

Principal LifeTime 2010 R3 Fund as of 09/30/2008

Investment Strategy

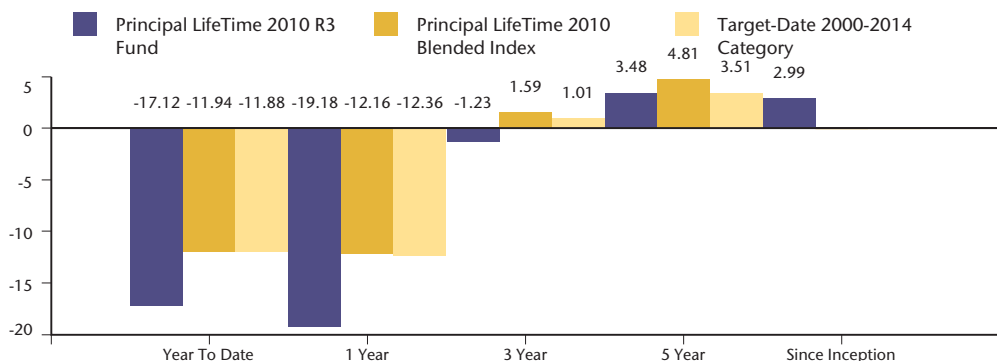
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-17.12	-19.18	-1.23	3.48	2.99
Principal LifeTime 2010 Blended Index %	-11.94	-12.16	1.59	4.81	-
Target-Date 2000-2014 Category %	-11.88	-12.36	1.01	3.51	-
Morningstar Percentile Rankings	-	94	97	50	-
# of Funds in Category	305	300	178	64	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	3.05	11.36	4.91	11.15	18.11
Principal LifeTime 2010 Blended Index %	7.02	8.73	4.11	7.92	14.89
Target-Date 2000-2014 Category %	5.22	8.58	3.68	6.82	13.67
Morningstar Percentile Rankings	87	20	17	6	11
# of Funds in Category	266	188	126	88	43

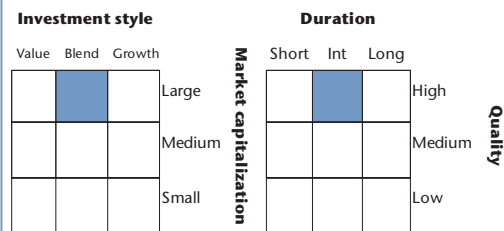
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2000-2014

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2010 Blended Index

	3Yr	5Yr
Alpha	-2.21	-1.40
Beta	1.19	1.16
R-Squared	95.07	93.64
Standard Deviation	8.24	7.36
Mean	-1.22	3.49
Sharpe Ratio	-0.61	0.07
Excess Return	-2.75	-1.26
Excess Risk	2.18	2.10
Information Ratio	-1.26	-0.60

Operations

Total Investment Expense Net	1.34%
Total Investment Expense Gross	1.34%
Inception Date	03/01/2001
Total Net Assets (mil)	\$1,661.71
12b-1 Fees	0.25%
Ticker	PTAMX

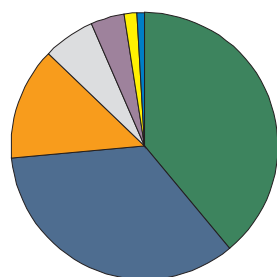


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Principal LifeTime 2010 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



Asset Class	% of Assets
U.S. Bonds	38.97
U.S. Stocks	34.53
Non-U.S. Stocks	13.69
Cash	6.24
Preferred	4.09
Other	1.52
Non-U.S. Bonds	0.95
Convertibles	0.02

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Bond & Mtg Securities Inst	27.23
2.	Principal Disc LargeCap Blend Inst	9.06
3.	Principal International Growth Inst	7.57
4.	Principal Preferred Securities Inst	6.51
5.	Principal Real Estate Securities Inst	6.18
6.	Principal International I Inst	4.94
7.	Principal LargeCap Blend I Inst	4.73
8.	Principal LargeCap Growth I Inst	4.15
9.	Principal LargeCap Growth Inst	4.11
10.	Principal Inflation Protection Inst	3.80
% of net assets in top ten holdings*		78.26

% of net assets

27.23
9.06
7.57
6.51
6.18
4.94
4.73
4.15
4.11
3.80
78.26

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	25
GeoAvgCap (mil)	\$20,849.32
Turnover Ratio	15%
P/C Ratio	7.65
P/E Ratio	14.28
P/B Ratio	2.13

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.15	Healthcare	11.00	Consumer Goods	7.00
Hardware	7.54	Consumer Services	6.97	Industrial Materials	14.47
Media	1.40	Business Services	5.15	Energy	10.32
Telecom	3.92	Financial Services	26.08	Utilities	3.00

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

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The full name of this investment option is Principal LifeTime 2010 R3 Fund.

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Principal LifeTime 2010 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2010 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 40.9% Russell 3000 Index, 14.6% MSCI EAFE Index, and 44.5% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Principal LifeTime Fund indirectly bears its pro rata share of the management fees incurred by the underlying Principal Funds in which this fund invests. Based on the asset allocation of the Principal LifeTime Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.75%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. While the operating expenses of the underlying mutual funds are not part of the Principal LifeTime Fund's operating expenses they are included in the Total Investment Expense. Performance results shown for the Principal LifeTime Fund reflect the application of these expenses.

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Principal LifeTime 2015 R3 Fund as of 09/30/2008

Investment Strategy

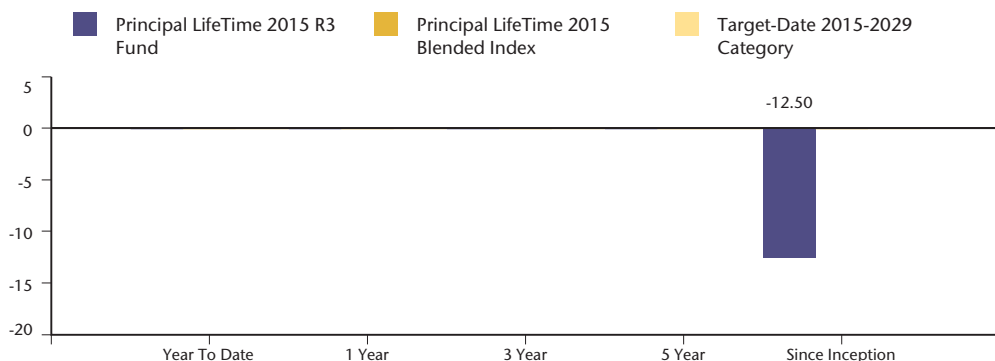
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Long-term returns % as of 09/30/2008



