

Principal Real Estate Income Fund  
Form N-CSR  
January 05, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM N-CSR**

**CERTIFIED SHAREHOLDER REPORT OF REGISTERED**

**MANAGEMENT INVESTMENT COMPANIES**

Investment Company Act file number: 811-22742

PRINCIPAL REAL ESTATE INCOME FUND

(exact name of registrant as specified in charter)

1290 Broadway, Suite 1100, Denver, Colorado 80203

(Address of principal executive offices) (Zip code)

Erin D. Nelson

Principal Real Estate Income Fund

1290 Broadway, Suite 1100

Denver, Colorado 80203

(Name and address of agent for service)

Registrant's telephone number, including area code: 303-623-2577

Date of fiscal year end: October 31

Date of reporting period: 11/1/2013 10/31/2014

**Item 1. Reports to Shareholders.**



**TABLE OF CONTENTS**

<u>Performance Overview</u>	1
<u>Report of Independent Registered Public Accounting Firm</u>	7
<u>Statement of Investments</u>	8
<u>Statement of Assets and Liabilities</u>	14
<u>Statement of Operations</u>	15
<u>Statements of Changes in Net Assets</u>	16
<u>Statement of Cash Flows</u>	17
<u>Financial Highlights</u>	18
<u>Notes to Financial Statements</u>	19
<u>Dividend Reinvestment Plan</u>	29
<u>Trustees &amp; Officers</u>	31
<u>Additional Information</u>	36

[www.principalcef.com](http://www.principalcef.com)

*October 31, 2014 (Unaudited)*

Principal Real Estate Income Fund ( PGZ or the Fund ) was launched June 25, 2013. As of October 31, 2014, the Fund was 63.7% allocated to commercial mortgage backed securities ( CMBS ) and 34.9% allocated to global real estate securities, primarily real estate investment trusts ( REITs ). For the 12-month period ended October 31, 2014, the Fund delivered a net return of 19.10%, assuming dividends are reinvested back into the Fund, based on the closing share price of \$19.34 on October 31, 2014. This compares to the return of the S&P 500® Index, over the same time period, of 17.27% assuming dividends are reinvested into the index. This also compares to the return of the Barclays U.S. Aggregate Bond Index of 4.14% and the MSCI World Index of 8.67%.

The October 31, 2014 closing price of \$19.34 represented a 8.0% discount to the Fund's Net Asset Value ( NAV ). This compares to an average 10.9% discount for Equity Real Estate closed-end funds and a 8.5% discount for Mortgage-Backed Securities closed-end funds, according to CEFConnect. These discounts to NAV reflect the volatility that has occurred in the closed-end fund market since June 2013 as expectations for higher interest rates have negatively impacted the attractiveness of the market.

Based on NAV, the Fund has returned 16.82%, including dividends, for the 12-month period ended October 31, 2014. Fund investments benefited from continued strong investor demand for CMBS and global real estate securities, even as broader market volatility picked up in August and then again in October as continued low interest rates left investors looking for yield alternatives in public commercial real estate. CMBS and global real estate securities especially benefited from ongoing improvement in real estate fundamentals during the period. In the U.S., demand for space is outpacing supply which is helping to stabilize or increase rents and lower vacancies across major property types in major markets across the country, resulting in higher net operating income at the property level. Globally, real estate markets are exhibiting a generally solid investment landscape with pockets of both strength and weakness.

## **CMBS**

CMBS is realizing the benefit of improving real estate fundamentals in the form of lower delinquencies and a higher-than-expected percentage of maturing loans being able to refinance. As of October 31, 2014, delinquencies on CMBS loans have improved to a post-financial crisis percentage not seen since early 2010 at 5.7%, according to Barclay's Research. Additionally, the pace of new 30-day delinquencies has slowed to a pace that is 70% lower than 2010 levels according to Wells Fargo Securities, LLC research. This data shows that the month of June 2014 experienced the lowest one-month amount of newly delinquent loans since August 2008. Improving fundamentals and availability of capital have also increased the percentage of maturing loans (10 year loans originated in 2004 and 7 year loans originated in 2007) that have been able to refinance during 2014. The maturing loan refinance rate increased from 30-40% in the second half of 2012 to 75-80% during 2013 and 2014. If loans that paid off up to three months after their maturity date are included in these figures, the refinance rate has increased to over 90%, according to Morningstar Credit Ratings, LLC. The continued growth of the new issue CMBS market is helping to provide the capital needed to refinance these loans. New issue CMBS supply is projected to be approximately \$90-100 billion in 2014 compared to roughly \$1 billion in 2009, \$10 billion in 2010, \$28 billion in 2011, \$43 billion in 2012 and \$85 billion in 2013. The improvement in commercial real estate fundamentals and availability of capital are two key variables, with the third being interest rates, that will have a direct impact on the performance of CMBS through 2017. The peak years of issuance pre-financial crisis were 2005-2007. Issuance during those years included \$147 billion in 2005, \$172 billion in 2006 and \$202 billion in 2007, with



*October 31, 2014 (Unaudited)*

the majority of loans originated in those years being ten year loans. This means the maturity cycle in 2015-2017 and corresponding percentage of loans that can be refinanced will have a direct impact on recoveries for bonds issued during those pre-crisis years. With respect to interest rates, the CMBS bonds held in the portfolio have benefited from being shorter duration securities which has made the portfolio less exposed to interest rate volatility. These bonds continue to attract investors searching for short duration, high yield options. The duration of the CMBS portfolio in the Fund was 2.53 years as of October 31, 2014.

We believe the outlook for CMBS remains positive looking forward to 2015 barring an unforeseen macro-economic shock that impacts market volatility, interest rates and economic growth. Demand for short duration, high yield is expected to persist in 2015 and, assuming the continuation of slow economic growth, real estate fundamentals are expected to continue to improve as well. Longer-term, the continued growth of CMBS issuance will be important for the market as the height of the maturity cycle approaches in 2015-2017.

## **GLOBAL REAL ESTATE SECURITIES**

Global real estate securities, as measured by the FTSE EPRA NAREIT Developed NTR Index, modestly outperformed global equities, as measured by the MSCI World Index, over the year ended October 31, 2014 with returns of 9.84% and 8.67% respectively. As the past year began, investors had anticipated a gradual rise in both sovereign yields and global GDP forecasts to unfold over the year. China was the notable exception where investors had worried about a sharp deceleration in GDP. However, consensus expectations proved incorrect as sovereign yields remain exceptionally low, strengthening GDP appears largely limited to the US, and Chinese GDP has decelerated only modestly. This environment of low sovereign yields and tepid GDP growth has been favorable for listed property stocks particularly US listed property stocks, as they notably outperformed listed property stocks outside the US, especially when measured in USD (as the dollar appreciated relative to most currencies over the period).

Consistent with recent years, the trailing year saw outperformance of higher dividend yielding real estate securities (relative to lower yielding), but in a reversal of recent years, both larger capitalization and lower leverage real estate securities outperformed (relative to smaller cap and higher leverage respectively). Despite the outperformance of the highest yielding securities, we believe a stylistic shift in investor preference is occurring as investors begin favoring stocks with higher expected earnings and dividend growth over solely focusing on the level of the dividend yield.

Within the global real estate securities portion of the portfolio, local currency returns have been strongest in South Africa and the United Kingdom, up 37% and 31% respectively, over the trailing year. Unlike the rest of Europe, the UK economy is clearly strengthening and leading to increased rental rates and occupancy levels for commercial real estate along with continued investor appetite to allocate capital to UK real estate. As was the case at mid-year, the portfolio especially benefited from UK self-storage operator Safestore Holdings, which was up nearly 44% over the period on an improved outlook for the UK housing sector, which is a driver of self-storage demand. In contrast, the holdings in Hong Kong listed stocks such as Country Garden and Agile Property, which are engaged in for-sale residential development in China, were a detractor to portfolio performance as investors worried about the pace of GDP deceleration and the slowing pace of new residential sales across China.





October 31, 2014 (Unaudited)

Our proprietary financial model utilized to measure global real estate securities valuation levels continues to indicate roughly fair value at the end of October 2014, similar to what was indicated at the end of the April 2014. This measure examines the spread between the stocks' forward looking implied unlevered internal rates of returns ( IRRs ) to global treasury yields. That spread, or risk premium, of 4.6% as of the end of October is approximately in line with the trailing 10 year average of 4.4%.

While the outlook for the global economy indicates that a slow, steady recovery is firmly underway, the path to recovery will not necessarily be smooth. Different regions are moving at different speeds, with stronger areas facing the eventual prospect of rising interest rates and withdrawal of stimulus measures, while other regions, specifically Continental Europe, have recently cut rates to avoid another short-term dip. As the global economic recovery gathers strength, we believe it will generate employment growth, the demand for additional space and rental growth in most forms of real estate, resulting in rising values for real estate assets. To counter this, eventually interest rates will rise and government stimulus will need to be withdrawn. Rising interest rates implies a negative effect on real estate valuations; however, if rates are rising due to economic growth, any negative impact is likely to be minimal, and we generally expect conditions will remain positive overall for real estate markets.

## OUTLOOK

The outlook for interest rates will continue to be a significant factor influencing the near-term performance of CMBS and global real estate securities. We believe both sectors are poised to deliver attractive returns in a stable rate environment, and the recent moderation in interest rates has created a more positive near-term outlook. Longer-term, if rates break out of the current range in response to an improving global economy, this would likely result in increased earnings growth for commercial real estate properties which would be a positive development for both the CMBS and global property securities markets. In the meantime, periods of near-term volatility may present opportunities for positive long-term performance.

### *References:*

*The Premium/Discount is the amount (stated in dollars or percent) by which the selling or purchase price of a fund is greater than (premium) or less than (discount) its face amount/value or net asset value (NAV).*

*Duration is a measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. The duration number is a calculation involving present value, yield, coupon, final maturity and call features. The bigger the duration number, the greater the interest-rate risk or reward for bond prices. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.*

*FTSE EPRA/NAREIT Developed NTR Index* A modified market capitalization weighted index, based on free float market capitalization designed to measure the stock performance of companies engaged in specific real estate activities of the North American, European and Asian real estate markets.

*The internal rate of return on an investment is defined as the discount rate at which the present value of all future cash flows is equal to the initial investment or, in other words, the rate at which an investment breaks even.*

*Issuance information JPMorgan*

Annual Report | October 31, 2014

3

Principal Real Estate Income Fund

Performance Overview

October 31, 2014 (Unaudited)

The Principal Real Estate Income Fund's investment objective is to seek to provide high current income, with capital appreciation as a secondary objective, by investing in commercial real estate-related securities. There can be no assurance that the Fund will achieve its investment objective.

**PERFORMANCE** as of October 31, 2014

TOTAL RETURNS <sup>(1)</sup> Fund	ANNUALIZED	
	1 Year	Since Inception <sup>(2)</sup>
Net Asset Value (NAV) <sup>(3)</sup>	16.82%	16.65%
Market Price <sup>(4)</sup>	19.10%	6.00%
Barclays U.S. Aggregate Bond Index	4.14%	4.68%
MSCI World Index	8.67%	17.27%

(1) Total returns assume reinvestment of all distributions.

