

SECURITIES AND EXCHANGE COMMISSION

FORM N-30D

Initial annual and semi-annual reports mailed to investment company shareholders pursuant to Rule 30e-1 (other than those required to be submitted as part of Form NCSR)

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FILER

PRINCIPAL EMERGING GROWTH FUND INC

CIK: **814573** | State of Incorporation: **MD** | Fiscal Year End: **0630**
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Mailing Address
*PRINCIPAL FINANCIAL
GROUP
DES MOINES IA 50392-0200*

Business Address
*PRINCIPAL FINANCIAL
GROUP
DES MOINES IA 50309-0200
515-248-9155*

To Principal Mutual Life Insurance Company Customers

Equity markets, both domestic and international, began the year quite strong. However, as investors received varying economic data fears of inflation returned. The result was an increasingly nervous marketplace and some weakening of this upward trend.

Though much attention has been paid to the potential for increasing inflation, most financial experts do not see this as a real threat. Instead, they look for a steady economic environment with correspondingly low inflation and interest rates.

The Principal Mutual Funds continue to experience excellent growth both in assets and the number of contracts. The Principal Mutual Funds act as investment options within several different Principal Mutual Life Insurance Company variable annuity and variable life products. Please see your contract prospectus for a description of the Funds specifically available in your contract.

For each contract holder, particularly those who have recently joined us, we hope that you find the information contained in this Semiannual Report helpful in monitoring your investment.

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<CAPTION>
June 30, 1996

STATEMENTS OF ASSETS AND LIABILITIES

(unaudited)

| | Principal Aggressive Growth Fund, Inc. ----- | Principal Asset Allocation Fund, Inc. ----- | Principal Balanced Fund, Inc. ----- | Principal Bond Fund, Inc. ----- |
|--|--|---|--|--|
| <S> | <C> | <C> | <C> | <C> |
| Investment in securities -- at cost..... | \$53,669,288 | \$39,137,926 | \$67,233,960 | \$52,710,002 |
| | ----- | ----- | ----- | ----- |
| Assets | | | | |
| Investment in securities -- at value (Note 4)..... | \$57,931,524 | \$41,991,360 | \$72,596,193 | \$52,629,596 |
| Cash | 4,792,442 | 12,324,611 | 6,116 | 4,945 |
| Receivables: | | | | |
| Dividends and interest..... | 137,227 | 399,106 | 482,185 | 1,075,247 |
| Investment securities sold..... | 832,100 | 131,556 | - | - |
| Capital Stock sold..... | 304,376 | 219,828 | 395,854 | 287,400 |
| | ----- | ----- | ----- | ----- |
| Total Assets | 63,997,669 | 55,066,461 | 73,480,348 | 53,997,188 |
| Liabilities | | | | |
| Accrued expenses..... | 37,919 | 35,910 | 33,455 | 20,305 |
| Payables: | | | | |
| Investment securities purchased..... | 615,129 | 189,206 | 704,417 | - |
| Capital Stock reacquired..... | - | - | 337 | - |
| | ----- | ----- | ----- | ----- |
| Total Liabilities | 653,048 | 225,116 | 738,209 | 20,305 |

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Net Assets Applicable to Outstanding Shares..... | \$63,344,621 | \$54,841,345 | \$72,742,139 | \$53,976,883 |
| Capital Stock (par value: \$.01 a share) | | | | |
| Shares authorized..... | 100,000,000 | 100,000,000 | 100,000,000 | 100,000,000 |
| Shares issued and outstanding..... | 4,483,391 | 4,738,192 | 5,089,845 | 4,757,064 |
| Net Asset Value Per Share..... | \$14.13 | \$11.57 | \$14.29 | \$11.35 |

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Net Assets Consist of: | | | | |
| Capital Stock..... | \$ 44,834 | \$ 47,382 | \$ 50,898 | \$ 47,571 |
| Additional paid-in capital..... | 54,500,267 | 49,545,819 | 64,644,178 | 52,795,999 |
| Accumulated undistributed net investment income..... | 321,868 | 877,508 | 972,845 | 1,510,126 |
| Accumulated undistributed net realized gain (loss) from: | | | | |
| Investment transactions | 4,215,416 | 1,517,202 | 1,711,985 | (296,407) |
| Foreign currency transactions..... | - | - | - | - |
| Net unrealized appreciation (depreciation) of investments..... | 4,262,236 | 2,853,434 | 5,362,233 | (80,406) |
| Net unrealized appreciation on translation of assets and liabilities in foreign currencies.. | - | - | - | - |
| Total Net Assets | \$63,344,621 | \$54,841,345 | \$72,742,139 | \$53,976,883 |

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
June 30, 1996

STATEMENTS OF ASSETS AND LIABILITIES

(unaudited)

| | Principal Capital Accumulation Fund, Inc. | Principal Emerging Growth Fund, Inc. | Principal Government Securities Fund, Inc. | Principal Growth Fund, Inc. |
|--|--|---|---|-----------------------------------|
| <S> | <C> | <C> | <C> | <C> |
| Investment in securities -- at cost..... | \$145,281,805 | \$ 86,725,251 | \$78,226,146 | \$66,913,728 |
| Assets | | | | |
| Investment in securities -- at value (Note 4)..... | \$172,894,117 | \$103,016,897 | \$77,672,828 | \$73,490,491 |
| Cash | 8,047 | 2,302,307 | 1,040 | 9,083 |
| Receivables: | | | | |
| Dividends and interest..... | 172,348 | 74,912 | 976,646 | 72,694 |
| Investment securities sold..... | 2,071,056 | - | - | - |
| Capital Stock sold..... | 759,901 | 791,488 | 543,398 | 554,228 |
| Total Assets | 175,905,469 | 106,185,604 | 79,193,912 | 74,126,496 |
| Liabilities | | | | |
| Accrued expenses..... | 65,210 | 47,455 | 30,619 | 31,056 |
| Payables: | | | | |
| Investment securities purchased..... | 2,479,651 | 9,904,451 | 1,000,000 | - |
| Capital Stock reacquired..... | 236,988 | 125 | 16,073 | 448 |
| Total Liabilities | 2,781,849 | 9,952,031 | 1,046,692 | 31,504 |
| Net Assets Applicable to Outstanding Shares..... | \$173,123,620 | \$ 96,233,573 | \$78,147,220 | \$74,094,992 |
| Capital Stock (par value: \$.01 a share) | | | | |
| Shares authorized..... | 100,000,000 | 100,000,000 | 100,000,000 | 100,000,000 |
| Shares issued and outstanding..... | 5,802,427 | 3,505,410 | 7,539,139 | 5,699,509 |
| Net Asset Value Per Share..... | \$29.84 | \$27.45 | \$10.37 | \$13.00 |

| | | | | |
|--|---------------|---------------|--------------|--------------|
| Net Assets Consist of: | | | | |
| Capital Stock..... | \$ 58,024 | \$ 35,054 | \$ 75,391 | \$ 56,995 |
| Additional paid-in capital..... | 133,719,947 | 77,995,577 | 77,361,014 | 66,714,302 |
| Accumulated undistributed net investment income..... | 1,397,395 | 417,615 | 1,982,169 | 504,784 |
| Accumulated undistributed net realized gain (loss) from: | | | | |
| Investment transactions | 10,335,942 | 1,493,681 | (718,036) | 242,148 |
| Foreign currency transactions..... | - | - | - | - |
| Net unrealized appreciation (depreciation) of investments..... | 27,612,312 | 16,291,646 | (553,318) | 6,576,763 |
| Net unrealized appreciation on translation of assets and liabilities in foreign currencies.. | - | - | - | - |
| | | | | |
| Total Net Assets | \$173,123,620 | \$ 96,233,573 | \$78,147,220 | \$74,094,992 |
| | ----- | ----- | ----- | ----- |

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
June 30, 1996

STATEMENTS OF ASSETS AND LIABILITIES

(unaudited)

| | Principal High Yield Fund, Inc. ----- | Principal Money Market Fund, Inc. ----- | Principal World Fund, Inc. ----- |
|--|---|---|---|
| <S> | <C> | <C> | <C> |
| Investment in securities -- at cost..... | \$12,145,229 | \$49,089,585 | \$49,999,222 |
| | ----- | ----- | ----- |
| Assets | | | |
| Investment in securities -- at value (Note 4)..... | \$12,038,875 | \$49,089,585 | \$54,813,419 |
| Cash | 208,753 | 1,006,055 | 174,693 |
| Receivables: | | | |
| Dividends and interest..... | 260,769 | 49,178 | 158,150 |
| Investment securities sold..... | - | - | - |
| Capital Stock sold..... | 146,665 | 429,420 | 283,965 |
| | ----- | ----- | ----- |
| Total Assets | 12,655,062 | 50,574,238 | 55,430,227 |
| Liabilities | | | |
| Accrued expenses..... | 6,222 | 18,944 | 38,700 |
| Payables: | | | |
| Investment securities purchased..... | 300,000 | 998,860 | 2,205,674 |
| Capital Stock reacquired..... | - | 879,066 | - |
| | ----- | ----- | ----- |
| Total Liabilities | 306,222 | 1,896,870 | 2,244,374 |
| | ----- | ----- | ----- |
| Net Assets Applicable to Outstanding Shares..... | \$12,348,840 | \$48,677,368 | \$53,185,853 |
| | ----- | ----- | ----- |
| Capital Stock (par value: \$.01 a share) | | | |
| Shares authorized..... | 100,000,000 | 500,000,000 | 100,000,000 |
| Shares issued and outstanding..... | 1,437,162 | 48,677,368 | 4,485,304 |
| Net Asset Value Per Share..... | \$8.59 | \$1.000 | \$11.86 |
| | ----- | ----- | ----- |

| | | | |
|--|--------------|--------------|--------------|
| Net Assets Consist of: | | | |
| Capital Stock..... | \$ 14,372 | \$ 486,773 | \$ 44,853 |
| Additional paid-in capital..... | 13,041,755 | 48,190,595 | 47,104,237 |
| Accumulated undistributed net investment income..... | 542,993 | - | 678,016 |
| Accumulated undistributed net realized gain (loss) from: | | | |
| Investment transactions | (1,143,926) | - | 550,807 |
| Foreign currency transactions..... | - | - | (6,806) |
| Net unrealized appreciation (depreciation) of investments..... | (106,354) | - | 4,814,197 |
| Net unrealized appreciation on translation of assets and liabilities in foreign currencies.. | - | - | 549 |
| | | | |
| Total Net Assets | \$12,348,840 | \$48,677,368 | \$53,185,853 |
| | ----- | ----- | ----- |

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
Six Months Ended June 30, 1996

STATEMENTS OF OPERATIONS

(unaudited)

| | Principal Aggressive Growth Fund, Inc. | Principal Asset Allocation Fund, Inc. | Principal Balanced Fund, Inc. | Principal Bond Fund, Inc. |
|---|---|--|-------------------------------------|---------------------------------|
| Net Investment Income | | | | |
| Income: | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Dividends..... | \$ 387,508 | \$ 323,490 | \$ 327,599 | \$ - |
| Less: Withholding tax on foreign dividends..... | - | - | - | - |
| Interest..... | 127,134 | 756,966 | 817,643 | 1,631,352 |
| Total Income | 514,642 | 1,080,456 | 1,145,242 | 1,631,352 |
| Expenses: | | | | |
| Management and investment advisory fees (Note 3)..... | 182,983 | 183,994 | 163,058 | 107,958 |
| Custodian fees..... | 8,023 | 10,079 | 4,830 | 2,908 |
| Directors' fees..... | 3,907 | 3,915 | 3,916 | 3,888 |
| Other..... | 678 | 654 | 836 | 673 |
| Total Expenses | 195,591 | 198,642 | 172,640 | 115,427 |
| Net Investment Income | 319,051 | 881,814 | 972,602 | 1,515,925 |
| Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency | | | | |
| Net realized gain (loss) from: | | | | |
| Investment transactions..... | 4,308,709 | 1,556,666 | 1,723,210 | 140 |
| Foreign currency transactions..... | - | - | - | - |
| Net increase (decrease) in unrealized appreciation/depreciation on: | | | | |
| Investments | 1,564,190 | (23,214) | (393,211) | (2,715,765) |
| Translation of assets and liabilities in foreign currencies..... | - | - | - | - |
| Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency | 5,872,899 | 1,533,453 | 1,329,999 | (2,715,625) |
| Net Increase (Decrease) in Net Assets Resulting from Operations | \$6,191,950 | \$2,415,266 | \$2,302,601 | \$(1,199,700) |

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
Six Months Ended June 30, 1996

STATEMENTS OF OPERATIONS

(unaudited)

| | Principal Capital Accumulation Fund, Inc. | Principal Emerging Growth Fund, Inc. | Principal Government Securities Fund, Inc. | Principal Growth Fund, Inc. |
|---|--|---|---|-----------------------------------|
| Net Investment Income | | | | |
| Income: | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Dividends..... | \$ 1,628,103 | \$ 280,971 | \$ - | \$ 374,935 |
| Less: Withholding tax on foreign dividends..... | - | - | - | - |
| Interest..... | 146,752 | 371,879 | 2,137,141 | 274,366 |
| Total Income | 1,774,855 | 652,850 | 2,137,141 | 649,301 |
| Expenses: | | | | |
| Management and investment advisory fees (Note 3)..... | 359,495 | 228,195 | 150,839 | 135,433 |
| Custodian fees..... | 4,440 | 4,136 | 4,107 | 3,623 |
| Directors' fees..... | 3,998 | 3,909 | 3,876 | 3,798 |
| Other..... | 671 | 673 | 672 | 656 |

| | | | | |
|---|--------------|-------------|--------------|-------------|
| Total Expenses | 368,504 | 236,913 | 159,494 | 143,510 |
| Net Investment Income | 1,406,351 | 415,937 | 1,977,647 | 505,791 |
| Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency | | | | |
| Net realized gain (loss) from: | | | | |
| Investment transactions..... | 10,523,598 | 1,513,506 | (2,198) | 242,902 |
| Foreign currency transactions..... | - | - | - | - |
| Net increase (decrease) in unrealized appreciation/depreciation on: | | | | |
| Investments | 2,187,976 | 3,923,097 | (2,752,776) | 1,294,638 |
| Translation of assets and liabilities in foreign currencies..... | - | - | - | - |
| Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency | 12,711,574 | 5,436,603 | (2,754,974) | 1,537,540 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | \$14,117,925 | \$5,852,540 | \$ (777,327) | \$2,043,331 |

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
Six Months Ended June 30, 1996

STATEMENTS OF OPERATIONS

(unaudited)

| | Principal High Yield Fund, Inc. | Principal Money Market Fund, Inc. | Principal World Fund, Inc. |
|---|---------------------------------|-----------------------------------|----------------------------|
| Net Investment Income: | | | |
| <S> | <C> | <C> | <C> |
| Dividends..... | \$ - | \$ - | \$ 766,394 |
| Less: Withholding tax on foreign dividends..... | - | - | (90,087) |
| Interest..... | 610,308 | 1,092,747 | 183,834 |
| Total Income | 610,308 | 1,092,747 | 860,141 |
| Expenses: | | | |
| Management and investment advisory fees (Note 3)..... | 35,674 | 97,046 | 146,112 |
| Custodian fees..... | 1,948 | 6,307 | 20,808 |
| Directors' fees..... | 3,895 | 3,828 | 3,933 |
| Other..... | 670 | 740 | 671 |
| Total Expenses | 42,187 | 107,921 | 171,524 |
| Net Investment Income | 568,121 | 984,826 | 688,617 |
| Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency | | | |
| Net realized gain (loss) from: | | | |
| Investment transactions..... | 62,130 | - | 562,082 |
| Foreign currency transactions..... | - | - | (6,806) |
| Net increase (decrease) in unrealized appreciation/depreciation on: | | | |
| Investments | (348,021) | - | 2,767,203 |
| Translation of assets and liabilities in foreign currencies..... | - | - | 70 |
| Net Realized and Unrealized Gain (Loss) on Investments and Foreign Currency | (285,891) | - | 3,322,549 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | \$282,230 | \$ 984,826 | \$4,011,166 |

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
Six Months Ended June 30, 1996

STATEMENTS OF CHANGES IN NET ASSETS

(unaudited)

| | Principal Aggressive Growth Fund, Inc. | | Principal Asset Allocation Fund, Inc. | |
|--|--|---------------------------------------|---|---------------------------------------|
| | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 |
| Operations | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Net investment income..... | \$ 319,051 | \$ 302,552 | \$ 881,814 | \$ 1,387,625 |
| Net realized gain (loss) from investment transactions.. | 4,308,709 | 4,905,174 | 1,556,666 | 1,628,048 |
| Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies..... | 1,564,190 | 2,660,711 | (23,214) | 3,340,632 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 6,191,950 | 7,868,437 | 2,415,266 | 6,356,305 |
| Dividends and Distributions to Shareholders | | | | |
| From net investment income..... | (666) | (305,795) | (24,132) | (1,398,405) |
| From net realized gain on investments and foreign currency transactions..... | (1,649,581) | (3,377,897) | (462,912) | (1,026,374) |
| | (1,650,247) | (3,683,692) | (487,044) | (2,424,779) |
| Capital Share Transactions (Note 5) | | | | |
| Shares sold..... | 29,392,420 | 14,807,229 | 12,222,259 | 7,552,421 |
| Shares issued in reinvestment of dividends and distributions..... | 1,650,247 | 3,683,692 | 487,044 | 2,424,779 |
| Shares redeemed..... | (5,882,690) | (2,803,211) | (870,218) | (875,745) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | 25,159,977 | 15,687,710 | 11,839,085 | 9,101,455 |
| Total Increase | 29,701,680 | 19,872,455 | 13,767,307 | 13,032,981 |
| Net Assets | | | | |
| Beginning of period..... | 33,642,941 | 13,770,486 | 41,074,038 | 28,041,057 |
| End of period (including undistributed net investment income as set forth below)..... | \$63,344,621 | \$33,642,941 | \$54,841,345 | \$41,074,038 |
| Undistributed Net Investment Income..... | \$ 321,868 | \$ 3,483 | \$ 877,508 | \$ 19,826 |

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

Six Months Ended June 30, 1996

STATEMENTS OF CHANGES IN NET ASSETS

(unaudited)

| | Principal Balanced Fund, Inc. | | Principal Bond Fund, Inc. | |
|--|---|---------------------------------------|---|---------------------------------------|
| | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 |
| Operations | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Net investment income..... | \$ 972,602 | \$ 1,419,736 | \$ 1,515,925 | \$ 1,790,567 |
| Net realized gain (loss) from investment transactions.. | 1,723,210 | 1,509,204 | 140 | (178,683) |
| Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies..... | (393,211) | 4,627,533 | (2,715,765) | 3,151,543 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 2,302,601 | 7,556,473 | (1,199,700) | 4,763,427 |
| Dividends and Distributions to Shareholders | | | | |
| From net investment income..... | (11,522) | (1,419,914) | (5,799) | (1,807,251) |
| From net realized gain on investments and foreign | | | | |

| | | | | |
|--|--------------|--------------|--------------|--------------|
| currency transactions..... | (840,918) | (1,126,793) | - | - |
| | (852,440) | (2,546,707) | (5,799) | (1,807,251) |
| Capital Share Transactions (Note 5) | | | | |
| Shares sold..... | 31,348,329 | 18,469,155 | 26,538,000 | 15,942,301 |
| Shares issued in reinvestment of dividends and distributions..... | 482,410 | 1,530,787 | 5,799 | 1,815,744 |
| Shares redeemed..... | (5,942,087) | (4,649,589) | (7,239,076) | (1,944,844) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | 25,888,652 | 15,350,353 | 19,304,723 | 15,813,161 |
| Total Increase | 27,338,813 | 20,360,119 | 18,099,224 | 18,769,337 |
| Net Assets | | | | |
| Beginning of period..... | 45,403,326 | 25,043,207 | 35,877,659 | 17,108,322 |
| End of period (including undistributed net investment income as set forth below)..... | \$72,742,139 | \$45,403,326 | \$53,976,883 | \$35,877,659 |
| Undistributed Net Investment Income..... | \$ 972,845 | \$ 11,765 | \$ 1,510,126 | \$ - |

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

Six Months Ended June 30, 1996

STATEMENTS OF CHANGES IN NET ASSETS

(unaudited)

| | Principal Capital Accumulation Fund, Inc. | |
|--|---|---------------------------------------|
| | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 |
| Operations | | |
| <S> | <C> | <C> |
| Net investment income..... | \$ 1,406,351 | \$ 2,706,864 |
| Net realized gain (loss) from investment transactions.. | 10,523,598 | 11,294,865 |
| Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies..... | 2,187,976 | 19,225,574 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 14,117,925 | 33,227,303 |
| Dividends and Distributions to Shareholders | | |
| From net investment income..... | (68,376) | (2,707,756) |
| From net realized gain on investments and foreign currency transactions..... | (3,248,528) | (10,552,706) |
| | (3,316,904) | (13,260,462) |
| Capital Share Transactions (Note 5) | | |
| Shares sold..... | 47,304,803 | 38,113,651 |
| Shares issued in reinvestment of dividends and distributions..... | 3,289,150 | 13,137,194 |
| Shares redeemed..... | (23,911,034) | (56,149,805) |
| Net Increase (Decrease) in Net Assets from Capital Share Transactions | 26,682,919 | (4,898,960) |
| Total Increase | 37,483,940 | 15,067,881 |
| Net Assets | | |
| Beginning of period..... | 135,639,680 | 120,571,799 |
| End of period (including undistributed net investment income as set forth below)..... | \$173,123,620 | \$135,639,680 |
| Undistributed Net Investment Income..... | \$ 1,397,395 | \$ 59,419 |

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>

Six Months Ended June 30, 1996

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

(unaudited)

| | Principal Emerging Growth Fund, Inc. | | Principal Government Securities Fund, Inc. | |
|--|--|---------------------------------------|--|---------------------------------------|
| | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 |
| Operations | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Net investment income..... | \$ 415,937 | \$ 502,095 | \$ 1,977,647 | \$ 2,727,198 |
| Net realized gain (loss) from investment transactions... | 1,513,506 | 1,202,668 | (2,198) | (41,117) |
| Net realized (loss) from foreign currency transactions.. | - | - | - | - |
| Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies..... | 3,923,097 | 8,417,614 | (2,752,776) | 4,199,844 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 5,852,540 | 10,122,377 | (777,327) | 6,885,925 |
| Dividends and Distributions to Shareholders | | | | |
| From net investment income..... | (4,675) | (496,559) | (12,373) | (2,764,369) |
| Excess distribution of net investment income (Note 1)... | - | - | - | - |
| From net realized gain on investments and foreign currency transactions..... | (766,929) | (473,643) | - | - |
| Capital Share Transactions (Note 5) | | | | |
| Shares sold..... | 44,621,027 | 33,010,562 | 38,092,002 | 24,755,653 |
| Shares issued in reinvestment of dividends and distributions..... | 723,417 | 825,122 | 12,373 | 2,708,209 |
| Shares redeemed..... | (12,712,247) | (8,379,384) | (9,246,924) | (17,627,312) |
| Net Increase in Net Assets from Capital Share Transactions | 32,632,197 | 25,456,300 | 28,857,451 | 9,836,550 |
| Total Increase | 37,713,133 | 34,608,475 | 28,067,752 | 13,958,106 |
| Net Assets | | | | |
| Beginning of period..... | 58,520,440 | 23,911,965 | 50,079,469 | 36,121,363 |
| End of period (including undistributed (overdistributed) net investment income as set forth below)..... | \$96,233,573 | \$58,520,440 | \$78,147,220 | \$50,079,469 |
| Undistributed (overdistributed) Net Investment Income... | \$ 417,615 | \$ 6,354 | \$ 1,982,169 | \$ 16,895 |

See accompanying notes.

</TABLE>

<TABLE>
<CAPTION>

Six Months Ended June 30, 1996

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

(unaudited)

| | Principal Growth Fund, Inc. | | Principal High Yield Fund, Inc. | |
|--|---|---------------------------------------|---|---------------------------------------|
| | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 |

| | <C> | <C> | <C> | <C> |
|--|--------------|--------------|------------|--------------|
| Operations | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Net investment income..... | \$ 505,791 | \$ 572,297 | \$ 568,121 | \$ 976,414 |
| Net realized gain (loss) from investment transactions... | 242,902 | 298,608 | 62,130 | (49,300) |
| Net realized (loss) from foreign currency transactions.. | - | - | - | - |
| Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies..... | 1,294,638 | 5,280,826 | (348,021) | 664,483 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 2,043,331 | 6,151,731 | 282,230 | 1,591,597 |
| Dividends and Distributions to Shareholders | | | | |
| From net investment income..... | (6,768) | (566,536) | (24) | (991,915) |
| Excess distribution of net investment income (Note 1)... | - | - | - | (25,104) |
| From net realized gain on investments and foreign currency transactions..... | (4,612) | (294,742) | - | - |
| | (11,380) | (861,278) | (24) | (1,017,019) |
| Capital Share Transactions (Note 5) | | | | |
| Shares sold..... | 35,868,195 | 29,355,706 | 313,967 | 673,188 |
| Shares issued in reinvestment of dividends and distributions..... | 11,380 | 753,669 | 24 | 1,017,019 |
| Shares redeemed..... | (6,524,055) | (5,778,425) | (77,290) | (131,664) |
| Net Increase in Net Assets from Capital Share Transactions | 29,355,520 | 24,330,950 | 236,701 | 1,558,543 |
| Total Increase | 31,387,471 | 29,621,403 | 518,907 | 2,133,121 |
| Net Assets | | | | |
| Beginning of period..... | 42,707,521 | 13,086,118 | 11,829,933 | 9,696,812 |
| End of period (including undistributed (overdistributed) net investment income as set forth below)..... | \$74,094,992 | \$42,707,521 | 12,348,840 | \$11,829,933 |
| Undistributed (overdistributed) Net Investment Income... | \$ 504,784 | \$ 5,761 | \$ 542,993 | \$ (25,104) |

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

Six Months Ended June 30, 1996

STATEMENTS OF CHANGES IN NET ASSETS (Continued)

(unaudited)

| | Principal Money Market Fund, Inc. | | Principal World Fund, Inc. | |
|--|---|---------------------------------------|---|---------------------------------------|
| | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 | Six Months Ended June 30, 1996 | Year Ended December 31, 1995 |
| Operations | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Net investment income..... | \$ 984,826 | \$ 1,502,142 | \$ 688,617 | \$ 519,182 |
| Net realized gain (loss) from investment transactions... | - | - | 562,082 | 174,169 |
| Net realized (loss) from foreign currency transactions.. | - | - | (6,806) | (5,526) |
| Net increase (decrease) in unrealized appreciation/ depreciation on investments and translation of assets and liabilities in foreign currencies..... | - | - | 2,767,273 | 2,574,265 |
| Net Increase (Decrease) in Net Assets Resulting from Operations | 984,826 | 1,502,142 | 4,011,166 | 3,262,090 |
| Dividends and Distributions to Shareholders | | | | |
| From net investment income..... | (984,826) | (1,502,142) | (23,106) | (506,808) |
| Excess distribution of net investment income (Note 1)... | - | - | - | - |
| From net realized gain on investments and foreign currency transactions..... | - | - | (139,328) | (23,834) |
| | (984,826) | (1,502,142) | (162,434) | (530,642) |
| Capital Share Transactions (Note 5) | | | | |
| Shares sold..... | 82,700,206 | 94,151,329 | 21,697,681 | 15,630,379 |

| | | | | |
|---|--------------|--------------|--------------|--------------|
| Shares issued in reinvestment of dividends and distributions..... | 834,256 | 1,130,170 | 139,669 | 530,642 |
| Shares redeemed..... | (67,527,013) | (91,983,464) | (3,065,849) | (2,072,943) |
| | ----- | ----- | ----- | ----- |
| Net Increase in Net Assets from Capital Share Transactions | 16,007,449 | 3,298,035 | 18,771,501 | 14,088,078 |
| | ----- | ----- | ----- | ----- |
| Total Increase | 16,007,449 | 3,298,035 | 22,620,233 | 16,819,526 |
| | ----- | ----- | ----- | ----- |
| Net Assets | | | | |
| Beginning of period..... | 32,669,919 | 29,371,884 | 30,565,620 | 13,746,094 |
| | ----- | ----- | ----- | ----- |
| End of period (including undistributed (overdistributed) net investment income as set forth below)..... | \$48,677,368 | \$32,669,919 | \$53,185,853 | \$30,565,620 |
| | ----- | ----- | ----- | ----- |
| Undistributed (overdistributed) Net Investment Income... | \$ - | \$ - | \$ 678,016 | \$ 12,505 |
| | ----- | ----- | ----- | ----- |

See accompanying notes.