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-	-	-	-	-12.50
Principal LifeTime 2015 Blended Index %	-	-	-	-	-
Target-Date 2015-2029 Category %	-16.79	-18.44	0.22	4.28	-
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	423	400	170	41	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-	-	-	-	-
Target-Date 2015-2029 Category %	6.05	12.45	5.80	9.18	20.73
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	303	173	103	52	18

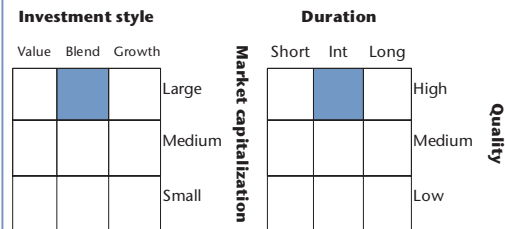
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2015-2029

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2015 Blended Index

	3Yr	5Yr
Alpha	-	-
Beta	-	-
R-Squared	-	-
Standard Deviation	-	-
Mean	-	-
Sharpe Ratio	-	-
Excess Return	-	-
Excess Risk	-	-
Information Ratio	-	-

Operations

Total Investment Expense Net	1.41%
Total Investment Expense Gross	1.41%
Contractual Cap Expiration Date	02/28/2009
Inception Date	02/29/2008
Total Net Assets (mil)	\$55.19
12b-1 Fees	0.25%
Ticker	LTAPX

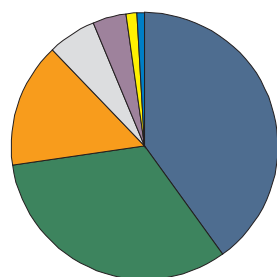


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Principal LifeTime 2015 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



% of Assets

U.S. Stocks	40.07
U.S. Bonds	32.62
Non-U.S. Stocks	15.16
Cash	5.86
Preferred	4.04
Other	1.33
Non-U.S. Bonds	0.90
Convertibles	0.02

Top ten holdings

1. Principal Bond & Mtg Securities Inst	23.26
2. Principal Disc LargeCap Blend Inst	10.24
3. Principal International I Inst	10.09
4. Principal Real Estate Securities Inst	6.46
5. Principal Preferred Securities Inst	6.31
6. Principal LargeCap Blend I Inst	5.63
7. Principal High Yield I Inst	4.82
8. Principal LargeCap Growth Inst	4.41
9. Principal LargeCap Growth I Inst	4.36
10. Principal International Growth Inst	3.34
% of net assets in top ten holdings*	78.92

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	24
GeoAvgCap (mil)	\$22,609.10
P/C Ratio	7.66
P/E Ratio	14.09
P/B Ratio	2.06

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.02	Healthcare	10.86	Consumer Goods	7.06
Hardware	7.24	Consumer Services	6.63	Industrial Materials	13.78
Media	1.53	Business Services	5.03	Energy	10.78
Telecom	4.19	Financial Services	26.55	Utilities	3.31

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Investment Strategy

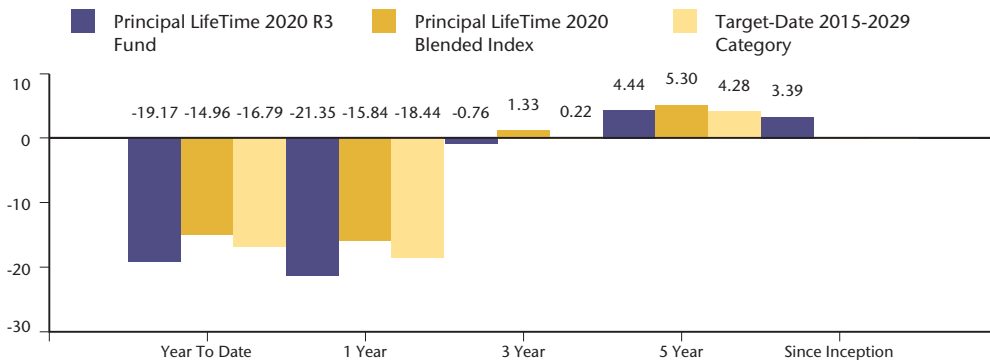
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Long-term returns % as of 09/30/2008



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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-19.17	-21.35	-0.76	4.44	3.39
Principal LifeTime 2020 Blended Index %	-14.96	-15.84	1.33	5.30	-
Target-Date 2015-2029 Category %	-16.79	-18.44	0.22	4.28	-
Morningstar Percentile Rankings	-	77	75	43	-
# of Funds in Category	423	400	170	41	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	4.68	13.62	6.99	11.70	20.84
Principal LifeTime 2020 Blended Index %	7.00	11.30	5.12	9.54	17.64
Target-Date 2015-2029 Category %	6.05	12.45	5.80	9.18	20.73
Morningstar Percentile Rankings	75	28	14	14	34
# of Funds in Category	303	173	103	52	18

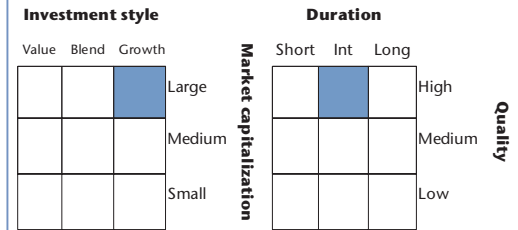
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2015-2029

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2020 Blended Index

	3Yr	5Yr
Alpha	-1.50	-0.97
Beta	1.16	1.13
R-Squared	97.47	96.07
Standard Deviation	9.90	8.78
Mean	-0.76	4.44
Sharpe Ratio	-0.44	0.18
Excess Return	-2.02	-0.80
Excess Risk	2.03	2.01
Information Ratio	-0.99	-0.40

Operations

Total Investment Expense Net	1.39%
Total Investment Expense Gross	1.39%
Inception Date	03/01/2001
Total Net Assets (mil)	\$3,622.51
12b-1 Fees	0.25%
Ticker	PTBMX

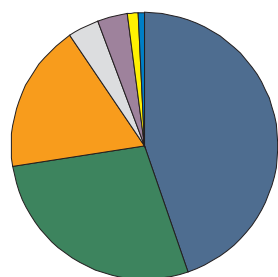


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Principal LifeTime 2020 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



Asset Class	% of Assets
U.S. Stocks	44.70
U.S. Bonds	27.81
Non-U.S. Stocks	18.01
Cash	3.73
Preferred	3.64
Other	1.30
Non-U.S. Bonds	0.80
Convertibles	0.01