(2) The Fund commenced operations on June 25, 2013.

(3) Performance returns are net of management fees and other Fund expenses.

(4) Market price is the value at which the Fund trades on an exchange. This market price can be higher or lower than its NAV.

**Performance data quoted represents past performance. Past performance does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor's shares, when sold or redeemed, may be worth more or less than the original cost. Current performance data may be higher or lower than actual data quoted. For the most current month-end performance data please call 855.838.9485.**

Total Annual Expense Ratio as a Percentage of Net Assets Attributable to Common Shares (Assuming the Use of Leverage Equal to 33 1/3% of the Fund's Total Assets), per the prospectus, 2.62%.

Total Annual Expense Ratio as a Percentage of Net Assets Attributable to Common Shares (Assuming No Limited Leverage), per the prospectus, 1.48%.

The Fund is a closed-end fund and does not continuously issue shares for sale as open-end mutual funds do. Since the initial public offering, the Fund now trades only in the secondary market. Investors wishing to buy or sell shares need to place orders through an intermediary or broker and additional charges or commissions will apply. The share price of a closed-end fund is based on the market's value.

Barclays U.S. Aggregate Bond Index - A broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed rate taxable bond market, including Treasuries, government related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass throughs), ABS, and CMBS.

MSCI World Index - MSCI's market capitalization weighted index is composed of companies representative of the market structure of 23 developed market countries in North America, Europe, and the Asia/Pacific Region.

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*S&P 500<sup>®</sup> Index - A large cap U.S. equities index that includes 500 leading companies and captures approximately 80% coverage of available market capitalization.*

*Indices are unmanaged; their returns do not reflect any fees, expenses, or sales charges.*

*An investor cannot invest directly in an index.*

*ALPS Advisors, Inc. is the investment adviser to the Fund.*

*Principal Real Estate Investors, LLC is the investment sub-adviser to the Fund. Principal Real Estate Investors, LLC is not affiliated with ALPS Advisors, Inc. or any of its affiliates.*

October 31, 2014 (Unaudited)

## **GROWTH OF A HYPOTHETICAL \$10,000 INVESTMENT**

The graph below illustrates the growth of a hypothetical \$10,000 investment assuming the purchase of common shares of beneficial interest at the closing market price (NYSE: PGZ) of \$20.00 on June 25, 2013, and tracking its progress through October 31, 2014.

*Past performance does not guarantee future results. Performance will fluctuate with changes in market conditions. Current performance may be lower or higher than the performance data shown. Performance information does not reflect the deduction of taxes that shareholders would pay on Fund distributions or the sale of Fund shares. An investment in the Fund involves risk, including loss of principal.*

## **SECTOR ALLOCATION<sup>^</sup>**

*<sup>^</sup>Holdings are subject to change.  
Percentages are based on total investments.*

Principal Real Estate Income Fund

Performance Overview

*October 31, 2014 (Unaudited)***Geographic Breakdown as of October 31, 2014**

	<b>% of Total Investments</b>
United States	80.07%
Australia	3.72%
Singapore	3.03%
Canada	3.01%
Netherlands	1.83%
Great Britain	1.81%
France	1.30%
Hong Kong	1.23%
Guernsey	0.85%
Finland	0.72%
Japan	0.92%
South Africa	0.53%
Sweden	0.31%
China	0.27%
Jersey	0.24%
Cayman Islands	0.16%
	100.00%

*Holdings are subject to change.*

Principal Real Estate Income Fund  
Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Trustees of

Principal Real Estate Income Fund

We have audited the accompanying statement of assets and liabilities, including the statement of investments, of Principal Real Estate Income Fund (the Fund ) as of October 31, 2014, and the related statements of operations and cash flows for the year then ended, and the statements of changes in net assets and the financial highlights for each of the two periods in the period then ended. These financial statements and financial highlights are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements and financial highlights based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements and financial highlights are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. Our procedures included confirmation of securities owned as of October 31, 2014, by correspondence with the custodian and brokers or by other appropriate auditing procedures where replies from brokers were not received. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements and financial highlights referred to above present fairly, in all material respects, the financial position of Principal Real Estate Income Fund as of October 31, 2014, the results of its operations and its cash flows for the year then ended, and the statements of changes in its net assets and financial highlights for each of the two periods in the period then ended, in conformity with accounting principles generally accepted in the United States of America.

COHEN FUND AUDIT SERVICES, LTD.

Cleveland, Ohio

December 18, 2014

Principal Real Estate Income Fund

Statement of Investments

October 31, 2014

Description	Shares	Value (Note 2)
<b>COMMON STOCKS (48.50%)</b>		
Leisure & Recreation/Games (0.21%)		
Ardent Leisure Group	110,581	\$ 304,585
Real Estate Management/Services (2.56%)		
Atrium European Real Estate, Ltd.	96,100	503,267
Citycon OYJ	209,885	678,584
Fabege AB	50,700	649,872
Hyprop Investments, Ltd.	124,000	1,082,523
Sponda OYJ	175,000	800,449
		3,714,695
Real Estate Operating/Development (2.21%)		
Agile Property Holdings, Ltd.	576,000	324,574
Croesus Retail Trust	1,935,000	1,415,817
New World Development Co., Ltd.	480,000	602,851
Shimao Property Holdings, Ltd.	260,000	559,216
Urban & Civic PLC <sup>(a)</sup>	83,089	297,069
		3,199,527
REITS-Apartments (3.25%)		
Advance Residence Investment Corp.	269	626,010
Camden Property Trust	5,200	398,684
Campus Crest Communities, Inc.	203,200	1,288,288
Canadian Apartment Properties REIT	108,400	2,404,507
		4,717,489
REITS-Diversified (18.36%)		
Altarea SCA	11,000	1,847,141
CapitaCommercial Trust	552,000	717,553
Digital Realty Trust, Inc.	45,400	3,132,146
Dream Office Real Estate Investment Trust	92,000	2,328,876
EPR Properties	45,200	2,535,720



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Frasers Commercial Trust	1,415,000	1,564,023
The Geo Group, Inc.	51,000	2,036,940
Klepierre	10,000	432,336
Land Securities Group PLC	26,100	462,194
Liberty Property Trust	52,200	1,814,994
Londonmetric Property PLC	200,000	471,589
Mirvac Group	408,000	644,479
Nomura Real Estate Master Fund, Inc.	730	876,715
Pure Industrial Real Estate Trust	140,000	554,013
Spring Real Estate Investment Trust	4,164,000	1,932,961
STAG Industrial, Inc.	37,037	903,703
Stockland	670,100	2,500,285
Wereldhave N.V.	22,900	1,876,790
		26,632,458

*See Notes to Financial Statements.*

Principal Real Estate Income Fund

Statement of Investments  
October 31, 2014

Description	Shares	Value (Note 2)
<b>REITS-Health Care (4.22%)</b>		
Assura Group, Ltd.	1,590,140	\$ 1,265,509
Aviv REIT, Inc.	13,558	457,311
Medical Properties Trust, Inc.	135,500	1,827,895
Primary Health Properties PLC	202,200	1,140,189
Sabra Health Care REIT, Inc.	50,000	1,428,500
		6,119,404
<b>REITS-Hotels (2.45%)</b>		
Hospitality Properties Trust	70,100	2,075,661
Summit Hotel Properties, Inc.	127,500	1,484,100
		3,559,761
<b>REITS-Manufactured Homes (1.34%)</b>		
Sun Communities, Inc.	33,500	1,941,995
<b>REITS-Mortgage (0.39%)</b>		
CYS Investments, Inc.	63,100	563,483
<b>REITS-Office Property (3.48%)</b>		
American Realty Capital Properties, Inc.	80,870	717,317
Brandywine Realty Trust	71,100	1,097,073
Daiwa Office Investment Corp.	75	396,617
Highwoods Properties, Inc.	41,500	1,779,105
ICADE	5,000	397,812
Keppel REIT	258,000	245,007
Workspace Group PLC	40,100	421,129
		5,054,060
<b>REITS-Regional Malls (0.66%)</b>		
CBL & Associates Properties, Inc.	50,000	956,500
<b>REITS-Shopping Centers (7.99%)</b>		
Charter Hall Retail REIT	564,500	2,021,820

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Federation Centres	906,900	2,170,763
Fortune Real Estate Investment Trust	1,217,000	1,109,481
Hammerson PLC	68,500	671,719
Kite Realty Group Trust	22,325	577,994
Ramco-Gershenson Properties Trust	73,400	1,283,032
RioCan Real Estate Investment Trust	38,400	904,591
Starhill Global REIT	1,489,000	944,606
Vastned Retail N.V.	41,600	1,899,392
		11,583,398
<b>REITS-Single Tenant (0.71%)</b>		
Agree Realty Corp.	33,500	1,025,435

*See Notes to Financial Statements.*

Principal Real Estate Income Fund

Statement of Investments  
October 31, 2014

Description	Shares	Value (Note 2)
<b>REITS-Storage/Warehousing (0.51%)</b>		
Safestore Holdings PLC	221,000	\$ 735,347
<b>REITS-Warehouse/Industrials (0.16%)</b>		
AIMS AMP Capital Industrial REIT	200,000	231,961
<b>TOTAL COMMON STOCKS</b>		
<b>(Cost \$65,878,962)</b>		<b>70,340,098</b>
<b>PREFERRED STOCKS (1.25%)</b>		
<b>REITS-Apartments (0.05%)</b>		
Apartment Investment & Management Co., Series Z, 7.000%	3,012	77,770
<b>REITS-Hotels (0.49%)</b>		
Hersha Hospitality Trust, Series B, 8.000%	27,400	713,770
<b>REITS-Office Property (0.29%)</b>		
SL Green Realty Corp., Series I, 6.500%	16,300	415,650
<b>REITS-Regional Malls (0.42%)</b>		
Glimcher Realty Trust, Series G, 8.125%	7,241	182,980
Pennsylvania Real Estate Investment Trust, Series B, 7.375%	16,200	418,770
		601,750
<b>TOTAL PREFERRED STOCKS</b>		
<b>(Cost \$1,753,602)</b>		<b>1,808,940</b>
<b>RIGHTS (0.01%)</b>		
Agile Property Holdings, Ltd., Rights, Strike Price 3.80 HKD (expiring 11/11/14) <sup>(a)</sup>	72,000	4,735

**TOTAL RIGHTS**

(Cost \$0)

4,735

Value

	Rate	Maturity Date	Principal Amount	(Note 2)
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**COMMERCIAL MORTGAGE BACKED SECURITIES (90.41%)**

Commercial Mortgage Backed Securities-Other (61.08%)

Bank of America Commercial Mortgage Trust, Series 2008-1 <sup>(b)</sup>	6.288%	01/10/18	\$ 5,000,000	\$ 5,376,285
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CD Commercial Mortgage Trust, Series 2007-CD4 <sup>(b)</sup>	5.398%	12/11/49	12,500,000	10,426,387
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Credit Suisse Commercial Mortgage Trust, Series 2006-C4 <sup>(b)</sup>	5.538%	09/15/16	10,000,000	10,111,270
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Credit Suisse Commercial Mortgage Trust, Series 2007-C1	5.416%	02/15/40	10,000,000	10,222,660
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*See Notes to Financial Statements.*

