

# Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PRDCX	Multiple Sub-Advisors	Diversified Real Asset Strategic Index	Allocation--30% to 50% Equity	Growth and Income

## Economic Overview

The global economic recovery that began in early 2016 appears to have reached self-sustaining velocity. The consensus now recognizes the evidence: strong industrial production, robust growth, and improved capital spending. Plus, business and consumer confidence is surging to high or record levels. Bank indices had better returns than the overall market. Mildly rising interest rates also suggest that investors appreciate some of the more recent worries (i.e., risks of deflation, political turmoil in Europe, or a China hard landing) have fallen significantly.

Economic sentiment in the Eurozone is within a whisker of a 17-year high. Confidence improved in every sector and country. Even Italian CEOs have the most optimistic outlook in a decade. The final survey of manufacturing purchasing managers was the highest in over six and a half years. The flash composite of service and manufacturing indices rose. Private demand is driving growth in both consumer spending and investment. In September, inflation stayed modest. Unemployment is falling and job gains are healthy. The 5.6% jobless rate in Germany is the lowest it's been since reunification in the early 1990s. Even Brexit fears can't keep the UK economy from expanding, or household spending from growing. Purchasing manager indices from the National Bureau of Statistics suggest that both manufacturing and service businesses are improving in China. The private-sector gauge from Caixin/Markit slipped a bit, but still shows growth. The People's Bank of China revealed a targeted cut in required reserves for banks that increase lending to small and very small enterprises, so while fiscal stimulus has faded some, there will be plenty of liquidity. Growth is not accelerating, but no near-term hard landing seems anywhere in sight. The U.S. economy has been strong and steady. Real economic growth averaged 2.2%, matching the rate over the entire expansion. Confidence is high, job growth is robust, and inflation is subdued. Profit growth is rebounding, and capital spending is picking up. We expect third-quarter growth to be cut a few tenths by the tragedies that came with Hurricanes Harvey, Irma, and Maria. Rebuilding efforts could add a bit to growth in following quarters.

As the synchronized global economic expansion continues robust and unabated, central banks are re-evaluating the extraordinary policies put in place after the financial crisis. Robust world growth, higher oil prices, and rising investor confidence in the self-sustaining expansion, pushed government bond yields higher, reversing their July-August dip.

## Balanced Asset Allocation/Lifecycle

U.S. and international equities delivered strong results for the quarter. The broad U.S. equities market, as measured by the Russell 3000, returned 5.67%, while the international developed and emerging markets returned 5.59% and 8.64%, respectively. U.S. small-caps (5.96%) outperformed both U.S. large-caps (4.48%) and mid-caps (3.22%).<sup>1</sup> From a style perspective, growth outperformed value within U.S. large-caps, while value outperformed growth in U.S. mid- and small-cap equities.<sup>2</sup> Real estate investment trusts (REITs) posted positive but lower results, underperforming the broad U.S. equities and international developed markets. U.S. REITs returned 0.38% for the quarter with global REITs returning 2.47%. Most fixed income spread products performed positively during the quarter, led by high yield returning 1.64%. Core fixed income and treasury inflation protected securities (TIPS) had positive performance coming in at 0.79% and 0.87%, respectively.<sup>3</sup>

## Performance Contributors

### Positive Contributors

#### During last quarter:

Commodities weightings and a substitution spread trade on Minneapolis Wheat versus Chicago Wheat contributed to relative performance. An out-of-benchmark allocation to Gasoil and overweight to Ultra-Low Sulfur Diesel were the largest contributors. Positions in copper, palladium, nickel, corn, zinc, natural gas, feeder cattle, Kansas City wheat, Chicago wheat, sugar, platinum, soybean oil, and cotton contributed. Allocation to global agriculture stocks contributed. Farm inputs contributed due to the fertilizer segment. Farming was driven by meat and fish. Supply chain services was aided by recycling, efficiency, and safety. Real estate investment trusts (REITs) contributed due to stock selection. Overweight to fundamentals driving stock returns in German residential and office contributed. The United Kingdom contributed, led by selection in industrial, self-storage, and student housing.