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Bond & Mtg Securities Inst	20.35
2.	Principal Disc LargeCap Blend Inst	11.30
3.	Principal International Growth Inst	9.27
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% of net assets in top ten holdings*		78.96

% of net assets

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# of Other Hldgs	22
GeoAvgCap (mil)	\$21,455.56
Turnover Ratio	15%
P/C Ratio	7.60
P/E Ratio	14.04
P/B Ratio	2.12

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.29	Healthcare	11.35	Consumer Goods	7.25
Hardware	7.85	Consumer Services	7.20	Industrial Materials	14.92
Media	1.48	Business Services	5.41	Energy	10.74
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Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

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This Principal LifeTime Fund indirectly bears its pro rata share of the management fees incurred by the underlying Principal Funds in which this fund invests. Based on the asset allocation of the Principal LifeTime Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.75%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. While the operating expenses of the underlying mutual funds are not part of the Principal LifeTime Fund's operating expenses they are included in the Total Investment Expense. Performance results shown for the Principal LifeTime Fund reflect the application of these expenses.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2025 R3 Fund as of 09/30/2008

Investment Strategy

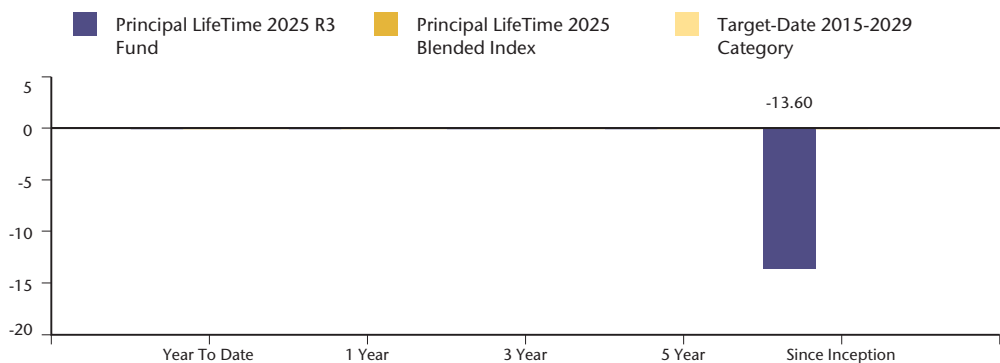
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

James Fennessey, CFA. Since 02/29/2008. B.S., Truman State U
Michael P. Finnegan, CFA. Since 02/29/2008. M.A., U of Iowa
Dirk Laschanzky, CFA. Since 02/29/2008. M.B.A., U of Iowa
Randy L. Welch Since 02/29/2008. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-	-	-	-	-13.60
Principal LifeTime 2025 Blended Index %	-	-	-	-	-
Target-Date 2015-2029 Category %	-16.79	-18.44	0.22	4.28	-
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	423	400	170	41	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-	-	-	-	-
Target-Date 2015-2029 Category %	6.05	12.45	5.80	9.18	20.73
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	303	173	103	52	18

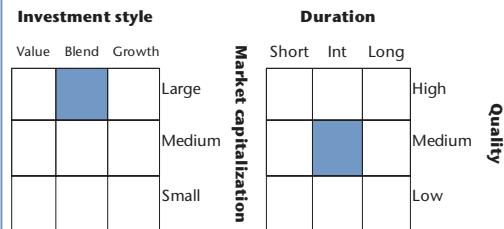
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2015-2029

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2025 Blended Index

	3Yr	5Yr
Alpha	-	-
Beta	-	-
R-Squared	-	-
Standard Deviation	-	-
Mean	-	-
Sharpe Ratio	-	-
Excess Return	-	-
Excess Risk	-	-
Information Ratio	-	-

Operations

Total Investment Expense Net	1.44%
Total Investment Expense Gross	1.44%
Contractual Cap Expiration Date	02/28/2009
Inception Date	02/29/2008
Total Net Assets (mil)	\$61.32
12b-1 Fees	0.25%
Ticker	LTVPX



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Principal LifeTime 2025 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.09	Healthcare	11.31	Consumer Goods	7.23
Hardware	7.50	Consumer Services	6.84	Industrial Materials	14.13
Media	1.59	Business Services	5.24	Energy	11.09
Telecom	4.42	Financial Services	24.14	Utilities	3.42

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker/dealers. Securities sold by a Princor® Registered Representative are offered through Princor. Principal Funds Distributor, Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LifeTime 2025 R3 Fund.

Before investing in mutual funds, investors should carefully consider the investment objectives, risks, charges and expenses of the funds. This and other information is contained in the free prospectus, which can be obtained from your local representative, by visiting www.principal.com, or by contacting us at 1-800-547-7754. Please read the prospectus carefully before investing.

Principal LifeTime 2025 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2025 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 53.7% Russell 3000 Index, 20.8% MSCI EAFE Index, and 25.5% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

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Principal LifeTime 2030 R3 Fund as of 09/30/2008

Investment Strategy

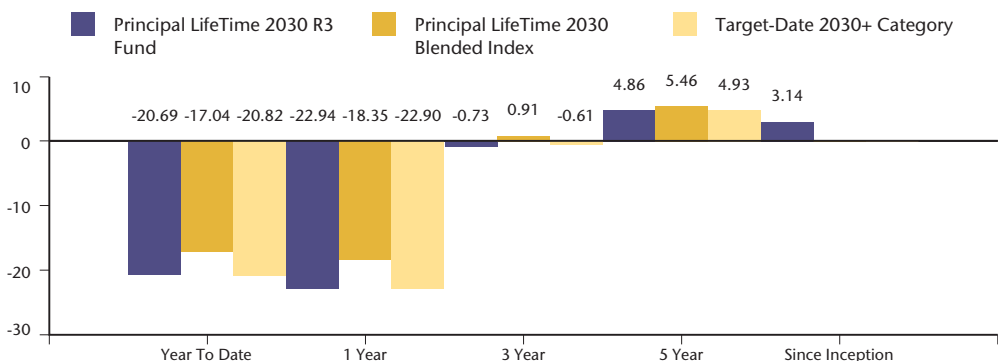
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-20.69	-22.94	-0.73	4.86	3.14
Principal LifeTime 2030 Blended Index %	-17.04	-18.35	0.91	5.46	-
Target-Date 2030+ Category %	-20.82	-22.90	-0.61	4.93	-
Morningstar Percentile Rankings	-	52	58	57	-
# of Funds in Category	610	590	237	62	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	5.59	14.65	7.76	12.14	22.62
Principal LifeTime 2030 Blended Index %	6.94	12.72	5.65	10.42	20.51
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.33
Morningstar Percentile Rankings	73	49	35	39	91
# of Funds in Category	409	235	147	87	42

