

Principal Capital Appreciation Portfolio

Sub-advised by Edge Asset Management



Edge Asset Management (EDGE) offers broad expertise in equity, fixed income and global asset allocation capabilities and specializes in income oriented strategies. The firm is headquartered in Seattle, Washington and has been managing assets for clients for more than 75 years.

EDGE remains at the forefront of innovation with a heritage dating back to 1939, when it launched one of the first 50 mutual funds in the U.S. The firm also introduced one of the first target risk series of funds in the industry. Acquired by Principal Management Corporation (a member of the Principal Financial Group) on December 31, 2006, EDGE enjoys the focus of a boutique firm while leveraging the resources of a leading global organization.

Investment Philosophy and Process

The Principal Capital Appreciation portfolio is available as a mutual fund and as a separate account that invests wholly in Institutional class shares of the mutual fund.

Philosophy

The Principal Capital Appreciation portfolio managers seek long-term growth of capital by investing in common stocks of companies across the capitalization spectrum. The EDGE team maintains a longer-term view and holding periods and strives to invest in:

- Strong businesses at attractive prices
- Companies with sustainable competitive advantages and high barriers to entry
- Attractive investment opportunities throughout the U.S. without style or size bias

The investment advisor's investment philosophy and strategy may not perform as intended and could result in a loss or gain.

Process

The investment process (Figure 1 on page 2) for Principal Capital Appreciation begins by sifting through more than 10,000 publicly-traded, primarily U.S. stocks and ADRs (American depositary receipts)¹ with market capitalizations greater than \$100 million.

¹An ADR is a negotiable certificate issued by a U.S. bank representing a specified number of shares (or one share) in a foreign stock that is traded on a U.S. exchange. ADRs are denominated in U.S. dollars.

Figure 1: EDGE's Equity Investment Process

Investment Process Overview

I. Investment Universe

- Screen companies using strategy-specific metrics such as market capitalization, dividend yield, return on capital and sales growth

II. Fundamental Research

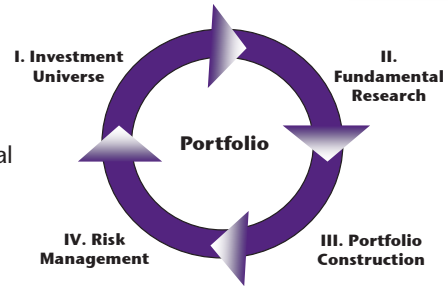
- Perform industry and company analysis to identify industry trends and outstanding businesses with strong long-term prospects

III. Stock Selection and Portfolio Construction

- Strive to purchase quality franchises that are out of favor while maintaining sector neutral approach

IV. Risk Management

- Utilize BarrOne® for portfolio risk analysis, stress testing and attribution feedback. Use Charles River Trading System for portfolio guideline compliance



After these screens are completed, robust fundamental research is performed on an industry and company level:

- Analysts conduct comprehensive industry reviews, where each supply/demand component for an industry is examined.
- After examining the industry as a whole, analysts assign a qualitative rank of companies within each industry.
- Finally, analysts seek to identify outstanding businesses based on screens incorporating high return on invested capital, barriers to entry, competitive advantage, high inside ownership for smaller companies, and free cash generators.

These assigned ratings are used as signals to the portfolio management team and discussed in the equity team's weekly meeting. Although it is the responsibility of analysts to update and keep portfolio management apprised of company rating changes or additions to buy/sell lists, portfolio managers have ultimate responsibility for stock selection.

Initial positions within the Principal Capital Appreciation portfolio are typically less than 1%. Individual securities are limited to a max of 5% of the market value of the portfolio. In practice, most positions will be limited to less than 3% of the portfolio. Within these guidelines, the portfolio managers have a high degree of latitude to enable them to get what they believe are the "best" ideas into the portfolio. Typically, 150-180 stocks are held in the portfolio, with market capitalizations over \$100 million.

Not FDIC or NCUA insured

May lose value • Not a deposit • No bank or credit union guarantee
Not insured by any Federal government agency

Portfolio management team

Philip M. Foreman, CFA, has been a Portfolio Manager at Edge Asset Management since 2002 and has been in the investment industry since 1986. Previously, he was a Portfolio Manager at Evergreen Asset Management and from 1991 to 1999, he was a Portfolio Manager for WM Advisors, Inc., the predecessor to Edge Asset Management. He received an M.B.A. from the University of Puget Sound and a bachelor's degree in economics from the University of Washington.

Daniel R. Coleman is the Head of Equities at Edge Asset Management and also serves as a Portfolio Manager. He joined EDGE in 2001 and has been in the investment industry since 1979. Previously, he was Vice President and Senior Business Manager for Info Space, Inc./Go2Net, Inc. His background also includes positions with Brookhaven Capital Management, LLC/Clyde Hill Research and Ragen MacKenzie. Mr. Coleman received an M.B.A. from New York University and a bachelor's degree in finance from the University of Washington.

Theodore Jayne, CFA, is a Portfolio Manager at Edge Asset Management. He joined EDGE in 2015 and has been in the investment industry since 1998. Previously, he was a Managing Director and Portfolio Manager at Wellington Management Company, LLP. He received a bachelor's degree from Harvard University in Anthropology.

Additional Information

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

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

This investment option is available through a separate account or Principal Funds, Inc. mutual fund. Separate accounts are made available through a group annuity contract with the Principal Life Insurance Company, Des Moines, IA 50392.

Investing involves risk, including possible loss of principal.

Small-cap and mid-cap stocks may have additional risks, including greater price volatility.



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