#### During last 12 months:

Allocation to metals & mining contributed. Allocation to and stock selection in real estate investment trusts (REITs) contributed. Overweight to higher quality malls and shopping centers contributed because of an announcement of a well-received merger. Underweight to retail in the U.S. and Australia contributed due to store closings and overall weak sentiment. Allocation to global infrastructure stocks contributed to absolute returns due to strong stock selection in electricity and gas distribution. The communications infrastructure sector contributed as demand for wireless cell phone data continues to grow. Performance of the seaports sector was another contributor.

### Negative Contributors

#### During last quarter:

Allocation to master limited partnerships (MLPs) detracted from absolute performance as sentiment was poor in the face of commodity volatility, challenged equity capital markets, and renewed fears over distribution sustainability. Global timber stocks detracted on a relative basis due to underperformance from hygiene, containerboard, and the pulp sub-segment. Wood products, industrials, homebuilder, and packaging detracted from relative performance. Allocation to treasury inflation protection securities (TIPs) detracted on a relative basis due to nominal euro curve positioning. Japanese inflation positioning detracted. Active FX positioning detracted.

#### During last 12 months:

Allocation to treasury inflation protection securities (TIPs) detracted from absolute returns as the bias to be long U.S. breakevens detracted. 30-year U.S. inflation breakevens narrowed as inflation data showed weakness. Long Canadian two-year nominal rate positioning vs. the U.S. detracted as Canadian front-end rates sold off. Aggregate foreign exchange (FX) positioning detracted. Global timber stocks detracted on a relative basis due to stock selection in wood products, containerboard, timberland, pulp, and packaging. The wood products and hygiene sub-segments were the worst relative contributors, followed by containerboard and timberland. MLPs detracted on a relative basis due to style selection effect. Within the global infrastructure asset class, the exposure to MLPs instead of broader global infrastructure stocks detracted from relative performance.

#### Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

## Diversified Real Asset Fund (C)

### Performance

*Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown. The gross fund expense figure does not reflect any waivers or caps on the mutual fund. Performance shown reflects the application of net expenses of the fund. For more performance information, including most recent month-end performance, visit [principalfunds.com](http://principalfunds.com), or contact your financial representative of The Principal.*

*In situations where the net and gross fund expense figures are different, the investment manager has contractually agreed to limit the investment option's expense. Differences may also be shown due to the investment manager choosing to pay certain expenses that would normally be payable by the fund. The gross fund expense figure does not reflect any waivers or caps on the mutual fund. Performance shown reflects the application of net expenses of the fund.*

Average Annual Total Returns (%) as of 09/30/2017	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	03/16/2010
Diversified Real Asset Fund (C) (excl. sales charge)	2.82	6.59	5.24	-2.25	0.25	-	2.92	Ext. Perf. Inc. Date	03/16/2010
Diversified Real Asset Fund (C) (incl. sales charge)	1.82	5.59	4.24	-2.25	0.25	-	2.92	Total Inv. Exp Gross	2.14
Diversified Real Asset Strategic Index	3.53	6.62	6.01	0.98	1.03	-	-	Total Inv Exp Net	2.02
Allocation--30% to 50% Equity Category	2.36	7.36	7.04	4.06	5.30	4.38	-	Waiver Date	06/30/2018
Morningstar Percentile Ranking	-	-	84	99	100	-	-	Contractual Cap Date	06/30/2018
Total Funds in Category	530	505	502	395	356	257	-	Contingent Deferred Sales Charge	1.00
								Maximum Up-front Sales Charge	-

**Past performance is no guarantee of future results.** Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

## Diversified Real Asset Fund (C)

### Top Ten Holdings as of 08/31/2017

Security	Net Assets (%)
Dracay Credit Suisse - 30	10.52
Us 2yr Note (Cbt) Dec17	1.07
Us 5yr Note (Cbt) Dec17	0.81
US Treasury Note	0.81
Enbridge Inc	0.75
Enterprise Products Partners LP	0.74
Magellan Midstream Partners LP	0.68
TransCanada Corp	0.66
US Treasury Note	0.63
Sempra Energy	0.60
<b>Total % in Top 10</b>	<b>17.28</b>

Information is current as of the date noted. Keep in mind that all current and future portfolio holdings are subject to risk.