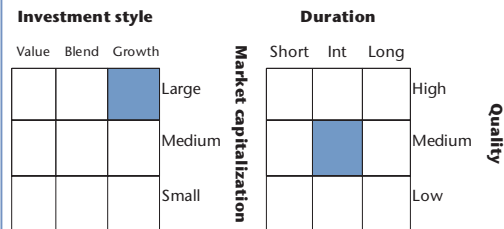
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2030 Blended Index

	3Yr	5Yr
Alpha	-1.06	-0.67
Beta	1.13	1.11
R-Squared	97.92	97.15
Standard Deviation	10.93	9.65
Mean	-0.72	4.86
Sharpe Ratio	-0.38	0.21
Excess Return	-1.57	-0.53
Excess Risk	2.00	1.87
Information Ratio	-0.78	-0.28

Operations

Total Investment Expense Net	1.42%
Total Investment Expense Gross	1.42%
Inception Date	03/01/2001
Total Net Assets (mil)	\$3,110.21
12b-1 Fees	0.25%
Ticker	PTCMX

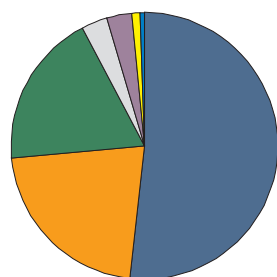


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Principal LifeTime 2030 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



% of Assets

U.S. Stocks	51.78
Non-U.S. Stocks	21.70
U.S. Bonds	18.78
Cash	3.14
Preferred	3.03
Other	0.97
Non-U.S. Bonds	0.58
Convertibles	0.01

Top ten holdings

1. Principal Disc LargeCap Blend Inst	12.51
2. Principal Bond & Mtg Securities Inst	11.60
3. Principal International Growth Inst	10.84
4. Principal International I Inst	7.55
5. Principal LargeCap Growth I Inst	6.55
6. Principal LargeCap Blend I Inst	6.23
7. Principal LargeCap Growth Inst	6.19
8. Principal High Yield I Inst	4.91
9. Principal Preferred Securities Inst	4.62
10. Principal Real Estate Securities Inst	4.48
% of net assets in top ten holdings*	75.49

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	22
GeoAvgCap (mil)	\$22,294.29
Turnover Ratio	16%
P/C Ratio	7.62
P/E Ratio	13.89
P/B Ratio	2.13

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.30	Healthcare	11.66	Consumer Goods	7.34
Hardware	8.04	Consumer Services	7.39	Industrial Materials	15.24
Media	1.54	Business Services	5.57	Energy	10.93
Telecom	4.19	Financial Services	21.46	Utilities	3.33

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Principal LifeTime 2030 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2030 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 56.7% Russell 3000 Index, 22.3% MSCI EAFE Index, and 21.0% Lehman Aggregate Index.

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Principal LifeTime 2035 R3 Fund as of 09/30/2008

Investment Strategy

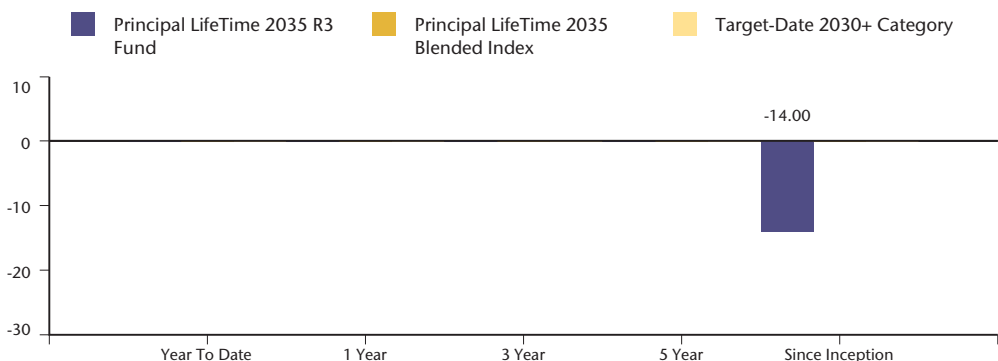
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Portfolio managers

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Michael P. Finnegan, CFA. Since 02/29/2008. M.A., U of Iowa
Dirk Laschanzky, CFA. Since 02/29/2008. M.B.A., U of Iowa
Randy L. Welch Since 02/29/2008. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-	-	-	-	-14.00
Principal LifeTime 2035 Blended Index %	-	-	-	-	-
Target-Date 2030+ Category %	-20.82	-22.90	-0.61	4.93	-
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	610	590	237	62	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-	-	-	-	-
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.33
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	409	235	147	87	42

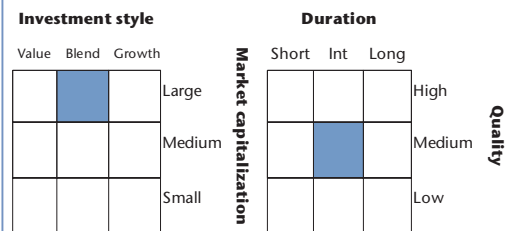
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2035 Blended Index

	3Yr	5Yr
Alpha	-	-
Beta	-	-
R-Squared	-	-
Standard Deviation	-	-
Mean	-	-
Sharpe Ratio	-	-
Excess Return	-	-
Excess Risk	-	-
Information Ratio	-	-

Operations

Total Investment Expense Net	1.46%
Total Investment Expense Gross	1.46%
Contractual Cap Expiration Date	02/28/2009
Inception Date	02/29/2008
Total Net Assets (mil)	\$34.22
12b-1 Fees	0.25%
Ticker	LTAOX

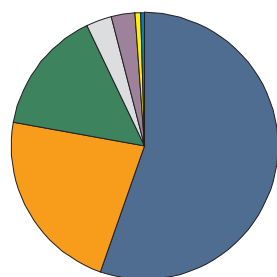


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Principal LifeTime 2035 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



Asset Class	% of Assets
U.S. Stocks	55.39
Non-U.S. Stocks	22.51
U.S. Bonds	14.95
Cash	3.09
Preferred	2.88
Other	0.67
Non-U.S. Bonds	0.49
Convertibles	0.01

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal International I Inst	18.63
2.	Principal Disc LargeCap Blend Inst	12.63
3.	Principal Bond & Mtg Securities Inst	8.07
4.	Principal LargeCap Growth Inst	6.86
5.	Principal LargeCap Growth I Inst	6.84
6.	Principal LargeCap Blend I Inst	6.78
7.	Principal High Yield I Inst	5.17
8.	Principal LargeCap Value I Inst	4.58
9.	Principal LargeCap Value Inst	4.56
10.	Principal LargeCap Value III Inst	4.46
% of net assets in top ten holdings*		78.57

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	22
GeoAvgCap (mil)	\$24,558.55
P/C Ratio	7.48
P/E Ratio	13.69
P/B Ratio	2.00

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.09	Healthcare	11.56	Consumer Goods	7.32
Hardware	7.53	Consumer Services	6.78	Industrial Materials	14.01
Media	1.63	Business Services	5.36	Energy	11.35
Telecom	4.69	Financial Services	23.13	Utilities	3.55

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The full name of this investment option is Principal LifeTime 2035 R3 Fund.