</TABLE>

June 30, 1996

NOTES TO FINANCIAL STATEMENTS

(unaudited)

Principal Aggressive Growth Fund, Inc.
Principal Asset Allocation Fund, Inc.
Principal Balanced Fund, Inc.
Principal Bond Fund, Inc.
Principal Capital Accumulation Fund, Inc.
Principal Emerging Growth Fund, Inc.
Principal Government Securities Fund, Inc.
Principal Growth Fund, Inc.
Principal High Yield Fund, Inc.
Principal Money Market Fund, Inc.
Principal World Fund, Inc.

Note 1 - Significant Accounting Policies

Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc. and Principal World Fund, Inc. (the "Funds") are registered under the Investment Company Act of 1940, as amended, as open-end diversified management investment companies and operate in the mutual fund industry.

Principal Money Market Fund, Inc. values its securities at amortized cost, which approximates market. Under the amortized cost method, a security is valued by applying a constant amortization to maturity of the difference between the principal amount due at maturity and the cost of the security to the fund.

The other funds value securities for which market quotations are readily available at market value, which is determined using the last reported sale price or, if no sales are reported, as is regularly the case for some securities traded over-the-counter, the last reported bid price. When reliable market quotations are not considered to be readily available, which may be the case, for example, with respect to certain debt securities and preferred stocks, the investments are valued by using market quotations, prices provided by market makers or estimates of market values obtained from yield data and other factors relating to instruments or securities with similar characteristics in accordance with procedures established in good faith by each fund's Board of Directors. Securities with remaining maturities of 60 days or less are valued at amortized cost, which approximates market.

With respect to Principal World Fund, Inc., the value of foreign securities in foreign currency amounts is expressed in U.S. dollars at the closing daily rate of exchange. The identified cost of the portfolio holdings is translated at approximate rates prevailing when acquired. Income and expense amounts are translated at approximate rates prevailing when received or paid, with daily accruals of such amounts reported at approximate rates prevailing at the date of valuation.

Since the carrying amount of the foreign securities in the Principal World Fund, Inc. is determined based on the exchange rate and market values at the close of the period, it is not practicable to isolate that portion of the results of operations arising as a result of changes in the foreign exchange rates from the fluctuations arising from changes in the market prices of securities during the period.

The Funds record investment transactions generally one day after the trade date. The identified cost basis has been used in determining the net realized gain or loss from investment transactions and unrealized appreciation or depreciation of investments. The Funds record dividend income on the ex-dividend date, except dividend income from foreign securities whereby the ex-dividend date has passed; such dividends are recorded as soon as the Funds are informed of the ex-dividend date. Interest income is recognized on an accrual basis.

Reported net realized foreign exchange gains or losses arise from sales of foreign currencies, currency gains or losses realized between the trade and settlement dates on securities transactions, and the difference between the amount of dividends and foreign withholding taxes recorded on the fund's books and the U.S. dollar equivalent of the amounts actually received or paid. Net unrealized foreign exchange gains and losses arise from changes in the value of assets and liabilities other than investments in securities at fiscal year end, resulting from changes in the exchange rate.

With respect to Principal Money Market Fund, Inc., all net investment income and any realized gains and losses from investment transactions are declared as dividends daily to shareholders of record as of that day. Dividends and distributions to shareholders of the other funds are recorded on the ex-dividend date.

Dividends and distributions to shareholders from net investment income and net realized gain from investment and foreign currency transactions is determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. To the extent these "book/tax" differences are permanent in nature (i.e. that they result from other than timing of recognition - "temporary"), such amounts are reclassified within the capital accounts based on their federal tax-basis treatment; temporary differences do not require reclassification. Reclassifications made for the year ended December 31, 1995 were not material.

Due to the timing of dividend distributions and the differences in accounting for income and realized gains (losses) for financial statement and federal income tax purposes, the fiscal year in which amounts are distributed may differ from the year in which the income and realized gains (losses) are recorded for financial statement purposes by the fund. The differences between the income and gains distributed on a book versus tax basis are shown as excess distributions of net investment income and net realized gain on investments in the accompanying Statements of Changes in Net Assets.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Federal Income Taxes

No provision for federal income taxes is considered necessary because each fund is qualified as a "regulated investment company" under the Internal Revenue Code and intends to distribute each year, substantially all of its net investment income and realized capital gains to shareholders. The cost of investments is approximately the same for both federal income tax and financial reporting purposes.

Note 3 - Management Agreement and Transactions With Affiliates

The Funds have agreed to pay investment advisory and management fees to Princor Management Corporation (wholly owned by Princor Financial Services Corporation, a subsidiary of Principal Mutual Life Insurance Company) (the "Manager"), computed at an annual percentage rate of each fund's average daily net assets. The annual rate used in this calculation for Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc. and Principal Money Market Fund, Inc. is .50% of the first \$100 million of the fund's average daily net assets and .45% of the next \$100 million of the fund's average daily net assets. The annual rate used in this calculation for Principal Asset Allocation Fund, Inc. and Principal Aggressive Growth Fund, Inc. is .80% of the first \$100 million of the fund's average daily net assets. With respect to Principal Balanced Fund, Inc. and Principal High Yield Fund, Inc., the annual rate used in this calculation is .60% of the first \$100 million of the fund's average daily net assets. With respect to Principal Emerging Growth Fund, Inc. and Principal World Fund, Inc., the annual rate used in this calculation is .65% and .75%, respectively, of the first \$100 million of the fund's average daily net assets.

Brokerage commissions were paid to affiliates by certain of the funds, as follows:

| Six Months Ended | Year Ended |
|------------------|--------------|
| June 30, | December 31, |
| 1996 | 1995 |
| ----- | ----- |

| | | |
|---|---------|--------|
| Principal Balanced Fund, Inc. | \$1,300 | \$ 219 |
| Principal Capital Accumulation Fund, Inc. | 1,098 | 8,243 |
| Principal Emerging Growth Fund, Inc. | - | 910 |
| Principal Growth Fund, Inc. | - | 4,252 |
| Principal World Fund, Inc. | 1,134 | 2,207 |

All of the shares of the Funds are owned by Principal Mutual Life Insurance Company and/or one or more Separate Accounts sponsored by Principal Mutual Life Insurance Company.

Note 4 - Investment Transactions

For the six months ended June 30, 1996, the cost of investment securities purchased and proceeds from investment securities sold (not including short-term investments and U.S. government securities) by the Funds were as follows:

| | Purchases | Sales |
|--|--------------|------------|
| | ----- | ----- |
| Principal Aggressive Growth Fund, Inc. | \$ 1,624,948 | \$ - |
| Principal Asset Allocation Fund, Inc. | 18,423,844 | 14,981,401 |
| Principal Balanced Fund, Inc. | 21,160,727 | 4,435,701 |
| Principal Bond Fund, Inc. | 21,023,062 | 70,000 |
| Principal Capital Accumulation Fund, Inc. | 47,128,018 | 31,680,508 |
| Principal Emerging Growth Fund, Inc. | 31,037,202 | 5,514,763 |
| Principal Government Securities Fund, Inc. | 15,932,593 | 1,670,150 |
| Principal Growth Fund, Inc. | 19,251,520 | 1,232,765 |
| Principal High Yield Fund, Inc. | 2,498,044 | 2,109,750 |
| Principal World Fund, Inc. | 18,747,085 | 2,367,819 |

<TABLE>

<CAPTION>

At June 30, 1996, net unrealized appreciation (depreciation) of investments held by the Funds was composed of the following:

| <S> | Gross Unrealized | | Net Unrealized |
|--|------------------|----------------|-----------------------------|
| | Appreciation | (Depreciation) | Appreciation (Depreciation) |
| | ----- | ----- | ----- |
| | <C> | <C> | <C> |
| Principal Aggressive Growth Fund, Inc. | \$ 5,188,245 | \$ (926,009) | \$ 4,262,236 |
| Principal Asset Allocation Fund, Inc. | 3,797,847 | (944,413) | 2,853,434 |
| Principal Balanced Fund, Inc. | 6,349,437 | (987,204) | 5,362,233 |
| Principal Bond Fund, Inc. | 1,106,875 | (1,187,281) | (80,406) |
| Principal Capital Accumulation Fund, Inc. | 29,882,193 | (2,269,881) | 27,612,312 |
| Principal Emerging Growth Fund, Inc. | 18,505,369 | (2,213,223) | 16,292,146 |
| Principal Government Securities Fund, Inc. | 920,896 | (1,474,214) | (553,318) |
| Principal Growth Fund, Inc. | 8,952,099 | (2,375,336) | 6,576,763 |
| Principal High Yield Fund, Inc. | 206,303 | (312,657) | (106,354) |
| Principal World Fund, Inc. | 6,400,394 | (1,586,197) | 4,814,197 |

</TABLE>

<TABLE>

<CAPTION>

At June 30, 1996, Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Emerging Growth Fund, Inc., Principal High Yield Fund, Inc. and Principal World Fund, Inc. held the following securities which may require registration under the Securities Act of 1933 or an exemption therefrom in order to effect a sale in the ordinary course of business.

| Fund | Security Description | Date of Acquisition | Cost | Value at June 30, 1996 | Value as a Percentage of Net Assets |
|---------------------------------------|-----------------------------------|---------------------|-----------|------------------------|-------------------------------------|
| ----- | ----- | ----- | ----- | ----- | ----- |
| Principal Asset Allocation Fund, Inc. | Alps 96 1 PT; | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| | Pass Through Certificates | 5/22/96 | \$ 75,000 | \$ 74,812 | .14% |
| | CIA Brasilia de Distribuicao; GDR | 5/30/96 | 48,825 | 51,150 | .09% |
| | | 5/31/96 | 49,988 | 53,212 | .10% |
| | Echostar Sattelite Broadcasting; | | | | |
| | Senior Discount Notes | 3/19/96 | 60,353 | 62,000 | .11% |
| | | 6/11/96 | 16,125 | 15,500 | .03% |
| | Fomento Economico Mexicano | 5/30/96 | 100,040 | 93,900 | .17% |
| | | 5/31/96 | 90,900 | 85,884 | .16% |
| | Grupo Financiero Bancomer; | | | | |
| | SA ADR | 5/30/96 | 99,375 | 92,298 | .17% |
| | | 5/31/96 | 93,125 | 87,074 | .16% |
| | Homeside, Inc.; Senior Notes | 5/7/96 | 20,000 | 20,700 | .04% |
| | Lenfest Communications; | | | | |
| | Senior Subordinated Notes | 6/20/96 | 19,844 | 20,167 | .04% |

| | | | | | |
|--------------------------------------|--|----------|---------|-------------|-------|
| | Norcal Waste Systems, Inc.; | | | | |
| | Step-Up Senior Notes | 6/26/96 | 63,750 | 63,300 | .12% |
| | Occidente Y Carbide Cellular; | | | | |
| | Step-Up Units | 5/31/96 | 65,533 | 64,687 | .12% |
| | Time Warner; Series K | | | | |
| | Preferred Stock | 4/3/96 | 96,009 | 93,100 | .17% |
| | Unisys Corp.; Senior Notes | 3/22/96 | 93,886 | 97,138 | .18% |
| | | | | 974,922 | 1.80% |
| Principal Balanced Fund, Inc. | Federal-Mogul Corp.; Series D Convertible | 10/15/92 | 248,325 | 240,800 | .33% |
| Principal Emerging Growth Fund, Inc. | Ciba-Geigy Corp.; Exchangeable Subordinated Debentures | 3/20/91 | 150,000 | 153,750 | .16% |
| | Sierra On Line; Convertible Subordinated Debentures | 8/17/94 | 100,375 | 346,500 | .36% |
| | | | | 500,250 | .52% |
| Principal High Yield Fund, Inc. | Mariner Health Corp; Senior Subordinated Notes | 4/1/96 | 298,662 | 288,375 | 2.34% |
| | Howmet Corp.; Senior Subordinated Notes | 11/22/95 | 150,000 | 157,875 | 1.28% |
| | | | | 446,250 | 3.62% |
| Principal World Fund, Inc. | Alfa SA; Convertible Subordinated Debentures | 9/25/95 | 398,000 | 427,000 | .80% |
| | Fokus Bank | 6/25/96 | 645,965 | 648,458 | 1.22% |
| | Royal Plastics Group | 11/23/94 | 41,703 | 77,492 | .14% |
| | | 9/25/95 | 132,960 | 151,946 | .29% |
| | | 6/25/96 | 300,947 | 303,891 | .57% |
| | Voest-Alpine Stahl | 10/30/95 | 280,007 | 310,895 | .58% |
| | | 3/27/96 | 146,558 | 152,068 | .29% |
| | | 6/25/96 | 256,093 | 260,205 | .49% |
| | | 6/27/96 | 145,930 | 145,309 | .27% |
| | | | | ----- | ----- |
| | | | | \$2,477,264 | 4.65% |

</TABLE>

The Fund's investments are with various issuers in various industries. The Schedules of Investments contained herein summarize concentrations of credit risk by industry and issuer .

<TABLE>

<CAPTION>

Note 5 - Capital Share Transactions

Transactions in Capital Stock by fund were as follows:

| | Principal Aggressive Growth Fund, Inc. | Principal Asset Allocation Fund, Inc. | Principal Balanced Fund, Inc. |
|---|--|---------------------------------------|-------------------------------|
| | ----- | ----- | ----- |
| Six Months Ended June 30, 1996: | | | |
| <S> | <C> | <C> | <C> |
| Shares sold..... | 2,189,188 | 1,075,442 | 2,232,444 |
| Shares issued in reinvestment of dividends and distributions..... | 128,723 | 43,608 | 34,754 |
| Shares redeemed..... | (433,936) | (78,730) | (428,426) |
| | ----- | ----- | ----- |
| Net Increase | 1,883,975 | 1,040,320 | 1,838,772 |
| | ----- | ----- | ----- |
| Year Ended December 31, 1995: | | | |
| Shares sold..... | 1,161,931 | 692,541 | 1,392,999 |
| Shares issued in reinvestment of dividends and distributions..... | 287,452 | 219,390 | 115,881 |
| Shares redeemed..... | (211,535) | (78,261) | (354,061) |
| | ----- | ----- | ----- |
| Net Increase | 1,237,848 | 833,670 | 1,154,819 |
| | ----- | ----- | ----- |

</TABLE>

<TABLE>

<CAPTION>

| | Principal Bond Fund, Inc. | Principal Capital Accumulation Fund, Inc. | Principal Emerging Growth Fund, Inc. |
|---|---------------------------|---|--------------------------------------|
| | ----- | ----- | ----- |
| Six Months Ended June 30, 1996: | | | |
| <S> | <C> | <C> | <C> |
| Shares sold..... | 2,330,880 | 1,648,518 | 1,661,598 |
| Shares issued in reinvestment of dividends and distributions..... | 496 | 118,915 | 28,208 |

| | | | |
|--|-----------|-------------|-----------|
| Shares redeemed..... | (633,341) | (843,955) | (494,598) |
| Net Increase | 1,698,035 | 923,478 | 1,195,208 |
| Year Ended December 31, 1995: | | | |
| Shares sold..... | 1,388,036 | 1,462,128 | 1,443,488 |
| Shares issued in reinvestment of dividends and distributions..... | 155,537 | 493,432 | 32,984 |
| Shares redeemed..... | (174,815) | (2,220,452) | (363,945) |
| Net Increase (Decrease) | 1,368,758 | (264,892) | 1,112,527 |

</TABLE>

<TABLE>
<CAPTION>

| | Principal Government Securities Fund, Inc. | Principal Growth Fund, Inc. | Principal High Yield Fund, Inc. |
|--|---|--------------------------------|------------------------------------|
| Six Months Ended June 30, 1996: | | | |
| <S> | <C> | <C> | <C> |
| Shares sold..... | 3,674,323 | 2,779,677 | 36,739 |
| Shares issued in reinvestment of dividends and distributions..... | 1,176 | 921 | - |
| Shares redeemed..... | (884,574) | (518,184) | (9,077) |
| Net Increase | 2,790,925 | 2,262,414 | 27,662 |
| Year Ended December 31, 1995: | | | |
| Shares sold..... | 2,389,165 | 2,597,297 | 77,400 |
| Shares issued in reinvestment of dividends and distributions..... | 258,394 | 61,037 | 121,455 |
| Shares redeemed..... | (1,752,028) | (517,157) | (15,228) |
| Net Increase | 895,531 | 2,141,177 | 183,627 |

</TABLE>

<TABLE>
<CAPTION>

| | Principal Money Market Fund, Inc. | Principal World Fund, Inc. |
|--|--------------------------------------|-------------------------------|
| Six Months Ended June 30, 1996: | | |
| <S> | <C> | <C> |
| Shares sold..... | 82,700,206 | 1,897,449 |
| Shares issued in reinvestment of dividends and distributions..... | 834,256 | 12,840 |
| Shares redeemed..... | (67,527,013) | (277,237) |
| Net Increase | 16,007,449 | 1,633,052 |
| Year Ended December 31, 1995: | | |
| Shares sold..... | 94,151,329 | 1,566,265 |
| Shares issued in reinvestment of dividends and distributions..... | 1,130,170 | 49,808 |
| Shares redeemed..... | (91,983,464) | (202,182) |
| Net Increase | 3,298,035 | 1,413,891 |

</TABLE>

Note 6 - Line of Credit

The Funds have an unsecured line of credit with a bank which allows each fund to borrow up to \$500,000. Borrowings are made solely to facilitate the handling of unusual and/or unanticipated short-term cash requirements. Interest is charged to each fund, based on its borrowings, at a rate equal to the bank's Fed Funds Unsecured Rate plus 100 basis points. Additionally, a commitment fee is charged at the annual rate of .25% on the line of credit. At June 30, 1996, the Funds had no outstanding borrowings under the line of credit.

June 30, 1996

SCHEDULES OF INVESTMENTS

PRINCIPAL AGGRESSIVE GROWTH FUND, INC.

| | Shares Held | Value |
|---|----------------|-----------|
| Common Stocks (91.45%) | | |
| Advertising (0.17%) | | |
| Catalina Marketing Corp. | 300 (a) | \$ 27,450 |
| Valassis Communications | 4,400 | 81,400 |
| | | 108,850 |
| Agricultural Chemicals (0.34%) | | |
| IMC Global Group, Inc. | 5,800 | 218,225 |
| Air Transportation, Scheduled (0.50%) | | |
| AMR Corp. | 3,500 (a) | 318,500 |
| Aircraft & Parts (8.72%) | | |
| Allied Signal, Inc. | 11,800 | 674,075 |
| Boeing Co. | 6,400 | 557,600 |
| General Dynamics Corp. | 5,800 | 359,600 |
| McDonnell Douglas Corp. | 14,600 | 708,100 |
| Rockwell International Corp. | 7,500 | 429,375 |
| Rohr Industries | 6,700 (a) | 139,862 |
| United Technologies Corp. | 23,100 | 2,656,500 |
| | | 5,525,112 |
| Auto & Home Supply Stores (0.71%) | | |
| Autozone, Inc. | 13,000 (a) | 451,750 |
| Bakery Products (0.53%) | | |
| Interstate Bakeries | 12,400 | 331,700 |
| Beverages (2.49%) | | |
| Coca-Cola Enterprises | 26,900 | 931,412 |
| Pepsico, Inc. | 18,200 | 643,825 |
| | | 1,575,237 |
| Commercial Banks (6.43%) | | |
| Chase Manhattan Corp. | 7,712 | 544,660 |
| Citicorp | 6,400 | 528,800 |
| J. P. Morgan & Co. | 5,000 | 423,125 |
| Wells Fargo & Co. | 10,783 | 2,575,789 |
| | | 4,072,374 |
| Communications Equipment (0.32%) | | |
| U.S. Robotics Corp. | 2,400 (a) | 205,200 |
| Computer & Data Processing Services (3.90%) | | |
| First Data Corp. | 7,400 | 589,225 |
| GTECH Holdings Corp. | 28,900 | 856,162 |
| Microsoft Corp. | 6,000 (a) | 720,750 |
| Oracle Systems Corp. | 7,700 (a) | 303,669 |
| | | 2,469,806 |
| Computer & Office Equipment (2.30%) | | |
| Bell & Howell Co. | 5,600 (a) | 182,700 |
| Cisco Systems | 5,900 (a) | 334,087 |
| Hewlett-Packard Co. | 3,500 | 348,687 |
| International Business Machines Corp. | 3,600 | 356,400 |
| International Game Technology | 13,700 | 231,188 |
| | | 1,453,062 |
| Construction & Related Machinery (0.20%) | | |
| Baker Hughes, Inc. | 3,900 | 128,213 |
| Consumer Products (12.16%) | | |
| Philip Morris Cos., Inc. | 44,900 | 4,669,600 |
| RJR Nabisco | 97,900 | 3,034,900 |
| | | 7,704,500 |
| Department Stores (0.59%) | | |
| Harcourt General, Inc. | 7,400 | 370,000 |
| Dimension Stone (0.51%) | | |
| Potash Corp. of Saskatchewan | 4,900 | 324,625 |
| Drugs (3.16%) | | |
| American Home Products Corp. | 11,100 | 667,387 |
| Amgen, Inc. | 3,200 (a) | 172,800 |
| Pfizer, Inc. | 5,000 | 356,875 |
| Schering-Plough Corp. | 12,800 | 803,200 |

| | | |
|--|------------|-----------|
| Eating & Drinking Places (3.16%) | | 2,000,262 |
| Boston Chicken, Inc. | 50,100 (a) | 1,628,250 |
| Brinker International, Inc. | 14,900 (a) | 223,500 |
| Foodmaker Inc. | 17,500 (a) | 150,937 |
| | | 2,002,687 |
| Electrical Industrial Apparatus (0.51%) | | |
| Emerson Electric Co. | 3,600 | 325,350 |
| Electronic Components & Accessories (0.98%) | | |
| Intel Corp. | 8,400 | 616,875 |
| Federal & Federally Sponsored Credit (1.08%) | | |
| Student Loan Marketing Association (non-voting) | 9,200 | 680,800 |
| Fire, Marine, & Casualty Insurance (5.48%) | | |
| Aetna Life & Casualty Co. | 6,200 | 443,300 |
| Cigna Corp. | 6,950 | 819,231 |
| Loews Corp. | 23,200 | 1,829,900 |
| PartnerRe Holdings Ltd. | 9,400 | 280,825 |
| RenaissanceRe Holdings | 3,200 | 98,400 |
| | | 3,471,656 |
| Grain Mill Products (1.18%) | | |
| Kellogg Co. | 5,500 | 402,875 |
| Ralston-Ralston Purina Group | 5,400 | 346,275 |
| | | 749,150 |
| Hospitals (0.66%) | | |
| Columbia/HCA Healthcare Corp. | 7,800 | 416,325 |
| Hotels & Motels (2.31%) | | |
| Hilton Hotels Corp. | 4,200 | 472,500 |
| La Quinta Motor Inns | 29,600 | 991,600 |
| | | 1,464,100 |
| Industrial Inorganic Chemicals (1.64%) | | |
| Monsanto Co. | 16,500 | 536,250 |
| Olin Corp. | 5,600 | 499,800 |
| | | 1,036,050 |
| Insurance Agents, Brokers, & Services (0.59%) | | |
| Exel Ltd. | 5,300 | 373,650 |
| Medical Instruments & Supplies (0.58%) | | |
| Becton, Dickinson & Co. | 4,600 | 369,150 |
| Medical Service & Health Insurance (0.83%) | | |
| Pacificare Health Systems, Inc.; Class B | 3,400 (a) | 230,350 |
| United Healthcare Corp. | 5,900 | 297,950 |
| | | 528,300 |
| Miscellaneous Business Services (0.78%) | | |
| CUC International, Inc. | 13,950 | 495,225 |
| Miscellaneous Food Stores (0.33%) | | |
| General Nutrition Cos. | 12,000 (a) | 210,000 |
| Miscellaneous Investing (3.00%) | | |
| HFS, Inc. | 27,100 (a) | 1,897,000 |
| Miscellaneous Plastics Products, NEC (0.25%) | | |
| Premark International Inc. | 2,500 | 46,250 |
| Tupperware Corp. | 2,600 (a) | 109,850 |
| | | 156,100 |
| Motion Picture Production & Services (1.26%) | | |
| Viacom, Inc.; Class B | 6,800 (a) | 264,350 |
| Walt Disney Company | 8,500 | 534,438 |
| | | 798,788 |
| Motion Picture Theaters (0.55%) | | |
| AMC Entertainment | 12,500 (a) | 348,438 |
| Motor Vehicles & Equipment (2.08%) | | |
| ITT Industries | 19,900 | 1,318,375 |
| Newspapers (1.65%) | | |
| Gannett Co. | 4,700 | 332,525 |
| New York Times Co. | 6,400 | 208,800 |
| News Corp. Ltd. ADS | 21,400 | 502,900 |
| | | 1,044,225 |

| | | |
|--|------------|---------------|
| Oil & Gas Field Services (0.49%) | | |
| Schlumberger Ltd. | 3,700 | 311,725 |
| Periodicals (1.51%) | | |
| K III Communications | 76,500 (a) | 956,250 |
| Personal Credit Institutions (3.74%) | | |
| American Express Co. | 39,000 | 1,740,375 |
| Associates First Capital | 6,200 (a) | 233,275 |
| Dean Witter, Discover & Co. | 6,900 | 395,025 |
| | | 2,368,675 |
| Photographic Equipment & Supplies (1.04%) | | |
| Eastman Kodak Co. | 8,450 | 656,988 |
| Photographic Studios, Portrait (0.06%) | | |
| PCA International Inc. | 2,200 | 36,850 |
| Plastic Materials & Synthetics (0.68%) | | |
| Hercules, Inc. | 7,800 | 430,950 |
| Radio & Television Broadcasting (1.61%) | | |
| Heftel Broadcasting Co. | 15,900 (a) | 471,038 |
| Infinity Broadcasting | 10,400 (a) | 312,000 |
| New World Communications | 16,100 (a) | 235,462 |
| | | 1,018,500 |
| Real Estate Operators & Lessors (0.41%) | | |
| Insignia Financial Group | 9,600 (a) | 260,400 |
| Refrigeration & Service Machinery (0.24%) | | |
| American Standard Inc. | 4,600 (a) | 151,800 |
| Retail Stores, NEC (0.82%) | | |
| PETSMART, Inc. | 10,900 (a) | 520,475 |
| Roofing, Siding & Sheet Metal Work (0.41%) | | |
| AMRE Inc. | 12,000 | 262,500 |
| Sanitary Services (0.37%) | | |
| WMX Technologies, Inc. | 7,200 | 235,800 |
| Search & Navigation Equipment (0.14%) | | |
| Watkins Johnson Co. | 3,300 | 90,338 |
| Security & Commodity Services (0.98%) | | |
| Franklin Resources, Inc. | 10,200 | 622,200 |
| Special Industry Machinery (0.27%) | | |
| Applied Materials, Inc. | 5,700 (a) | 173,850 |
| Surety Insurance (4.75%) | | |
| Ace Ltd. | 12,700 | 596,900 |
| CMAC Investment Corp. | 28,500 | 1,638,750 |
| MGIC Investment Corp. | 4,600 | 258,175 |
| The PMI Group, Inc. | 12,100 | 514,250 |
| | | 3,008,075 |
| Telephone Communication (1.22%) | | |
| AT&T Corp. | 6,000 | 372,000 |
| Airtouch Communications, Inc. | 9,400 (a) | 265,550 |
| Teleport Communication | 6,900 (a) | 131,963 |
| | | 769,513 |
| Tires & Inner Tubes (0.78%) | | |
| Goodyear Tire & Rubber Co. | 10,300 | 496,975 |
| | | |
| Total Portfolio Investments (91.45%) | | 57,931,524 |
| Cash and receivables, net of liabilities (8.55%) | | 5,413,097 |
| | | |
| Total Net Assets (100.00%) | | \$ 63,344,621 |

(a) Non-income producing security - No dividend paid during the past twelve months.