## Principal Real Estate Income Fund

Statement of Investments  
October 31, 2014

	Rate	Maturity Date	Principal Amount	Value (Note 2)
<b>Commercial Mortgage Backed Securities-Other (61.08%) (continued)</b>				
FHLMC Multifamily Structured Pass Through Certificates, Series 2011-KAIV <sup>(b)(c)</sup>	3.615%	06/25/41	\$ 9,000,000	\$ 1,784,853
FHLMC Multifamily Structured Pass Through Certificates, Series 2012-K706 <sup>(b)(c)</sup>	1.901%	12/25/18	28,580,000	1,940,496
FHLMC Multifamily Structured Pass Through Certificates, Series 2012-K707 <sup>(b)(c)</sup>	1.806%	01/25/19	27,555,000	1,834,199
FHLMC Multifamily Structured Pass Through Certificates, Series 2012-K709 <sup>(b)(c)</sup>	1.700%	04/25/40	30,601,130	2,034,118
FHLMC Multifamily Structured Pass Through Certificates, Series 2012-K710 <sup>(b)(c)</sup>	1.660%	06/25/42	27,830,000	1,879,332
Greenwich Capital Commercial Funding Corp. Commercial Mortgage Trust, Series 2007-GG9 <sup>(b)</sup>	5.505%	02/10/17	7,500,000	6,719,655
JPMorgan Chase Commercial Mortgage Securities Trust, Series 2006-CIBC16	5.623%	05/12/45	7,500,000	7,685,303
JPMorgan Chase Commercial Mortgage Securities Trust, Series 2006-CIBC17 <sup>(b)</sup>	5.489%	12/12/43	3,899,000	2,806,960
JPMorgan Chase Commercial Mortgage Securities Trust, Series 2007-CIBC19 <sup>(b)</sup>	5.891%	05/12/17	3,500,000	3,194,699
LB-UBS Commercial Mortgage Trust, Series 2006-C7	5.407%	11/15/16	5,000,000	4,452,320
Wachovia Bank Commercial Mortgage Trust, Series 2006-C29 <sup>(b)</sup>	5.368%	11/15/48	13,000,000	12,963,353
Wachovia Bank Commercial Mortgage Trust, Series 2007-C30 <sup>(b)</sup>	5.413%	12/15/43	5,000,000	5,152,110
				88,584,000
<b>Commercial Mortgage Backed Securities-Subordinated (29.33%)</b>				
Bank of America Commercial Mortgage Trust, Series 2006-6	5.480%	10/10/45	3,000,000	3,015,936
Commercial Mortgage Trust, Series 2013-CR11 <sup>(b)(d)</sup>	4.371%	10/10/23	5,108,000	4,369,485
Commercial Mortgage Trust, Series 2014-CR14 <sup>(b)(d)</sup>	3.496%	01/10/24	2,000,000	1,547,934
Goldman Sachs Mortgage Securities Trust, Series 2013-GC13 <sup>(b)(d)</sup>	4.071%	07/10/23	3,000,000	2,771,304

*See Notes to Financial Statements.*

Principal Real Estate Income Fund

Statement of Investments  
October 31, 2014

	Rate	Maturity Date	Principal Amount	Value (Note 2)
<b>Commercial Mortgage Backed Securities-Subordinated (29.33%) (continued)</b>				
Goldman Sachs Mortgage Securities Trust, Series 2013-GC16 <sup>(b)(d)</sup>	5.492%	11/10/46	\$ 2,342,405	\$ 2,343,019
JPMorgan Chase Commercial Mortgage Securities Trust, Series 2006-CIBC14 <sup>(b)</sup>	5.457%	12/12/44	7,560,000	7,506,014
JPMorgan Chase Commercial Mortgage Securities Trust, Series 2013-C16 <sup>(b)(d)</sup>	5.175%	11/15/23	2,117,483	2,089,803
Merrill Lynch Mortgage Trust, Series 2005-CIP1 <sup>(b)</sup>	5.236%	08/12/15	5,000,000	4,918,175
Merrill Lynch Mortgage Trust, Series 2006-C1 <sup>(b)</sup>	5.673%	05/12/39	9,000,000	7,232,580
Merrill Lynch-CFC Commercial Mortgage Trust, Series 2006-2 <sup>(b)(d)</sup>	5.879%	06/12/46	2,000,000	1,963,636
Merrill Lynch-CFC Commercial Mortgage Trust, Series 2006-3 <sup>(b)</sup>	5.554%	09/12/16	2,500,000	1,931,888
Morgan Stanley Bank of America Merrill Lynch Trust, Series 2013-C8 <sup>(b)(d)</sup>	4.171%	02/15/23	3,000,000	2,842,827
				42,532,601
<b>TOTAL COMMERCIAL MORTGAGE BACKED SECURITIES</b>				
<b>(Cost \$122,852,187)</b>				<b>131,116,601</b>

	7-Day Yield	Shares	Value (Note 2)
<b>SHORT TERM INVESTMENTS (1.77%)</b>			
State Street Institutional Liquid Reserves Fund, Institutional Class	0.078%	2,570,263	2,570,263
<b>TOTAL SHORT TERM INVESTMENTS</b>			
<b>(Cost \$2,570,263)</b>			
<b>2,570,263</b>			
<b>TOTAL INVESTMENTS (141.94%)</b>			
<b>(Cost \$193,055,014)</b>			
			<b>\$ 205,840,637</b>
<b>Liabilities in Excess of Other Assets (-41.94%)</b>			<b>(60,817,429)</b>
<b>NET ASSETS (100.00%)</b>			<b>\$ 145,023,208</b>

- (a) *Non-income producing security.*
  - (b) *Interest rate will change at a future date. Interest rate shown reflects the rate in effect at October 31, 2014.*
  - (c) *Interest only security.*
- See Notes to Financial Statements.*



*(d) Security exempt from registration under Rule 144A of the Securities Act of 1933. Such securities may normally be sold to qualified institutional buyers in transactions exempt from registration. The total value of Rule 144A securities amounts to \$17,928,008, which represents approximately 12.36% of net assets as of October 31, 2014.*

**Common Abbreviations:**

*AB - Aktiebolag is the Swedish equivalent of the term corporation.*

*FHLMC - Federal Home Loan Mortgage Corporation.*

*HKD - Hong Kong Dollar.*

*N.V. - Naamloze vennootschap is the Dutch term for a public limited liability corporation.*

*OYJ - Osakeyhtio is the Finnish equivalent of a public stock company.*

*PLC - Public Limited Company.*

*REIT - Real Estate Investment Trust.*

*SCA - Societe en Commandite par Actions is a term for limited liability partnership.*

*See Notes to Financial Statements.*

Principal Real Estate Income Fund  
Statement of Assets and Liabilities

October 31, 2014

**ASSETS:**

Investments, at value	\$ 205,840,637
Receivable for investments sold	1,326,720
Interest receivable	775,028
Dividends receivable	237,732
Prepaid and other assets	36,364

<b>Total Assets</b>	<b>208,216,481</b>
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**LIABILITIES:**

Foreign cash due to custodian (Cost \$1,550,078)	1,548,231
Loan payable	60,000,000
Interest due on loan payable	65,259
Payable for investments purchased	1,289,718
Payable to adviser	180,753
Payable to administrator	28,616
Payable to transfer agent	2,309
Payable for trustee fees	18,750
Other payables	59,637

<b>Total Liabilities</b>	<b>63,193,273</b>
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<b>Net Assets</b>	<b>\$ 145,023,208</b>
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**NET ASSETS CONSIST OF:**

Paid-in capital	\$ 131,467,405
Distributions in excess of net investment income	(374,591)
Accumulated net realized gain on investments and foreign currency transactions	1,146,083
Net unrealized appreciation on investments and translation of assets and liabilities denominated in foreign currencies	12,784,311

<b>Net Assets</b>	<b>\$ 145,023,208</b>
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**PRICING OF SHARES:**

Net Assets	\$ 145,023,208
Shares of beneficial interest outstanding (unlimited number of shares authorized, no par value per share)	6,899,800
Net asset value, offering and redemption price per share	\$ 21.02

Cost of Investments	\$ 193,055,014
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Principal Real Estate Income Fund

Statement of Operations  
For the Year Ended October 31, 2014**INVESTMENT INCOME:**

Interest	\$ 10,763,427
Dividends (net of foreign withholding tax of \$276,587)	3,703,554

**Total Investment Income** 14,466,981

**EXPENSES:**

Investment advisory fees	2,100,034
Interest on loan	771,550
Administration fees	315,374
Transfer agent fees	24,543
Audit fees	31,000
Legal fees	96,294
Custodian fees	25,923
Trustee fees	81,276
Printing fees	14,500
Insurance fees	56,609
Excise tax	42,992
Other	67,277

**Total Expenses** 3,627,372

**Net Investment Income** 10,839,609

**REALIZED AND UNREALIZED GAIN/(LOSS) ON INVESTMENTS AND FOREIGN CURRENCY:**

Net realized gain/(loss) on:	
Investments	1,947,589
Foreign currency transactions	(25,141)

Net realized gain 1,922,448

Net change in unrealized appreciation/(depreciation) on:	
Investments	7,952,236
Translation of assets and liabilities denominated in foreign currencies	(1,297)

Net change in unrealized appreciation 7,950,939

**Net Realized and Unrealized Gain on Investments and Foreign Currency** 9,873,387

**Net Increase in Net Assets Resulting from Operations** \$ 20,712,996



Principal Real Estate Income Fund  
Statements of Changes in Net Assets

	<b>For the</b>	<b>For the Period</b>
	<b>Year Ended</b>	<b>June 25, 2013</b>
	<b>October 31, 2014</b>	<b>(Commencement) to</b>
		<b>October 31, 2013</b>
<b>OPERATIONS:</b>		
Net investment income	\$ 10,839,609	\$ 2,216,237
Net realized gain on investments and foreign currency transactions	1,922,448	32,792
Net change in unrealized appreciation on investments and translation of assets and liabilities denominated in foreign currencies	7,950,939	4,833,372
<b>Net increase in net assets resulting from operations</b>	<b>20,712,996</b>	<b>7,082,401</b>
<b>DISTRIBUTIONS TO SHAREHOLDERS:</b>		
From net investment income	(11,488,167)	(2,794,419)
<b>Net decrease in net assets from distributions to shareholders</b>	<b>(11,488,167)</b>	<b>(2,794,419)</b>
<b>CAPITAL SHARE TRANSACTIONS:</b>		
Proceeds from sales of shares, net of offering costs		120,078,000
Proceeds from underwriters over-allotment option exercised, net of offering costs		11,332,389
<b>Net increase in net assets from capital share transactions</b>		<b>131,410,389</b>
<b>Net Increase in Net Assets</b>	<b>9,224,829</b>	<b>135,698,371</b>
<b>NET ASSETS:</b>		
Beginning of period	135,798,379	100,008
End of period (including distributions in excess of net investment income of \$(374,591) and \$(580,370))	\$ 145,023,208	\$ 135,798,379