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Principal LifeTime 2035 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2035 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 59.3% Russell 3000 Index, 23.5% MSCI EAFE Index, and 17.2% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Principal LifeTime Fund indirectly bears its pro rata share of the management fees incurred by the underlying Principal Funds in which this fund invests. Based on the asset allocation of the Principal LifeTime Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.75%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. While the operating expenses of the underlying mutual funds are not part of the Principal LifeTime Fund's operating expenses they are included in the Total Investment Expense. Performance results shown for the Principal LifeTime Fund reflect the application of these expenses.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2040 R3 Fund as of 09/30/2008

Investment Strategy

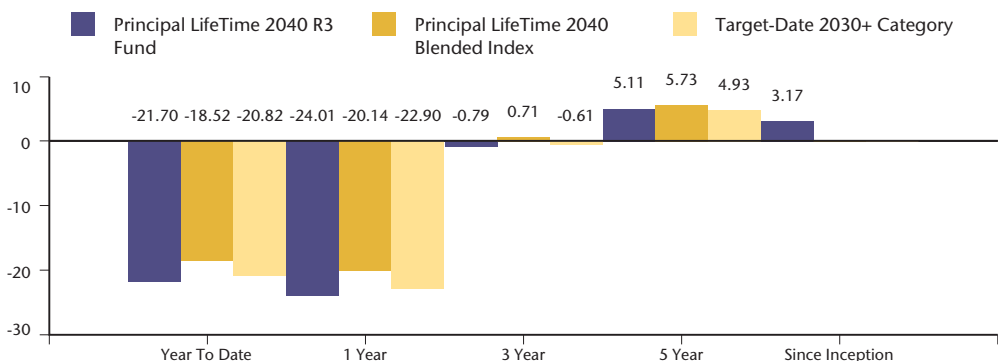
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-21.70	-24.01	-0.79	5.11	3.17
Principal LifeTime 2040 Blended Index %	-18.52	-20.14	0.71	5.73	-
Target-Date 2030+ Category %	-20.82	-22.90	-0.61	4.93	-
Morningstar Percentile Rankings	-	69	61	43	-
# of Funds in Category	610	590	237	62	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	6.41	14.94	8.16	12.46	23.75
Principal LifeTime 2040 Blended Index %	6.88	14.26	6.21	11.37	23.42
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.33
Morningstar Percentile Rankings	52	41	14	33	70
# of Funds in Category	409	235	147	87	42

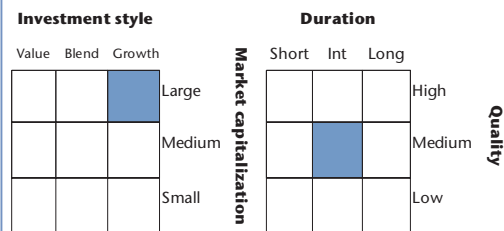
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2040 Blended Index

	3Yr	5Yr
Alpha	-0.98	-0.67
Beta	1.11	1.09
R-Squared	98.17	97.84
Standard Deviation	11.66	10.32
Mean	-0.79	5.11
Sharpe Ratio	-0.36	0.23
Excess Return	-1.43	-0.55
Excess Risk	1.93	1.72
Information Ratio	-0.74	-0.32

Operations

Total Investment Expense Net	1.44%
Total Investment Expense Gross	1.44%
Inception Date	03/01/2001
Total Net Assets (mil)	\$1,629.07
12b-1 Fees	0.25%
Ticker	PTDMX



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Principal LifeTime 2040 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.30	Healthcare	11.81	Consumer Goods	7.40
Hardware	8.18	Consumer Services	7.52	Industrial Materials	15.34
Media	1.52	Business Services	5.69	Energy	10.99
Telecom	4.30	Financial Services	20.59	Utilities	3.35

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

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The full name of this investment option is Principal LifeTime 2040 R3 Fund.

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Principal LifeTime 2040 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2040 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 61.4% Russell 3000 Index, 24.6% MSCI EAFE Index, and 14.0% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2045 R3 Fund as of 09/30/2008

Investment Strategy

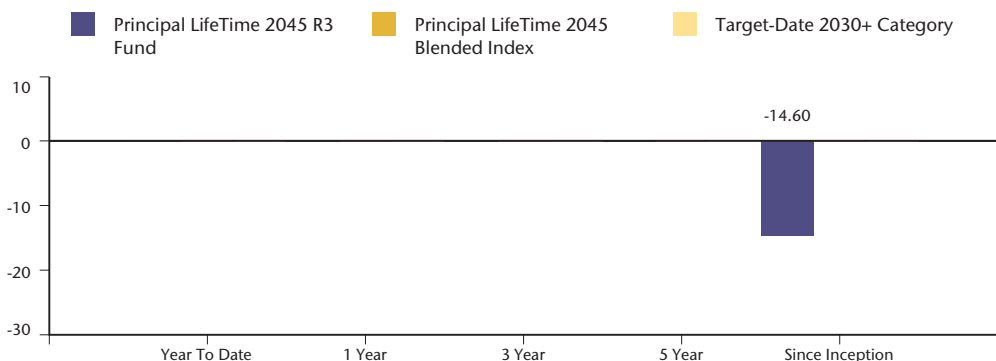
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

James Fennessey, CFA. Since 02/29/2008. B.S., Truman State U
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Dirk Laschanzky, CFA. Since 02/29/2008. M.B.A., U of Iowa
Randy L. Welch Since 02/29/2008. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-	-	-	-	-14.60
Principal LifeTime 2045 Blended Index %	-	-	-	-	-
Target-Date 2030+ Category %	-20.82	-22.90	-0.61	4.93	-
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	610	590	237	62	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-	-	-	-	-
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.33
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	409	235	147	87	42