PRINCIPAL ASSET ALLOCATION FUND, INC.

| | Shares Held | Value |
|------------------------|----------------|-------|
| Common Stocks (50.04%) | | |
| Advertising (0.08%) | | |

| | | | |
|--|------------|----|---------|
| True North Communications | 1,500 | \$ | 33,755 |
| Valassis Communications | 400 (a) | | 7,400 |
| | | | 40,775 |
| Aerospace Industries (0.17%) | | | |
| Gencorp, Inc. | 2,800 | | 42,350 |
| Thiokol Corp. | 1,300 | | 51,350 |
| | | | 93,700 |
| Agricultural Chemicals (0.04%) | | | |
| IMC Global Group Inc. | 600 | | 22,575 |
| Air Transportation, Scheduled (1.06%) | | | |
| Airborne Freight Corp. | 1,500 | | 39,000 |
| AMR Corp. | 900 (a) | | 81,900 |
| British Airways PLC ADR | 1,400 | | 120,050 |
| Cathay Pacific Airways ADR | 8,500 | | 77,966 |
| KLM Royal Dutch Airlines | 7,380 | | 234,315 |
| SkyWest Airlines, Inc. | 1,500 | | 27,938 |
| | | | 581,169 |
| Aircraft & Parts (1.29%) | | | |
| Allied Signal, Inc. | 1,200 | | 68,550 |
| Boeing Co. | 600 | | 52,275 |
| General Dynamics Corp. | 600 | | 37,200 |
| McDonnell Douglas Corp. | 1,600 | | 77,600 |
| Rockwell International Corp. | 2,200 | | 125,950 |
| Rohr Industries | 700 (a) | | 14,613 |
| United Technologies Corp. | 2,900 | | 333,500 |
| | | | 709,688 |
| Auto & Home Supply Stores (0.08%) | | | |
| Autozone, Inc. | 1,300 (a) | | 45,175 |
| Automotive Rentals, No Drivers (0.10%) | | | |
| Ryder Systems, Inc. | 2,000 | | 56,250 |
| Bakery Products (0.06%) | | | |
| Interstate Bakeries | 1,300 | | 34,775 |
| Beer, Wine & Distilled Beverages (0.19%) | | | |
| Embotelladora Andina SA ADR | 2,800 | | 102,900 |
| Beverages (1.22%) | | | |
| Bass PLC ADR | 5,000 | | 123,750 |
| Coca-Cola Enterprises | 3,000 | | 103,875 |
| Coors (Adolph); Class B | 2,100 | | 37,537 |
| Fomento Economico Mexicano | 62,800 (c) | | 179,784 |
| Kirin Brewery | 1,200 | | 148,800 |
| Pepsico, Inc. | 2,200 | | 77,825 |
| | | | 671,571 |
| Bituminous Coal & Lignite Mining (0.07%) | | | |
| Ashland Coal, Inc. | 1,500 | | 39,000 |
| Blast Furnace & Basic Steel Products (0.30%) | | | |
| Australian National Industries | 8,960 | | 29,054 |
| Birmingham Steel | 2,800 | | 45,850 |
| British Steel PLC ADS | 3,500 | | 88,812 |
| | | | 163,716 |
| Bowling Centers (0.24%) | | | |
| Meija Seika Kaisha Ltd. ADR | 2,100 | | 130,004 |
| Broadwoven Fabric Mills, Cotton (0.08%) | | | |
| Springs Industries, Inc. | 900 | | 45,450 |
| Business Credit Institutions (0.09%) | | | |
| Finova Group, Inc. | 1,000 | | 48,750 |
| Chemicals & Allied Products (1.06%) | | | |
| Aceto, Inc. | 2,400 | | 37,800 |
| Bayer AG Sponsored ADR | 10,735 | | 379,075 |
| Ciba-Geigy Sponsored ADR | 2,700 | | 164,484 |
| | | | 581,359 |
| Clay, Ceramic & Refractory Minerals (0.12%) | | | |
| English China Clays ADR | 5,300 | | 64,925 |
| Combination Utility Services (0.68%) | | | |
| Central Hudson Gas & Electric Corp. | 1,500 | | 46,875 |
| CIA Energetica de Mainas Cemig ADR | 3,700 (a) | | 105,024 |
| Commonwealth Energy Systems | 2,000 | | 51,500 |
| NIPSCO Industries, Inc. | 1,850 | | 74,463 |
| Orange & Rockland Utilities, Inc. | 1,200 | | 44,100 |

| | | |
|---|------------|-----------|
| Washington Water Power Co. | 2,700 | 50,287 |
| | | 372,249 |
| Commercial Banks (4.30%) | | |
| ABN-AMRO Holdings NV ADR | 7,385 | 396,295 |
| Allied Irish Banks ADR | 2,900 | 90,262 |
| Banco Central ADR | 6,500 | 66,625 |
| BankAmerica Corp. | 750 | 56,813 |
| Banker's Trust | 850 | 62,794 |
| Barclays PLC ADS | 5,571 | 264,622 |
| Brierly Investments Ltd. ADR | 5,550 | 104,938 |
| Chase Manhattan | 340 | 24,013 |
| Chemical Banking Corp. | 1,400 | 98,875 |
| Citicorp | 700 | 57,837 |
| Commerzbank AG ADR | 1,800 | 74,500 |
| First of America Bank Corp. | 1,300 | 58,175 |
| First Security Corp. | 1,400 | 33,600 |
| HSBC Holdings ADR | 600 | 90,692 |
| J. P. Morgan & Co. | 500 | 42,313 |
| Mellon Bank Corp. | 1,000 | 57,000 |
| National Westminster ADR | 1,900 | 109,250 |
| Onbankcorp Inc. | 1,200 | 39,300 |
| Peoples Heritage Financial Group, Inc. | 1,900 | 38,712 |
| PNC Financial Corp. | 1,900 | 56,525 |
| Summit Bancorp. | 72 | 2,529 |
| Susquehanna Bancshares | 1,400 | 37,450 |
| Trustmark Corp. | 1,700 | 35,700 |
| Union Planter's Corp. | 1,200 | 36,450 |
| Wells Fargo & Co. | 1,300 | 310,538 |
| Westpac Banking ADR | 4,900 | 110,250 |
| | | 2,356,058 |
| Commercial Printing (0.07%) | | |
| Bowne & Co., Inc. | 1,800 | 37,125 |
| Communications Equipment (0.66%) | | |
| Alcatel Alsthom ADR | 4,700 | 82,838 |
| Hanson PLC ADR | 2,750 | 39,187 |
| Harris Corp. | 1,250 | 76,250 |
| Matsushita Electrical ADR | 800 | 148,800 |
| US Robotics Corp. | 200 (a) | 17,100 |
| | | 364,175 |
| Communications Services, NEC (0.03%) | | |
| Comsat Corp. | 700 | 18,200 |
| Computer & Data Processing Services (0.53%) | | |
| First Data Corp. | 800 | 63,700 |
| Gerber Scientific Inc. | 2,700 | 43,538 |
| GTECH Holdings Corp. | 2,700 (a) | 79,987 |
| Microsoft Corp. | 600 (a) | 72,075 |
| Oracle Systems Corp. | 750 (a) | 29,578 |
| | | 288,878 |
| Computer & Office Equipment (0.64%) | | |
| Apple Computer Inc. | 1,300 | 27,300 |
| Bell & Howell Co. | 600 (a) | 19,575 |
| Cisco Systems | 600 (a) | 33,975 |
| Hewlett-Packard Co. | 400 | 39,850 |
| Hitachi Ltd. ADR | 1,300 | 121,875 |
| International Business Machines Corp. | 400 | 39,600 |
| International Game Technology | 1,500 | 25,313 |
| National Computer Systems, Inc. | 2,000 | 42,750 |
| | | 350,238 |
| Concrete, Gypsum & Plaster Products (0.58%) | | |
| Ameron International Corp. | 1,000 | 39,500 |
| Cementos de Mexico SA ADR | 25,600 (a) | 176,975 |
| Italcementi Fabrice S P A ADR | 13,000 | 104,308 |
| | | 320,783 |
| Concrete Work (0.13%) | | |
| Pioneer International Ltd. ADR | 25,000 | 72,800 |
| Construction & Related Machinery (0.11%) | | |
| Baker Hughes, Inc. | 400 | 13,150 |
| Cascade Corp. | 3,400 | 45,475 |
| | | 58,625 |
| Consumer Products (1.67%) | | |
| American Brands, Inc. | 1,300 | 58,988 |
| Philip Morris Cos., Inc. | 4,850 | 504,400 |
| RJR Nabisco | 11,400 | 353,400 |
| | | 916,788 |

| | | |
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| Crude Petroleum & Natural Gas (0.42%) | | |
| Broken Hill Proprietary Ltd. ADR | 2,200 | 61,325 |
| Petrofina SA ADR | 2,900 | 90,900 |
| Societe Generale ADR | 3,600 | 79,159 |
| | | 231,384 |
| Cutlery, Handtools & Hardware (0.07%) | | |
| Starrett (L.S.); Class A | 1,500 | 39,000 |
| Deep Sea Foreign Transportation of Freight (0.01%) | | |
| Overseas Shipholding Group, Inc. | 400 | 7,250 |
| Department Stores (0.50%) | | |
| Harcourt General, Inc. | 900 | 45,000 |
| Marui Corp. ADR | 3,800 | 168,378 |
| Penney (J.C.) Co. | 1,200 | 63,000 |
| | | 276,378 |
| Dimension Stone (0.05%) | | |
| Potash Corp. of Saskatchewan | 400 | 26,500 |
| Drugs (1.17%) | | |
| American Home Products Corp. | 1,100 | 66,138 |
| Amgen | 300 (a) | 16,200 |
| Hafslund ADR | 13,172 | 83,115 |
| Novo Nordisk ADR | 3,200 | 114,400 |
| Nycomed | 13,172 | 186,055 |
| Pfizer, Inc. | 500 | 35,687 |
| Schering-Plough Corp. | 1,300 | 81,575 |
| Smithkline Beecham PLC ADR | 1,100 | 59,812 |
| | | 642,982 |
| Drugs, Proprietaries & Sundries (0.57%) | | |
| Amway Japan Ltd. ADS | 7,000 | 174,125 |
| Bergen Brunswig | 1,400 | 38,850 |
| Bindley Western Industries, Inc. | 2,800 | 46,900 |
| Block Drug Co. | 1,200 | 50,400 |
| | | 310,275 |
| Eating & Drinking Places (0.49%) | | |
| Boston Chicken, Inc. | 4,800 (a) | 156,000 |
| Brinker International, Inc. | 1,500 (a) | 22,500 |
| Foodmaker Inc. | 1,800 (a) | 15,525 |
| Piccadilly Cafeterias | 4,000 | 42,000 |
| Sbarro, Inc. | 1,300 | 32,663 |
| | | 268,688 |
| Electric Services (1.03%) | | |
| Empresa Nacional de Electricidad SA ADR | 1,400 | 87,675 |
| EVN Energie-Vansorgung Nied ADR | 3,600 | 99,474 |
| General Public Utilities Corp. | 2,100 | 74,025 |
| National Power ADR | 3,300 | 103,950 |
| Pinnacle West Capital Corp. | 2,000 | 60,750 |
| Shangdong Huaneng Power Development Ltd. ADS | 8,000 | 66,000 |
| Texas Utilities Co. | 1,700 | 72,675 |
| | | 564,549 |
| Electrical Industrial Apparatus (0.07%) | | |
| Emerson Electric Co. | 400 | 36,150 |
| Electronic Components & Accessories (0.67%) | | |
| AIDA Engineering Ltd. ADR | 800 | 66,885 |
| Dallas Semiconductor | 2,000 | 36,250 |
| Intel Corp. | 900 | 66,094 |
| Nintendo Ltd. ADR | 17,600 | 163,673 |
| Texas Instruments | 700 | 34,912 |
| | | 367,814 |
| Electronic Distribution Equipment (0.41%) | | |
| Phillips NV ADR | 6,969 | 227,364 |
| Engineering & Architectural Services (0.06%) | | |
| Gilbert Associates, Inc.; Class A | 2,700 | 34,425 |
| Family Clothing Stores (0.10%) | | |
| TJX Cos., Inc. | 1,600 | 54,000 |
| Farm & Garden Machinery (0.12%) | | |
| Deere & Co. | 1,700 | 68,000 |
| Federal & Federally Sponsored Credit (0.24%) | | |
| Student Loan Marketing Association (Non-Voting) | 1,800 | 133,200 |
| Finance Services (0.33%) | | |

| | | |
|--|----------------|---------|
| Grupo Financiero Bancomer SA ADR | 20,600 (a) (c) | 179,372 |
| Fire Marine & Casualty Insurance (0.90%) | | |
| Aetna Life & Casualty Co. | 600 | 42,900 |
| Argonaut Group, Inc. | 1,000 | 31,250 |
| CIGNA Corp. | 850 | 100,194 |
| Loews Corp. | 2,400 | 189,300 |
| PartnerRe Holdings Ltd. | 1,000 | 29,875 |
| RenaissanceRe Holdings | 300 | 9,225 |
| Selective Insurance Group, Inc. | 1,200 | 39,000 |
| St. Paul Cos., Inc. | 1,000 | 53,500 |
| | | 495,244 |
| Footwear, Except Rubber (0.39%) | | |
| Ollivetti Inc. Cos. | 396,825 | 214,047 |
| Gas Production & Distribution (0.16%) | | |
| Eastern Enterprises | 1,500 | 49,875 |
| ONEOK, Inc. | 1,500 | 37,500 |
| | | 87,375 |
| General Industrial Machinery (0.83%) | | |
| Amer Group Ltd. ADR | 5,500 | 46,169 |
| Binks Mfg. | 1,800 | 49,050 |
| S K F AB ADR | 15,370 | 361,195 |
| | | 456,414 |
| Grain Mill Products (0.19%) | | |
| Kellogg Co. | 800 | 58,600 |
| Ralston-Ralston Purina Group | 700 | 44,888 |
| | | 103,488 |
| Groceries & Related Products (0.23%) | | |
| Fleming Cos., Inc. | 3,450 | 49,594 |
| International Multifoods Corp. | 1,900 | 34,675 |
| Nash Finch Co. | 2,600 | 41,600 |
| | | 125,869 |
| Grocery Stores (0.78%) | | |
| Disco SA ADS | 9,980 (a) | 220,808 |
| Koninklijke Bijenkorf Beheer NV ADR | 2,400 | 101,372 |
| Santa Isabella SA ADR | 3,735 | 103,646 |
| | | 425,826 |
| Holding Offices (0.12%) | | |
| Jardine Strategic Holdings Ltd. ADR | 10,000 | 64,000 |
| Hospitals (0.08%) | | |
| Columbia/HCA Healthcare Corp. | 800 | 42,700 |
| Hotels & Motels (0.44%) | | |
| Hilton Hotels Corp. | 400 | 45,000 |
| La Quinta Motor Inns | 2,700 | 90,450 |
| Ladbroke Group ADR | 37,000 | 103,482 |
| | | 238,932 |
| Household Audio & Video Equipment (0.30%) | | |
| Sony Corp. ADR | 2,500 | 165,313 |
| Industrial Inorganic Chemicals (0.85%) | | |
| AKZO ADR | 4,283 | 255,909 |
| Eastman Chemical Co. | 950 | 57,831 |
| Monsanto Co. | 3,000 | 97,500 |
| Olin Corp. | 600 | 53,550 |
| | | 464,790 |
| Industrial Machinery, NEC (0.08%) | | |
| Commercial Intertech Corp. | 1,800 | 46,350 |
| Industrial Organic Chemicals (0.17%) | | |
| Nova Corp. ADR | 6,700 | 60,300 |
| Witco Corp. | 1,000 | 34,375 |
| | | 94,675 |
| Insurance Agents, Brokers & Services (0.06%) | | |
| EXEL Ltd. | 500 | 35,250 |
| Iron Ores (0.07%) | | |
| Cleveland-Cliffs, Inc. | 1,000 | 39,125 |
| Jewelry, Silverware & Plated Ware (0.08%) | | |
| ONEIDA Ltd. | 2,200 | 41,250 |
| Knitting Mills (0.06%) | | |
| Guilford Mills, Inc. | 1,300 | 32,500 |

| | | |
|---|-----------|---------|
| Laundry, Cleaning & Garment Services (0.08%) | | |
| Angelica Corp. | 1,900 | 44,887 |
| Life Insurance (0.23%) | | |
| American General Corp. | 1,800 | 65,475 |
| Lincoln National | 1,300 | 60,125 |
| | | 125,600 |
| Logging (0.09%) | | |
| Weyerhaeuser Co. | 1,200 | 51,000 |
| Machinery, Equipment & Supplies (0.11%) | | |
| AAR Corp. | 1,300 | 26,488 |
| Kaman Corp.; Class A | 3,300 | 33,412 |
| | | 59,900 |
| Management & Public Relations (0.14%) | | |
| Ogden Corp. | 4,300 | 77,938 |
| Manifold Business Forms (0.06%) | | |
| New England Business Service | 1,600 | 31,200 |
| Measuring & Controlling Devices (0.35%) | | |
| Analogic Corp. | 2,000 | 53,500 |
| Beckman Instruments, Inc. | 1,000 | 38,000 |
| Core Industries | 2,600 | 37,375 |
| Cubic Corp. | 1,200 | 39,150 |
| MTS Systems, Corp. | 1,200 | 25,200 |
| | | 193,225 |
| Meat Products (0.59%) | | |
| Groupe Danone | 10,764 | 325,757 |
| Medical Instruments & Supplies (0.19%) | | |
| Baxter International, Inc. | 1,400 | 66,150 |
| Beckton, Dickinson & Co. | 500 | 40,125 |
| | | 106,275 |
| Medical Service & Health Insurance (0.34%) | | |
| PacifiCare Health Systems, Inc.; Class B | 300 (a) | 20,325 |
| Provident Companies, Inc. | 1,200 | 44,400 |
| United Healthcare Corp. | 600 | 30,300 |
| United Wisconsin Services | 1,800 | 46,800 |
| US Life Corp. | 1,300 | 42,737 |
| | | 184,562 |
| Metal Cans & Shipping Containers (0.08%) | | |
| Ball Corp. | 1,500 | 43,125 |
| Metalworking Machinery (0.26%) | | |
| Makita Corp. ADR | 9,000 | 144,000 |
| Miscellaneous Amusement, Recreation Service (0.07%) | | |
| Jackpot Enterprises | 3,200 | 40,800 |
| Miscellaneous Business Services (0.09%) | | |
| CUC International, Inc. | 1,400 (a) | 49,700 |
| Miscellaneous Chemical Products (0.07%) | | |
| Learonal, Inc. | 1,500 | 37,500 |
| Miscellaneous Converted Paper Products (0.05%) | | |
| P. T. Inti Indorayon Utama ADR | 10,000 | 29,002 |
| Miscellaneous Electrical Equipment & Supplies (0.31%) | | |
| TDK Corp. ADS | 2,800 | 169,750 |
| Miscellaneous Fabricated Metal Products (0.08%) | | |
| Barnes Group, Inc. | 900 | 46,013 |
| Miscellaneous Food & Kindred Products (0.21%) | | |
| Nestle Reg. ADR | 2,000 | 114,170 |
| Miscellaneous Food Stores (0.05%) | | |
| General Nutrition Cos. | 1,400 (a) | 24,500 |
| Miscellaneous Furniture & Fixtures (0.06%) | | |
| Kinetic Concepts, Inc. | 2,000 | 31,000 |
| Miscellaneous Investing (6.14%) | | |
| Amlı Residential Property | 6,600 | 136,125 |
| Avalon Properties | 10,900 | 237,075 |
| Bedford Property Investors | 20,500 | 276,750 |
| Cousins Properties | 7,800 | 153,075 |

| | | |
|---|-----------|-----------|
| DeBartolo Realty | 12,500 | 201,562 |
| Duke Realty Investments, Inc. | 8,700 | 263,175 |
| Essex Property Trust | 5,400 | 116,100 |
| Felcor Suite Hotels | 4,000 | 122,000 |
| HFS, Inc. | 2,800 (a) | 196,000 |
| Horizon Group Inc. | 3,100 | 63,550 |
| Irvine Apartment Community | 5,000 | 100,625 |
| Liberty Property Trust | 6,400 | 127,200 |
| Manufactured Home Communities | 1,800 | 34,650 |
| Meridian Industrial Trust | 12,100 | 222,338 |
| Patriot American Hospitality | 3,700 | 109,612 |
| ROC Communities | 9,400 | 224,425 |
| Security Capital Industrial Trust | 3,000 | 52,875 |
| Shurgard Storage Center | 4,000 | 101,000 |
| South West Property Trust | 15,200 | 203,300 |
| Sun Communities | 2,000 | 53,750 |
| Taubman Centers | 9,400 | 104,575 |
| Urban Shopping Centers | 9,700 | 230,375 |
| Wellsford Residential Property Trust | 1,700 | 38,250 |
| | | 3,368,387 |
| Miscellaneous Manufacturers (0.08%) | | |
| Russ Berrie & Co. | 2,400 | 44,100 |
| Miscellaneous Non-Durable Goods (0.07%) | | |
| Stanhope, Inc. | 1,400 | 37,100 |
| Miscellaneous Petroleum & Coal Products (0.03%) | | |
| Quaker Chemical Corp. | 1,500 | 19,125 |
| Miscellaneous Plastics Products, NEC (0.09%) | | |
| American Filtrona Corp. | 1,000 | 32,000 |
| Premark International, Inc. | 300 | 5,550 |
| Tupperware Corp. | 300 (a) | 12,675 |
| | | 50,225 |
| Miscellaneous Special Trade Contractors (0.16%) | | |
| Hang Lung Development Co. ADR | 9,400 | 88,347 |
| Miscellaneous Transportation Services (0.01%) | | |
| Petro PSC Properties Warrants | 200 (a) | 6,625 |
| Motion Picture Production & Services (0.15%) | | |
| Viacom, Inc.; Class B | 700 | 27,212 |
| Walt Disney Company | 900 | 56,588 |
| | | 83,800 |
| Motion Picture Theaters (0.06%) | | |
| AMC Entertainment | 1,200 (a) | 33,450 |
| Motor Vehicles & Equipment (1.72%) | | |
| Arvin Industries, Inc. | 1,900 | 42,275 |
| Augat, Inc. | 2,000 | 38,250 |
| Chrysler Corp. | 700 | 43,400 |
| Fiat SPA ADR | 4,700 | 79,900 |
| Ford Motor Co. | 1,500 | 48,563 |
| General Motors Corp. | 1,000 | 52,375 |
| Honda Motor ADR | 4,400 | 224,400 |
| ITT Industries | 1,600 | 106,000 |
| Smith (A.O.) Corp. | 2,000 | 50,000 |
| Toyota Motor Corp. ADR | 3,100 | 155,387 |
| Volkswagen AG ADR | 1,400 | 104,025 |
| | | 944,575 |
| Newspapers (0.19%) | | |
| Gannett Co. | 500 | 35,375 |
| New York Times Co. | 600 | 19,575 |
| News Corp. Ltd. ADS | 2,100 | 49,350 |
| | | 104,300 |
| Non-Classifiable Establishments (0.13%) | | |
| Keppel Corp. Ltd. ADR | 4,300 | 71,898 |
| Nonresidential Building Construction (0.07%) | | |
| Emprapas ICA Sociedad Controladora SA ADR | 2,700 (a) | 37,462 |
| Non-Store Retailers (0.07%) | | |
| Lillian Vernon Corp. | 2,800 | 35,700 |
| Oil & Gas Field Services (0.06%) | | |
| Schlumberger Ltd. | 400 | 33,700 |
| Operative Builders (0.23%) | | |
| Fujita Corp. ADR | 2,700 | 125,545 |