**OTHER INFORMATION:****Share Transactions:**

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Shares outstanding - beginning of period	6,899,800	5,236
Shares issued in connection with initial public offering		6,300,000
Shares issued from underwriters over-allotment options exercised		594,564
Net increase in shares outstanding		6,894,564
Shares outstanding - end of period	6,899,800	6,899,800

## Principal Real Estate Income Fund

Statement of Cash Flows  
For the Year Ended October 31, 2014**CASH FLOWS FROM OPERATING ACTIVITIES:**

Net increase in net assets from operations	\$ 20,712,996
Adjustments to reconcile net increase in net assets from operations to net cash provided by operating activities:	
Purchase of investment securities	(36,107,808)
Proceeds from disposition of investment securities	38,079,604
Net purchases of short-term investment securities	(1,412,351)
Net realized (gain)/loss on:	
Investments	(1,947,589)
Net change in unrealized (appreciation)/depreciation on:	
Investments	(7,952,236)
Translation of assets and liabilities denominated in foreign currencies	1,297
Discounts and premiums amortized	(1,489,541)
Increase in interest receivable	(909)
Decrease in dividends receivable	8,158
Decrease in prepaid and other assets	75,312
Decrease in payable to custodian due to overdraft	(20,951)
Increase in foreign cash due to custodian	1,548,231
Increase in interest due on loan payable	2,391
Decrease in payable to transfer agent	(383)
Increase in payable to adviser	12,638
Increase in payable to administrator	1,862
Decrease in other payables	(19,738)
<b>Net cash provided by operating activities</b>	<b>\$ 11,490,983</b>

**CASH FLOWS USED IN FINANCING ACTIVITIES:**

Cash distributions paid (net of payable)	\$ (11,489,686)
<b>Net cash used in financing activities</b>	<b>\$ (11,489,686)</b>

<b>Effect of exchange rates on cash</b>	<b>\$ (1,297)</b>
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<b>Net increase in cash</b>	<b>\$</b>
<b>Cash, beginning balance</b>	<b>\$</b>
<b>Cash, ending balance</b>	<b>\$</b>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:**

Cash paid during the period for interest from bank borrowing:	\$ 769,159
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## Principal Real Estate Income Fund

Financial Highlights  
For a share outstanding throughout the periods  
presented.

	<b>For the Year Ended October 31, 2014</b>	<b>For the Period June 25, 2013 (Commencement) to October 31, 2013</b>
Net asset value - beginning of period	\$ 19.68	\$ 19.10
<b>Income/(loss) from investment operations:</b>		
Net investment income <sup>(a)</sup>	1.57	0.33
Net realized and unrealized gain on investments	1.44	0.70
Total income from investment operations	3.01	1.03
<b>Less distributions to common shareholders:</b>		
From net investment income	(1.67)	(0.41)
Total distributions	(1.67)	(0.41)
<b>Capital share transactions:</b>		
Common share offering costs charged to paid-in capital		(0.04)
Total capital share transactions		(0.04)
Net increase in net asset value	1.34	0.58
Net asset value - end of period	\$ 21.02	\$ 19.68
Market price - end of period	\$ 19.34	\$ 17.76
<b>Total Return<sup>(b)</sup></b>	<b>16.82%</b>	<b>5.40%</b>
<b>Total Return - Market Price<sup>(b)</sup></b>	<b>19.10%</b>	<b>(9.16%)</b>
<b>Supplemental Data:</b>		
Net assets, end of period (in thousands)	\$ 145,023	\$ 135,798
<b>Ratios to Average Net Assets:</b>		
Total expenses	2.59%	2.15% <sup>(c)</sup>
Total expenses excluding interest expense	2.04%	1.99% <sup>(c)</sup>

Edgar Filing: Principal Real Estate Income Fund - Form N-CSR

Net investment income	7.74%	5.01% <sup>(c)</sup>
Total expenses to average managed assets <sup>(d)</sup>	1.81%	1.93% <sup>(c)</sup>
<b>Portfolio turnover rate</b>	18%	1% <sup>(e)</sup>
<b>Borrowings at End of Period</b>		
Aggregate Amount Outstanding (in thousands)	\$ 60,000	\$ 60,000
Asset Coverage Per \$1,000 (in thousands)	\$ 3,417	\$ 3,263

*(a) Calculated using average shares throughout the period.*

*(b) Total investment return is calculated assuming a purchase of common share at the opening on the first day and a sale at closing on the last day of each period reported. For purposes of this calculation, dividends and distributions, if any, are assumed to be reinvested at prices obtained under the Fund's dividend reinvestment plan. Total investment returns do not reflect brokerage commissions, if any, and are not annualized.*

*(c) Annualized.*

*(d) Average managed assets represent net assets applicable to common shares plus average amount of borrowings during the period.*

*(e) Not annualized.*

## 1. ORGANIZATION

Principal Real Estate Income Fund (the Fund) is a Delaware statutory trust registered as a non-diversified, closed-end management investment company under the Investment Company Act of 1940, as amended (the 1940 Act). The Fund commenced operations on June 25, 2013. Prior to that date, the Fund had no operations other than matters relating to its organization and the sale and issuance of 5,236 common shares of beneficial interest in the Fund (Common Shares) to ALPS Advisors, Inc. (AAI) at a price of \$19.10 per share, net of 4.50% sales load. AAI agreed to pay all of the Fund's organizational expenses.

The Fund's investment objective is to seek to provide high current income, with capital appreciation as a secondary investment objective, by investing in commercial real estate-related securities. There can be no assurance that the Fund will achieve its investment objective. An investment in the Fund may not be appropriate for all investors.

Investing in the Fund involves risks, including exposure to below-investment grade investments. The Fund's net asset value will vary and its distribution rate may vary and both may be affected by numerous factors, including changes in the market spread over a specified benchmark, market interest rates and performance of the broader equity markets. Fluctuations in net asset value may be magnified as a result of the Fund's use of leverage.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Use of Estimates:** The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements during the period reported. Management believes the estimates and security valuations are appropriate; however, actual results may differ from those estimates, and the security valuations reflected in the financial statements may differ from the value the Fund ultimately realize upon sale of the securities. The Fund is considered an investment company under U.S. GAAP and follows the accounting and reporting guidance applicable to investment companies in the Financial Accounting Standards Board *Accounting Standards Codification* Topic 946. The financial statements have been prepared as of the close of the New York Stock Exchange (NYSE) on October 31, 2014.

**Portfolio Valuation:** The net asset value per Common Share of the Fund is determined no less frequently than daily, on each day that the NYSE is open for trading, as of the close of regular trading on the NYSE (normally 4:00 p.m. New York time). The Fund's net asset value per Common Share is calculated in the manner authorized by the Fund's Board of Trustees (the Board). Net asset value is computed by dividing the value of the Fund's total assets, less its liabilities by the number of shares outstanding.

The Board has established the following procedures for valuation of the Fund's assets under normal market conditions. Marketable securities listed on foreign or U.S. securities exchanges generally are valued at closing sale prices or, if there were no sales, at the mean between the closing bid and asked prices on the exchange where such securities are principally traded. Marketable securities listed on the NASDAQ Stock Market LLC (NASDAQ) are valued at the



NASDAQ official closing price. Unlisted or listed securities for which closing sale prices are not available are valued at the mean between the latest bid and asked prices. An option is valued at the price provided by an independent pricing service approved by the Board. Over-the-counter options are valued at the mean between the latest bid and asked prices provided by dealers. Financial futures contracts listed on commodity exchanges and exchange-traded options are valued at closing settlement prices.

The Fund values commercial mortgage-backed securities and other debt securities not traded in an organized market on the basis of valuations provided by an independent pricing service, approved by the Board, which uses information with respect to transactions in such securities, quotations from dealers, market transactions for comparable securities, various relationships between securities and yield to maturity in determining value. Debt securities having a remaining maturity of sixty days or less when purchased and debt securities originally purchased with maturities in excess of sixty days but which currently have maturities of sixty days or less are valued at amortized cost. If the independent pricing service is unable to provide a price for a security, if the price provided by the independent pricing service is deemed unreliable, or if events occurring after the close of the market for a security but before the time as of which the Fund values its Common Shares would materially affect net asset value, such security will be valued at its fair value as determined in good faith under procedures approved by the Board.

When applicable, fair value of an investment is determined by the Board or a committee of the Board or a designee of the Board. In fair valuing the Fund's investments, consideration is given to several factors, which may include, among others, the following: the fundamental business data relating to the issuer, borrower, or counterparty; an evaluation of the forces which influence the market in which the investments are purchased and sold; the type, size and cost of the investment; the financial statements of the issuer, borrower, or counterparty, as applicable; the credit quality and cash flow of the issuer, borrower, or counterparty, as applicable, based on the sub-advisor's or external analysis; the information as to any transactions in or offers for the investment; the price and extent of public trading in similar securities (or equity securities) of the issuer, or comparable companies; the coupon payments; the quality, value and saleability of collateral, if any, securing the investment; the business prospects of the issuer, borrower, or counterparty, as applicable, including any ability to obtain money or resources from a parent or affiliate and an assessment of the issuer's, borrower's, or counterparty's management; the prospects for the industry of the issuer, borrower, or counterparty, as applicable, and multiples (of earnings and/or cash flow) being paid for similar businesses in that industry; and other relevant factors.

**Securities Transactions and Investment Income:** Investment security transactions are accounted for on a trade date basis. Dividend income is recorded on the ex-dividend date. Certain dividend income from foreign securities will be recorded, in the exercise of reasonable diligence, as soon as a Fund is informed of the dividend if such information is obtained subsequent to the ex-dividend date and may be subject to withholding taxes in these jurisdictions. Interest income, which includes amortization of premium and accretion of discount, is recorded on the accrual basis. Realized gains and losses from securities transactions and unrealized appreciation and depreciation of securities are determined using the first-in/first-out cost basis method for both financial reporting and tax purposes.

**Fair Value Measurements:** The Fund discloses the classification of its fair value measurements following a three-tier hierarchy based on the inputs used to measure fair value. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability that are developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability that are developed based on the best information available.

Various inputs are used in determining the value of the Fund's investments as of the end of the reporting period. When inputs used fall into different levels of the fair value hierarchy, the level in the hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. The designated input levels are not necessarily an indication of the risk or liquidity associated with these investments. These inputs are categorized in the following hierarchy under applicable financial accounting standards:

- Level 1** Unadjusted quoted prices in active markets for identical investments, unrestricted assets or liabilities that a Fund has the ability to access at the measurement date;
- Level 2** Quoted prices which are not active, quoted prices for similar assets or liabilities in active markets or inputs other than quoted prices that are observable (either directly or indirectly) for substantially the full term of the asset or liability; and
- Level 3** Significant unobservable prices or inputs (including the Fund's own assumptions in determining the fair value of investments) where there is little or no market activity for the asset or liability at the measurement date.