## Diversified Real Asset Fund (C)

Manager(s)	Start Date	Degree	Alma Mater
Kelly A. Grossman	03/16/2010	B.A.	University of Northern Iowa
Benjamin E. Rotenberg	03/07/2014	B.A.	Pomona College
Marcus W. Dummer	03/07/2014	B.A.	University of Utah
Jessica S. Bush	03/07/2014	B.A.	University of Michigan
Jake S. Anonson	03/07/2014	B.A./B.S.	University of Northern Iowa

### Fund Strategy

The investment seeks a long-term total return in excess of inflation. The fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in investments related to real assets and real asset companies. It seeks to achieve its investment objective by allocating its assets among general investment categories related to real assets and real asset companies (which include tangible assets and investments that are expected to perform well in periods of high inflation).

### About Credit Suisse

Founded in 1856, Credit Suisse Group has a long tradition of meeting the complex financial needs of a wide range of clients. The history of Credit Suisse Asset Management, LLC dates back to 1935, when Credit Suisse Asset Management (New York) was founded as BEA (Basic Economic Appraisals) Associates. All institutional investment management divisions within the Credit Suisse Group were re-branded in 1997 under the one entity: Credit Suisse Asset Management. As one of the world's leading banks, Credit Suisse provides its clients with private banking, investment banking and asset management services worldwide. The firm's asset management business offers products across a broad spectrum of investment classes - including alternative investments such as commodities, private equity, hedge funds, real estate and credit, as well as multi-asset-class strategies (which includes equities and fixed income products). Credit Suisse's asset management business manages portfolios, mutual funds and other investment vehicles for a broad spectrum of clients ranging from governments, institutions and corporations to private individuals. The Credit Suisse asset management business is operated as a globally integrated network to deliver the bank's best investment ideas and capabilities to clients around the world.

### About Macquarie

Macquarie Asset Management (MAM) is Macquarie Group's funds management business. MAM is a full-service asset manager, offering a diverse range of capabilities and products including infrastructure and real asset management, securities investment management and structured access to funds, equity-based products and alternative assets. MAM has been managing assets for pension funds, institutions and retail investors since 1980 in Australia and 1929 in the US (through Delaware Investments). MAM has a global reach, with a team of around 1,500 staff located in 20 countries including Australia, Asia, the UK, Europe and the US. Macquarie Asset Management's Listed Infrastructure team is one of the largest dedicated listed infrastructure teams in the world. Our investment team consists of three portfolio managers, six analysts, and two traders, all of whom focus exclusively on Listed Infrastructure portfolios. The team is located in both New York and Sydney, allowing it to analyze and execute on a near 24 hour basis, five days a week.

### About Pictet

Founded in Geneva in 1805, the Pictet Group is today one of Europe's leading independent wealth and asset managers. Pictet Asset Management (Pictet) refers to the institutional business division of the Pictet Group. Pictet's clients include some of the world's largest pension funds, mutual funds, sovereign wealth funds and financial institutions.

### About BlackRock Financial Mgmt, Inc.

BlackRock is a premier provider of global investment management, risk management and advisory services. Clients include corporate, public and union pension plans, insurance companies, mutual funds, endowments, foundations, charities, corporations, official institutions and individuals worldwide. Through BlackRock Solutions®, the firm offers risk management and advisory services that combine capital markets expertise with proprietary-developed systems and technology. BlackRock serves clients in North and South America, Europe, Asia, Australia, Africa and the Middle East. Headquartered in New York, the firm maintains offices in 24 countries around the world.

### About Symphony Asset Management LLC

Symphony Asset Management LLC (Symphony) is a diversified alternative investment manager headquartered in San Francisco, California with offices in New York, New York. An SEC-registered Investment Adviser since inception in 1994, Symphony is structured to meet the needs of institutional and retail clients.