| | | |
|--|-----------|---------|
| Ophthalmic Goods (0.10%) | | |
| Bausch & Lomb | 1,250 | 53,125 |
| Paints & Allied Products (0.07%) | | |
| Dexter Corp. | 1,200 | 35,700 |
| Paper Mills (0.18%) | | |
| Potlatch Corp. | 1,000 | 39,125 |
| Willamette Ind., Inc. | 1,000 | 59,500 |
| | | 98,625 |
| Partitions & Fixtures (0.05%) | | |
| Knappe & Vogt Mfg. | 1,560 | 24,570 |
| Pens, Pencils, Office & Art Supplies (0.07%) | | |
| Cross (A.T.) Co.; Class A | 2,300 | 40,825 |
| Periodicals (0.18%) | | |
| K III Communications | 7,800 (a) | 97,500 |
| Personal Credit Institutions (0.46%) | | |
| American Express Co. | 4,000 | 178,500 |
| Associates First Capital | 900 (a) | 33,863 |
| Dean Witter, Discover & Co. | 700 | 40,075 |
| | | 252,438 |
| Petroleum Refining (0.69%) | | |
| Ashland, Inc. | 1,500 | 59,437 |
| Atlantic Richfield Co. | 600 | 71,100 |
| Diamond Shamrock, Inc. | 1,200 | 34,650 |
| Exxon Corp. | 800 | 69,500 |
| Total SA IE Francaise ADR | 2,800 | 103,950 |
| Ultramar Corp. | 1,400 | 40,600 |
| | | 379,237 |
| Photographic Equipment & Supplies (0.87%) | | |
| Eastman Kodak Co. | 1,450 | 112,738 |
| Fuji Photo Film | 6,800 | 216,750 |
| OCE Van Der Grinten NV ADR | 1,400 | 147,000 |
| | | 476,488 |
| Photographic Studios, Portrait (0.06%) | | |
| CPI Corp. | 2,000 | 33,000 |
| Plastic Materials & Synthetics (0.22%) | | |
| Hercules, Inc. | 800 | 44,200 |
| Shanghai Petrochemical Co. Ltd. ADR | 2,600 | 74,100 |
| | | 118,300 |
| Primary Nonferrous Metals (0.11%) | | |
| Phelps Dodge Corp. | 950 | 59,256 |
| Radio & Television Broadcasting (0.18%) | | |
| Heftel Broadcasting Co. | 1,500 (a) | 44,438 |
| Infinity Broadcasting | 1,000 (a) | 30,000 |
| New World Communications | 1,600 (a) | 23,400 |
| | | 97,838 |
| Real Estate Operators & Lessors (0.05%) | | |
| Insignia Financial Group | 1,000 (a) | 27,125 |
| Refrigeration & Service Machinery (0.10%) | | |
| American Standard, Inc. | 500 (a) | 16,500 |
| Tecumseh Products Co.; Class A | 700 | 37,625 |
| | | 54,125 |
| Rental of Railroad Cars (0.08%) | | |
| GATX Corp. | 900 | 43,425 |
| Residential Building Construction (0.07%) | | |
| Ryland Group, Inc. | 2,500 | 37,500 |
| Retail Stores, NEC (0.29%) | | |
| CIA Brasileira de Distribuicao GDR | 6,325 (c) | 104,362 |
| PETSMART, Inc. | 1,100 (a) | 52,525 |
| | | 156,887 |
| Roofing, Siding & Sheet Metal Work (0.05%) | | |
| AMRE, Inc. | 1,300 (a) | 28,437 |
| Sanitary Services (0.04%) | | |
| WMX Technologies, Inc. | 700 | 22,925 |
| Savings Institutions (0.30%) | | |
| Astoria Financial Corp. | 1,200 | 32,550 |

| | | |
|--|------------|------------|
| Greenpoint Financial Corp. | 1,600 | 45,200 |
| Standard Federal Bancorp., Inc. | 1,000 | 38,500 |
| Washington Mutual, Inc. | 1,600 | 47,800 |
| | | 164,050 |
| Sawmills & Planning Mills (0.08%) | | |
| Louisiana Pacific Corp. | 2,100 | 46,463 |
| Search & Navigation Equipment (0.02%) | | |
| Watkins-Johnson Co. | 400 | 10,950 |
| Security & Commodity Services (0.11%) | | |
| Franklin Resources, Inc. | 1,000 | 61,000 |
| Soap, Cleaners & Toilet Goods (0.30%) | | |
| KAO Corp. ADR | 1,200 | 161,923 |
| Special Industry Machinery (0.10%) | | |
| Applied Materials, Inc. | 600 (a) | 18,300 |
| Scitex Corp. | 2,000 | 34,500 |
| | | 52,800 |
| Subdividers & Developers (0.14%) | | |
| Singapore Land ADR | 11,600 | 78,487 |
| Sugar & Confectionary Products (0.14%) | | |
| Perlis Plantations ADR | 20,000 | 76,946 |
| Surety Insurance (0.62%) | | |
| ACE Ltd. | 1,300 | 61,100 |
| CMAC Investment Corp. | 2,800 | 161,000 |
| Enhance Financial Services Group | 1,700 | 47,600 |
| MGIC Investment Corp. | 300 | 16,837 |
| The PMI Group, Inc. | 1,200 | 51,000 |
| | | 337,537 |
| Telephone Communication (2.77%) | | |
| Airtouch Communications, Inc. | 1,000 (a) | 28,250 |
| AT&T Corp. | 600 | 37,200 |
| BCE, Inc. | 8,590 | 339,305 |
| Nynex Corp. | 1,200 | 57,000 |
| SBC Communications Inc. | 800 | 39,400 |
| Sprint Corp. | 1,500 | 63,000 |
| Telebras GDR | 18 | 1,253 |
| Telecomunicacoes Brasileiras SA ADR | 7,900 | 550,038 |
| Telefonica de Argentina ADR | 6,600 | 195,525 |
| Telefonica de Espana SA ADS | 2,500 | 137,812 |
| Telfonos de Mexico SA ADR | 1,700 | 56,950 |
| Telport Communication | 600 (a) | 11,475 |
| | | 1,517,208 |
| Tires & Inner Tubes (0.40%) | | |
| Bridgestone ADR | 900 | 171,496 |
| Goodyear Tire & Rubber Co. | 1,000 | 48,250 |
| | | 219,746 |
| Variety Stores (0.15%) | | |
| Woolworth Corp. | 3,550 (a) | 79,875 |
| Water Supply (0.06%) | | |
| SJW Corp. | 1,000 | 33,250 |
| Water Transportation of Freight, NEC (0.15%) | | |
| Penninsular & Oriental Steamships ADR | 5,400 | 81,556 |
| Women's & Children's Undergarments (0.26%) | | |
| Wacoal Corp. ADR | 2,100 | 141,750 |
| | | 27,443,290 |
| Preferred Stock (0.17%) | | |
| Periodicals (0.17%) | | |
| Time Warner; Series K | 95 (a) (c) | 93,100 |
| | | |
| | Principal | Value |
| | Amount | |
| Bonds (7.70%) | | |
| Agricultural Chemicals (0.37%) | | |
| IMC Fertilizer Senior Notes; | | |
| 9.25%; 10/1/00 | \$ 200,000 | \$ 204,500 |
| Airports, Flying Fields & Services (0.14%) | | |

| | | |
|--|---------------|---------|
| Alps 96 1 PT Pass Through Certificates; 12.75%; 6/15/06 | 75,000 (c) | 74,812 |
| Asphalt Paving & Roofing Materials (0.07%) G-I Holdings Senior Notes; 10/01/98 | 45,000 (b) | 36,225 |
| Blast Furnace & Basic Steel Products (0.13%) Algoma Steel, Inc. First Mortgage; 12.38%; 7/15/05 | 75,000 | 73,125 |
| Cable & Other Pay TV Services (0.82%) Cablevision Systems Corp. Senior Subordinated Notes; 9.88%; 5/15/06 | 80,000 | 77,100 |
| Continental Cablevision Debentures; 9.50%; 8/1/13 | 80,000 | 87,336 |
| Marcus Cable Company Step-Up Senior Discount Notes; 12/15/05 | 150,000 (b) * | 91,875 |
| Rogers Cable Systems Ltd. Senior Notes; 10.00%; 3/15/05 | 100,000 | 99,250 |
| TCI Communications Inc. Debentures; 7.88%; 2/15/26 | 105,000 | 92,333 |
| | | 447,894 |
| Carpets & Rugs (0.06%) Collins & Aikman Products Senior Subordinated Notes; 11.50%; 4/15/06 | 30,000 | 30,450 |
| Chemicals & Allied Products (0.11%) Harris Chemical North America Senior Notes; 10.25%; 7/15/01 | 60,000 | 59,850 |
| Communications Equipment (0.18%) Plantronics, Inc. Senior Notes; 10.00%; 1/15/01 | 100,000 | 99,000 |
| Communications Services, NEC (0.54%) Dial Call Communications, Inc. Senior Discount Notes, Series B; 12/12/05 | 500,000 (b) | 295,000 |
| Computer & Office Equipment (0.18%) Unisys Corp. Senior Notes; 12.00%; 4/15/03 | 95,000 (c) | 97,138 |
| Consumer Products (0.07%) RJR Nabisco, Inc. Senior Notes; 8.75%; 8/15/05 | 40,000 | 39,900 |
| Crude Petroleum & Natural Gas (0.09%) Nuevo Energy Co. Senior Subordinated Notes; 9.50%; 4/15/06 | 50,000 | 49,438 |
| Electric Services (0.09%) Midland Cogeneration Debentures; 10.33%; 7/23/02 | 7,715 | 8,024 |
| Midland Cogent Debentures; 10.33%; 7/23/02 | 16,615 | 17,279 |
| Midland Funding II Notes; 11.75%; 7/23/05 | 20,000 | 21,100 |
| | | 46,403 |
| Finance Services (0.22%) APP International Finance; Guaranteed by Asia Pulp & Paper Yankee Dollar Bond; 11.75%; 10/01/05 | 75,000 | 76,687 |
| TLC Beatrice International Finance Senior Notes; 11.50%; 10/01/05 | 45,000 | 45,563 |
| | | 122,250 |
| Fire, Marine & Casualty Insurance (0.26%) Home Holdings Inc. Senior Notes; 8.63%; 12/15/03 | 125,000 | 70,000 |
| Reliance Group Holdings Senior Notes; 9.00%; 11/15/00 | 75,000 | 74,437 |
| | | 144,437 |
| Glass & Glassware, Pressed or Blown (0.15%) Owens-Ill. Inc. Debentures; 11.00%; 12/01/03 | 75,000 | 80,625 |

| | | |
|---|-------------------|---------|
| Grocery Stores (0.15%) | | |
| Big V Supermarkets Inc. | | |
| Senior Subordinated Notes; | | |
| 11.00%; 2/15/04 | 25,000 | 23,125 |
| Smith's Food and Drug | | |
| Senior Subordinated Notes; | | |
| 11.25%; 5/15/07 | 60,000 | 60,750 |
| | | 83,875 |
| Hotels & Motels (0.39%) | | |
| Courtyard by Marriott Senior Notes; | | |
| 10.75%; 2/1/08 | 90,000 | 88,200 |
| Host Marriott Travel Plaza | | |
| Senior Notes; 9.50%; 5/15/05 | 95,000 | 90,844 |
| LaQuinta Inns Senior Subordinated | | |
| Notes; 9.25%; 5/15/03 | 35,000 | 35,350 |
| | | 214,394 |
| Meat Products (0.09%) | | |
| Pilgrim's Pride Corp. Senior | | |
| Subordinated Notes; | | |
| 10.88%; 8/1/03 | 50,000 | 47,500 |
| Miscellaneous Amusement, Recreation Service (0.33%) | | |
| Grand Casinos Inc. First Mortgage; | | |
| 10.13%; 12/1/03 | 15,000 | 15,450 |
| Six Flags Theme Park Inc. | | |
| Senior Subordinated Notes; 6/15/05 | 150,000 (b) | 127,125 |
| Trump Atlantic City First Mortgage; | | |
| 11.25%; 5/1/06 | 40,000 | 40,200 |
| | | 182,775 |
| Miscellaneous Converted Paper Products (0.27%) | | |
| Crown Paper Co. Senior | | |
| Subordinated Notes; 11.00%; 9/1/05 | 90,000 | 85,500 |
| SD Warren Co. Senior Subordinated | | |
| Notes; 12.00%; 12/15/04 | 60,000 | 63,600 |
| | | 149,100 |
| Miscellaneous Electrical Equipment & Supplies (0.02%) | | |
| Exide Corp. Senior Subordinated | | |
| Notes; 2.90%; 12/15/05 | 15,000 | 8,269 |
| Miscellaneous Investing (0.33%) | | |
| HMC Acquisition Properties Senior | | |
| Notes; 9.00%; 12/15/07 | 200,000 | 183,500 |
| Miscellaneous Publishing (0.14%) | | |
| Marvel Parent Holding; 4/15/98 | 100,000 (b) | 79,250 |
| Miscellaneous Shopping Goods Stores (0.20%) | | |
| Southland Corp. Senior Subordinated | | |
| Debentures; 5.00%; 12/15/03 | 140,000 | 108,325 |
| Miscellaneous Textile Goods (0.18%) | | |
| West Point Stevens Senior | | |
| Subordinated Debentures; | | |
| 9.38%; 12/15/05 | 100,000 | 97,000 |
| Mortgage Bankers & Brokers (0.04%) | | |
| Homeside, Inc. Senior Notes; | | |
| 11.25%; 5/15/03 | 20,000 (c) | 20,700 |
| Operative Builders (0.03%) | | |
| MDC Holdings Notes; | | |
| 11.13%; 12/15/03 | 20,000 | 18,800 |
| Paperboard Mills (0.21%) | | |
| Gaylord Container Senior Notes; | | |
| 11.50%; 5/15/01 | 20,000 | 20,500 |
| Gaylord Container Senior | | |
| Subordinated Debentures; | | |
| 12.75%; 5/15/01 | 20,000 | 21,050 |
| Stone Container Corp. First Mortgage | | |
| Notes; 10.75%; 10/1/02 | 75,000 | 75,750 |
| | | 117,300 |
| Radio & Television Broadcasting (0.37%) | | |
| Echostar Satellite Broadcasting | | |
| Step-Up Senior Discount | | |
| Notes; 3/15/04 | 125,000 (b) (c) * | 77,500 |
| Viacom Subordinated Debentures; | | |
| 8.00%; 7/7/06 | 135,000 | 125,542 |
| | | 203,042 |

| | | |
|--|--------------------------------------|---------------|
| Sanitary Services (0.12%) | | |
| Norcal Waste Systems Inc. Step-Up Senior Notes; 11/15/05 | 60,000* (c) | 63,300 |
| Soap, Cleaners & Toilet Goods (0.17%) | | |
| Revlon Worldwide Corp. Senior Discount Notes; 3/15/98 | 110,000 (b) | 91,575 |
| Telephone Communication (0.97%) | | |
| Comcast Cellular Notes; 3/5/00 | 110,000 (b) | 75,350 |
| Senior Subordinated Debentures; 9.38%; 5/15/05 | 60,000 | 58,050 |
| Lenfest Communications Senior Notes; 8.38%; 11/1/05 | 125,000 | 113,906 |
| Senior Subordinated Notes; 10.50%; 6/15/06 | 20,000 (c) | 20,167 |
| MFS Communications Inc. Step-Up Senior Discount Notes; 1/15/06 | 185,000 (b) | 111,463 |
| Occidente Y Carbide Cellular Step-Up Units; 3/15/04 | 125,000 (b) (c) * | 64,687 |
| Philippine Long Distance Telephone Co. Notes; 9.25%; 6/30/06 | 25,000 | 25,289 |
| Telewest PLC Step-Up Debentures; 10/01/07 | 110,000 (b) | 64,900 |
| | | 533,812 |
| Variety Stores (0.21%) | | |
| DR Structured Finance Pass thru Certificates; 7.60%; 8/15/07 | 138,308 | 117,781 |
| | Total Bonds | 4,221,345 |
| U.S. Government Treasury Notes (18.66%) | | |
| 8.00%; 1/15/97 | 3,809,000 | 3,857,800 |
| 7.88%; 11/15/04 | 5,931,000 | 6,375,825 |
| | Total U.S. Government Treasury Notes | 10,233,625 |
| | Total Portfolio Investments (76.57%) | 41,991,360 |
| Cash and receivables, net of liabilities (23.43%) | | 12,849,985 |
| | Total Net Assets (100.00%) | \$ 54,841,345 |

- (a) Non-income producing security - No dividend paid during the past twelve months.
- (b) Non-income producing security - zero-and zero-step coupon bonds.
- (c) Restricted Security - See Note 4 to the financial statements.
- * Variable Rate

PRINCIPAL BALANCED FUND, INC.

| | Shares Held | Value |
|--------------------------------------|-------------|------------|
| Common Stocks (53.32%) | | |
| Advertising (0.43%) | | |
| Interpublic Group of Cos., Inc. | 6,600 | \$ 309,375 |
| Beverages (0.77%) | | |
| Pepsico, Inc. | 11,300 | 399,737 |
| Universal Foods Corp. | 4,300 | 158,563 |
| | | 558,300 |
| Combination Utility Services (0.53%) | | |
| Cinergy Corp. | 12,100 | 387,200 |
| Commercial Banks (4.77%) | | |
| Banc One Corp. | 20,413 | 694,042 |
| Bank of Boston Corp. | 9,800 | 485,100 |
| Chase Manhattan Corp. | 5,400 | 381,375 |
| Comerica, Inc. | 6,600 | 294,525 |
| First of America Bank Corp. | 7,600 | 340,100 |
| KeyCorp. | 16,200 | 627,750 |
| Marshall & Ilsley Corp. | 6,000 | 166,500 |
| Nationsbank Corp. | 5,800 | 479,225 |
| | | 3,468,617 |
| Communications Equipment (1.55%) | | |
| Allen Group, Inc. | 4,200 | 91,350 |

| | | |
|---|------------|-----------|
| DSC Communications Corp. | 12,700 (a) | 382,587 |
| General Instrument Corp. | 22,500 (a) | 649,688 |
| | | 1,123,625 |
| Computer & Office Equipment (1.70%) | | |
| Hewlett-Packard Co. | 3,800 | 378,575 |
| International Business Machines Corp. | 8,700 | 861,300 |
| | | 1,239,875 |
| Construction & Related Machinery (0.53%) | | |
| Caterpillar, Inc. | 5,700 | 386,175 |
| Consumer Products (0.43%) | | |
| Philip Morris Cos., Inc. | 3,000 | 312,000 |
| Crude Petroleum & Natural Gas (1.17%) | | |
| Texaco, Inc. | 10,100 | 847,138 |
| Dairy Products (0.31%) | | |
| Dean Foods Co. | 9,000 | 222,750 |
| Drugs (6.30%) | | |
| Abbott Labs | 26,100 | 1,135,350 |
| American Home Products Corp. | 13,700 | 823,713 |
| Bristol-Myers Squibb Co. | 7,300 | 657,000 |
| Lilly (Eli) & Co. | 5,600 | 364,000 |
| Merck & Co., Inc. | 12,300 | 794,887 |
| Warner-Lambert Co. | 14,700 | 808,500 |
| | | 4,583,450 |
| Electric Services (1.87%) | | |
| Dominion Resources, Inc. | 10,400 | 416,000 |
| FPL Group, Inc. | 7,000 | 322,000 |
| Houston Industries, Inc. | 14,900 | 366,912 |
| Potomac Electric Power Co. | 9,600 | 254,400 |
| | | 1,359,312 |
| Electrical Industrial Apparatus (0.56%) | | |
| Emerson Electric Co. | 4,500 | 406,687 |
| Electronic Components & Accessories (0.90%) | | |
| Duracell International, Inc. | 15,200 | 655,500 |
| Electronic Distribution Equipment (1.52%) | | |
| General Electric Co. | 12,800 | 1,107,200 |
| Fats & Oils (1.18%) | | |
| Archer Daniels Midland Co. | 44,800 | 856,800 |
| Fire, Marine & Casualty Insurance (0.56%) | | |
| Allstate Corp. | 8,920 | 406,975 |
| General Industrial Machinery (0.37%) | | |
| BW/IP Holdings, Inc.; Class A | 4,200 | 79,800 |
| Pall Corp. | 7,700 | 185,763 |
| | | 265,563 |
| Grain Mill Products (0.73%) | | |
| Ralston-Ralston Purina Group | 8,300 | 532,238 |
| Greeting Cards (0.67%) | | |
| American Greetings Corp. | 17,800 | 487,275 |
| Grocery Stores (3.02%) | | |
| Albertson's, Inc. | 15,000 | 620,625 |
| American Stores Co. | 20,700 | 853,875 |
| Sysco Corp. | 21,100 | 722,675 |
| | | 2,197,175 |
| Household Furniture (1.01%) | | |
| Masco Corp. | 24,200 | 732,050 |
| Industrial Inorganic Chemicals (0.74%) | | |
| Dow Chemical Co. | 4,600 | 349,600 |
| Eastman Chemical Co. | 3,150 | 191,756 |
| | | 541,356 |
| Jewelry, Silverware & Plated Ware (0.14%) | | |
| Jostens, Inc. | 5,300 | 104,675 |
| Management & Public Relations (0.96%) | | |
| Dun & Bradstreet Corp. | 11,200 | 700,000 |
| Meat Products (1.35%) | | |
| ConAgra, Inc. | 8,141 | 369,398 |

| | | |
|---|---------------------|------------|
| Tyson Foods, Inc. | 22,300 | 610,462 |
| | | 979,860 |
| Medical Instruments & Supplies (0.61%) | | |
| St. Jude Medical, Inc. | 13,350 (a) | 447,225 |
| Medical Service & Health Insurance (1.04%) | | |
| AON Corp. | 7,550 | 383,163 |
| Foundation Health Corp. | 8,600 (a) | 308,525 |
| Physicians Corp. of America | 5,000 (a) | 66,250 |
| | | 757,938 |
| Metal Forgings & Stampings (1.01%) | | |
| Newell Co. | 24,000 | 735,000 |
| Metalworking Machinery (0.10%) | | |
| Giddings & Lewis | 4,600 | 74,750 |
| Miscellaneous Business Services (0.26%) | | |
| Safety-Kleen Corp. | 10,900 | 190,750 |
| Miscellaneous Converted Paper Products (1.36%) | | |
| Minnesota Mining & Mfg. Co. | 14,300 | 986,700 |
| Miscellaneous Electrical Equipment & Supplies (0.61%) | | |
| Motorola, Inc. | 7,000 | 440,125 |
| Miscellaneous Fabricated Metal Products (0.24%) | | |
| Keystone International, Inc. | 8,500 | 176,375 |
| Miscellaneous Shopping Goods Stores (1.03%) | | |
| Toys 'R' Us, Inc. | 26,400 (a) | 752,400 |
| Motor Vehicles, Parts & Supplies (0.98%) | | |
| Grainger (W. W.), Inc. | 9,200 | 713,000 |
| Offices & Clinics of Medical Doctors (0.40%) | | |
| FHP International Corp. | 10,700 (a) | 292,913 |
| Paper Mills (0.86%) | | |
| Kimberly Clark Corp. | 8,100 | 625,725 |
| Petroleum Refining (1.75%) | | |
| Atlantic Richfield Co. | 4,200 | 497,700 |
| Exxon Corp. | 8,900 | 773,187 |
| | | 1,270,887 |
| Plastic Materials & Synthetics (0.18%) | | |
| Wellman, Inc. | 5,600 | 130,900 |
| Sanitary Services (2.09%) | | |
| Browning-Ferris Industries, Inc. | 22,100 | 640,900 |
| WMX Technologies, Inc. | 26,900 | 880,975 |
| | | 1,521,875 |
| Security Brokers & Dealers (0.35%) | | |
| Edwards (A.G.), Inc. | 9,500 | 257,687 |
| Soap, Cleaners & Toilet Goods (2.04%) | | |
| Avon Products | 17,100 | 771,638 |
| Colgate-Palmolive Co. | 8,400 | 711,900 |
| | | 1,483,538 |
| Telephone Communication (2.17%) | | |
| AT&T Corp. | 15,600 | 967,200 |
| MCI Communications Corp. | 23,900 | 612,438 |
| | | 1,579,638 |
| Variety Stores (2.17%) | | |
| Dayton-Hudson Corp. | 6,700 | 690,937 |
| Wal-Mart Stores, Inc. | 35,000 | 888,125 |
| | | 1,579,062 |
| | Total Common Stocks | 38,787,659 |
| Preferred Stocks (2.04%) | | |
| Commercial Banks (0.25%) | | |
| Boatmen's Bancshares, Inc. | | |
| Convertible | 5,334 | 184,023 |
| Motor Vehicles & Equipment (1.79%) | | |
| Federal-Mogul Corp. | | |
| Series D Convertible | 4,300 (b) | 240,800 |

| | | |
|---|---|------------|
| Ford Motor Co. | | |
| Series A Convertible | 10,000 | 1,060,000 |
| | | 1,300,800 |
| | Total Preferred Stocks | 1,484,823 |
| | Principal Amount | Value |
| Bonds (2.17%) | | |
| Blast Furnace & Basic Steel Products (0.26%) | | |
| Quanex Corp. Convertible | | |
| Subordinated Debentures; | | |
| 6.88%; 6/30/07 | \$ 200,000 | \$ 194,000 |
| Electric Lighting & Wiring Equipment (0.31%) | | |
| Cooper Industries, Inc. Convertible | | |
| Subordinated Debentures; | | |
| 7.05%; 1/1/15 | 208,000 | 224,640 |
| Electric Industrial Apparatus (0.36%) | | |
| Liebert Co. Convertible Subordinated | | |
| Debentures; 8.00%; 11/15/10 | 80,000 | 266,300 |
| Engines & Turbines (0.28%) | | |
| Outboard Marine Corp. Convertible | | |
| Subordinated Debentures; | | |
| 7.00%; 7/1/02 | 200,000 | 200,500 |
| Lumber & Other Building Materials (0.27%) | | |
| Hechinger Co. Convertible | | |
| Subordinated Debentures; | | |
| 5.50%; 4/1/12 | 425,000 | 198,688 |
| Petroleum Refining (0.39%) | | |
| Pennzoil Co. Senior Exchangeable | | |
| Debentures; 6.50%; 1/15/03 | 200,000 | 280,750 |
| Trucking & Courier Services, Ex., Air (0.30%) | | |
| Builders Transport, Inc. Convertible | | |
| Subordinated Debentures; | | |
| 6.50%; 5/1/11 | 306,000 | 215,730 |
| | Total Bonds | 1,580,608 |
| U.S. Government Treasury Notes & Bonds (31.88%) | | |
| 5.13%; 2/28/98 | 2,500,000 | 2,463,280 |
| 5.13%; 11/30/98 | 2,000,000 | 1,951,873 |
| 6.38%; 1/15/00 | 1,900,000 | 1,899,405 |
| 5.50%; 4/15/00 | 3,500,000 | 3,396,092 |
| 6.13%; 9/30/00 | 1,000,000 | 988,437 |
| 6.25%; 4/30/01 | 2,000,000 | 1,980,000 |
| 6.38%; 8/15/02 | 1,000,000 | 990,625 |
| 6.25%; 2/15/03 | 1,000,000 | 981,875 |
| 5.75%; 8/15/03 | 3,200,000 | 3,044,998 |
| 7.25%; 8/15/04 | 1,500,000 | 1,552,968 |
| 7.50%; 2/15/05 | 800,000 | 841,249 |
| 7.25%; 5/15/16 | 1,000,000 | 1,024,375 |
| 7.50%; 11/15/16 | 1,000,000 | 1,050,312 |
| 7.25%; 8/15/22 | 1,000,000 | 1,024,687 |
| | Total U. S. Government Treasury Notes & Bonds | 23,190,176 |
| Commercial Paper (10.39%) | | |
| Business Credit Institutions (6.27%) | | |
| American Express Credit Corp.; | | |
| 5.32%; 7/1/96 | 1,910,000 | 1,910,000 |
| 5.39%; 7/3/96 | 1,300,000 | 1,299,611 |
| General Electric Capital Corp.; | | |
| 5.35%; 7/2/96 | 1,350,000 | 1,349,799 |
| | | 4,559,410 |
| Personal Credit Institutions (4.12%) | | |
| Ford Motor Credit Co. ; | | |
| 5.36%; 7/3/96 | 1,040,000 | 1,039,690 |
| 5.40%; 7/5/96 | 1,955,000 | 1,953,827 |
| | | 2,993,517 |
| | Total Commercial Paper | 7,552,927 |

Total Portfolio Investments (99.80%) 72,596,193

Cash, receivables and other assets
net of liabilities (0.20%) 145,946

Total Net Assets (100.00%) \$ 72,742,139

(a) Non-income producing security - No dividend paid during the past twelve months.