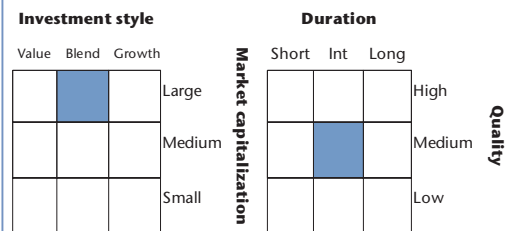
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2045 Blended Index

	3Yr	5Yr
Alpha	-	-
Beta	-	-
R-Squared	-	-
Standard Deviation	-	-
Mean	-	-
Sharpe Ratio	-	-
Excess Return	-	-
Excess Risk	-	-
Information Ratio	-	-

Operations

Total Investment Expense Net	1.50%
Total Investment Expense Gross	1.50%
Contractual Cap Expiration Date	02/28/2009
Inception Date	02/29/2008
Total Net Assets (mil)	\$10.21
12b-1 Fees	0.25%
Ticker	LTRVX

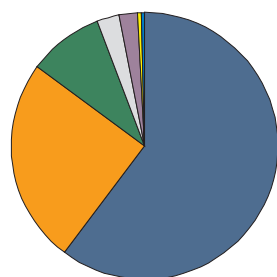


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Principal LifeTime 2045 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



% of Assets

U.S. Stocks	60.29
Non-U.S. Stocks	24.84
U.S. Bonds	9.08
Cash	2.70
Preferred	2.21
Other	0.49
Non-U.S. Bonds	0.38
Convertibles	0.01

Top ten holdings

1. Principal International I Inst	15.31
2. Principal Disc LargeCap Blend Inst	12.86
3. Principal LargeCap Growth I Inst	7.74
4. Principal LargeCap Growth Inst	7.56
5. Principal LargeCap Blend I Inst	6.89
6. Principal High Yield I Inst	5.16
7. Principal LargeCap Value I Inst	5.09
8. Principal LargeCap Value Inst	5.08
9. Principal LargeCap Value III Inst	4.99
10. Principal International Growth Inst	4.94
% of net assets in top ten holdings*	75.64

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	21
GeoAvgCap (mil)	\$24,459.58
P/C Ratio	7.53
P/E Ratio	13.70
P/B Ratio	2.05

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.11	Healthcare	11.73	Consumer Goods	7.42
Hardware	7.81	Consumer Services	7.12	Industrial Materials	14.58
Media	1.59	Business Services	5.52	Energy	11.27
Telecom	4.58	Financial Services	21.80	Utilities	3.48

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Principal LifeTime 2045 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2045 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 63.2% Russell 3000 Index, 25.3% MSCI EAFE Index, and 11.5% Lehman Aggregate Index.

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Principal LifeTime 2050 R3 Fund as of 09/30/2008

Investment Strategy

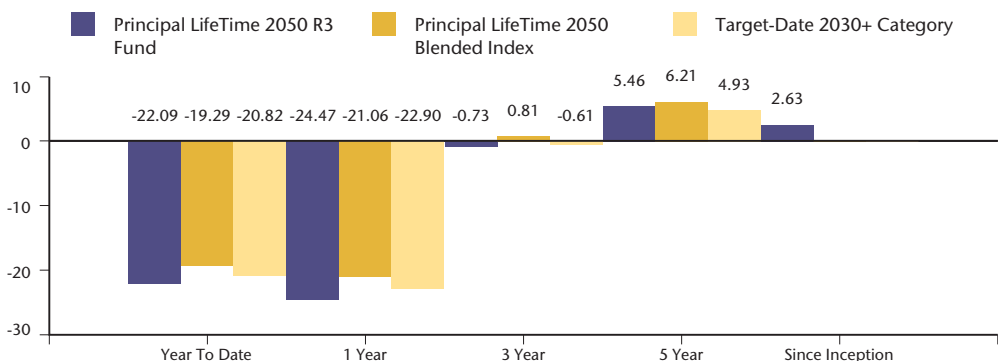
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Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-22.09	-24.47	-0.73	5.46	2.63
Principal LifeTime 2050 Blended Index %	-19.29	-21.06	0.81	6.21	-
Target-Date 2030+ Category %	-20.82	-22.90	-0.61	4.93	-
Morningstar Percentile Rankings	-	77	59	19	-
# of Funds in Category	610	590	237	62	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	6.41	15.53	8.75	12.60	25.80
Principal LifeTime 2050 Blended Index %	6.89	15.81	6.79	12.29	25.94
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.33
Morningstar Percentile Rankings	52	30	6	26	41
# of Funds in Category	409	235	147	87	42

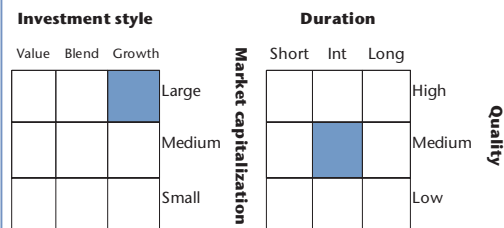
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2050 Blended Index

	3Yr	5Yr
Alpha	-1.10	-0.80
Beta	1.10	1.07
R-Squared	98.33	98.13
Standard Deviation	12.07	10.79
Mean	-0.74	5.45
Sharpe Ratio	-0.34	0.25
Excess Return	-1.49	-0.69
Excess Risk	1.86	1.63
Information Ratio	-0.80	-0.42

Operations

Total Investment Expense Net	1.46%
Total Investment Expense Gross	1.46%
Inception Date	03/01/2001
Total Net Assets (mil)	\$659.17
12b-1 Fees	0.25%
Ticker	PTERX

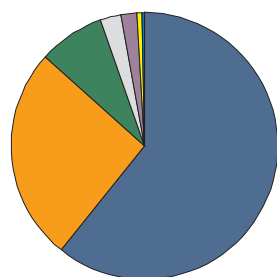


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Principal LifeTime 2050 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



% of Assets

U.S. Stocks	60.77
Non-U.S. Stocks	25.90
U.S. Bonds	7.97
Cash	2.50
Preferred	1.95
Other	0.55
Non-U.S. Bonds	0.36
Convertibles	0.01

