or more months of total returns. While the 10-year overall star rating formula seems to give the most weight to the 10-year period, the most

recent three-year period actually has the greatest impact because it is included in all three rating periods. Morningstar ratings do not reflect the inclusion of sales charges. If sales charges were reflected, rankings could be lower. © 2017 Morningstar, Inc. All rights reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance does not guarantee future results.

Sharpe Ratio: Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment’s historical risk-adjusted performance.

Small and mid-cap stocks may have additional risks including greater price volatility. Aligned Investors is a specialized investment management group within Principal Global Investors, a global investment management leader.

Class I shares are available only to eligible investors, including various institutional investors and investors in certain mutual fund wrap or asset allocation programs. See the prospectus for eligibility requirements.

Principal Funds Class P shares automatically converted to Institutional Class shares effective close of business June 23, 2017.

Carefully consider a fund’s objectives, risks, charges, and expenses. Contact your financial professional or visit principalfunds.com for a prospectus, or summary prospectus if available, containing this and other information. Please read it carefully before investing.

Investing involves risk, including possible loss of principal.

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