(b) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL BOND FUND, INC.

| | Principal Amount | Value |
|---|---------------------|------------|
| Bonds (95.70%) | | |
| Air Transportation, Scheduled (1.81%) | | |
| Federal Express Corp., Pass-Through Cert.; | | |
| 7.96%; 3/28/17 | \$ 500,000 | \$ 501,325 |
| 7.58%; 7/2/19 | 500,000 | 478,590 |
| | | 979,915 |
| Aircraft & Parts (0.61%) | | |
| Textron, Inc. Medium-Term Notes, Series C; 9.55%; 3/19/01 | 300,000 | 329,820 |
| Auto & Home Supply Stores (1.06%) | | |
| Pep Boys-Manny, Moe & Jack Notes; 7.00%; 6/1/05 | 600,000 | 574,460 |
| Bakery Products (1.68%) | | |
| Nabisco, Inc. Notes; 7.05%; 7/15/07 | 950,000 | 906,375 |
| Beverages (1.05%) | | |
| Joseph E. Seagram & Sons Guaranteed Debentures; 8.88%; 9/15/11 | 500,000 | 567,147 |
| Broadwoven Fabric Mills, Cotton (2.67%) | | |
| Burlington Industries, Inc. Notes; 7.25%; 9/15/05 | 1,500,000 | 1,439,164 |
| Cable & Other Pay TV Services (1.82%) | | |
| TCI Communications, Inc. Senior Notes; 8.00%; 8/1/05 | 1,000,000 | 980,784 |
| Cash Grains (0.55%) | | |
| DeKalb Corp. Notes; 10.00%; 4/15/98 | 300,000 | 296,250 |
| Combination Utility Services (0.49%) | | |
| Public Service Electric & Gas Medium-Term Notes; 8.16%; 5/26/09 | 250,000 | 263,930 |
| Consumer Products (0.55%) | | |
| RJR Nabisco Capital Corp. Senior Notes; 8.75%; 4/15/04 | 300,000 | 297,375 |
| Copper Ores (0.56%) | | |
| Asarco, Inc. Notes; 7.38%; 2/1/03 | 300,000 | 302,241 |
| Crude Petroleum & Natural Gas (1.46%) | | |
| Occidental Petroleum Corp. Medium-Term Notes; 9.73%; 6/15/01 | 250,000 | 276,430 |
| Union Oil of California Medium-Term Notes; 7.77%; 4/19/05 | 500,000 | 510,735 |
| | | 787,165 |
| Deep Sea Foreign Transportation of Freight (1.78%) | | |
| American President Cos., Ltd. Senior Notes; 7.13%; 11/15/03 | 1,000,000 | 959,424 |
| Department Stores (4.68%) | | |
| Dillard Investment Co. Notes; 9.25%; 5/1/97 | 200,000 | 205,015 |
| Harcourt General, Inc. Subordinated Notes; 9.50%; 3/15/00 | 350,000 | 376,570 |
| J. C. Penney Co., Inc. Medium- | | |

| | | |
|---|-------------------------------|-------------------------------|
| Term Notes, Series A; 6.88%; 10/15/15 | 1,500,000 | 1,380,675 |
| Sears Roebuck Co. Medium-Term Notes; 9.05%; 2/6/12 | 500,000 | 566,030 |
| | | 2,528,290 |
| Drug Stores & Proprietary Stores (2.54%) Rite Aid Corp. Senior Debentures; 6.88%; 8/15/13 | 1,500,000 | 1,369,908 |
| Eating & Drinking Places (2.34%) Marriott International, Inc. Notes; 6.75%; 12/15/03 Senior Notes; 7.88%; 4/15/05 | 200,000 1,050,000 | 192,391 1,069,842 |
| | | 1,262,233 |
| Electric Services (2.44%) Cleveland Electric Illuminating Co. First Mortgage Bonds; 8.75%; 11/15/05 Southern California Edison Co. Notes; 6.38%; 1/15/06 | 400,000 1,000,000 | 388,000 927,500 |
| | | 1,315,500 |
| Fabricated Rubber Products, NEC (0.51%) M. A. Hanna Co. Senior Notes; 9.38%; 9/15/03 | 250,000 | 277,176 |
| Farm & Garden Machinery (2.60%) Case Corp. Notes; 7.25%; 1/15/16 | 1,500,000 | 1,402,555 |
| Gas Production & Distribution (2.92%) Enron Corp. Notes; 7.13%; 5/15/07 Tennessee Gas Pipeline Co. Notes; 9.00%; 1/15/97 Transco Energy Co. Notes; 9.38%; 8/15/01 | 750,000 400,000 400,000 | 733,772 406,167 439,231 |
| | | 1,579,170 |
| General Government, NEC (1.90%) Ontario Hydro Debentures; 7.45%; 3/31/13 Province of Saskatchewan, Canada Global Notes; 8.00%; 2/1/13 | 500,000 500,000 | 501,785 524,880 |
| | | 1,026,665 |
| Gold & Silver Ores (1.36%) Placer Dome, Inc. Notes; 7.13%; 6/15/07 | 750,000 | 732,055 |
| Grain Mill Products (1.80%) Ralston Purina Co. Debentures; 7.75%; 10/1/15 | 1,000,000 | 973,882 |
| Highway & Street Construction (1.76%) Foster Wheeler Corp. Notes; 6.75%; 11/15/05 | 1,000,000 | 947,624 |
| Hospitals (1.01%) Columbia/HCA Healthcare Corp. Medium-Term Notes; 8.70%; 2/10/10 | 500,000 | 543,940 |
| Hotels & Motels (1.87%) Hilton Hotels Corp. Notes; 7.70%; 7/15/02 | 1,000,000 | 1,008,656 |
| Household Appliances (0.99%) Maytag Corp. Medium-Term Notes; 8.62%; 11/15/07 | 500,000 | 535,990 |
| Household Furniture (0.87%) Masco Corp. Debentures; 7.13%; 8/15/13 | 500,000 | 469,543 |
| Industrial Inorganic Chemicals (1.31%) FMC Corp. Senior Notes; 6.38%; 9/1/03 Grace (W.R.) & Co. Guaranteed Notes; 8.00%; 8/15/04 | 200,000 500,000 | 187,367 519,565 |
| | | 706,932 |
| Lumber & Construction Materials (3.02%) Crane Co. Notes; 8.50%; 3/15/04 | 1,524,000 | 1,628,676 |

| | | |
|--|--|--|
| Machinery, Equipment & Supplies (1.33%) AAR Corp. Notes; 7.25%; 10/15/03 | 750,000 | 715,441 |
| Metalworking Machinery (0.36%) Black & Decker Corp. Notes; 7.00%; 2/1/06 | 200,000 | 194,084 |
| Millwork, Plywood & Structural Members (2.00%) Georgia-Pacific Corp. Debentures; 9.50%; 12/1/11 Senior Debentures; 7.70%; 6/15/15 | 100,000 1,000,000 | 114,132 965,763 |
| | | 1,079,895 |
| Miscellaneous Chemical Products (0.72%) Ferro Corp. Senior Debentures; 7.63%; 5/1/13 | 400,000 | 389,702 |
| Miscellaneous Investing (1.36%) Weingarten Realty Investors Medium-Term Notes; 7.29%; 5/23/05 | 750,000 | 735,562 |
| Miscellaneous Metal Ores (2.11%) Amax, Inc. Notes; 9.88%; 6/13/01 Cyprus Amax Minerals Notes; 7.38%; 5/15/07 Cyprus Minerals Co. Notes; 10.13%; 4/1/02 | 100,000 650,000 350,000 | 108,178 636,107 395,929 |
| | | 1,140,214 |
| Motion Picture Production & Services (0.68%) Columbia Pictures Entertainment, Inc. Senior Subordinated Notes; 9.88%; 2/1/98 | 350,000 | 367,924 |
| Motor Vehicles & Equipment (1.95%) Arvin Overseas Finance B.V. Medium-Term Notes; 9.62%; 8/9/96 TRW, Inc. Medium-Term Notes; 9.25%; 12/30/11 | 250,000 700,000 | 250,982 799,232 |
| | | 1,050,214 |
| Newspapers (2.93%) News America Holdings, Inc. Guaranteed Senior Notes; 8.50%; 2/15/05 | 1,500,000 | 1,579,218 |
| Operative Builders (2.77%) Pulte Corp. Senior Notes; 8.38%; 8/15/04 7.30%; 10/24/05 | 1,000,000 500,000 | 1,022,517 473,601 |
| | | 1,496,118 |
| Paper Mills (6.05%) Bowater, Inc. Debentures; 9.38%; 12/15/21 Champion International Corp. Notes; 9.88%; 6/1/00 7.10%; 9/1/05 Chesapeake Corp. Notes; 7.20%; 3/15/05 Potlatch Corp. Medium-Term Notes; 8.75%; 1/14/22 | 200,000 250,000 875,000 1,400,000 500,000 | 231,572 274,397 854,192 1,362,677 543,985 |
| | | 3,266,823 |
| Personal Credit Institutions (1.86%) General Motors Acceptance Corp. Medium-Term Notes; 8.25%; 2/24/04 Notes; 6.63%; 10/15/05 | 500,000 500,000 | 528,325 473,915 |
| | | 1,002,240 |
| Petroleum Refining (5.07%) Ashland Oil, Inc. Medium-Term Notes; 7.71%; 5/11/07 7.73%; 7/15/13 Series F; 8.54%; 1/13/05 Pennzoil Co. Debentures; 10.13%; 11/15/09 Phillips Petroleum Co. Notes; 9.38%; 2/15/11 Sun Co., Inc. Debentures; 9.00%; 11/1/24 | 500,000 250,000 250,000 325,000 500,000 500,000 | 504,390 246,970 266,022 379,138 582,833 557,001 |

| | | |
|--|--------------------------------------|---------------|
| Notes; 7.13%; 3/15/04 | 200,000 | 197,631 |
| | | 2,733,985 |
| Plastic Materials & Synthetics (2.63%) | | |
| Geon Company Notes; | | |
| 6.88%; 12/15/05 | 1,500,000 | 1,421,328 |
| Primary Nonferrous Metals (1.21%) | | |
| Reynolds Metals Co. | | |
| Medium-Term Notes; | | |
| 8.34%; 5/22/07 | 500,000 | 529,310 |
| 7.65%; 2/4/08 | 125,000 | 125,947 |
| | | 655,257 |
| Pulp Mills (0.41%) | | |
| International Paper Co. Medium-Term | | |
| Notes; 9.70%; 8/15/00 | 200,000 | 219,876 |
| Railroads (1.72%) | | |
| Union Pacific Corp. Notes; | | |
| 6.40%; 2/1/06 | 1,000,000 | 930,743 |
| Refrigeration & Service Machinery (0.60%) | | |
| Westinghouse Electric Corp. | | |
| Debentures; 8.63%; 8/1/12 | 350,000 | 325,670 |
| Rental of Railroad Cars (1.99%) | | |
| Gatx Capital Corp. Medium-Term | | |
| Notes, Series C; 6.86%; 10/13/05 | 1,000,000 | 956,970 |
| Signal Capital Corp. Equipment Trust | | |
| Cert.; 9.95%; 2/1/06 | 109,000 | 115,386 |
| | | 1,072,356 |
| Sanitary Services (1.98%) | | |
| Laidlaw, Inc. Senior Notes; | | |
| 7.88%; 4/15/05 | 1,045,000 | 1,069,243 |
| Sawmills & Planning Mills (1.45%) | | |
| MacMillan Bloedel Delaware | | |
| Guaranteed Notes; 8.50%; 1/15/04 | 750,000 | 781,380 |
| Telephone Communication (2.72%) | | |
| Sprint Corp. Notes; 8.13%; 7/15/02 | 500,000 | 526,447 |
| U.S. West Capital Funding, Inc. | | |
| Medium-Term Notes; | | |
| 6.83%; 11/15/07 | 1,000,000 | 941,920 |
| | | 1,468,367 |
| Variety Stores (1.79%) | | |
| Dayton-Hudson Corp. Debentures; | | |
| 9.63%; 2/1/08 | 150,000 | 175,178 |
| Dayton-Hudson Corp. Sinking Fund | | |
| Debentures; 9.50%; 10/15/16 | 250,000 | 262,138 |
| Shopko Stores, Inc. Senior Notes; | | |
| 9.00%; 11/15/04 | 500,000 | 528,795 |
| | | 966,111 |
| | Total Bonds | 51,654,596 |
| Commercial Paper (1.80%) | | |
| Personal Credit Institutions (1.80%) | | |
| Associates Corp. of North America; | | |
| 5.55%; 7/1/96 | 975,000 | 975,000 |
| | Total Portfolio Investments (97.50%) | 52,629,596 |
| Cash and receivables, net of liabilities (2.50%) | | 1,347,287 |
| | Total Net Assets (100.00%) | \$ 53,976,883 |

PRINCIPAL CAPITAL ACCUMULATION
FUND, INC.

| | Shares Held | Value |
|---------------------------------|----------------|--------------|
| Common Stocks (93.30%) | | |
| Advertising (0.83%) | | |
| Interpublic Group of Cos., Inc. | 30,800 | \$ 1,443,750 |
| Beverages (1.37%) | | |
| Pepsico, Inc. | 49,000 | 1,733,375 |

| | | |
|---|------------|------------|
| Universal Foods Corp. | 17,200 | 634,250 |
| | | 2,367,625 |
| Combination Utility Services (1.08%) | | |
| Cinergy Corp. | 58,200 | 1,862,400 |
| Commercial Banks (8.66%) | | |
| Banc One Corp. | 80,640 | 2,741,760 |
| Bank of Boston Corp. | 38,300 | 1,895,850 |
| Boatmen's Bancshares, Inc. | 31,200 | 1,251,900 |
| Chase Manhattan | 23,920 | 1,689,350 |
| Comerica, Inc. | 37,300 | 1,664,513 |
| First of America Bank Corp. | 28,700 | 1,284,325 |
| KeyCorp | 66,600 | 2,580,750 |
| Nationsbank Corp. | 22,800 | 1,883,850 |
| | | 14,992,298 |
| Communications Equipment (2.67%) | | |
| Allen Group, Inc. | 16,000 | 348,000 |
| DSC Communications Corp. | 52,800 (a) | 1,590,600 |
| General Instrument Corp. | 92,800 (a) | 2,679,600 |
| | | 4,618,200 |
| Computer & Office Equipment (3.12%) | | |
| Hewlett-Packard Co. | 16,700 | 1,663,738 |
| International Business Machines Corp. | 37,700 | 3,732,300 |
| | | 5,396,038 |
| Construction & Related Machinery (0.94%) | | |
| Caterpillar, Inc. | 24,000 | 1,626,000 |
| Crude Petroleum & Natural Gas (1.91%) | | |
| Texaco, Inc. | 39,400 | 3,304,675 |
| Dairy Products (0.61%) | | |
| Dean Foods Co. | 42,500 | 1,051,875 |
| Drugs (11.11%) | | |
| Abbott Labs | 105,000 | 4,567,500 |
| American Home Products Corp. | 61,900 | 3,721,737 |
| Bristol-Myers Squibb Co. | 30,000 | 2,700,000 |
| Lilly (Eli) & Co. | 25,000 | 1,625,000 |
| Merck & Co., Inc. | 52,800 | 3,412,200 |
| Warner-Lambert Co. | 58,300 | 3,206,500 |
| | | 19,232,937 |
| Electric Services (2.89%) | | |
| Dominion Resources, Inc. | 44,400 | 1,776,000 |
| FPL Group, Inc. | 38,500 | 1,771,000 |
| Houston Industries, Inc. | 3,100 | 76,337 |
| Potomac Electric Power Co. | 52,400 | 1,388,600 |
| | | 5,011,937 |
| Electrical Industrial Apparatus (1.57%) | | |
| Emerson Electric Co. | 30,090 | 2,719,384 |
| Electronic Components & Accessories (1.52%) | | |
| Duracell International, Inc. | 61,100 | 2,634,938 |
| Electronic Distribution Equipment (2.68%) | | |
| General Electric Co. | 53,700 | 4,645,050 |
| Fats & Oils (2.08%) | | |
| Archer Daniels Midland Co. | 188,200 | 3,599,325 |
| Fire, Marine & Casualty Insurance (1.26%) | | |
| Allstate Corp. | 47,643 | 2,173,712 |
| General Industrial Machinery (0.67%) | | |
| BW/IP Holdings, Inc., Class A | 23,000 | 437,000 |
| Pall Corp. | 30,100 | 726,162 |
| | | 1,163,162 |
| Grain Mill Products (1.32%) | | |
| Ralston-Ralston Purina Group | 35,600 | 2,282,850 |
| Greeting Cards (1.17%) | | |
| American Greetings Corp. | 74,000 | 2,025,750 |
| Grocery Stores (4.65%) | | |
| Albertson's, Inc. | 61,700 | 2,552,838 |
| American Stores Co. | 64,300 | 2,652,375 |
| Sysco Corp. | 83,400 | 2,856,450 |

| | | |
|---|-------------|-----------|
| Household Furniture (1.68%) | | 8,061,663 |
| Masco Corp. | 96,400 | 2,916,100 |
| Industrial Inorganic Chemicals (2.78%) | | |
| Dow Chemical Co. | 51,400 | 3,906,400 |
| Eastman Chemical Co. | 14,900 | 907,037 |
| | | 4,813,437 |
| Jewelry, Silverware & Plated Ware (0.36%) | | |
| Jostens, Inc. | 31,700 | 626,075 |
| Management & Public Relations (1.62%) | | |
| Dun & Bradstreet Corp. | 44,900 | 2,806,250 |
| Meat Products (1.39%) | | |
| Tyson Foods, Inc. | 88,000 | 2,409,000 |
| Medical Instruments & Supplies (1.03%) | | |
| St. Jude Medical, Inc. | 53,100 (a) | 1,778,850 |
| Medical Service & Health Insurance (1.86%) | | |
| AON Corp. | 31,050 | 1,575,788 |
| Foundation Health Corp. | 37,400 (a) | 1,341,725 |
| Physicians Corp. of America | 22,900 (a) | 303,425 |
| | | 3,220,938 |
| Metal Forgings & Stampings (2.05%) | | |
| Newell Co. | 115,800 | 3,546,375 |
| Metalworking Machinery (0.22%) | | |
| Giddings & Lewis | 23,000 | 373,750 |
| Miscellaneous Business Services (0.44%) | | |
| Safety-Kleen Corp. | 43,500 | 761,250 |
| Miscellaneous Converted Paper Products (2.40%) | | |
| Minnesota Mining & Mfg. Co. | 60,100 | 4,146,900 |
| Miscellaneous Electrical Equipment & Supplies (1.14%) | | |
| Motorola, Inc. | 31,400 | 1,974,275 |
| Miscellaneous Fabricated Metal Products (0.33%) | | |
| Keystone International, Inc. | 27,300 | 566,475 |
| Miscellaneous Shopping Goods Stores (1.79%) | | |
| Toys 'R' Us, Inc. | 108,700 (a) | 3,097,950 |
| Motor Vehicles, Parts & Supplies (1.63%) | | |
| Grainger (W. W.), Inc. | 36,400 | 2,821,000 |
| Offices & Clinics of Medical Doctors (0.73%) | | |
| FHP International Corp. | 46,200 (a) | 1,264,725 |
| Paper Mills (1.51%) | | |
| Kimberly Clark Corp. | 33,800 | 2,611,050 |
| Petroleum Refining (3.03%) | | |
| Atlantic Richfield Co. | 17,100 | 2,026,350 |
| Exxon Corp. | 37,000 | 3,214,375 |
| | | 5,240,725 |
| Plastic Materials & Synthetics (0.31%) | | |
| Wellman, Inc. | 23,000 | 537,625 |
| Sanitary Services (3.57%) | | |
| Browning-Ferris Industries, Inc. | 88,500 | 2,566,500 |
| WMX Technologies, Inc. | 110,600 | 3,622,150 |
| | | 6,188,650 |
| Security Brokers & Dealers (0.56%) | | |
| Edwards (A.G.), Inc. | 36,015 | 976,907 |
| Soap, Cleaners, & Toilet Goods (3.66%) | | |
| Avon Products | 74,600 | 3,366,325 |
| Colgate-Palmolive Co. | 35,000 | 2,966,250 |
| | | 6,332,575 |
| Telephone Communication (3.36%) | | |
| AT&T Corp. | 52,000 | 3,224,000 |
| MCI Communications Corp. | 101,500 | 2,600,937 |
| | | 5,824,937 |
| Variety Stores (3.74%) | | |
| Dayton-Hudson Corp. | 31,800 | 3,279,375 |

| | | |
|-----------------------|---------|-------------|
| Wal-Mart Stores, Inc. | 126,000 | 3,197,250 |
| | | 6,476,625 |
| Total Common Stocks | | 161,526,013 |

| | Principal Amount | Value |
|---|---------------------|--------------|
| Commercial Paper (6.57%) | | |
| Personal Credit Institutions (1.80%) | | |
| American Express Credit Corp.; | | |
| 5.39%; 7/3/96 | \$ 6,330,000 | \$ 6,328,104 |
| General Electric Capital Corp.; | | |
| 5.35%; 7/1/96 | 5,040,000 | 5,040,000 |
| Total Commercial Paper | | 11,368,104 |
| Total Portfolio Investments (99.87%) | | 172,894,117 |
| Cash, receivables and other assets, net of liabilities (0.13%) | | 229,503 |
| Total Net Assets (100.00%) | \$ | 173,123,620 |

(a) Non-income producing security - No dividend paid during the past twelve months.

PRINCIPAL EMERGING GROWTH FUND, INC.

| | Shares Held | Value |
|--|----------------|--------------|
| Common Stocks (80.84%) | | |
| Blast Furnace & Basic Steel Products (1.56%) | | |
| Lukens, Inc. | 63,100 | \$ 1,506,513 |
| Carpets & Rugs (1.09%) | | |
| Shaw Industries, Inc. | 79,700 | 1,046,062 |
| Chemicals & Allied Products (0.56%) | | |
| Sigma-Aldrich Corp. | 10,000 | 535,000 |
| Commercial Banks (4.94%) | | |
| Boatmen's Bancshares, Inc. | 6,100 | 244,763 |
| First Federal Capital Corp. | 40,665 | 823,466 |
| Independent Bank Corp. Michigan | 25,200 | 711,900 |
| Mercantile Bancorp., Inc. | 14,000 | 623,000 |
| Merchants Bancorp., Inc. | 16,500 | 536,250 |
| North Fork Bancorp., Inc. | 20,000 | 522,500 |
| Peoples Heritage Financial Group, Inc. | 31,000 | 631,625 |
| Princeton National Bancorp., Inc. | 36,000 | 657,000 |
| | | 4,750,504 |
| Commercial Printing (0.44%) | | |
| Merrill Corp. | 16,800 | 420,000 |
| Computer & Data Processing Services (7.44%) | | |
| American Management Systems, Inc. | 68,000 (a) | 1,989,000 |
| Cerner Corp. | 93,700 (a) | 2,002,837 |
| HBO & Co. | 14,000 | 948,500 |
| Microsoft Corp. | 10,000 (a) | 1,201,250 |
| Sunquest Information Systems, Inc. | 68,100 (a) | 1,021,500 |
| | | 7,163,087 |
| Computer & Office Equipment (1.32%) | | |
| EMC Corp. | 63,300 (a) | 1,178,963 |
| Seagate Technology | 2,000 (a) | 90,000 |
| | | 1,268,963 |
| Construction & Related Machinery (1.38%) | | |
| Energy Ventures, Inc. | 41,000 (a) | 1,332,500 |
| Crude Petroleum & Natural Gas (0.76%) | | |
| Devon Energy Corp. | 30,000 | 735,000 |
| Dairy Products (0.33%) | | |
| Dreyer's Grand Ice Cream, Inc. | 10,000 | 315,000 |
| Drugs (3.11%) | | |
| Alliance Pharmaceutical Corp. | 30,000 (a) | 495,000 |
| Forest Laboratories, Inc. | 14,500 (a) | 560,063 |
| Genzyme Corp. - General Division | 1,891 | 95,023 |

| | | |
|--|------------|-----------|
| Genzyme Corp. - Tissue Repair | 255 (a) | 2,996 |
| Merck & Co., Inc. | 10,000 | 646,250 |
| Pharmacia & Upjohn, Inc. | 24,900 | 1,104,937 |
| Seragen, Inc. | 20,000 (a) | 87,500 |
| | | 2,991,769 |
| Electronic Components & Accessories (5.51%) | | |
| Intel Corp. | 30,500 | 2,239,844 |
| Linear Technology Corp. | 42,900 | 1,287,000 |
| Solectron Corp. | 46,900 (a) | 1,776,337 |
| | | 5,303,181 |
| Engineering & Architectural Services (1.52%) | | |
| Paychex, Inc. | 30,400 | 1,463,000 |
| Finance Services (0.82%) | | |
| First Financial Corp. | 35,000 | 787,500 |
| Fire, Marine, & Casualty Insurance (1.58%) | | |
| Avemco Corp. | 35,000 | 472,500 |
| Berkley W.R. Corp. | 25,000 | 1,043,750 |
| | | 1,516,250 |
| Footwear, Except Rubber (0.99%) | | |
| Nine West Group, Inc. | 18,700 (a) | 956,038 |
| General Industrial Machinery (5.86%) | | |
| Flow International Corp. | 55,000 (a) | 440,000 |
| Kaydon Corp. | 36,300 | 1,560,900 |
| Pentair, Inc. | 54,600 | 1,638,000 |
| Roper Industries, Inc. | 41,000 | 1,998,750 |
| | | 5,637,650 |
| Grocery Stores (1.07%) | | |
| Casey's General Stores, Inc. | 51,700 | 1,027,537 |
| Hardware Stores (0.83%) | | |
| Central Tractor Farm & Country, Inc. | 64,900 (a) | 795,025 |
| Holding Offices (0.88%) | | |
| ISB Financial Corp. | 25,000 | 368,750 |
| Today's Bancorp., Inc. | 16,000 | 476,000 |
| | | 844,750 |
| Hose, Belting, Gaskets & Packing (1.26%) | | |
| Mark IV Industries | 53,575 | 1,212,134 |
| Hospitals (2.29%) | | |
| Humana, Inc. | 50,200 (a) | 897,325 |
| Universal Health Services, Inc.; Class B | 50,000 (a) | 1,306,250 |
| | | 2,203,575 |
| Insurance Agents, Brokers & Services (1.62%) | | |
| Equifax, Inc. | 59,400 | 1,559,250 |
| Investment Offices (0.91%) | | |
| Invesco PLC ADR | 25,000 | 875,000 |
| Iron & Steel Foundries (0.49%) | | |
| Atchison Casting Corp. | 30,000 (a) | 472,500 |
| Laundry, Cleaning & Garment Services (1.10%) | | |
| G & K Services, Inc.; Class A | 37,225 | 1,060,912 |
| Life Insurance (0.97%) | | |
| First Colony Corp. | 30,000 | 930,000 |
| Measuring & Controlling Devices (1.92%) | | |
| ISCO, Inc. | 8,613 | 81,819 |
| Millipore Corp. | 32,000 | 1,340,000 |
| Photon Dynamics | 45,000 (a) | 427,500 |
| | | 1,849,319 |
| Meat Products (0.65%) | | |
| Michael Foods, Inc. | 54,000 | 627,750 |
| Medical Instruments & Supplies (4.81%) | | |
| Boston Scientific Corp. | 26,500 (a) | 1,192,500 |
| Nellcor Puritan Bennett | 34,200 (a) | 1,658,700 |
| Steris Corp. | 55,700 (a) | 1,782,400 |
| | | 4,633,600 |
| Medical Service & Health Insurance (4.54%) | | |
| Foundation Health Corp. | 31,200 (a) | 1,119,300 |
| Health System International, Inc. | 40,800 (a) | 1,106,700 |