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Disc LargeCap Blend Inst	12.77
2.	Principal International Growth Inst	12.17
3.	Principal International I Inst	8.94
4.	Principal LargeCap Growth I Inst	8.18
5.	Principal LargeCap Growth Inst	7.41
6.	Principal LargeCap Blend I Inst	6.61
7.	Principal High Yield I Inst	5.45
8.	Principal LargeCap Value I Inst	4.69
9.	Principal LargeCap Value Inst	4.65
10.	Principal LargeCap Value III Inst	4.25
% of net assets in top ten holdings*		75.12

% of net assets

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	22
GeoAvgCap (mil)	\$22,260.37
Turnover Ratio	21%
P/C Ratio	7.58
P/E Ratio	13.81
P/B Ratio	2.12

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.29	Healthcare	11.89	Consumer Goods	7.38
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Principal LifeTime 2050 Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime 2050 portfolio. The index weightings adjust over time as the portfolio changes to become gradually more conservative. The weightings as of March 31, 2008 are 64.2% Russell 3000 Index, 25.8% MSCI EAFE Index, and 10.0% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

This Principal LifeTime Fund indirectly bears its pro rata share of the management fees incurred by the underlying Principal Funds in which this fund invests. Based on the asset allocation of the Principal LifeTime Funds outlined in the prospectus dated February 29, 2008, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.55%; Principal LifeTime 2010, 0.65%; Principal LifeTime 2015, 0.70%; Principal LifeTime 2020, 0.70%; Principal LifeTime 2025, 0.74%; Principal LifeTime 2030, 0.73%; Principal LifeTime 2035, 0.75%; Principal LifeTime 2040, 0.75%; Principal LifeTime 2045, 0.77%; Principal LifeTime 2050, 0.76%; Principal LifeTime 2055, 0.77%. While the operating expenses of the underlying mutual funds are not part of the Principal LifeTime Fund's operating expenses they are included in the Total Investment Expense. Performance results shown for the Principal LifeTime Fund reflect the application of these expenses.

* Values may exceed 100% if both long and short positions are included in the portfolio.

Principal LifeTime 2055 R3 Fund as of 09/30/2008

Investment Strategy

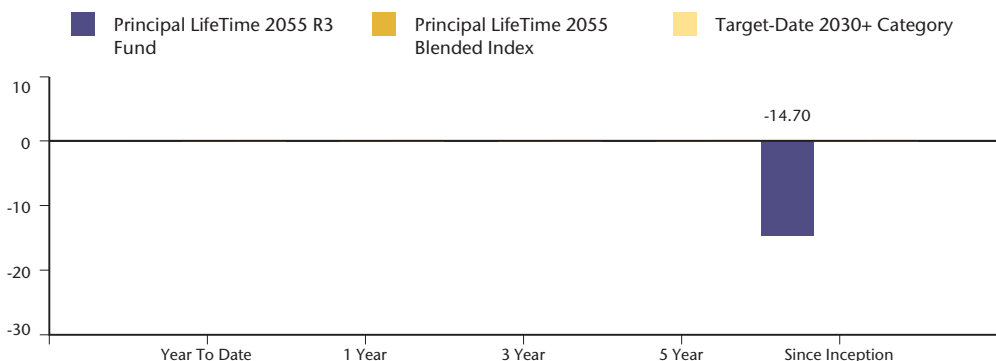
The investment seeks a total return consisting of long-term growth of capital and current income. The fund invests in underlying Principal domestic and foreign equity, hybrid, and fixed-income funds according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the fund. It allocates the assets more conservatively over time. The fund may invest in any of the Institutional Class shares of the equity funds or fixed-income funds of Principal Funds, at the sub-advisors discretion.



Portfolio managers

James Fennessey, CFA. Since 02/29/2008. B.S., Truman State U
Michael P. Finnegan, CFA. Since 02/29/2008. M.A., U of Iowa
Dirk Laschanzky, CFA. Since 02/29/2008. M.B.A., U of Iowa
Randy L. Welch Since 02/29/2008. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-	-	-	-	-14.70
Principal LifeTime 2055 Blended Index %	-	-	-	-	-
Target-Date 2030+ Category %	-20.82	-22.90	-0.61	4.93	-
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	610	590	237	62	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-	-	-	-	-
Target-Date 2030+ Category %	6.54	14.43	7.28	11.31	25.33
Morningstar Percentile Rankings	-	-	-	-	-
# of Funds in Category	409	235	147	87	42

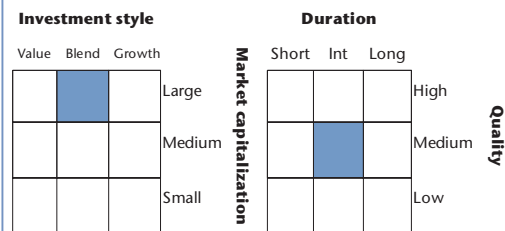
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2030+

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime 2055 Blended Index

	3Yr	5Yr
Alpha	-	-
Beta	-	-
R-Squared	-	-
Standard Deviation	-	-
Mean	-	-
Sharpe Ratio	-	-
Excess Return	-	-
Excess Risk	-	-
Information Ratio	-	-

Operations

Total Investment Expense Net	1.51%
Total Investment Expense Gross	1.60%
Contractual Cap Expiration Date	02/28/2009
Waiver Expiration Date	02/28/2009
Inception Date	02/29/2008
Total Net Assets (mil)	\$1.50
12b-1 Fees	0.25%
Ticker	LTFDX

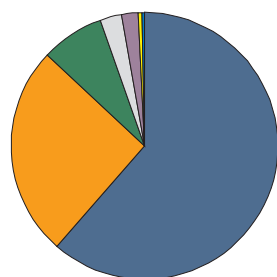


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Principal LifeTime 2055 R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



Asset Class	% of Assets
U.S. Stocks	61.42
Non-U.S. Stocks	25.53
U.S. Bonds	7.63
Cash	2.61
Preferred	2.02
Other	0.44
Non-U.S. Bonds	0.34
Convertibles	0.01

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal International I Inst	14.89
2.	Principal Disc LargeCap Blend Inst	12.68
3.	Principal LargeCap Growth I Inst	8.01
4.	Principal LargeCap Growth Inst	7.83
5.	Principal LargeCap Blend I Inst	6.89
6.	Principal International Growth Inst	5.96
7.	Principal LargeCap Value I Inst	5.28
8.	Principal LargeCap Value Inst	5.26
9.	Principal High Yield I Inst	5.23
10.	Principal LargeCap Value III Inst	5.13
% of net assets in top ten holdings*		77.14

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	21
GeoAvgCap (mil)	\$24,248.14
P/C Ratio	7.53
P/E Ratio	13.71
P/B Ratio	2.05

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.12	Healthcare	11.76	Consumer Goods	7.40
Hardware	7.84	Consumer Services	7.16	Industrial Materials	14.69
Media	1.58	Business Services	5.56	Energy	11.24
Telecom	4.56	Financial Services	21.62	Utilities	3.47

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker/dealers. Securities sold by a Princor® Registered Representative are offered through Princor. Principal Funds Distributor, Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal LifeTime 2055 R3 Fund.