The following is a summary of the inputs used to value the Fund's investments as of October 31, 2014:

### Principal Real Estate Income Fund

Investments in Securities at Value*	Level 1 - Quoted Prices	Level 2 - Other Significant Observable Inputs	Level 3 - Significant Unobservable Inputs	Total
Common Stocks	\$ 70,340,098	\$	\$	\$ 70,340,098
Preferred Stocks	1,808,940			1,808,940
Rights	4,735			4,735
Commercial Mortgage Backed Securities		131,116,601		131,116,601
Short Term Investments	2,570,263			2,570,263
<b>Total</b>	<b>\$ 74,724,036</b>	<b>\$ 131,116,601</b>	<b>\$</b>	<b>\$ 205,840,637</b>

\* *See Statement of Investments for industry classifications.*

The Fund recognizes transfers between levels as of the end of the period. For the year ended October 31, 2014, the Fund did not have any significant transfers between Level 1 and Level 2

securities. The Fund did not have any securities which used significant unobservable inputs (Level 3) in determining fair value.

**Commercial Mortgage Backed Securities ( CMBS ):** As part of its investments in commercial real estate related securities, the Fund will invest in CMBS which are subject to certain risks associated with direct investments in CMBS. A CMBS is a type of mortgage-backed security that is secured by a loan (or loans) on one or more interests in commercial real estate property. Investments in CMBS are subject to the various risks which relate to the pool of underlying assets in which the CMBS represents an interest. CMBS may be backed by obligations (including certificates of participation in obligations) that are principally secured by commercial real estate loans or interests therein having multi-family or commercial use. Securities backed by commercial real estate assets are subject to securities market risks as well as risks similar to those of direct ownership of commercial real estate loans because those securities derive their cash flows and value from the performance of the commercial real estate underlying such investments and/or the owners of such real estate.

**Real Estate Investment Trusts ( REITs ):** As part of its investments in real estate related securities, the Fund will invest in REITs and is subject to certain risks associated with direct investment in REITs. REITs possess certain risks which differ from an investment in common stocks. REITs are financial vehicles that pool investors' capital to acquire, develop and/or finance real estate and provide services to their tenants. REITs may concentrate their investments in specific geographic areas or in specific property types, e.g., regional malls, shopping centers, office buildings, apartment buildings and industrial warehouses. REITs may be affected by changes in the value of their underlying properties and by defaults by borrowers or tenants. REITs depend generally on their ability to generate cash flow to make distributions to shareowners, and certain REITs have self-liquidation provisions by which mortgages held may be paid in full and distributions of capital returns may be made at any time.

As REITs generally pay a higher rate of dividends than most other operating companies, to the extent application of the Fund's investment strategy results in the Fund investing in REIT shares, the percentage of the Fund's dividend income received from REIT shares will likely exceed the percentage of the Fund's portfolio that is comprised of REIT shares. Distributions received by the Fund from REITs may consist of dividends, capital gains and/or return of capital.

Dividend income from REITs is recognized on the ex-dividend date. The calendar year-end amounts of ordinary income, capital gains, and return of capital included in distributions received from the Fund's investments in REITs are reported to the Fund after the end of the calendar year; accordingly, the Fund estimates these amounts for accounting purposes until the characterization of REIT distributions is reported to the Fund after the end of the calendar year. Estimates are based on the most recent REIT distribution information available.

The performance of a REIT may be affected by its failure to qualify for tax-free pass-through of income under the Internal Revenue Code of 1986, as amended (the Code), or its failure to maintain exemption from registration under the 1940 Act. Due to the Fund's investments in REITs, the Fund may also make distributions in excess of the Fund's earnings and capital gains. Distributions, if any, in excess of the Fund's earnings and profits will first reduce the adjusted tax basis of a holder's Common Shares and, after that basis has been reduced to zero, will constitute capital gains to the Common Shareholder.



**Concentration Risk:** The Fund invests in companies in the real estate industry, which may include CMBS, REITs, REIT-like structures, and other securities that are secured by, or otherwise have exposure to, real estate. Any fund that concentrates in a particular segment of the market will generally be more volatile than a fund that invests more broadly. Any market price movements, regulatory changes, or economic conditions affecting CMBS, REITs, REIT-like structures, and real estate more generally, will have a significant impact on the Fund's performance.

**Foreign Currency Risk:** The Fund expects to invest in securities denominated or quoted in currencies other than the U.S. dollar. Changes in foreign currency exchange rates may affect the value of securities owned by the Fund, the unrealized appreciation or depreciation of investments and gains on and income from investments. Currencies of certain countries may be volatile and therefore may affect the value of securities denominated in such currencies, which means that the Fund's net asset value could decline as a result of changes in the exchange rates between foreign currencies and the U.S. dollar. These risks often are heightened for investments in smaller, emerging capital markets.

The accounting records of the Fund are maintained in U.S. dollars. Prices of securities denominated in foreign currencies are translated into U.S. dollars at the closing rates of the exchanges at period end. Amounts related to the purchase and sale of foreign securities and investment income are translated at the rates of exchange prevailing on the respective dates of such transactions.

The Fund does not isolate that portion of the results of operations resulting from changes in foreign exchange rates on investments from the fluctuations arising from changes in market prices of securities held. Such fluctuations are included with the net realized and unrealized gain or loss from investments.

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 amounts of dividends, interest, 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 fair values of assets and liabilities, other than investments in securities at fiscal period-end, resulting from changes in exchange rates.

A foreign currency contract is a commitment to purchase or sell a foreign currency at a future date, at a negotiated rate. The Fund may enter into foreign currency contracts to settle specific purchases or sales of securities denominated in a foreign currency and for protection from adverse exchange rate fluctuation. Risks to a Fund include the potential inability of the counterparty to meet the terms of the contract.

### 3. LEVERAGE

Under normal market conditions, the Fund's policy is to utilize leverage through Borrowings and the issuance of preferred shares in an amount that represents up to 33 1/3% of the Fund's total assets, including proceeds from such Borrowings and issuances (or approximately 50% of the Fund's net assets). It is possible that the assets of the Fund will decline due to market conditions

such that this 33 1/3% limit will be exceeded. In that case, the leverage risk to shareholders will increase. Borrowings will be subject to interest costs, which may or may not be recovered by appreciation of the securities purchased. In certain cases, interest costs may exceed the return received on the securities purchased.

The Fund maintains a \$70,000,000 line of credit with State Street Bank and Trust Company ( SSB ), which by its terms expires on September 21, 2015, subject to the restrictions and terms of the credit agreement. As of October 31, 2014, the Fund has drawn down \$60,000,000 from the SSB line of credit, which was the maximum borrowing outstanding during the period. The Fund is charged interest rate of 0.90% (per annum) above the three-month LIBOR rate of 0.23% (as of October 31, 2014) for borrowing under this credit agreement, on the last day of the interest period. The Fund is charged a commitment fee on the average daily unused balance of the line of credit at the rate of 0.15% (per annum). Per the terms of the credit agreement, the Fund paid an upfront fee of 0.10% on the total line of credit balance, which was amortized through September 22, 2014. The Fund pledges its investment securities as the collateral for the line of credit per the terms of the agreement. The average interest rate charged and the average outstanding loan payable for the year ended October 31, 2014 was as follows:

Average Interest Rate	1.138%
Average Outstanding Loan Payable	\$ 60,000,000

#### 4. INVESTMENT ADVISORY AND OTHER AGREEMENTS

AAI serves as the Fund's investment adviser pursuant to an Investment Advisory Agreement with the Fund. As compensation for its services to the Fund, AAI receives an annual investment advisory fee of 1.05% based on the Fund's average Total Managed Assets (as defined below). Pursuant to an Investment Sub-Advisory Agreement, AAI has retained Principal Real Estate Investors, LLC ( PrinRei ) as the Fund's sub-advisor and will pay PrinRei an annual fee of 0.55% based on the Fund's Total Managed Assets.

A Trustee and certain Officers of the Fund are also officers of AAI.

ALPS Fund Services, Inc. ( AFS ), an affiliate of AAI, serves as administrator to the Fund. Under an Administration, Bookkeeping and Pricing Services Agreement, AFS is responsible for calculating the net asset values, providing additional fund accounting and tax services, and providing fund administration and compliance-related services to the Fund. AFS is entitled to receive a monthly fee at the annual rate of 0.15% based on the Fund's average Total Managed Assets, as defined below, plus out-of-pocket expenses.

DST Systems, Inc. ( DST ), the parent company of AAI and AFS, serves as the Transfer Agent to the Fund. Under the Transfer Agency Agreement, DST is responsible for maintaining all shareholder records of the Fund. DST is entitled to receive an annual minimum fee of \$22,500 plus out-of-pocket expenses.

**Total Managed Assets:** For these purposes, the term Total Managed Assets is defined as the value of the total assets of the Fund minus the sum of all accrued liabilities of the Fund (other than aggregate liabilities representing Limited Leverage, as defined below), calculated as of 4:00 p.m. Eastern time on such day or as of such other time or times as the Board may determine in



accordance with the provisions of applicable law and of the declaration and bylaws of the Fund and with resolutions of the Board as from time to time in force. Under normal market conditions, the Fund's policy is to utilize leverage through Borrowings (as defined below) and through the issuance of preferred shares (if any) in an amount that represents approximately 33 1/3% of the Fund's total assets, including proceeds from such Borrowings and issuances (collectively, Limited Leverage). Borrowings are defined to include: amounts received by the Fund pursuant to loans from banks or other financial institutions; amounts borrowed from banks or other parties through reverse repurchase agreements; amounts received by the Fund from the Fund's issuance of any senior notes or similar debt securities. Other than with respect to reverse repurchase agreements, Borrowings do not include trading practices or instruments that, according to the SEC or its staff, may cause senior securities concerns, and are intended to include transactions that are subject to the asset coverage requirements in Section 18 of the 1940 Act for the issuance of senior securities evidencing indebtedness (e.g., bank borrowings and the Fund's issuance of any senior notes or similar securities) and senior securities in the form of stock (e.g., the Fund's issuance of preferred shares).

## 5. DISTRIBUTIONS

The Fund intends to make monthly distributions to Common Shareholders out of the net investment income of the Fund, after payment of interest on any outstanding borrowings or dividends on any outstanding preferred shares. Distributions to shareholders are recorded by the Fund on ex-dividend date. The Fund may also retain cash reserves if deemed appropriate by PrinREI to meet the terms of any leverage or derivatives transactions. Such distributions shall be administered by DST. While a portion of the Fund's distributed income may qualify as qualified dividend income, all or a portion of the Fund's distributed income may also be fully taxable. Any such income distributions, as well as any distributions by the Fund of net realized short-term capital gains, will be taxed as ordinary income. A portion of the distributions the Fund receives from its investments likely will be treated as return of capital. While the Fund anticipates distributing some or all of such return of capital, it is not required to do so in order to maintain its status as a regulated investment company under Subchapter M of the Code.

## 6. COMPENSATION OF OFFICERS AND TRUSTEES

The Fund pays no salaries or compensation to any of its interested Trustee or Officers. The three independent Trustees of the Fund receive an annual retainer of \$17,000 and an additional \$2,000 for attending each meeting of the Board. The independent Trustees are also reimbursed for all reasonable out-of-pocket expenses relating to attendance at meetings of the Board.