| | | |
|--|----------------|------------|
| Orthofix International NV | 66,400 (a) | 730,400 |
| United Healthcare Corp. | 27,900 | 1,408,950 |
| | | 4,365,350 |
| Metal Services, NEC (1.84%) | | |
| BMC Industries, Inc. | 61,600 | 1,771,000 |
| Miscellaneous Chemical Products (2.68%) | | |
| Cytec Industries | 7,000 (a) | 598,500 |
| H. B. Fuller Co. | 20,000 | 725,000 |
| Loctite Corp. | 27,000 | 1,255,500 |
| | | 2,579,000 |
| Office Furniture (1.05%) | | |
| Chromcraft Revington, Inc. | 27,900 (a) | 652,163 |
| Kimball International, Inc.; Class B | 13,000 | 359,125 |
| | | 1,011,288 |
| Oil & Gas Field Services (1.19%) | | |
| Diamond Offshore Drilling | 20,000 (a) | 1,145,000 |
| Operative Builders (1.00%) | | |
| D. R. Horton, Inc. | 64,800 | 680,400 |
| Pulte Corp. | 10,421 | 278,762 |
| | | 959,162 |
| Paints & Allied Products (0.86%) | | |
| RPM, Inc. | 53,000 | 828,125 |
| Plastic Materials & Synthetics (1.17%) | | |
| A. Schulman, Inc. | 45,900 | 1,124,550 |
| Plumbing, Heating, Air-Conditioning (2.17%) | | |
| Apogee Enterprises, Inc. | 57,000 | 1,952,250 |
| Metalclad Corp. | 45,600 (a) | 139,650 |
| | | 2,091,900 |
| Refrigeration & Service Machinery (0.63%) | | |
| Tecumseh Products Co.; Class A | 11,200 | 602,000 |
| Sanitary Services (1.04%) | | |
| Browning-Ferris Industries, Inc. | 31,500 | 913,500 |
| Sanifill, Inc. | 1,734 | 85,399 |
| | | 998,899 |
| Savings Institutions (0.74%) | | |
| North Side Savings Bank (NY) | 15,000 | 521,250 |
| Sterling Financial Corp. | 13,200 (a) | 194,700 |
| | | 715,950 |
| Screw Machine Products, Bolts, Etc. (1.09%) | | |
| TriMas Corp. | 44,900 | 1,049,537 |
| Security Brokers & Dealers (0.64%) | | |
| Jefferies Group, Inc. | 20,000 | 620,000 |
| Telephone Communication (0.83%) | | |
| McLeod, Inc. | 33,400 (a) | 801,600 |
| Toys & Sporting Goods (0.59%) | | |
| Mattel, Inc. | 20,000 | 572,500 |
| Trucking & Courier Services, Ex. Air (0.77%) | | |
| J. B. Hunt Transport Services, Inc. | 35,500 | 741,063 |
| | | 77,796,293 |
| Total Common Stocks | | |
| Preferred Stock (0.53%) | | |
| Offices & Clinics of Medical Doctors (0.53%) | | |
| FHP International Corp.; | | |
| Series A Convertible | 20,000 (a) | 510,000 |
| | | |
| | Principal | Value |
| | Amount | |
| Bonds (1.23%) | | |
| Computer & Data Processing Services (0.36%) | | |
| Sierra On Line Convertible | | |
| Subordinated Debentures; | | |
| 6.50%; 4/1/01 | \$ 110,000 (b) | \$ 346,500 |
| Industrial Inorganic Chemicals (0.54%) | | |

| | | |
|---|---------------------------------------|---------------|
| Ciba-Geigy Corp. Exchangeable Subordinated Debentures; 6.25%; 3/15/16 | 150,000 (b) | 153,750 |
| ICN Pharmaceuticals, Inc. Convertible Subordinated Debentures; 8.50%; 11/15/99 | 300,000 | 366,000 |
| | | 519,750 |
| Nursing & Personal Care Facilities (0.22%) Greenery Rehabilitation Group, Inc. Convertible Senior Subordinated Notes; 8.75%; 4/1/15 | 250,000 | 213,125 |
| Sanitary Services (0.11%) Enclean, Inc. Convertible Subordinated Debentures; 7.50%; 8/1/01 | 100,000 | 101,484 |
| | Total Bonds | 1,180,859 |
| Commercial Paper (24.45%) | | |
| Business Credit Institutions (9.91%) American Express Credit Corp.; 5.32%; 7/1/96 | 1,700,000 | 1,700,000 |
| 5.28%; 7/3/96 | 1,755,000 | 1,754,485 |
| CIT Group Holdings, Inc.; 5.30%; 7/9/96 | 3,000,000 | 2,996,467 |
| General Electric Capital Corp.; 5.25%; 7/5/96 | 3,085,000 | 3,083,200 |
| | | 9,534,152 |
| Personal Credit Institutions (11.57%) Associates Corp. of North America; 5.28%; 7/1/96 | 1,185,000 | 1,185,000 |
| 5.55%; 7/1/96 | 3,345,000 | 3,345,000 |
| Commercial Credit Co.; 5.37%; 7/8/96 | 3,105,000 | 3,101,758 |
| Ford Motor Credit Co.; 5.32%; 7/3/96 | 2,500,000 | 2,499,261 |
| 5.36%; 7/1/96 | 1,005,000 | 1,005,000 |
| | | 11,136,019 |
| Security Brokers & Dealers (2.97%) Smith Barney, Inc.; 5.37%; 7/2/96 | 2,860,000 | 2,859,574 |
| | Total Commercial Paper | 23,529,745 |
| | Total Portfolio Investments (107.05%) | 103,016,897 |
| Liabilities, net of cash and receivables (-7.05%) | | (6,783,324) |
| | Total Net Assets (100.00%) | \$ 96,233,573 |

(a) Non-income producing security - No dividend paid during the past twelve months.

(b) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL GOVERNMENT SECURITIES FUND, INC.

| Description of Issue | | | Principal Amount | Value |
|---|-------|-------------------------|------------------|------------|
| Type | Rate | Maturity | | |
| Government National Mortgage Association (GNMA) Certificates (32.73%) | | | | |
| GNMA I | 7.00% | 1/15/24 | \$ 849,732 | \$ 818,743 |
| GNMA I | 8.00 | 10/15/16-6/15/17 | 2,050,003 | 2,095,186 |
| GNMA I | 8.50 | 2/15/17-5/15/21 | 3,211,263 | 3,335,307 |
| GNMA II | 6.00 | 5/20/24-4/20/26 | 17,352,061 | 15,611,668 |
| GNMA II | 6.50 | 12/20/25-2/20/26 | 4,015,735 | 3,714,916 |
| | | Total GNMA Certificates | | 25,575,820 |
| Federal National Mortgage Association (FNMA) Certificates (15.37%) | | | | |
| FNMA | 5.50 | 5/1/24 | 1,187,645 | 1,047,348 |
| FNMA | 6.00 | 11/1/23-3/1/26 | 4,152,053 | 3,777,871 |
| FNMA | 6.50 | 11/1/23-5/1/26 | 3,733,615 | 3,502,750 |
| FNMA | 7.00 | 8/1/23 | 813,948 | 786,347 |
| FNMA | 7.50 | 4/1/22 | 577,017 | 572,655 |
| FNMA | 8.00 | 6/1/17-11/1/21 | 582,673 | 590,815 |
| FNMA GL | 6.50 | 8/15/25 | 976,269 | 913,456 |

| | | | | |
|------------|------|---------|---------|---------|
| FNMA Major | 7.50 | 4/1/22 | 532,915 | 528,130 |
| FNMA Major | 8.00 | 10/1/21 | 287,777 | 291,250 |

Total FNMA Certificates 12,010,622

Federal Home Loan Mortgage Corporation (FHLMC) Certificates (18.25%)

| | | | | |
|------------|------|----------------|-----------|-----------|
| FHLMC | 5.50 | 3/1/24 | 551,115 | 493,540 |
| FHLMC | 6.00 | 12/1/23-1/1/26 | 2,887,437 | 2,632,186 |
| FHLMC | 6.50 | 4/1/24-5/1/26 | 3,401,228 | 3,193,793 |
| FHLMC | 7.00 | 1/1/24 | 852,266 | 824,167 |
| FHLMC Gold | 5.50 | 2/1/24 | 982,502 | 864,140 |
| FHLMC Gold | 6.50 | 10/1/25-5/1/26 | 1,980,658 | 1,855,698 |
| FHLMC Gold | 7.00 | 9/1/23-12/1/23 | 1,791,853 | 1,733,352 |
| FHLMC Gold | 7.50 | 2/1/22-6/1/24 | 1,872,103 | 1,855,946 |
| FHLMC Gold | 8.00 | 11/1/21 | 796,166 | 806,516 |

Total FHLMC Certificates 14,259,338

Principal Amount Value
Student Loan Marketing Association (SLMA) Certificates (16.09%)

Student Loan Marketing Association

| | | | | |
|------------------------|--|---------------|----|------------|
| Debentures; | | | | |
| 7.30%; 8/1/12 | | \$ 10,000,000 | \$ | 10,212,219 |
| 9.15%; 12/1/24 | | 1,200,000 | | 1,358,640 |
| Notes; 7.82%; 10/14/99 | | 1,000,000 | | 1,002,246 |

Total SLMA Certificates 12,573,105

Private Export Funding Corporation (PEFCO) Certificates (15.59%)

Private Export Funding Corp.

| | | | | |
|----------------------------------|--|-----------|--|-----------|
| Series SS, Senior Secured Notes; | | | | |
| 5.50%; 3/15/01 | | 2,325,000 | | 2,222,630 |
| 5.80%; 2/1/04 | | 2,200,000 | | 2,107,688 |
| 7.03%; 10/31/03 | | 1,000,000 | | 1,012,500 |
| Secured Notes; | | | | |
| 6.62%; 10/1/05 | | 2,000,000 | | 1,944,900 |
| 9.45%; 12/31/99 | | 4,500,000 | | 4,896,225 |

Total PEFCO Certificates 12,183,943

Federal Agency Short-Term Obligations (1.37%)

| | | | | |
|-----------------------------------|--|-----------|--|-----------|
| Federal Home Loan Mortgage Corp.; | | | | |
| 5.25%; 7/1/96 | | 1,070,000 | | 1,070,000 |

Total Portfolio Investments (99.39%) 77,672,828

Cash and receivables, net of liabilities (0.61%) 474,392

Total Net Assets (100.00%) \$ 78,147,220

PRINCIPAL GROWTH FUND, INC.

| | | | | |
|--|--|-------------|----|-----------|
| | | Shares Held | | Value |
| Common Stocks (79.37%) | | | | |
| Advertising (1.11%) | | | | |
| Interpublic Group of Cos., Inc. | | 17,500 | \$ | 820,313 |
| Beverages (1.97%) | | | | |
| Coca-Cola Co. | | 8,800 | | 430,100 |
| Pepsico, Inc. | | 29,200 | | 1,032,950 |
| | | | | 1,463,050 |
| Blast Furnace & Basic Steel Products (0.75%) | | | | |
| Lukens, Inc. | | 23,400 | | 558,675 |
| Carpets & Rugs (0.97%) | | | | |
| Shaw Industries, Inc. | | 54,800 | | 719,250 |
| Cash Grains (1.96%) | | | | |
| Pioneer Hi-Bred International | | 27,400 | | 1,448,775 |
| Commercial Banks (5.16%) | | | | |
| Banc One Corp. | | 16,500 | | 561,000 |
| Barnett Banks Inc. | | 5,000 | | 305,000 |

| | | |
|--|------------|-----------|
| Baybanks, Inc. | 5,000 | 538,750 |
| Boatmen's Bancshares, Inc. | 6,000 | 240,750 |
| First of America Bank Corp. | 11,700 | 523,575 |
| Firststar Corp. | 15,000 | 691,875 |
| Firstmerit Corp. | 14,600 | 463,550 |
| Princeton National Bancorp., Inc. | 27,300 | 498,225 |
| | | 3,822,725 |
| Communications Equipment (3.32%) | | |
| General Instrument Corp. | 50,000 (a) | 1,443,750 |
| Northern Telecom Ltd. | 18,700 | 1,016,812 |
| | | 2,460,562 |
| Computer & Data Processing Services (1.44%) | | |
| Microsoft Corp. | 8,900 (a) | 1,069,113 |
| Computer & Office Equipment (4.90%) | | |
| Automatic Data Processing, Inc. | 20,000 | 772,500 |
| Bay Networks | 34,400 (a) | 885,800 |
| Digital Equipment Corp. | 20,500 (a) | 922,500 |
| Hewlett-Packard Co. | 8,200 | 816,925 |
| Pitney Bowes, Inc. | 5,000 | 238,750 |
| | | 3,636,475 |
| Department Stores (0.76%) | | |
| May Department Stores | 12,800 | 560,000 |
| Drugs (8.46%) | | |
| Alliance Pharmaceutical Corp. | 10,000 (a) | 165,000 |
| Bristol-Myers Squibb Co. | 10,000 | 900,000 |
| Johnson & Johnson | 20,000 | 990,000 |
| Lilly (Eli) & Co. | 20,000 | 1,300,000 |
| Merck & Co., Inc. | 14,600 | 943,525 |
| Pharmacia & Upjohn, Inc. | 20,000 | 887,500 |
| Smithkline Beecham PLC ADR | 20,000 | 1,087,500 |
| | | 6,273,525 |
| Eating & Drinking Places (0.44%) | | |
| McDonald's Corp. | 7,000 | 327,250 |
| Electrical Goods (0.50%) | | |
| Avnet, Inc. | 8,800 | 370,700 |
| Electronic Components & Accessories (2.78%) | | |
| Intel Corp. | 17,300 | 1,270,469 |
| Linear Technology Corp. | 26,300 | 789,000 |
| | | 2,059,469 |
| Electronic Distribution Equipment (0.58%) | | |
| General Electric Co. | 5,000 | 432,500 |
| Federal & Federally Sponsored Credit (0.50%) | | |
| Federal National Mortgage Association | 11,000 | 368,500 |
| Footwear, Except Rubber (0.33%) | | |
| Stride Rite Corp. | 30,000 | 247,500 |
| General Industrial Machinery (3.13%) | | |
| Flow International Corp. | 29,200 (a) | 233,600 |
| Ingersoll-Rand Co. | 20,400 | 892,500 |
| Tyco International Ltd. | 29,200 | 1,189,900 |
| | | 2,316,000 |
| Grain Mill Products (1.68%) | | |
| Ralcorp Holdings, Inc. | 15,000 (a) | 309,375 |
| Ralston-Ralston Purina Group | 14,600 | 936,225 |
| | | 1,245,600 |
| Hose, Belting, Gaskets & Packing (1.07%) | | |
| Mark IV Industries | 35,100 | 794,137 |
| Hospitals (1.78%) | | |
| Humana, Inc. | 30,000 (a) | 536,250 |
| Universal Health Services, Inc.; Class B | 30,000 (a) | 783,750 |
| | | 1,320,000 |
| Household Furniture (0.96%) | | |
| Masco Corp. | 23,400 | 707,850 |
| Investment Offices (0.69%) | | |
| Invesco PLC ADR | 14,600 | 511,000 |
| Knitting Mills (0.37%) | | |
| Russell Corp. | 10,000 | 276,250 |

| | | |
|---|------------|-----------|
| Lumber & Other Building Materials (2.00%) | | |
| Home Depot, Inc. | 27,400 | 1,479,600 |
| Management & Public Relations (0.42%) | | |
| Dun & Bradstreet Corp. | 5,000 | 312,500 |
| Medical Instruments & Supplies (5.17%) | | |
| Becton, Dickinson & Co. | 10,000 | 802,500 |
| Boston Scientific Corp. | 41,100 (a) | 1,849,500 |
| Nellcor Puritan Bennett | 24,300 (a) | 1,178,550 |
| | | 3,830,550 |
| Medical Service & Health Insurance (4.22%) | | |
| AON Corp. | 11,700 | 593,775 |
| Foundation Health Corp. | 21,900 (a) | 785,663 |
| Health System International, Inc. | 14,600 (a) | 396,025 |
| United Healthcare Corp. | 15,000 | 757,500 |
| Value Health, Inc. | 25,000 (a) | 590,625 |
| | | 3,123,588 |
| Millwork, Plywood & Structural Members (0.29%) | | |
| Georgia-Pacific Corp. | 3,000 | 213,000 |
| Miscellaneous Chemical Products (0.63%) | | |
| Loctite Corp. | 10,000 | 465,000 |
| Miscellaneous Converted Paper Products (0.35%) | | |
| Minnesota Mining & Mfg. Co. | 3,800 | 262,200 |
| Miscellaneous Electrical Equipment & Supplies (1.40%) | | |
| Motorola, Inc. | 16,500 | 1,037,437 |
| Miscellaneous Plastics Products, NEC (0.37%) | | |
| Rubbermaid, Inc. | 10,000 | 272,500 |
| Miscellaneous Shopping Goods Stores (0.58%) | | |
| Toys 'R' Us, Inc. | 15,000 (a) | 427,500 |
| Motor Vehicles & Equipment (2.03%) | | |
| Chrysler Corp. | 10,000 | 620,000 |
| Dana Corp. | 28,600 | 886,600 |
| | | 1,506,600 |
| Offices & Clinics of Medical Doctors (0.97%) | | |
| FHP International Corp. | 26,200 (a) | 717,225 |
| Operative Builders (0.42%) | | |
| Pulte Corp. | 11,500 | 307,625 |
| Paints & Allied Products (0.53%) | | |
| RPM, Inc. | 25,000 | 390,625 |
| Petroleum Refining (2.12%) | | |
| Atlantic Richfield Co. | 5,800 | 687,300 |
| Exxon Corp. | 10,200 | 886,125 |
| | | 1,573,425 |
| Plastic Materials & Synthetics (0.77%) | | |
| A. Schulman, Inc. | 23,400 | 573,300 |
| Preserved Fruits & Vegetables (0.68%) | | |
| CPC International, Inc. | 7,000 | 504,000 |
| Radio, Television & Computer Stores (0.32%) | | |
| Tandy Corp. | 5,000 | 236,875 |
| Refrigeration & Service Machinery (0.85%) | | |
| Tecumseh Products Co.; Class A | 11,700 | 628,875 |
| Rubber & Plastics Footwear (1.39%) | | |
| Nike, Inc. | 10,000 | 1,027,500 |
| Sanitary Services (1.69%) | | |
| Browning-Ferris Industries, Inc. | 26,300 | 762,700 |
| WMX Technologies, Inc. | 15,000 | 491,250 |
| | | 1,253,950 |
| Security Brokers & Dealers (1.21%) | | |
| Salomon, Inc. | 20,400 | 897,600 |
| Shoe Stores (0.07%) | | |
| Payless Shoesource Inc. | 1,600 (a) | 50,800 |
| Soap, Cleaners & Toilet Goods (3.38%) | | |
| Colgate-Palmolive Co. | 11,700 | 991,575 |

| | | |
|--|--------------------------------------|---------------|
| Ecolab, Inc. | 37,100 | 1,224,300 |
| International Flavors & Fragrances, Inc. | 6,000 | 285,750 |
| | | 2,501,625 |
| Toys & Sporting Goods (1.39%) | | |
| Mattel, Inc. | 35,950 | 1,029,069 |
| Variety Stores (0.51%) | | |
| Wal-Mart Stores, Inc. | 15,000 | 380,625 |
| | | |
| | Total Common Stock | 58,812,813 |
| Preferred Stock (0.42%) | | |
| Offices & Clinics of Medical Doctors (0.42%) | | |
| FHP International Corp.; | | |
| Series A Convertible | 12,182 | 310,641 |
| | | |
| | Principal | Value |
| | Amount | |
| Commercial Paper (19.39%) | | |
| Business Credit Institutions (8.67%) | | |
| American Express Credit Corp.; | | |
| 5.39%; 7/5/96 | \$ 1,000,000 | \$ 999,401 |
| 5.39%; 7/9/96 | 2,200,000 | 2,197,365 |
| CIT Group Holdings, Inc.; | | |
| 5.30%; 7/3/96 | 2,000,000 | 1,999,411 |
| 5.30%; 7/5/96 | 1,225,000 | 1,224,278 |
| | | 6,420,455 |
| Personal Credit Institutions (7.12%) | | |
| Associates Corp. of North America; | | |
| 5.35%; 7/2/96 | 2,340,000 | 2,339,652 |
| Ford Motor Credit Co.; | | |
| 5.37%; 7/8/96 | 2,940,000 | 2,936,930 |
| | | 5,276,582 |
| Securities Brokers & Dealers (3.60%) | | |
| Merrill Lynch & Co., Inc. | | |
| 5.35%; 7/1/96 | 2,670,000 | 2,670,000 |
| | | |
| | Total Commercial Paper | 14,367,037 |
| | Total Portfolio Investments (99.18%) | 73,490,491 |
| Cash and receivables, net of liabilities (0.82%) | | 604,501 |
| | Total Net Assets (100.00%) | \$ 74,094,992 |

(a) Non-income producing security - No dividend paid during the past twelve months.

PRINCIPAL HIGH YIELD FUND, INC.

| | Principal | Value |
|--|------------|------------|
| | Amount | |
| Bonds (93.12%) | | |
| Agricultural Chemicals (2.45%) | | |
| IMC Fertilizer Group, Inc. Senior | | |
| Debentures; 9.45%; 12/15/11 | \$ 300,000 | \$ 303,000 |
| Aircraft & Parts (2.24%) | | |
| Rohr Industries, Inc. Subordinated | | |
| Debentures; 9.25%; 3/1/17 | 300,000 | 276,000 |
| Automotive Rentals, No Drivers (1.25%) | | |
| Alamo Rent-A-Car, Inc. Senior | | |
| Notes; 11.75%; 1/31/06 | 150,000 | 154,500 |
| Blast Furnace & Basic Steel Products (3.48%) | | |
| Ivaco Senior Notes; | | |
| 11.50%; 9/1/05 | 150,000 | 146,250 |
| Weirton Steel Corp. Senior Notes; | | |
| 10.75%; 6/1/05 | 300,000 | 282,750 |
| | | 429,000 |
| Broadwoven Fabric Mills, Cotton (2.31%) | | |
| J.P. Stevens & Co. Inc. | | |
| Sinking Fund Debentures; | | |
| 9.00%; 3/1/17 | 300,000 | 285,000 |

| | | |
|---|---------|---------|
| Cable & Other Pay TV Services (2.47%) | | |
| Jones Intercable, Inc. Senior Notes; | | |
| 9.63%; 3/15/02 | 300,000 | 304,500 |
| Cogeneration - Small Power Producer (3.68%) | | |
| AES Corp. Senior Subordinated | | |
| Notes; 10.25%; 7/15/06 | 300,000 | 301,125 |
| California Energy Co., Inc. | | |
| Ltd. Resource Senior Secured | | |
| Notes; 9.88%; 6/30/03 | 150,000 | 153,375 |
| | | 454,500 |
| Computer & Data Processing Services (2.56%) | | |
| Tenet Healthcare Corp. | | |
| Senior Subordinated Notes; | | |
| 10.13%; 3/1/05 | 300,000 | 316,500 |
| Consumer Products (3.23%) | | |
| RJR Nabisco, Inc. Senior Notes; | | |
| 8.75%; 8/15/05 | 400,000 | 399,000 |
| Crude Petroleum & Natural Gas (4.40%) | | |
| Chesapeake Energy Corp. | | |
| Senior Notes; 9.13%; 4/15/06 | 150,000 | 147,750 |
| Nuevo Energy Co. | | |
| Senior Subordinated Notes; | | |
| 9.50%; 4/15/06 | 400,000 | 395,500 |
| | | 543,250 |
| Electric Services (1.20%) | | |
| El Paso Electric Co. | | |
| First Mortgage Bonds, Series D; | | |
| 8.90%; 2/1/06 | 150,000 | 148,125 |
| Engines & Turbines (2.14%) | | |
| Outboard Marine Corp. Debentures; | | |
| 9.13%; 4/15/17 | 300,000 | 264,000 |
| Forest Products (2.15%) | | |
| Doman Industries, Ltd. Senior Notes; | | |
| 8.75%; 3/15/04 | 300,000 | 265,794 |
| Fuel Dealers (2.36%) | | |
| Petroleum Heat & Power Co., Inc. | | |
| Subordinated Notes; | | |
| 10.13%; 4/1/03 | 300,000 | 291,000 |
| General Government, NEC (1.06%) | | |
| Republic of Argentina Global Bonds; | | |
| 8.38%; 12/20/03 | 150,000 | 130,687 |
| Groceries & Related Products (2.23%) | | |
| Rykoff-Sexton, Inc. Senior | | |
| Subordinated Notes; | | |
| 8.88%; 11/1/03 | 300,000 | 275,250 |
| Grocery Stores (3.52%) | | |
| Dominick's Finer Foods, Inc. | | |
| Senior Subordinated Notes; | | |
| 10.88%; 5/1/05 | 150,000 | 158,625 |
| Ralph's Grocery Co. | | |
| Senior Subordinated Notes; | | |
| 11.00%; 6/15/05 | 300,000 | 276,000 |
| | | 434,625 |
| Hotels & Motels (4.93%) | | |
| Bally's Grand, Inc. First Mortgage | | |
| Notes; 10.38%; 12/15/03 | 300,000 | 328,875 |
| John Q. Hammons Hotels, L.P. & | | |
| Finance Corp. First Mortgage | | |
| Notes; 8.88%; 2/15/04 | 300,000 | 280,500 |
| | | 609,375 |
| Knitting Mills (2.52%) | | |
| Tultex Corp. Senior Notes; | | |
| 10.63%; 3/15/05 | 300,000 | 311,250 |
| Miscellaneous Amusement, Recreation Service (1.26%) | | |
| Rio Hotel & Casino, Inc. | | |
| Senior Subordinated Notes; | | |
| 10.63%; 7/15/05 | 150,000 | 156,000 |
| Miscellaneous Converted Paper Products (1.99%) | | |
| Drypers Corp. Senior Notes; | | |
| 12.50%; 11/1/02 | 300,000 | 246,000 |