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Principal LifeTime Strategic Income R3 Fund as of 09/30/2008

Investment Strategy

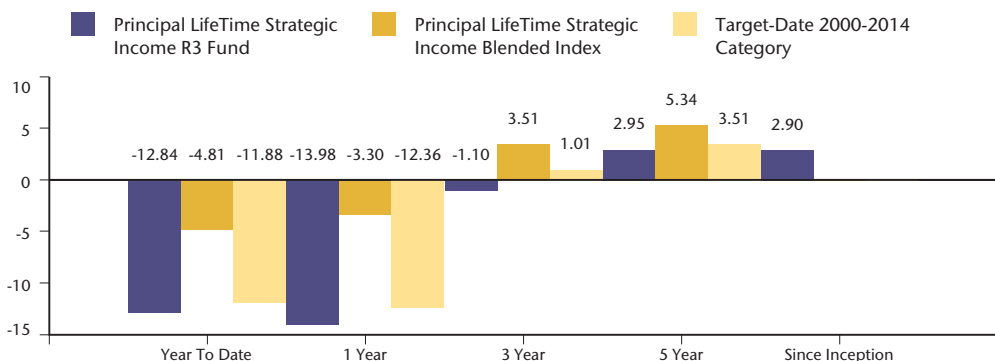
The investment seeks current income. The fund invests in underlying fixed-income funds, but also invests in underlying equity and hybrid funds according to an asset allocation strategy designed for investors seeking current income from their investment. It invests most of the assets in underlying funds which are intended primarily to give the fund broad exposure to income-producing securities through their investments in fixed-income securities, "hybrid" securities and dividend generating domestic and foreign stocks.



Portfolio managers

Dirk Laschanzky, CFA. Since 03/01/2001. M.B.A., U of Iowa
James Fennessey, CFA. Since 05/29/2007. B.S., Truman State U
Michael P. Finnegan, CFA. Since 05/29/2007. M.A., U of Iowa
Randy L. Welch Since 05/29/2007. M.B.A., Drake U
David Blake, CFA. Since 03/31/2008. M.B.A., Saint Louis U

Long-term returns % as of 09/30/2008



Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-12.84	-13.98	-1.10	2.95	2.90
Principal LifeTime Strategic Income Blended Index %	-4.81	-3.30	3.51	5.34	-
Target-Date 2000-2014 Category %	-11.88	-12.36	1.01	3.51	-
Morningstar Percentile Rankings	-	61	95	77	-
# of Funds in Category	305	300	178	64	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	1.25	8.47	3.47	10.45	14.63
Principal LifeTime Strategic Income Blended Index %	7.10	6.90	3.48	6.15	10.74
Target-Date 2000-2014 Category %	5.22	8.58	3.68	6.82	13.67
Morningstar Percentile Rankings	98	48	57	17	50
# of Funds in Category	266	188	126	88	43

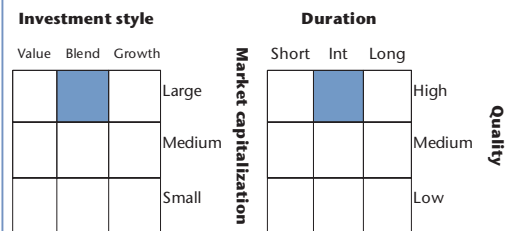
Morningstar percentile rankings are based on total returns.

Morningstar category

Target-Date 2000-2014

Morningstar Style Box™

As of 08/31/2008



Risk and Return Statistics

as of 09/30/2008 Relative to Principal LifeTime Strategic Income Blended Index

	3Yr	5Yr
Alpha	-4.32	-2.58
Beta	1.25	1.18
R-Squared	77.72	79.03
Standard Deviation	5.28	5.13
Mean	-1.10	2.94
Sharpe Ratio	-0.98	-0.03
Excess Return	-4.57	-2.35
Excess Risk	2.55	2.44
Information Ratio	-1.79	-0.96

Operations

Total Investment Expense Net	1.25%
Total Investment Expense Gross	1.25%
Inception Date	03/01/2001
Total Net Assets (mil)	\$531.44
12b-1 Fees	0.25%
Ticker	PLSMX

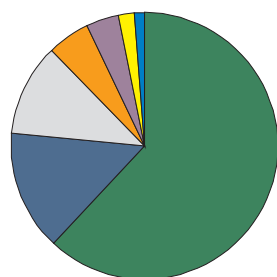


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Principal LifeTime Strategic Income R3 Fund as of 09/30/2008

Portfolio information

Composition as of 08/31/2008



% of Assets

U.S. Bonds	61.96
U.S. Stocks	14.58
Cash	11.20
Non-U.S. Stocks	5.15
Preferred	3.96
Other	1.90
Non-U.S. Bonds	1.23
Convertibles	0.02

Top ten holdings

Rank	Top ten holdings	% of net assets
1.	Principal Bond & Mtg Securities Inst	42.54
2.	Principal Inflation Protection Inst	13.43
3.	Principal Ultra Short Bond Inst	11.71
4.	Principal Preferred Securities Inst	6.59
5.	Principal Real Estate Securities Inst	4.76
6.	Principal Disc LargeCap Blend Inst	3.47
7.	Principal International Growth Inst	3.35
8.	Principal International I Inst	2.10
9.	Principal LargeCap Blend I Inst	1.98
10.	Principal LargeCap Growth Inst	1.86
% of net assets in top ten holdings*		91.80

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	21
GeoAvgCap (mil)	\$19,397.88
Turnover Ratio	25%
P/C Ratio	8.22
P/E Ratio	15.01
P/B Ratio	2.14

Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.70	Healthcare	9.96	Consumer Goods	6.73
Hardware	6.71	Consumer Services	6.53	Industrial Materials	13.15
Media	1.25	Business Services	4.57	Energy	9.41
Telecom	3.31	Financial Services	32.95	Utilities	2.73

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Principal LifeTime Strategic Income Blended Index is composed of underlying indexes that represent the target asset allocation weights of the Principal LifeTime Strategic Income portfolio. The weightings as of March 31, 2008 are 19.0% Russell 3000 Index, 6.0% MSCI EAFE Index, and 75.0% Lehman Aggregate Index.

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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