## 7. CAPITAL TRANSACTIONS

The Fund is a statutory trust established under the laws of the state of Delaware by an Agreement and Declaration of Trust dated August 31, 2012, as amended and restated through the date hereof. The Declaration of Trust provides that the Trustees of the Fund may authorize separate classes of shares of beneficial interest. The Trustees have authorized an unlimited number of Common Shares. The Fund intends to hold annual meetings of Common Shareholders in compliance with the requirements of the NYSE.



The Fund issued 6,300,000 Common Shares in its initial public offering on June 25, 2013. An additional 594,564 Common Shares were issued on August 9, 2013. These Common Shares were issued at \$20.00 per share before the underwriting discount of \$0.90 per share. Offering costs of \$275,783 (representing \$0.04 per Common Share) were offset against proceeds of the offerings and have been charged to paid-in capital of the Common Shares. AAI agreed to pay those offering costs of the Fund (other than the sales load) that exceeded \$0.04 per Common Share.

Additional shares of the Fund may be issued under certain circumstances pursuant to the Fund's Automatic Dividend Reinvestment Plan, as defined within the Fund's organizational documents. Additional information concerning the Automatic Dividend Reinvestment Plan is included within this report.

## 8. PORTFOLIO INFORMATION

For the year ended October 31, 2014, the cost of purchases and proceeds from sales of securities, excluding short-term securities, were as follows:

Purchases	Sales
\$ 36,191,233	\$ 39,028,365

## 9. TAXES

**Classification of Distributions:** Net investment income/(loss) and net realized gain/(loss) may differ for financial statement and tax purposes. The character of distributions made during the year from net investment income or net realized gains may differ from its ultimate characterization for federal income tax purposes. Also, due to the timing of dividend distributions, the fiscal year in which amounts are distributed may differ from the fiscal year in which the income or realized gain was recorded by the Fund.

The tax character of distributions paid during the year ended October 31, 2014 and the period ended October 31, 2013, were as follows:

Principal Real Estate Income Fund	For the Year Ended October 31, 2014	For the Period Ended October 31, 2013
Ordinary Income	\$ 11,478,934	\$ 2,794,419
Long-Term Capital Gain	9,233	
Total	\$ 11,488,167	\$ 2,794,419

**Components of Earnings:** Tax components of distributable earnings are determined in accordance with income tax regulations which may differ from composition of net assets reported under accounting principles generally accepted in the United States. Accordingly, for the year ended October 31, 2014, certain differences were reclassified.

Principal Real Estate Income Fund

Notes to Financial Statements  
October 31, 2014

The reclassifications were as follows:

	<b>Paid-in capital</b>	<b>Distributions in excess of net investment income</b>	<b>Accumulated net realized gain on investments and foreign currency transactions</b>
<b>Principal Real Estate Income Fund</b>	\$ (42,992)	\$ 854,337	\$ (811,345)

These differences are primarily attributed to the different tax treatment of foreign currency, passive foreign investment companies (PFICs), non-deductible expenses and distribution reclassifications.

As of October 31, 2014, the Fund had no accumulated capital loss carryforwards.

**Tax Basis of Distributable Earnings:** Tax components of distributable earnings are determined in accordance with income tax regulations which may differ from composition of net assets reported under GAAP.

As of October 31, 2014, the components of distributable earnings on a tax basis were as follows:

**Principal Real Estate Income Fund**

Undistributed Ordinary Income	\$ 2,549,269
Accumulated Capital Gain	440,185
Unrealized Appreciation	10,584,821
Cumulative Effect of Other Timing Difference	(18,472)
<b>Total</b>	<b>\$ 13,555,803</b>

**Tax Basis of Investments:** Net unrealized appreciation/(depreciation) of investments based on federal tax cost as of October 31, 2014, were as follows:

**Principal Real Estate Income Fund**

Cost of investments for income tax purposes	\$ 195,254,504
Gross appreciation on investments (excess of value over tax cost)	\$ 13,551,575
Gross depreciation on investments (excess of tax cost over value)	(2,965,442)
Net depreciation of foreign currency and derivatives	(1,312)



Net unrealized appreciation on investments \$ 10,584,821

The differences between book-basis and tax-basis are primarily due to investments in passive foreign investment companies.

**Federal Income Tax Status:** For federal income tax purposes, the Fund currently qualifies, and intends to remain qualified, as a regulated investment company under the provisions of Subchapter M of the Internal Revenue Code of 1986, as amended, by distributing substantially all of its investment company taxable net income and realized gain, not offset by capital loss carryforwards, if any, to its shareholders. No provision for federal income taxes has been made. During the year, the Fund paid an excise tax of \$42,992 as required under Internal Revenue Code

§4982 primarily due to the timing of income inclusions from Passive Foreign Investment Companies ( PFICs ) held by the Fund at the end of the prior fiscal year.

As of and during the year ended October 31, 2014, the Fund did not have a liability for any unrecognized tax benefits. The Fund files U.S. federal, state, and local tax returns as required. The Fund's tax returns are subject to examination by the relevant tax authorities until expiration of the applicable statute of limitations which is generally three years after the filing of the tax return. Tax returns for open years have incorporated no uncertain tax positions that require a provision for income taxes.

Subsequent to October 31, 2014, the Fund paid the following distributions:

<b>Ex Date</b>	<b>Record Date</b>	<b>Payable Date</b>	<b>Rate (per share)</b>
November 13, 2014	November 17, 2014	November 26, 2014	\$0.140
December 11, 2014	December 15, 2014	December 24, 2014	\$0.140

#### 10. INDEMNIFICATIONS

Under the Fund's organizational documents, its Officers and Trustees are indemnified against certain liability arising out of the performance of their duties with respect to the Fund. In addition, in the normal course of business, the Trust, on behalf of the Fund, enters into contracts with vendors and others that provide general indemnification. The Fund's maximum exposure under these arrangements is unknown, as this would involve future claims that may be made against the Trust and/or the Fund. Based on experience, however, the Fund expects the risk of loss to be remote.

Unless the registered owner of Common Shares elects to receive cash by contacting DST Systems, Inc. (the Plan Administrator), all dividends declared on Common Shares will be automatically reinvested by the Plan Administrator for shareholders in the Fund's Automatic Dividend Reinvestment Plan (the Plan), in additional Common Shares. Common Shareholders who elect not to participate in the Plan will receive all dividends and other distributions in cash paid by check mailed directly to the shareholder of record (or, if the Common Shares are held in street or other nominee name, then to such nominee) by the Plan Administrator as dividend disbursing agent. Participation in the Plan is completely voluntary and may be terminated or resumed at any time without penalty by notice if received and processed by the Plan Administrator prior to the dividend record date; otherwise such termination or resumption will be effective with respect to any subsequently declared dividend or other distribution. Such notice will be effective with respect to a particular dividend or other distribution (together, a Dividend). Some brokers may automatically elect to receive cash on behalf of Common Shareholders and may re-invest that cash in additional Common Shares.

The Plan Administrator will open an account for each Common Shareholder under the Plan in the same name in which such Common Shareholder's Common Shares are registered. Whenever the Fund declares a Dividend payable in cash, non-participants in the Plan will receive cash and participants in the Plan will receive the equivalent in Common Shares. The Common Shares will be acquired by the Plan Administrator for the participants' accounts, depending upon the circumstances described below, either (i) through receipt of additional unissued but authorized Common Shares from the Fund (Newly Issued Common Shares) or (ii) by purchase of outstanding Common Shares on the open market (Open-Market Purchases) on the NYSE or elsewhere. If, on the payment date for any Dividend, the closing market price plus estimated brokerage commissions per Common Share is equal to or greater than the NAV per Common Share, the Plan Administrator will invest the Dividend amount in Newly Issued Common Shares on behalf of the participants. The number of Newly Issued Common Shares to be credited to each participant's account will be determined by dividing the dollar amount of the Dividend by the NAV per Common Share on the payment date; provided that, if the NAV is less than or equal to 95% of the closing market value on the payment date, the dollar amount of the Dividend will be divided by 95% of the closing market price per Common Share on the payment date. If, on the payment date for any Dividend, the NAV per Common Share is greater than the closing market value plus estimated brokerage commissions, the Plan Administrator will invest the Dividend amount in Common Shares acquired on behalf of the participants in Open-Market Purchases.

In the event of a market discount on the payment date for any Dividend, the Plan Administrator will have until the last business day before the next date on which the Common Shares trade on an ex-dividend basis or 30 days after the payment date for such Dividend, whichever is sooner (the Last Purchase Date), to invest the Dividend amount in Common Shares acquired in Open-Market Purchases. It is contemplated that the Fund will pay monthly income Dividends. If, before the Plan Administrator has completed its Open-Market Purchases, the market price per Common Share exceeds the NAV per Common Share, the average per Common Share purchase price paid by the Plan Administrator may exceed the NAV of the Common Shares, resulting in the acquisition of fewer Common Shares than if the Dividend had been paid in Newly Issued Common Shares on the Dividend payment date. Because of the foregoing difficulty with respect to Open-Market Purchases, the Plan provides that if the Plan Administrator is unable to invest the full Dividend amount in Open-Market Purchases during the purchase period or if the market discount shifts to a market premium during the purchase period, the Plan Administrator may cease making

Principal Real Estate Income Fund

Dividend Reinvestment Plan  
*October 31, 2014 (Unaudited)*

Open-Market Purchases and may invest the uninvested portion of the Dividend amount in Newly Issued Common Shares at the NAV per Common Share at the close of business on the Last Purchase Date provided that, if the NAV is less than or equal to 95% of the then current market price per Common Share, the dollar amount of the Dividend will be divided by 95% of the market price on the payment date for purposes of determining the number of shares issuable under the Plan.

The Plan Administrator maintains all shareholders' accounts in the Plan and furnishes written confirmation of all transactions in the accounts, including information needed by shareholders for tax records. Common Shares in the account of each Plan participant will be held by the Plan Administrator on behalf of the Plan participant, and each shareholder proxy will include those shares purchased or received pursuant to the Plan. The Plan Administrator will forward all proxy solicitation materials to participants and vote proxies for shares held under the Plan in accordance with the instructions of the participants.

In the case of Common Shareholders such as banks, brokers or nominees which hold shares for others who are the beneficial owners, the Plan Administrator will administer the Plan on the basis of the number of Common Shares certified from time to time by the record shareholder's name and held for the account of beneficial owners who participate in the Plan.

There will be no brokerage charges with respect to Common Shares issued directly by the Fund. However, each participant will pay a pro rata share of brokerage commissions incurred in connection with Open-Market Purchases. The automatic reinvestment of Dividends will not relieve participants of any federal, state or local income tax that may be payable (or required to be withheld) on such Dividends. Participants that request a sale of Common Shares through the Plan Administrator are subject to brokerage commissions.

The Fund reserves the right to amend or terminate the Plan. There is no direct service charge to participants with regard to purchases in the Plan; however, the Fund reserves the right to amend the Plan to include a service charge payable by the participants.

All correspondence or questions concerning the Plan should be directed to the Plan Administrator.

Principal Real Estate Income Fund

Trustees & Officers  
October 31, 2014 (Unaudited)

The following table includes information regarding the Fund's trustees and officers, and their principal occupations and other affiliations during the past five years. The address for all trustees is 1290 Broadway, Suite 1100, Denver, CO 80203. The independent trustees consist of those trustees who are not interested persons of the Fund, as that term is defined under the 1940 Act.