| | | |
|--|--------------------------------------|------------|
| Miscellaneous Plastics Products, NEC (4.74%) | | |
| Congoleum Corp. Senior Notes; | | |
| 9.00%; 2/1/01 | 300,000 | 288,000 |
| Plastic Containers, Inc. Senior | | |
| Secured Notes; 10.75%; 4/1/01 | 300,000 | 297,750 |
| | | 585,750 |
| Motor Vehicles & Equipment (2.30%) | | |
| Lear Seating Corp. Subordinated | | |
| Notes; 8.25%; 2/1/02 | 300,000 | 284,250 |
| Nonferrous Foundries (Casting) (1.28%) | | |
| Howmet Corp. Senior Subordinated | | |
| Notes; 10.00%; 12/1/03 | 150,000 (a) | 157,875 |
| Nursing & Personal Care Facilities (2.34%) | | |
| Mariner Health Group, Inc. Senior | | |
| Subordinated Notes; 9.50%; 4/1/06 | 300,000 (a) | 288,375 |
| Petroleum Refining (2.45%) | | |
| Crown Central Petroleum Corp. | | |
| Senior Notes; 10.88%; 2/1/05 | 300,000 | 302,250 |
| Pulp Mills (2.79%) | | |
| Magnetek, Inc. Senior Subordinated | | |
| Debentures; 10.75%; 11/15/98 | 350,000 | 344,313 |
| Radio, Television & Computer Stores (2.46%) | | |
| Compusa, Inc. Senior Subordinated | | |
| Notes; 9.50%; 6/15/00 | 300,000 | 303,375 |
| Radio & Television Broadcasting (3.84%) | | |
| American Radio Systems | | |
| Senior Subordinated Notes; | | |
| 9.00%; 2/1/06 | 150,000 | 141,750 |
| EZ Communications, Inc. | | |
| Senior Subordinated Notes; | | |
| 9.75%; 12/1/05 | 200,000 | 190,000 |
| Sullivan Broadcasting Inc. | | |
| Senior Subordinated Notes; | | |
| 10.25%; 12/15/05 | 150,000 | 142,875 |
| | | 474,625 |
| Soap, Cleaners & Toilet Goods (2.50%) | | |
| Coty, Inc. Senior Subordinated | | |
| Notes; 10.25%; 5/1/05 | 300,000 | 309,000 |
| Telephone Communication (10.17%) | | |
| 360 Communications Co. | | |
| Senior Notes; 7.50%; 3/1/06 | 150,000 | 142,331 |
| Paging Network, Inc. Senior | | |
| Debentures; 8.88%; 2/1/06 | 300,000 | 271,875 |
| Rogers Cablesystems Ltd. Senior | | |
| Secured Second Priority Notes; | | |
| 9.63%; 8/1/02 | 250,000 | 246,875 |
| Rogers Cantel Inc. Senior Secured | | |
| Debentures; 9.75%; 6/1/16 | 300,000 | 289,125 |
| Telecom Argentina Stet-France | | |
| Telecom SA Senior Notes; | | |
| 12.00%; 11/15/02 | 150,000 | 160,500 |
| Vanguard Cellular Systems, Inc. | | |
| Senior Debentures; 9.38%; 4/15/06 | 150,000 | 145,500 |
| | | 1,256,206 |
| Textile Finishing, Except Wool (2.35%) | | |
| Dominion Textile (USA) Inc. | | |
| Guaranteed Senior Notes; | | |
| 9.25%; 4/1/06 | 300,000 | 290,250 |
| Water Supply (2.47%) | | |
| California Energy Casecan Water & | | |
| Energy Co., Inc. Senior Secured | | |
| Bonds Series B; 11.95%; 11/15/10 | 300,000 (a) | 305,250 |
| | Total Bonds | 11,498,875 |
| Commercial Paper (4.37%) | | |
| Personal Credit Institutions (4.37%) | | |
| Associates Corp. of North America; | | |
| 5.55%; 7/1/96 | 540,000 | 540,000 |
| | Total Portfolio Investments (97.49%) | 12,038,875 |

Cash and receivables, net of liabilities (2.51%) 309,965

Total Net Assets (100.00%) \$ 12,348,840

(a) Restricted Security - See Note 4 to the financial statements.

PRINCIPAL MONEY MARKET FUND, INC.

| | Principal Amount | Value |
|--|---------------------|------------|
| Commercial Paper (94.48%) | | |
| Advertising (1.74%) | | |
| Omnicom Finance, Inc.; | | |
| LOC ABN-AMRO Bank NV; | | |
| 5.35%; 7/24/96 | \$ 850,000 | \$ 847,095 |
| Asset-Backed Securities (4.15%) | | |
| Retailer Funding Corp.; | | |
| 5.38%; 7/15/96 | 1,000,000 | 997,908 |
| 5.38%; 7/25/96 | 1,025,000 | 1,021,323 |
| | | 2,019,231 |
| Business Credit Institutions (4.47%) | | |
| American Express Credit Corp.; | | |
| 5.28%; 7/3/96 | 460,000 | 459,865 |
| 5.29%; 7/25/96 | 190,000 | 189,331 |
| 4.95%; 8/16/96 | 150,000 | 149,051 |
| 5.28%; 8/20/96 | 400,000 | 397,067 |
| CIT Group Holdings, Inc.; | | |
| 5.28%; 8/21/96 | 500,000 | 496,260 |
| General Electric Capital Corp.; | | |
| 5.29%; 1/24/97 | 500,000 | 484,791 |
| | | 2,176,365 |
| Department Stores (4.75%) | | |
| Sears Roebuck Acceptance Corp.; | | |
| 5.28%; 7/10/96 | 275,000 | 274,637 |
| 5.33%; 7/17/96 | 450,000 | 448,934 |
| 5.36%; 8/9/96 | 350,000 | 347,968 |
| 5.38%; 8/14/96 | 675,000 | 670,561 |
| 5.39%; 8/15/96 | 250,000 | 248,316 |
| 5.41%; 8/20/96 | 325,000 | 322,558 |
| | | 2,312,974 |
| Drugs (0.55%) | | |
| Warner-Lambert Co.; | | |
| 4.76%; 11/12/96 | 275,000 | 270,128 |
| Electric Services (12.66%) | | |
| AES Shady Point, Inc.; LOC Bank of | | |
| Tokyo-Mitsubishi, Ltd.; | | |
| 5.34%; 7/9/96 | 1,000,000 | 998,813 |
| 5.50%; 7/10/96 | 750,000 | 748,969 |
| 5.43%; 7/22/96 | 350,000 | 348,891 |
| Centerior Fuel Corp.; | | |
| LOC Barclays Bank PLC; | | |
| 5.45%; 7/31/96 | 375,000 | 373,297 |
| Commed Fuel Co., Inc.; | | |
| LOC Canadian Imperial Bank of | | |
| Commerce; | | |
| 5.34%; 7/8/96 | 425,000 | 424,559 |
| 5.30%; 7/12/96 | 125,000 | 124,798 |
| 5.38%; 8/19/96 | 250,000 | 248,169 |
| LOC Credit Suisse; 5/30%; 7/11/96 | 1,000,000 | 998,528 |
| Connecticut Yankee Atomic Power | | |
| Co.; LOC Toronto Dominion Bank; | | |
| 5.65%; 7/01/96 | 500,000 | 500,000 |
| FPL Fuels Inc.; | | |
| LOC Barclays Bank PLC; | | |
| 5.33%; 7/3/96 | 350,000 | 349,896 |
| 5.35%; 7/31/96 | 150,000 | 149,331 |
| 5.39%; 7/31/96 | 400,000 | 398,203 |
| Southern California Edison; | | |
| 5.35%; 7/12/96 | 500,000 | 499,183 |
| | | 6,162,637 |
| Federal & Federally Sponsored Credit (1.72%) | | |
| U.S. Government Treasury Bills; | | |
| 5.35%; 8/22/96 | 200,000 | 198,455 |
| 5.09%; 3/6/97 | 660,000 | 636,685 |
| | | 835,140 |
| Finance Services (4.90%) | | |

| | | |
|---|-----------|------------|
| ABN-AMRO North America Finance, Inc.; 4.91%; 8/23/96 | 500,000 | 496,386 |
| Mitsubishi International Corp.; | | |
| 4.98%; 7/9/96 | 200,000 | 199,779 |
| 5.31%; 7/29/96 | 150,000 | 149,381 |
| 5.34%; 9/3/96 | 300,000 | 297,152 |
| 5.41%; 9/4/96 | 700,000 | 693,162 |
| PHH Corp.; 5.36%; 7/23/96 | 550,000 | 548,198 |
| | | 2,384,058 |
| Fire, Marine & Casualty Insurance (1.53%) General Reinsurance Corp.; | | |
| 5.38%; 8/20/96 | 750,000 | 744,396 |
| Gas Production & Distribution (2.05%) Southwest Gas Corp.; | | |
| LOC Union Bank of Switzerland; | | |
| 5.28%; 7/8/96 | 1,000,000 | 998,973 |
| Investment Offices (2.92%) Morgan Stanley Group, Inc.; | | |
| 5.34%; 7/2/96 | 475,000 | 474,930 |
| 5.29%; 7/26/96 | 550,000 | 547,979 |
| 5.27%; 7/30/96 | 400,000 | 398,302 |
| | | 1,421,211 |
| Miscellaneous Electrical Equipment & Supplies (1.02%) General Electric Co.; | | |
| 5.38%; 8/13/96 | 500,000 | 496,787 |
| Miscellaneous Investing (0.61%) MLTC Funding, Inc.; | | |
| LOC Citibank, N.A.; | | |
| 5.39%; 7/24/96 | 300,000 | 298,967 |
| Mortgage Bankers & Brokers (3.77%) Countrywide Home Loan, Inc.; | | |
| 5.32%; 8/22/96 | 850,000 | 843,468 |
| 5.42%; 9/16/96 | 1,000,000 | 988,407 |
| | | 1,831,875 |
| Personal Credit Institutions (22.70%) Associates Corp. of North America; | | |
| 5.28%; 7/5/96 | 690,000 | 689,595 |
| 5.29%; 7/25/96 | 500,000 | 498,237 |
| 5.36%; 7/31/96 | 450,000 | 447,990 |
| 5.36%; 8/2/96 | 300,000 | 298,571 |
| Beneficial Corp.; | | |
| 5.29%; 7/18/96 | 525,000 | 523,688 |
| 5.38%; 8/16/96 | 550,000 | 546,219 |
| Comoloco Inc.; | | |
| 5.33%; 8/5/96 | 150,000 | 149,223 |
| 5.36%; 8/6/96 | 800,000 | 795,712 |
| 5.37%; 8/12/96 | 850,000 | 844,675 |
| 5.40%; 9/9/96 | 400,000 | 395,800 |
| Ford Motor Credit Co.; | | |
| 5.30%; 7/12/96 | 425,000 | 424,312 |
| 5.28%; 7/26/96 | 350,000 | 348,717 |
| 5.36%; 7/29/96 | 500,000 | 497,915 |
| 5.36%; 8/8/96 | 600,000 | 596,605 |
| General Motors Acceptance Corp.; | | |
| 4.75%; 11/01/96 | 250,000 | 245,943 |
| 5.33%; 12/10/96 | 100,000 | 97,602 |
| 5.35%; 12/13/96 | 140,000 | 136,567 |
| 5.35%; 12/20/96 | 250,000 | 243,610 |
| 5.35%; 12/27/96 | 225,000 | 219,015 |
| 5.35%; 1/17/97 | 150,000 | 145,542 |
| 5.45%; 1/24/96 | 150,000 | 145,299 |
| 5.60%; 3/3/97 | 125,000 | 120,236 |
| 5.67%; 3/7/97 | 400,000 | 384,313 |
| 5.70%; 3/10/97 | 200,000 | 192,020 |
| 5.68%; 3/14/97 | 250,000 | 239,902 |
| Norwest Financial, Inc.; | | |
| 5.28%; 7/10/96 | 750,000 | 749,010 |
| 5.29%; 7/15/96 | 1,075,000 | 1,072,788 |
| | | 11,049,106 |
| Real Estate Operators & Lessors (8.44%) Maguire/Thomas Partners Westlake Southlake Partnership Notes; | | |
| LOC Sumitomo Bank Ltd.; | | |
| 5.50%; 7/11/96 | 275,000 | 274,580 |
| 5.38%; 7/23/96 | 1,000,000 | 996,715 |
| 5.35%; 7/24/96 | 300,000 | 298,975 |
| 5.40%; 8/15/96 | 400,000 | 397,300 |

| | | |
|---|-----------|---------------|
| 5.45%; 9/3/96 | 200,000 | 198,062 |
| Towson Town Center, Inc.; LOC | | |
| Bank of Tokyo-Mitsubishi, Ltd.; | | |
| 5.42%; 7/12/96 | 500,000 | 499,172 |
| 5.42%; 7/16/96 | 700,000 | 698,419 |
| 5.35%; 7/19/96 | 500,000 | 498,662 |
| 5.45%; 8/13/96 | 250,000 | 248,373 |
| | | 4,110,258 |
| Security Brokers & Dealers (9.79%) | | |
| Goldman Sachs Group, L.P.; | | |
| 5.38%; 8/7/96 | 375,000 | 372,927 |
| 5.33%; 9/4/96 | 500,000 | 495,188 |
| Merrill Lynch & Co., Inc.; | | |
| 5.06%; 7/31/96 | 225,000 | 224,051 |
| 5.32%; 7/16/96 | 500,000 | 498,892 |
| 5.32%; 8/1/96 | 375,000 | 373,282 |
| 5.38%; 8/7/96 | 500,000 | 497,235 |
| 5.40%; 8/26/96 | 725,000 | 718,910 |
| Smith Barney Inc.; | | |
| 5.28%; 7/1/96 | 1,090,000 | 1,090,000 |
| 5.38%; 8/19/96 | 500,000 | 496,339 |
| | | 4,766,824 |
| Subdividers & Developers (0.72%) | | |
| Hartz 667 Commercial Paper Corp.; | | |
| LOC Bank of Tokyo-Mitsubishi, | | |
| Ltd.; 5.42%; 7/17/96 | 350,000 | 349,157 |
| Telephone Communication (1.74%) | | |
| Ameritech Corp.; | | |
| 5.23%; 7/30/96 | 150,000 | 149,368 |
| 5.38%; 8/2/96 | 700,000 | 696,652 |
| | | 846,020 |
| Tires & Inner Tubes (4.25%) | | |
| Bridgestone/Firestone; | | |
| LOC Dai-Ichi Kangyo Bank Ltd.; | | |
| 5.34%; 7/22/96 | 450,000 | 448,598 |
| 5.38%; 7/19/96 | 1,000,000 | 997,310 |
| 5.45%; 7/22/96 | 325,000 | 323,967 |
| LOC Sumitomo Bank Ltd.; | | |
| 5.42%; 7/9/96 | 300,000 | 299,639 |
| | | 2,069,514 |
| Total Commercial Paper | | 45,990,716 |
| Bank Notes (4.32%) | | |
| Commercial Banks (4.32%) | | |
| LaSalle National Bank; | | |
| 5.75%; 7/8/96 | 250,000 | 250,000 |
| 5.72%; 8/30/96 | 500,000 | 500,000 |
| 5.56%; 3/6/97 | 300,000 | 300,000 |
| 5.47%; 3/15/97 | 300,000 | 300,000 |
| 5.77%; 4/25/97 | 350,000 | 350,000 |
| 5.72%; 4/30/97 | 400,000 | 400,000 |
| Total Bank Notes | | 2,100,000 |
| Bonds (2.05%) | | |
| Business Credit Institutions (2.05%) | | |
| John Deere Capital Corp. | | |
| Medium-Term Notes, Series C; | | |
| 5.95%; 6/30/97 | 1,000,000 | 998,869 |
| Total Portfolio Investments (100.85%) | | 49,089,585 |
| Liabilities, net of cash and receivables (-0.85%) | | (412,217) |
| Total Net Assets (100.00%) | | \$ 48,677,368 |

PRINCIPAL WORLD FUND, INC.

| | Shares Held | Value |
|--------------------------|----------------|-----------|
| Common Stocks (88.30%) | | |
| Aircraft & Parts (0.05%) | | |
| Cemex SA | 6,936 | \$ 25,119 |
| Beverages (1.78%) | | |

| | | |
|--|--|---|
| Lion Nathan | 362,000 | 944,858 |
| Blast Furnace & Basic Steel Products (1.63%) Voest-Alpine Stahl | 25,700 (b) | 868,477 |
| Cement, Hydraulic (0.07%) Apasco SA | 6,320 | 34,770 |
| Central Reserve Depositories (3.21%) Barclays PLC Ergo Bank Union Bank of Norway Wing Hang Bank | 82,000 3,800 12,800 50,000 | 984,892 209,141 313,285 198,307 |
| | | 1,705,625 |
| Combination Utility Services (2.07%) ABB AG Iberdrola 1 SA | 745 17,600 | 921,398 180,515 |
| | | 1,101,913 |
| Commercial Banks (9.04%) ABN-AMRO Holdings NV Bank of Ireland Christiana Bank; Ordinary Shares Fokus Bank Grupo Financiero Bancomer; Series B Series L Korea Housing Bank National Australia Bank Ltd. Siam City Bank Svenska Handelsbanken AB Free | 12,235 113,816 74,000 119,000 (a) (b) 235,000 (a) 8,704 (a) 1,290 (a) 72,885 875,000 40,500 | 656,557 778,129 174,283 648,458 102,312 2,882 30,057 674,040 938,759 802,618 |
| | | 4,808,095 |
| Communications Equipment (0.17%) ABC Communications Holdings Ltd. | 420,000 | 91,699 |
| Communications Services, NEC (1.38%) KPN Royal PTT Nederland | 19,389 | 733,771 |
| Computer & Office Equipment (0.16%) Canon, Inc. | 4,000 | 83,150 |
| Concrete, Gypsum & Plaster Products (0.02%) Cementos de Mexico SA | 3,200 | 12,623 |
| Construction & Related Machinery (0.77%) Powerscreen International PLC | 58,100 | 411,658 |
| Consumer Products (0.81%) Imasco Ltd. | 21,000 | 429,036 |
| Crude Petroleum & Natural Gas (0.63%) Hardy Oil & Gas | 86,200 | 336,184 |
| Department Stores (0.81%) Vendex International | 12,400 | 432,226 |
| Drugs (4.23%) Galencia Holdings AG Roussel-Uclaf Sandoz AG Teva Pharmaceutical ADR | 480 2,970 460 21,500 | 195,583 712,488 525,918 814,312 |
| | | 2,248,301 |
| Electric Light & Wiring Equipment (0.49%) Clipsal Industries Holdings Otra NV | 25,000 8,300 | 70,250 191,092 |
| | | 261,342 |
| Electric Services (2.46%) CEP-A Consolidated Electric Power-Asia Korea Electric Power Corp. Korea Mobil Telecommunications Corp. Northern Ireland Electric | 231,000 8,100 290 63,400 | 381,991 281,592 228,804 414,731 |
| | | 1,307,118 |
| Electronic Components & Accessories (2.53%) Amtek Engineering Elec & Eltek International Murata Mfg. Varitronix | 209,250 268,000 1,000 63,000 | 378,044 798,640 37,837 131,445 |
| | | 1,345,966 |
| Electronic Distribution Equipment (1.77%) | | |

| | | |
|--|----------------|-----------|
| Phillips Electronics | 28,900 | 939,644 |
| Engines & Turbines (0.17%) | | |
| Mabuchi Motor | 1,400 | 89,094 |
| Finance Services (1.25%) | | |
| MBF Capital Berhad | 481,000 | 663,119 |
| Flat Glass (0.14%) | | |
| Weru AG | 200 | 75,026 |
| Forest Products (0.21%) | | |
| Metsa-Serla | 16,000 | 113,649 |
| Functions Closely Related to Banking (1.12%) | | |
| Liechtenstein Global Trust AG | 1,225 | 597,016 |
| Gas Production & Distribution (2.34%) | | |
| Australia Gas & Light | 95,457 | 397,438 |
| Hafslund ASA | 5,467 | 34,503 |
| OMV AG | 8,000 | 810,282 |
| | | 1,242,223 |
| Highway & Street Construction (0.30%) | | |
| Edrasis Psallidas | 14,664 | 157,758 |
| Holding Offices (1.49%) | | |
| First Pacific Co., Ltd. | 516,382 | 793,869 |
| Household Appliances (1.07%) | | |
| Fisher & Paykel | 178,000 | 570,688 |
| Household Audio & Video Equipment (0.79%) | | |
| SKF 'B' Free | 17,700 | 420,128 |
| Industrial Inorganic Chemicals (1.33%) | | |
| Bayer AG | 20,100 | 707,133 |
| Investment Offices (0.85%) | | |
| Invesco PLC | 126,000 | 452,249 |
| Meat Products (3.80%) | | |
| AFFCO Holdings | 1,096,185 | 413,028 |
| Orkla B Ordinary Shares | 18,100 | 880,435 |
| Unilever NV | 5,030 | 727,843 |
| | | 2,021,306 |
| Medical Instruments & Supplies (0.14%) | | |
| Nycomed | 5,467 | 75,740 |
| Miscellaneous Chemical Products (3.10%) | | |
| Ciba Geigy AG-REG | 730 | 889,432 |
| Hoechst AG | 22,500 | 759,786 |
| | | 1,649,218 |
| Miscellaneous Durable Goods (1.23%) | | |
| Hagemeyer NV | 9,175 | 653,600 |
| Miscellaneous Equipment Rental & Leasing (1.32%) | | |
| Insituto Mobiliane Italian | 84,000 | 701,392 |
| Miscellaneous Food & Kindred Products (0.82%) | | |
| Burns, Philp & Co., Ltd. | 230,631 | 435,645 |
| Miscellaneous Furniture & Fixtures (0.12%) | | |
| Pt Surya Toto | 29,000 | 62,301 |
| Miscellaneous Manufacturers (0.78%) | | |
| Carter Holt Harvey Ltd. | 181,000 | 412,910 |
| Miscellaneous Non-Durable Goods (2.24%) | | |
| Grand Metropolitan PLC | 179,500 | 1,190,934 |
| Miscellaneous Plastics Products, NEC (1.00%) | | |
| Royal Plastics Group | 35,100 (a) (b) | 533,329 |
| Miscellaneous Textile Goods (0.69%) | | |
| Espirit Asia | 1,158,000 | 366,526 |
| Miscellaneous Transportation Equipment (0.51%) | | |
| Autoliv AB | 8,900 | 270,938 |
| Miscellaneous Transportation Services (0.26%) | | |
| Koninklijke Pakhoed NV | 5,281 | 137,673 |

| | | |
|--|------------|-----------|
| Miscellaneous Wood Products (0.33%) | | |
| Enso OY | 22,300 | 173,278 |
| Motor Vehicles & Equipment (0.70%) | | |
| Volvo AB | 16,450 | 374,344 |
| Motor Vehicles, Parts & Supplies (0.97%) | | |
| Dahl International AB | 36,000 (a) | 518,124 |
| Newspapers (0.94%) | | |
| Marcoiberica Distribucion de Edicioues | 58,500 | 497,345 |
| Non-Classifiable Establishments (0.13%) | | |
| Thailand International Fund | 2 | 67,000 |
| Office Furniture (0.16%) | | |
| Lamex Holdings | 242,000 | 84,413 |
| Oil & Gas Field Services (1.89%) | | |
| Repsol Petroleo SA | 28,960 | 1,006,286 |
| Personal Credit Institutions (0.36%) | | |
| Manhattan Card Co. | 402,000 | 192,158 |
| Plastic Materials & Synthetics (0.90%) | | |
| Astra AB | 11,000 | 479,092 |
| Primary Nonferrous Metals (0.58%) | | |
| British Steel PLC | 121,300 | 310,043 |
| Pulp Mills (1.56%) | | |
| Asia Pacific Resources | 36,300 (a) | 272,250 |
| Babcock International Group | 41,000 | 56,698 |
| UPM-Kymmene OY | 24,140 | 499,334 |
| | | 828,282 |
| Railroad Equipment (0.26%) | | |
| Vae AG | 1,470 | 138,597 |
| Sand & Gravel (0.08%) | | |
| Bardon Group PLC | 75,900 | 44,520 |
| Security Brokers & Dealers (1.43%) | | |
| Peregrine Investment Holdings | 526,000 | 757,690 |
| Peregrine Investment - Warrants | 38,800 (a) | 4,461 |
| | | 762,151 |
| Security & Commodity Services (2.13%) | | |
| Corporacion Bancaria de Espania SA | 26,000 | 1,133,601 |
| Ship & Boat Building & Repairing (0.36%) | | |
| Unitor Ships Service | 11,930 | 192,824 |
| Special Industry Machinery (1.59%) | | |
| Bobst SA | 205 | 295,632 |
| IHC Caland NV | 7,700 | 378,915 |
| Sulzer AG | 290 | 173,772 |
| | | 848,319 |
| Sugar & Confectionary Products (4.44%) | | |
| Huhtamake I Free | 7,200 | 240,212 |
| Nestle | 1,005 | 1,147,410 |
| Tate & Lyle | 137,000 | 974,948 |
| | | 2,362,570 |
| Telephone Communication (7.25%) | | |
| Cable & Wireless PLC | 21,000 | 139,003 |
| Compania de Telecomunicaciones ADR | 1,600 | 157,000 |
| Investec Consultadoria Internacional SA | 8,600 (a) | 285,395 |
| Nokia Corp.; Class A ADR | 23,800 | 880,600 |
| Tele Danmark B | 8,500 | 425,515 |
| Telecom Italia-DI | 300,200 | 517,974 |
| Telecom Italia Mobile | 419,200 | 571,530 |
| Telefonica de Espana SA | 40,400 | 743,650 |
| Telefonos de Mexico SA ADR | 4,050 | 135,675 |
| | | 3,856,342 |
| Water Supply (0.30%) | | |
| Wessex Water PLC | 28,596 | 158,628 |
| Water Transportation of Freight, NEC (0.79%) | | |
| Argonaut AB 'B' Free | 17,100 (a) | 35,306 |
| ICB Shipping AB 'B' Free | 32,000 | 385,805 |
| | | 421,111 |

| | | |
|---|---------------------------------------|---------------|
| | Total Common Stocks | 46,964,067 |
| Preferred Stocks (0.29%) | | |
| Highway & Street Construction (0.29%) | | |
| BAU Holdings AG | 3,030 | 154,154 |
| | Principal Amount | Value |
| Bonds (0.80%) | | |
| Fire, Marine & Casualty Insurance (0.80%) | | |
| Alfa SA Convertible Subordinated Debentures; 8.00%; 9/15/00 | \$ 400,000 (b) | \$ 427,000 |
| Commercial Paper (13.67%) | | |
| Business Credit Institutions (4.72%) | | |
| American Express Credit Co.; 5.28%; 7/1/96 | 1,780,000 | 1,780,000 |
| General Electric Capital Corp.; 5.35%; 7/3/96 | 730,000 | 729,783 |
| | | 2,509,783 |
| Personal Credit Institutions (5.86%) | | |
| Associates Corp. of North America; 5.38%; 7/5/96 | 1,365,000 | 1,364,184 |
| Ford Motor Credit Co.; 5.40%; 7/3/96 | 1,750,000 | 1,749,475 |
| | | 3,113,659 |
| Security Brokers & Dealers (3.09%) | | |
| Merrill Lynch & Co., Inc.; 5.35%; 7/2/96 | 1,645,000 | 1,644,756 |
| | Total Commercial Paper | 7,268,198 |
| | Total Portfolio Investments (103.06%) | 54,813,419 |
| Liabilities, net of cash, receivables and other assets (-3.06%) | | (1,627,566) |
| Total Net Assets (100.00%) | | \$ 53,185,853 |

(a) Non-Income producing security - No dividend paid during the period.

(b) Restricted security - See Note 4 to the financial statements.

Principal World Fund, Inc. Investments by Country

| Country | Total Market Value | Percentage of Total Market Value |
|----------------|--------------------|----------------------------------|
| Australia | \$ 1,507,123 | 2.75% |
| Austria | 1,971,511 | 3.60 |
| Canada | 962,365 | 1.76 |
| Denmark | 425,515 | 0.78 |
| Finland | 1,026,472 | 1.87 |
| France | 712,488 | 1.30 |
| Germany | 1,541,945 | 2.81 |
| Greece | 366,898 | 0.67 |
| Hong Kong | 3,002,559 | 5.48 |
| Indonesia | 62,301 | 0.11 |
| Italy | 1,790,897 | 3.27 |
| Japan | 210,081 | 0.38 |
| Korea | 540,453 | 0.99 |
| Malaysia | 663,119 | 1.21 |
| Mexico | 177,706 | 0.32 |
| Netherlands | 4,851,322 | 8.85 |
| New Zealand | 2,341,484 | 4.27 |
| Norway | 2,319,528 | 4.23 |
| Portugal | 285,395 | 0.52 |
| Singapore | 378,044 | 0.69 |
| Spain | 3,561,396 | 6.50 |
| Sweden | 3,286,355 | 6.00 |
| Switzerland | 4,746,161 | 8.66 |
| Thailand | 938,759 | 1.71 |
| United Kingdom | 6,252,618 | 11.40 |
| United States | 10,890,924 | 19.87 |

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

| | Income from Investment Operations | | | |
|---|---|----------------------------------|---|---|
| | Net Asset Value at Beginning of Period | Net Invest- ment Income | Net Realized and Unrealized Gain (Loss) on Investments | Total from Investment Operations |
| PRINCIPAL AGGRESSIVE GROWTH FUND INC. | | | | |
| <S> | <C> | <C> | <C> | <C> |
| Six Months Ended June 30, 1996 | \$12.94 | \$.07 | \$ 1.70 | \$1.77 |
| Year Ended December 31, 1995 | 10.11 | .13 | 4.31 | 4.44 |
| Period Ended December 31, 1994 (d) | 9.92 | .05 | .24 | .29 |
| PRINCIPAL ASSET ALLOCATION FUND, INC. | | | | |
| Six Months Ended June 30, 1996 | 11.11 | .18 | .40 | .58 |
| Year Ended December 31, 1995 | 9.79 | .40 | 1.62 | 2.02 |
| Period Ended December 31, 1994 (d) | 9.98 | .23 | (.18) | .05 |
| PRINCIPAL BALANCED FUND, INC. | | | | |
| Six Months Ended June 30, 1996 | 13.97 | .19 | .37 | .56 |
| Year Ended December 31, | | | | |
| 1995 | 11.95 | .45 | 2.44 | 2.89 |
| 1994 | 12.77 | .37 | (.64) | (.27) |
| 1993 | 12.58 | .42 | .95 | 1.37 |
| Six Months Ended December 31, 1992 (a) | 12.93 | .23 | .75 | .98 |
| Year Ended June 30, | | | | |
| 1992 | 11.33 | .47 | 1.61 | 2.08 |
| 1991 | 10.79 | .54 | .59 | 1.13 |
| PRINCIPAL BOND FUND, INC. | | | | |
| Six Months Ended June 30, 1996 | 11.73 | .32 | (.70) | (.38) |
| Year Ended December 31, | | | | |
| 1995 | 10.12 | .62 | 1.62 | 2.24 |
| 1994 | 11.16 | .72 | (1.04) | (.32) |
| 1993 | 10.77 | .88 | .38 | 1.26 |
| Six Months Ended December 31, 1992 (a) | 11.08 | .45 | .13 | .58 |
| Year Ended June 30, | | | | |
| 1992 | 10.64 | .91 | .46 | 1.37 |
| 1991 | 10.72 | .94 | (.06) | .88 |
| PRINCIPAL CAPITAL ACCUMULATION FUND, INC. | | | | |
| Six Months Ended June 30, 1996 | 27.80 | .24 | 2.46 | 2.70 |
| Year Ended December 31, | | | | |
| 1995 | 23.44 | .60 | 6.69 | 7.29 |
| 1994 | 24.61 | .62 | (.49) | .13 |
| 1993 | 25.19 | .61 | 1.32 | 1.93 |
| Six Months Ended December 31, 1992 (a) | 26.03 | .31 | 1.84 | 2.15 |
| Year Ended June 30, | | | | |
| 1992 | 23.35 | .65 | 2.70 | 3.35 |
| 1991 | 22.48 | .74 | 1.22 | 1.96 |
| PRINCIPAL EMERGING GROWTH FUND, INC. | | | | |
| Six Months Ended June 30, 1996 | 25.33 | .12 | 2.33 | 2.45 |
| Year Ended December 31, | | | | |
| 1995 | 19.97 | .22 | 5.57 | 5.79 |
| 1994 | 20.79 | .14 | .03 | .17 |
| 1993 | 18.91 | .17 | 3.47 | 3.64 |
| Six Months Ended December 31, 1992 (a) | 15.97 | .10 | 3.09 | 3.19 |
| Year Ended June 30, | | | | |
| 1992 | 13.93 | .21 | 2.04 | 2.25 |
| 1991 | 14.25 | .20 | .50 | .70 |

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

Less Distributions

| | Dividends from Net Investment Income | Distributions from Capital Gains | Excess Distributions from Capital Gains | Total Distributions | Net Asset Value at End of Period | Total Return |
|---|---|--|--|------------------------|---|-----------------|
| PRINCIPAL AGGRESSIVE GROWTH FUND INC. | | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Six Months Ended June 30, 1996 | \$ - | \$ (.58) | \$ - | \$ (.58) | \$14.13 | 14.14% (c) |
| Year Ended December 31, 1995 | (.13) | (1.48) | - | (1.61) | 12.94 | 44.19% |
| Period Ended December 31, 1994 (d) | (.05) | (.05) | - | (.10) | 10.11 | 2.59% (c) |
| PRINCIPAL ASSET ALLOCATION FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | - | (.12) | - | (.12) | 11.57 | 5.30% (c) |
| Year Ended December 31, 1995 | (.40) | (.30) | - | (.70) | 11.11 | 20.66% |
| Period Ended December 31, 1994 (d) | (.23) | - | (.01) | (.24) | 9.79 | .52% (c) |
| PRINCIPAL BALANCED FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | - | (.24) | - | (.24) | 14.29 | 4.05% (c) |
| Year Ended December 31, 1995 | (.45) | (.42) | - | (.87) | 13.97 | 24.58% |
| 1994 | (.37) | (.18) | - | (.55) | 11.95 | (2.09)% |
| 1993 | (.42) | (.76) | - | (1.18) | 12.77 | 11.06% |
| Six Months Ended December 31, 1992 (a) | (.47) | (.86) | - | (1.33) | 12.58 | 8.00% (c) |
| Year Ended June 30, 1992 | (.48) | - | - | (.48) | 12.93 | 18.78% |
| 1991 | (.57) | (.02) | - | (.59) | 11.33 | 11.36% |
| PRINCIPAL BOND FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | - | - | - | - | 11.35 | (3.24)% (c) |
| Year Ended December 31, 1995 | (.63) | - | - | (.63) | 11.73 | 22.17% |
| 1994 | (.72) | - | - | (.72) | 10.12 | (2.90)% |
| 1993 | (.87) | - | - | (.87) | 11.16 | 11.67% |
| Six Months Ended December 31, 1992 (a) | (.89) | - | - | (.89) | 10.77 | 5.33% (c) |
| Year Ended June 30, 1992 | (.93) | - | - | (.93) | 11.08 | 13.57% |
| 1991 | (.96) | - | - | (.96) | 10.64 | 8.94% |
| PRINCIPAL CAPITAL ACCUMULATION FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | (.01) | (.65) | - | (.66) | 29.84 | 9.90% (c) |
| Year Ended December 31, 1995 | (.60) | (2.33) | - | (2.93) | 27.80 | 31.91% |
| 1994 | (.61) | (.69) | - | (1.30) | 23.44 | .49% |
| 1993 | (.60) | (1.91) | - | (2.51) | 24.61 | 7.79% |
| Six Months Ended December 31, 1992 (a) | (.64) | (2.35) | - | (2.99) | 25.19 | 8.81% (c) |
| Year Ended June 30, 1992 | (.67) | - | - | (.67) | 26.03 | 14.53% |
| 1991 | (.79) | (.30) | - | (1.09) | 23.35 | 9.46% |
| PRINCIPAL EMERGING GROWTH FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | - | (.33) | - | (.33) | 27.45 | 9.77% (c) |
| Year Ended December 31, 1995 | (.22) | (.21) | - | (.43) | 25.33 | 29.01% |
| 1994 | (.14) | (.85) | - | (.99) | 19.97 | .78% |
| 1993 | (.17) | (1.59) | - | (1.76) | 20.79 | 19.28% |
| Six Months Ended December 31, 1992 (a) | (.21) | (.04) | - | (.25) | 18.91 | 20.12% (c) |
| Year Ended June 30, 1992 | (.21) | - | - | (.21) | 15.97 | 16.19% |
| 1991 | (.23) | (.79) | - | (1.02) | 13.93 | 5.72% |

See accompanying notes.
</TABLE>

<TABLE>
<CAPTION>
FINANCIAL HIGHLIGHTS

Selected data for a share of Capital Stock outstanding throughout each period:

| Ratios/Supplemental Data | | | | |
|--------------------------|-------------------------|---|-----------|---------|
| Net Assets at | Ratio of Expenses to | Ratio of Net Investment Income to | Portfolio | Average |

| | End of Period (in thousands) | Average Net Assets | Average Net Assets | Turnover Rate | Commission Rate |
|---|---------------------------------|-----------------------|-----------------------|------------------|--------------------|
| PRINCIPAL AGGRESSIVE GROWTH FUND INC. | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Six Months Ended June 30, 1996 | \$63,345 | .85% (b) | 1.39% (b) | 206.8% (b) | \$.0544 |
| Year Ended December 31, 1995 | 33,643 | .90% | 1.34% | 172.9% | N/A |
| Period Ended December 31, 1994 (d) | 13,770 | 1.03% (b) | 1.06% (b) | 105.6% (b) | N/A |
| PRINCIPAL ASSET ALLOCATION FUND, INC. | | | | | |
| Six Months Ended June 30, 1996 | 58,841 | .86% (b) | 3.83% (b) | 77.0% (b) | .0462 |
| Year Ended December 31, 1995 | 41,074 | .89% | 4.07% | 47.1% | N/A |
| Period Ended December 31, 1994 (d) | 28,041 | .95% (b) | 4.27% (b) | 60.7% (b) | N/A |
| PRINCIPAL BALANCED FUND, INC. | | | | | |
| Six Months Ended June 30, 1996 | 72,742 | .63% (b) | 3.57% (b) | 22.3% (b) | .0426 |
| Year Ended December 31, 1995 | 45,403 | .66% | 4.12% | 25.7% | N/A |
| 1994 | 25,043 | .69% | 3.42% | 31.5% | N/A |
| 1993 | 21,399 | .69% | 3.30% | 15.8% | N/A |
| Six Months Ended December 31, 1992 (a) | 18,842 | .73% (b) | 3.71% (b) | 38.4% (b) | N/A |
| Year Ended June 30, 1992 | 17,344 | .72% | 3.80% | 26.6% | N/A |
| 1991 | 14,555 | .73% | 5.27% | 27.1% | N/A |
| PRINCIPAL BOND FUND, INC. | | | | | |
| Six Months Ended June 30, 1996 | 53,977 | .53% (b) | 7.00% (b) | .3% (b) | N/A |
| Year Ended December 31, 1995 | 35,878 | .56% | 7.28% | 5.9% | N/A |
| 1994 | 17,108 | .58% | 7.86% | 18.2% | N/A |
| 1993 | 14,387 | .59% | 7.57% | 14.0% | N/A |
| Six Months Ended December 31, 1992 (a) | 12,790 | .62% (b) | 8.10% (b) | 6.7% (b) | N/A |
| Year Ended June 30, 1992 | 12,024 | .62% | 8.47% | 6.1% | N/A |
| 1991 | 10,552 | .63% | 9.17% | 2.7% | N/A |
| PRINCIPAL CAPITAL ACCUMULATION FUND, INC. | | | | | |
| Six Months Ended June 30, 1996 | 173,124 | .49% (b) | 1.89% (b) | 44.1% (b) | .0426 |
| Year Ended December 31, 1995 | 135,640 | .51% | 2.25% | 49.2% | N/A |
| 1994 | 120,572 | .51% | 2.36% | 44.5% | N/A |
| 1993 | 128,515 | .51% | 2.49% | 25.8% | N/A |
| Six Months Ended December 31, 1992 (a) | 105,355 | .55% (b) | 2.56% (b) | 39.7% (b) | N/A |
| Year Ended June 30, 1992 | 94,596 | .54% | 2.65% | 34.8% | N/A |
| 1991 | 76,537 | .53% | 3.53% | 14.0% | N/A |
| PRINCIPAL EMERGING GROWTH FUND, INC. | | | | | |
| Six Months Ended June 30, 1996 | 96,234 | .67% (b) | 1.18% (b) | 18.3% (b) | .0397 |
| Year Ended December 31, 1995 | 58,520 | .70% | 1.23% | 13.1% | N/A |
| 1994 | 23,912 | .74% | 1.15% | 12.0% | N/A |
| 1993 | 12,188 | .78% | .89% | 22.4% | N/A |
| Six Months Ended December 31, 1992 (a) | 9,693 | .81% (b) | 1.24% (b) | 8.6% (b) | N/A |
| Year Ended June 30, 1992 | 7,829 | .82% | 1.33% | 10.1% | N/A |
| 1991 | 6,579 | .89% | 1.70% | 11.1% | N/A |

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS (Continued)

Selected data for a share of Capital Stock outstanding throughout each period:

| Income from Investment Operations | | | |
|--------------------------------------|------------------------|---------------------------------|-----------------------------|
| ----- | | | |
| Net Realized and | | | |
| Net Asset Value at Beginning | Net Invest- ment | Unrealized Gain (Loss) on | Total from Investment |

of Period Income Investments Operations

PRINCIPAL GOVERNMENT SECURITIES FUND, INC.

| | | | | |
|---------------------------------------|---------|-------|----------|----------|
| <S> | <C> | <C> | <C> | <C> |
| Six Months Ended June 30, 1996 | \$10.55 | \$.26 | \$ (.44) | \$ (.18) |
| Year Ended December 31, | | | | |
| 1995 | 9.38 | .60 | 1.18 | 1.78 |
| 1994 | 10.61 | .76 | (1.24) | (.48) |
| 1993 | 10.28 | .71 | .33 | 1.04 |
| Six Months Ended December 31, 1992(a) | 10.93 | .40 | .04 | .44 |
| Year Ended June 30, | | | | |
| 1992 | 10.24 | .80 | .71 | 1.51 |
| 1991 | 10.05 | .80 | .24 | 1.04 |

PRINCIPAL GROWTH FUND, INC.

| | | | | |
|-----------------------------------|-------|-----|------|------|
| Six Months Ended June 30, 1996 | 12.43 | .09 | .48 | .57 |
| Year Ended December 31, 1995 | 10.10 | .17 | 2.42 | 2.59 |
| Period Ended December 31, 1994(e) | 9.60 | .07 | .51 | .58 |

PRINCIPAL HIGH YIELD FUND, INC.

| | | | | |
|---------------------------------------|------|-----|-------|------|
| Six Months Ended June 30, 1996 | 8.39 | .40 | (.20) | .20 |
| Year Ended December 31, | | | | |
| 1995 | 7.91 | .76 | .51 | 1.27 |
| 1994 | 8.62 | .77 | (.72) | .05 |
| 1993 | 8.38 | .80 | .23 | 1.03 |
| Six Months Ended December 31, 1992(a) | 8.93 | .45 | (.10) | .35 |
| Year Ended June 30, | | | | |
| 1992 | 8.28 | .92 | .66 | 1.58 |
| 1991 | 8.96 | .99 | (.53) | .46 |

PRINCIPAL MONEY MARKET FUND, INC.

| | | | | |
|---------------------------------------|-------|------|---|------|
| Six Months Ended June 30, 1996 | 1.000 | .024 | - | .024 |
| Year Ended December 31, | | | | |
| 1995 | 1.000 | .054 | - | .054 |
| 1994 | 1.000 | .037 | - | .037 |
| 1993 | 1.000 | .027 | - | .027 |
| Six Months Ended December 31, 1992(a) | 1.000 | .016 | - | .016 |
| Year Ended June 30, | | | | |
| 1992 | 1.000 | .046 | - | .046 |
| 1991 | 1.000 | .070 | - | .070 |

PRINCIPAL WORLD FUND, INC.

| | | | | |
|-----------------------------------|-------|-----|-------|-------|
| Six Months Ended June 30, 1996 | 10.72 | .15 | 1.04 | 1.19 |
| Year Ended December 31, 1995 | 9.56 | .19 | 1.16 | 1.35 |
| Period Ended December 31, 1994(e) | 9.94 | .03 | (.33) | (.30) |

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS (Continued)

Selected data for a share of Capital Stock outstanding throughout each period:

| | | | | | | |
|--|---|--|--|------------------------|---|-----------------|
| | ----- Less Distributions ----- | | | | | |
| | Dividends from Net Investment Income | Distributions from Capital Gains | Excess Distributions from Capital Gains | Total Distributions | Net Asset Value at End of Period | Total Return |
| | ----- | ----- | ----- | ----- | ----- | ----- |

PRINCIPAL GOVERNMENT SECURITIES FUND, INC.

| | | | | | | |
|---------------------------------------|-------|------|-------|--------|---------|------------|
| <S> | <C> | <C> | <C> | <C> | <C> | <C> |
| Six Months Ended June 30, 1996 | \$ - | \$ - | \$ - | \$ - | \$10.37 | (1.71)%(c) |
| Year Ended December 31, | | | | | | |
| 1995 | (.61) | - | - | (.61) | 10.55 | 19.07% |
| 1994 | (.75) | - | - | (.75) | 9.38 | (4.53)% |
| 1993 | (.71) | - | - | (.71) | 10.61 | 10.07% |
| Six Months Ended December 31, 1992(a) | (.78) | - | (.31) | (1.09) | 10.28 | 4.10%(c) |
| Year Ended June 30, | | | | | | |
| 1992 | (.81) | - | (.01) | (.82) | 10.93 | 15.34% |

| | | | | | | |
|--|--------|-------|-------|--------|-------|--------------|
| 1991 | (.81) | - | (.04) | (.85) | 10.24 | 10.94% |
| PRINCIPAL GROWTH FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | - | - | - | - | 13.00 | 4.59% (c) |
| Year Ended December 31, 1995 | (.17) | - | (.09) | (.26) | 12.43 | 25.62% |
| Period Ended December 31, 1994 (e) | (.08) | - | - | (.08) | 10.10 | 5.42% (c) |
| PRINCIPAL HIGH YIELD FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | - | - | - | - | 8.59 | 2.38% (c) |
| Year Ended December 31, 1995 | (.77) | (.02) | - | (.79) | 8.39 | 16.08% |
| 1994 | (.76) | - | - | (.76) | 7.91 | .62% |
| 1993 | (.79) | - | - | (.79) | 8.62 | 12.31% |
| Six Months Ended December 31, 1992 (a) | (.90) | - | - | (.90) | 8.38 | 4.06% (c) |
| Year Ended June 30, 1992 | (.93) | - | - | (.93) | 8.93 | 20.70% |
| 1991 | (1.14) | - | - | (1.14) | 8.28 | 6.35% |
| PRINCIPAL MONEY MARKET FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | (.024) | - | - | (.024) | 1.000 | 2.47% (c) |
| Year Ended December 31, 1995 | (.054) | - | - | (.054) | 1.000 | 5.59% |
| 1994 | (.037) | - | - | (.037) | 1.000 | 3.76% |
| 1993 | (.027) | - | - | (.027) | 1.000 | 2.69% |
| Six Months Ended December 31, 1992 (a) | (.016) | - | - | (.016) | 1.000 | 1.54% (c) |
| Year Ended June 30, 1992 | (.046) | - | - | (.046) | 1.000 | 4.64% |
| 1991 | (.070) | - | - | (.070) | 1.000 | 7.20% |
| PRINCIPAL WORLD FUND, INC. | | | | | | |
| Six Months Ended June 30, 1996 | (.01) | (.04) | - | (.05) | 11.86 | 11.18% (c) |
| Year Ended December 31, 1995 | (.18) | - | (.01) | (.19) | 10.72 | 14.17% |
| Period Ended December 31, 1994 (e) | (.05) | (.02) | (.01) | (.08) | 9.56 | (3.37) % (c) |

See accompanying notes.

</TABLE>

<TABLE>

<CAPTION>

FINANCIAL HIGHLIGHTS (Continued)

Selected data for a share of Capital Stock outstanding throughout each period:

| | Ratios/Supplemental Data | | | | |
|--|--|---|--|-------------------------|-------------------------|
| | Net Assets at End of Period (in thousands) | Ratio of Expenses to Average Net Assets | Ratio of Net Investment Income to Average Net Assets | Portfolio Turnover Rate | Average Commission Rate |
| PRINCIPAL GOVERNMENT SECURITIES FUND, INC. | | | | | |
| <S> | <C> | <C> | <C> | <C> | <C> |
| Six Months Ended June 30, 1996 | \$78,147 | .53% (b) | 6.53% (b) | 5.0% (b) | N/A |
| Year Ended December 31, 1995 | 50,079 | .55% | 6.73% | 9.8% | N/A |
| 1994 | 36,121 | .56% | 7.05% | 23.2% | N/A |
| 1993 | 36,659 | .55% | 7.07% | 20.4% | N/A |
| Six Months Ended December 31, 1992 (a) | 31,760 | .59% (b) | 7.35% (b) | 34.5% (b) | N/A |
| Year Ended June 30, 1992 | 33,022 | .58% | 7.84% | 38.9% | N/A |
| 1991 | 26,021 | .59% | 8.31% | 4.2% | N/A |
| PRINCIPAL GROWTH FUND, INC. | | | | | |
| Six Months Ended June 30, 1996 | 74,095 | .53% (b) | 1.86% (b) | 5.5% (b) | \$.0416 |
| Year Ended December 31, 1995 | 42,708 | .58% | 2.08% | 6.9% | N/A |
| Period Ended December 31, 1994 (e) | 13,086 | .75% (b) | 2.39% (b) | 0.9% (b) | N/A |
| PRINCIPAL HIGH YIELD FUND, INC. | | | | | |
| Six Months Ended June 30, 1996 | 12,349 | .71% (b) | 9.55% (b) | 37.0% (b) | N/A |
| Year Ended December 31, 1995 | 11,830 | .73% | 9.09% | 35.1% | N/A |
| 1994 | 9,697 | .73% | 9.02% | 30.6% | N/A |
| 1993 | 9,576 | .74% | 8.80% | 28.7% | N/A |
| Six Months Ended December 31, 1992 (a) | 8,924 | .77% (b) | 10.33% (b) | 20.6% (b) | N/A |
| Year Ended June 30, | | | | | |

| | | | | | |
|------|-------|------|--------|-------|-----|
| 1992 | 8,556 | .77% | 11.00% | 31.3% | N/A |
| 1991 | 7,085 | .82% | 12.58% | 6.4% | N/A |

PRINCIPAL MONEY MARKET FUND, INC.

| | | | | | |
|---------------------------------------|--------|----------|-----------|-----|-----|
| Six Months Ended June 30, 1996 | 48,677 | .48% (b) | 4.40% (b) | N/A | N/A |
| Year Ended December 31, | | | | | |
| 1995 | 32,670 | .58% | 5.32% | N/A | N/A |
| 1994 | 29,372 | .60% | 3.81% | N/A | N/A |
| 1993 | 22,753 | .60% | 2.64% | N/A | N/A |
| Six Months Ended December 31, 1992(a) | 27,680 | .59% (b) | 3.10% (b) | N/A | N/A |
| Year Ended June 30, | | | | | |
| 1992 | 25,194 | .57% | 4.54% | N/A | N/A |
| 1991 | 26,509 | .56% | 6.94% | N/A | N/A |

PRINCIPAL WORLD FUND, INC.

| | | | | | |
|-----------------------------------|--------|-----------|-----------|-----------|-------|
| Six Months Ended June 30, 1996 | 53,186 | .88% (b) | 3.52% (b) | 13.8% (b) | .0150 |
| Year Ended December 31, 1995 | 30,566 | .95% | 2.26% | 15.6% | N/A |
| Period Ended December 31, 1994(e) | 13,746 | 1.24% (b) | 1.31% (b) | 14.4% (b) | N/A |

See accompanying notes.

</TABLE>

(a) Effective July 1, 1992 the fund changed its fiscal year end from June 30 to December 31.

(b) Computed on an annualized basis.

(c) Total return amounts have not been annualized.

(d) Period from June 1, 1994, date shares first offered to public, through December 31, 1994. Net investment income, aggregating \$.01 per share for Principal Aggressive Growth Fund, Inc. and \$.01 per share for Principal Asset Allocation Fund, Inc. for the period from the initial purchase of shares on May 23, 1994 through May 31, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, Principal Aggressive Growth Fund, Inc. and Principal Asset Allocation Fund, Inc. incurred unrealized losses on investments of \$.09 and \$.03 per share, respectively, during the initial interim period. This represented activities of each fund prior to the initial public offering of fund shares.

(e) Period from May 1, 1994, date shares first offered to public, through December 31, 1994. Net investment income, aggregating \$.01 per share for Principal Growth Fund, Inc. and \$.04 per share for Principal World Fund, Inc. for the period from the initial purchase of shares on March 23, 1994 through April 30, 1994, was recognized, none of which was distributed to the sole stockholder, Principal Mutual Life Insurance Company, during the period. Additionally, Principal Growth Fund, Inc. and Principal World Fund, Inc. incurred unrealized losses on investments of \$.41 and \$.10 per share, respectively, during the initial interim period. This represented activities of each fund prior to the initial public offering of fund shares.