**INDEPENDENT TRUSTEES**

<b>Name and Year of Birth</b>	<b>Position(s) Held with Registrant</b>	<b>Term of Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years</b>	<b>Number of Portfolios in Fund Complex<sup>(1)</sup> Overseen by Trustee</b>	<b>Other Directorships<sup>(2)</sup> Held by Trustee During Past 5 Years</b>
Rick A. Pederson (1952)	Trustee	Term expires in 2015. Has served since April 2013.	President, Foundation Properties, Inc. (a real estate investment management company), 1994 – present; Advisory Board member, Bow River Capital Partners (private equity management), 2003 – present; Advisor, Pauls Corporation (real estate investment management and development), 2008 – present; Chairman, Ross Consulting Group (real estate consulting services) 1983 – 2013; Advisory Board, Neenan Company (construction services) 2002 – present; Board Member, Prosci Inc. (private business services) 2013 – present; Board Member, Citywide Banks (Colorado community bank) 2014 – present; Director, National Western Stock Show (not-for-profit organization); Director, Biennial of the Americas (not-for-profit-organization).	20	Westcore Trust (12 funds); ALPS ETF Trust (19 funds)

Principal Real Estate Income Fund

Trustees & Officers  
October 31, 2014 (Unaudited)

Name and Year of Birth	Position(s) Held with Registrant	Term of	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex <sup>(1)</sup> Overseen by Trustee	Other Directorships <sup>(2)</sup> Held by Trustee During Past 5 Years
		Office and Length of Time Served			
Jerry G. Rutledge (1944)	Trustee	Term expires in 2017. Has served since April 2013.	President and owner of Rutledge's Inc. (retail clothing business); Regent of the University of Colorado (1994–2007). Director, University of Colorado Hospital (2007–present). Mr. Rutledge also served as a Director of the American National Bank from 1985 to 2009.	15	Clough Global Funds (3 funds); Financial Investors Trust (32 funds)
Ernest J. Scalberg (1945)	Trustee	Term expires in 2016. Has served since April 2013.	Research Professor and Director of the GLOBE Center, Monterey Institute of International Studies (2009–present); Associate Vice President for External Programs and Dean of Fisher Graduate School of International Business (2001 –2009); Director, Advisor or Trustee to numerous non-profit organizations (1974 –present); and Chairman of the Board of the Foundation, International University in Geneva (IUG), Switzerland.	1	The Select SPDR Trust (9 funds); db-X Target Date Funds, Inc. (5 funds).

Principal Real Estate Income Fund

Trustees & Officers  
October 31, 2014 (Unaudited)**INTERESTED TRUSTEE AND OFFICERS**

<b>Name and Year of Birth</b>	<b>Position(s) Held with Registrant</b>	<b>Term of Office and Length of Time Served</b>	<b>Principal Occupation(s) During Past 5 Years*</b>	<b>Number of Portfolios in Fund Complex<sup>(1)</sup> Overseen by Trustee</b>	<b>Other Directorships<sup>(2)</sup> Held by Trustee During Past 5 Years</b>
Thomas A. Carter  (1966)	Chairman, Trustee and President	Term expires in 2017. Has served since August 2012.	Mr. Carter joined ALPS Fund Services, Inc. ( AFS ) in 1994 and is currently President and Director of ALPS Advisors, Inc. ( ALPS ), ALPS Distributors, Inc. ( ADI ) and FTAM Funds Distributor, Inc. ( FDI ) and Executive Vice President and Director of AFS and ALPS Holdings, Inc. ( AHI ). Because of his position with AHI, AFS, ALPS, ADI, and FDI, Mr. Carter is deemed an affiliate of the Fund as defined under the 1940 Act. Before joining AFS, Mr. Carter was with Deloitte & Touche LLP, where he worked with a diverse group of clients, primarily within the financial services industry. Mr. Carter is a Certified Public Accountant and received his Bachelor of Science in Accounting from the University of Colorado at Boulder.	29	ALPS Variable Investment Trust (9 funds) and ALPS ETF Trust (19 funds).

Principal Real Estate Income Fund

Trustees & Officers  
October 31, 2014 (Unaudited)

Name and Year of Birth	Position(s) Held with Registrant	Term of	Principal Occupation(s) During Past 5 Years*	Number of Portfolios in Fund Complex <sup>(1)</sup> Overseen by Trustee	Other Directorships <sup>(2)</sup> Held by Trustee During Past 5 Years
		Office and Length of Time Served			
Patrick D. Buchanan (1972)	Treasurer	Has served since August 2012.	Mr. Buchanan is Vice President of ALPS. Mr. Buchanan joined ALPS in 2007 and because of his position with ALPS, he is deemed an affiliate of the Fund as defined under the 1940 Act. Mr. Buchanan has served as Treasurer and Principal Financial Officer of ALPS ETF Trust since June 2012 and of ALPS Variable Investment Trust since March 2013. Mr. Buchanan received his Bachelor of Science in Finance from the University of Colorado at Boulder.	N/A	N/A
Lucas Foss (1977)	Chief Compliance Officer	Has served since August 2012.	Mr. Foss is Vice President and Deputy Chief Compliance Officer of ALPS Fund Services, Inc. Mr. Foss served as a Compliance Manager for ALPS from January 2010 until August 2012 and a Senior Compliance Analyst from June 2006 until December 2009. Prior to joining ALPS, Mr. Foss held positions at Bisys Hedge Fund Services and Deutsche Asset Management. Mr. Foss is a Certified Securities Compliance Professional (CSCP) and a Registered Representative of ALPS Distributors, Inc. Mr. Foss also serves as Chief Compliance Officer of the ALPS Series Trust, Whitebox Mutual Funds, Caldwell & Orkin Fund, Boulder Growth & Income Fund, Inc., Boulder Total Return Fund, Inc., First Opportunity Fund Inc. and The Denali Fund Inc.	N/A	N/A





Principal Real Estate Income Fund

Trustees & Officers  
October 31, 2014 (Unaudited)

Name and		Term of	Office and	Number of	Other
Year of	Position(s)	Length of	Principal Occupation(s)	Portfolios	Directorships <sup>(2)</sup>
Birth	Held with	Time	During Past 5 Years*	in Fund	Held by Trustee
	Registrant	Served		Complex <sup>(1)</sup>	During Past 5
				Overseen	Years
				by Trustee	
Erin D. Nelson (1977)	Secretary	Has served since March 2014	Ms. Nelson joined ALPS in 2003 and is currently Vice President and Senior Counsel of ALPS Fund Services, Inc., and Vice President of ALPS Advisors, Inc. and ALPS Portfolio Solutions Distributor, Inc. Ms. Nelson also serves as Secretary of ALPS ETF Trust from 2012 to present, Liberty All-Star Growth Fund, Inc. from 2012 to present, Liberty All-Star Equity Fund from 2012 to present, Clough Global Allocation Fund from 2004 to present, Clough Global Equity Fund from 2005 to present, and Clough Global Opportunities Fund from 2006 to present.	N/A	N/A

\*Except as otherwise indicated, each individual has held the office shown or other offices in the same company for the last five years.

(1) The term *Fund Complex* means two or more registered investment companies that:

(a) hold themselves out to investors as related companies for purposes of investment and investor services; or

(b) have a common investment adviser or that have an investment adviser that is an affiliated person of the investment adviser of any of the other registered investment companies.

(2) The numbers enclosed in the parentheses represent the number of funds overseen in each respective directorship held by the Trustee. With respect to ALPS ETF Trust and ALPS Variable Investment Trust, all funds are included in the total funds in the Fund Complex column. With respect to Financial Investors Trust, 14 funds are included in the total funds in the Fund Complex column.

Principal Real Estate Income Fund

Additional Information  
October 31, 2014 (Unaudited)

## PORTFOLIO HOLDINGS

The Fund files a complete schedule of portfolio holdings with the Commission for the first and third quarters of each fiscal year on Form N-Q within 60 days after the end of the period. Copies of the Fund's Form N-Q are available without a charge, upon request, by contacting the Fund at 1-855-838-9485 and on the Commission's website at <http://www.sec.gov>. You may also review and copy Form N-Q at the Commission's Public Reference Room in Washington, D.C. For more information about the operation of the Public Reference Room, please call the Commission at 1-800-SEC-0330.

## PROXY VOTING

A description of the Fund's proxy voting policies and procedures is available (1) without charge, upon request, by calling 1-855-838-9485, (2) on the Fund's website located at <http://www.principalcef.com>, or (3) on the SEC's website at <http://www.sec.gov>. Information regarding how the Fund voted proxies relating to portfolio securities during the twelve-month period ended June 30th is available on the SEC's website at <http://www.sec.gov>.

## SECTION 19(A) NOTICES

The following table sets forth the estimated amount of the sources of distribution for purposes of Section 19 of the Investment Company Act of 1940, as amended, and the related rules adopted there under. A Fund estimates the following percentages, of the total distribution amount per share, attributable to (i) current and prior fiscal year net investment income, (ii) net realized short-term capital gain, (iii) net realized long-term capital gain and (iv) return of capital or other capital source as a percentage of the total distribution amount. These percentages are disclosed for the fiscal year-to-date cumulative distribution amount per share for the Fund. The amounts and sources of distributions reported in these 19(a) notices are only estimates and not for tax reporting purposes. The actual amounts and sources of the amounts for tax reporting purposes will depend upon the Fund's investment experience during the remainder of the calendar year and may be subject to changes based on tax regulations. The Fund will send you a Form 1099-DIV for the calendar year that will tell you how to report these distributions for federal income tax purposes.

Per Share Cumulative Distributions for the year ended October 31, 2014				Percentage of the Total Cumulative Distributions for the year ended October 31, 2014			
Net Investment Income	Net Realized Capital Gains	Return of Capital	Total Per Share	Net Investment Income	Net Realized Capital Gains	Return of Capital	Total Per Share
\$ 1.6650	\$ 0.000	\$ 0.000	\$ 1.6650	100.00%	0.000%	0.000%	100.00%

UNAUDITED TAX INFORMATION

The Fund designated 2.11% of the income dividends distributed between January 1, 2013 and December 31, 2013, as qualified dividend income (QDI) as defined in Section 1(h)(11) of the Internal Revenue Code.

Principal Real Estate Income Fund

Additional Information  
*October 31, 2014 (Unaudited)*

Pursuant to Section 854(b)(2) of the Internal Revenue Code, the Fund designated 0.00% of the ordinary income dividends distributed between January 1, 2013 and December 31, 2013, as qualifying for the corporate dividends received deduction.

In early 2014, if applicable, shareholders of record should have received this information for the distributions paid to them by the Fund during the calendar year 2013 via Form 1099. The Fund will notify shareholders in early 2015 of amounts paid to them by the Fund, if any, during the calendar year 2014.

Pursuant to Section 852(b)(3) of the Internal Revenue Code, during the Fund designated \$9,233 as long-term capital gain dividends.

#### CUSTODIAN AND TRANSFER AGENT

State Street Bank and Trust Company, located at State Street Financial Center, One Lincoln Street, Boston, MA 02111, serves as the Fund's custodian and will maintain custody of the securities and cash of the Fund.

DST Systems, Inc., located at 333 West 11th Street, 5th Floor, Kansas City, Missouri 64105, serves as the Fund's transfer agent and registrar.

#### LEGAL MATTERS

Mayer Brown LLP, Chicago, Illinois, serves as legal counsel to the Trust.

#### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Cohen Fund Audit Services, Ltd. is the independent registered public accounting firm for the Fund.



**Item 2. Code of Ethics.**

- (a) The Registrant, as of the end of the period covered by the report, has adopted a Code of Ethics that applies to the Registrant's Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer or Controller or any persons performing similar functions on behalf of the Registrant.
- (b) Not Applicable.
- (c) During the period covered, by this report, no amendments were made to the provisions of the Code of Ethics adopted in 2 (a) above.
- (d) During the period covered by this report, no implicit or explicit waivers to the provision of the Code of Ethics adopted in 2 (a) above were granted.
- (e) Not Applicable.
- (f) The Registrant's Code of Ethics is attached as Exhibit 12.A.1 hereto.

**Item 3. Audit Committee Financial Expert.**

The Registrant's Board of Trustees has determined that the Registrant has as least one audit committee financial expert serving on its Audit Committee. The Board of Trustees has designated Ernest Scalberg as the Registrant's audit committee financial expert. Mr. Scalberg is independent as defined in paragraph (a)(2) of Item 3 to Form N-CSR.

**Item 4. Principal Accountant Fees and Services.**

- (a) Audit Fees: The aggregate fees billed for professional services rendered by Cohen Fund Audit Services, Ltd (Cohen) for each of the last two fiscal years ended October 31, 2014 and October 31, 2013 for the audit of the Registrant's annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements were \$28,000 in 2014 and \$28,000 in 2013.
- (b) Audit-Related Fees: The aggregate fees billed in each of the last two fiscal years for assurance and related services by Cohen that are reasonably related to the performance of the audit of the Registrant's financial statements and are not reported under paragraph (a) of this Item were \$0 in 2014 and \$7,500 in 2013.
- (c) Tax Fees: The aggregate fees billed in each of the last two fiscal years for professional services rendered by Cohen for tax compliance, tax advice, and tax planning were \$3,000 in 2014 and \$3,000 in 2013. These fees are comprised of fees

relating income tax return preparation fees, excise tax return preparation fees and review of dividend distribution calculation fees.

- (d) All Other Fees: The aggregate fees billed in each of the last two fiscal years for products and services provided by Cohen, other than the services reported in paragraphs (a) through (c) of this Item were \$0 in 2014 and \$0 in 2013.
- (e)(1) Audit Committee Pre-Approval Policies and Procedures: All services to be performed by the Registrant's principal auditors must be pre-approved by the Registrant's Audit Committee.
- (e)(2) No services described in paragraphs (b) through (d) were approved pursuant to paragraph (c)(7)(i)(C) of Rule 2-01 of Regulation S-X.
- (f) Not applicable.
- (g) The aggregate non-audit fees billed by the Registrant's accountant for services rendered to the Registrant, and rendered to the Registrant's investment adviser, and any entity controlling, controlled by, or under common control with the investment adviser that provides ongoing services to the Registrant for each of the last two fiscal years of the Registrant were \$0 in 2014 and \$0 for 2013.
- (h) Not applicable.

**Item 5. Audit Committee of Listed Registrants.**

The Registrant has a separately designated standing Audit Committee established in accordance with Section 3 (a)(58)(A) of the Exchange Act and is comprised of the following members:

Rick A. Pedersen

Jerry Rutledge

Ernest Scalberg, Chairman (designated Financial Expert)

**Item 6. Schedule of Investments.**

- (a) Schedule of Investments is included as part of the Report to Shareholders filed under Item 1 of this form.
- (b) Not applicable to the Registrant.



**Item 7. Disclosure of Proxy Voting Policies and Procedures for Closed-End Management Investment Companies.**

Attached, as Exhibit Item 7, is a copy of the policies and procedures of the Registrant.

**Item 8. Portfolio Managers of Closed-End Management Investment Companies.**

(a)(1) Portfolio Managers

As of: October 31, 2013

Portfolio Managers			Business Experience:
Name	Title	Length of Service	5 Years
Marc Peterson, CFA	Portfolio Manager	Since Inception	Managing Director, Portfolio Management Principal Real Estate Investors, LLC ( PrinREI )
Kelly D. Rush, CFA	Portfolio Manager	Since Inception	Head of Global Real Estate Securities PrinREI

**Marc Peterson, CFA**

Marc is a managing director, portfolio management, for PrinREI, and, together with Kelly Rush, he is primarily responsible for the day-to-day management of the Fund's portfolio. Marc is responsible for the CMBS portion of the Fund's portfolio. Marc joined PrinREI's affiliate, The Principal Financial Group, in 1992 as an accountant, and joined PrinREI in 1995 to invest in CMBS. He received an MBA from Drake University and a bachelor's degree in accounting from Luther College. Marc has earned the right to use the Chartered Financial Analyst designation and is a member of the CFA Society of Iowa. He is also a member of the Commercial Real Estate Finance Council.

**Kelly D. Rush, CFA**

Kelly is the head of global real estate securities of PrinREI, and, together with Marc Peterson, he is primarily responsible for the day-to-day management of the Fund's portfolio. Kelly is responsible for the real estate-related securities portion of the Fund's portfolio. Kelly has been with the real estate investment area of PrinREI and/or its affiliate, The Principal Financial Group, since 1987, and began managing real estate stock portfolios in 1997. Kelly received an MBA in business administration and a bachelor's degree in finance from the University of Iowa. He has earned the right to use the Chartered Financial Analyst designation and is a member of the Iowa Society of Financial Analysts and the CFA Institute.

(a)(2) As of October 31, 2014, the Portfolio Managers listed above are also responsible for the day-to-day management of the following:

Portfolio Managers	Registered Investment	Other Pooled	
Name	Companies <sup>(1)</sup>	Investment Vehicles <sup>(2)</sup>	Other Accounts <sup>(3)</sup>
Marc Peterson, CFA	2 Accounts	2 Accounts	12 Accounts
	<u>\$1,804.9</u> million Total Assets	<u>\$56.9</u> million Total Assets	<u>\$5,250.5</u> million Total Assets
Kelly D. Rush, CFA	6 Accounts	5 Accounts	38 Accounts
	<u>\$5,204.3</u> million Total Assets	<u>\$857.0</u> million Total Assets	<u>\$2,586.1</u> million Total Assets <sup>(4)</sup>

- (1) Registered Investment Companies include all mutual funds and closed-end funds. For Registered Investment Companies, assets represent net assets of all open-end investment companies and gross assets of all closed-end investment companies.
  - (2) Other Pooled Investment Vehicles include, but are not limited to, securities of issuers exempt from registration under Section 3(c) of the 1940 Act, such as hedge funds.
  - (3) Other Accounts include, but are not limited to, individual managed accounts, separate accounts, institutional accounts, pension funds and collateralized bond obligations.
  - (4) This includes one account with a value of \$72.7 million which is subject to a fee based on performance, but this account has since been terminated.
- (a)(3) Compensation of Portfolio Managers and Material Conflicts of Interest

PrinREI offers investment professionals a competitive compensation structure that is evaluated annually relative to other real estate asset management firms. The objectives are to align individual and team contributions with client performance objectives in a manner that is consistent with industry standards and business results.

Compensation for real estate investment professionals at all levels comprises base salary and variable incentive components. As team members advance in their careers, the variable component increases in its proportion, commensurate with responsibility levels. The incentive component is well aligned with client goals and objectives, with award levels reflecting investment performance relative to appropriate client benchmarks. Relative performance metrics are measured over rolling one-year, three-year and five-year periods. Investment performance is a primary determinant of total variable compensation. The remaining portion of incentive compensation is based on a combination of team and firm results and individual contributions.

For senior team members (approximately 10% of real estate employees), a portion of variable earnings is structured as deferred compensation, subject to three-year vesting. Deferred compensation takes the form of a combination of Principal Financial Group restricted stock units and deferred cash. It should be noted that Principal Financial Group's retirement plans and deferred compensation plans generally utilize its non-registered group separate accounts or commingled vehicles rather than the traditional mutual funds. However, in each instance these vehicles are managed in lockstep alignment with the mutual funds (i.e. clones).

The benefits of this structure are threefold. First, the emphasis on investment performance provides strong alignment of interests with client objectives. Second, the team results and individual contributions components are intended to balance rewards with the achievement of longer term business strategies including asset retention and growth, firm wide collaboration and team development. Third, the overall measurement framework and the deferred component for senior staff are well aligned with our desired focus on talent retention.

- (a)(4) Dollar Range of Securities Owned as of October 31, 2014.

Dollar Range of the Registrant's Securities

Portfolio Managers	Owned by the Portfolio Managers
Marc Peterson, CFA	\$1 to \$10,000
Kelly D. Rush, CFA	None

**Item 9. Purchases of Equity Securities by Closed-End Management Investment Companies and Affiliated Purchasers.**

Not applicable.

**Item 10. Submission of Matters to a Vote of Security Holders.**

There have been no material changes by which shareholders may recommend nominees to the Board of Trustees.

**Item 11. Controls and Procedures.**

- (a) The Registrant's Principal Executive Officer and Principal Financial Officer have concluded that the Registrant's disclosure controls and procedures (as defined in Rule 30a-3(c) under the Investment Company Act of 1940, as amended) are effective based on their evaluation of these controls and procedures as of a date within 90 days of the filing date of this document.
- (b) There was no change in the Registrant's internal control over financial reporting (as defined in Rule 30a-3(d) under the Investment Company Act of 1940, as amended) during the second fiscal quarter of the period covered by this report that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting.

**Item 12. Exhibits.**

- (a)(1) The Code of Ethics that applies to the Registrant's Principal Executive Officer and Principal Financial Officer is attached hereto as exhibit EX-99.12.A.1.
- (a)(2) The certifications required by Rule 30a-2(a) of the Investment Company Act of 1940, as amended, and Section 302 of the Sarbanes-Oxley Act of 2002 are attached hereto as exhibit EX-99.CERT.
- (a)(3) Not applicable.
- (b) A certification for the Registrant's Principal Executive Officer and Principal Financial Officer, as required by Rule 30a-2(b) of the Investment Company Act of 1940, as amended, and Section 906 of the Sarbanes-Oxley Act of 2002 are attached hereto as exhibit EX-99.906CERT.

- (c) The Proxy Voting Policies and Procedures are attached hereto as exhibit EX-99.ITEM7.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PRINCIPAL REAL ESTATE INCOME  
FUND

By: /s/ Thomas A. Carter  
Thomas A. Carter  
President (Principal Executive  
Officer)

Date: January 5, 2015

Pursuant to the requirements of the Securities Exchange Act of 1934 and the Investment Company Act of 1940, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

By: /s/ Thomas A. Carter  
Thomas A. Carter  
President (Principal Executive Officer)

Date: January 5, 2015

By: /s/ Patrick D. Buchanan  
Patrick D. Buchanan  
Treasurer (Principal Financial Officer)

Date: January 5, 2015