### About Tortoise Capital Advisors, LLC

Tortoise Capital Advisors, L.L.C. (Tortoise) focuses on the energy-infrastructure sector, primarily investing in Master Limited Partnerships (MLPs). The firm was founded in 2002 and is headquartered in Leawood, Kansas (a suburb of Kansas City, Missouri).

### About Brookfield Investment Mgmt Inc

Brookfield Investment Management Inc. (the firm) is a global investment manager focused on specialized equity and fixed income securities. The firm is a subsidiary of Brookfield Asset Management, with more than 100 years of ownership and operating experience in real estate, infrastructure, power and private equity. Brookfield Investment Management encompasses all of the public securities investment capabilities of Brookfield Asset Management.

### About BNP Paribas Asset Management

Fischer Francis Trees & Watts (FFTW) is a global investment management firm providing active, fixed income and equity capabilities to institutional investors. We manage single and multi-currency mandates across global, US and emerging markets. We have investment staff located in New York, Boston, London and Paris. We are ultimately owned by BNP Paribas group, one of the world's largest financial institutions, providing us with the financial stability and global resources to strengthen our capabilities.

### About Principal Real Estate Inv

Principal Real Estate Investors is the dedicated real estate asset manager for Principal Global Investors. Principal Real Estate Investors' capabilities include commercial mortgage-backed securities, real estate equity securities and a broad range of private market real estate equity and debt alternatives.

## Important Notes

**Investors should carefully consider a fund's investment objectives, risks, charges, and expenses prior to investing. A prospectus, or summary prospectus if available, containing this and other information can be obtained by contacting a financial professional, visiting [principalfunds.com](http://principalfunds.com), or calling 800-222-5852. Read the prospectus carefully before investing.**

The value of the investment options will fluctuate so that when redeemed, shares or units may be worth more or less than the original cost.

Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Any operating expenses of a mutual fund or underlying mutual fund that are part of net Total Investment Expense are obtained from the mutual fund's most recent prospectus. The operating expenses shown as part of the Total Investment Expense include voluntary expense limits and fee credit.

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The risks associated with derivative investments include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.

Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. or any other government entity. Concentrating investments in natural resources industries can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations and other factors. Investment in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. REIT securities are subject to risk factors associated with the real estate industry and tax factors of REIT registration. An MLP that invests in a particular industry (e.g., oil and gas) may be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income paid by an MLP to its investors.

Diversified Real Asset Strategic Index is composed of 35% Bloomberg Barclays U.S. Treasury TIPS Index, 20% S&P Global Infrastructure Index, 20% S&P Global Natural Resources Index, 15% Bloomberg Commodity Index, and 10% FTSE EPRA/NAREIT Developed Markets Index.

Extended Performance Inception Date (Ext. Perf. Inc. Date) - Inception date of the oldest share class of the fund, or underlying fund of the Separate Account.

### About Principal Financial Group



The Principal Financial Group® (The Principal®) is a leading global financial company offering businesses, individuals and institutional clients a wide range of financial products and services. Our range of products and services includes retirement solutions, life and health insurance, wellness programs, and investment and banking products through our diverse family of financial services companies and national network of financial professionals.



## Important Notes

\*Unless otherwise stated, all data from Bloomberg

<sup>1</sup>U.S. equities: Russell 3000 Index, U.S. large-cap stocks: S&P 500 Index, U.S. mid-cap stocks: S&P MidCap 400 Index, U.S. small-cap stocks: S&P SmallCap 600 Index, Developed Markets Index; S&P Developed Ex US BMI, international emerging markets equities: S&P Emerging BMI

<sup>2</sup>large-cap growth stocks: S&P 500 Growth Index; U.S. large-cap value stocks: S&P 500 Value Index, U.S. mid-cap growth stocks: S&P MidCap 400 Growth Index; U.S. mid-cap value stocks: S&P MidCap 400 Value Index; U.S. small-cap growth stocks: S&P SmallCap 600 Growth Index; U.S. small-cap value stocks: S&P SmallCap 600 Value Index: U.S.

<sup>3</sup>High Yield Corporate Bonds: S&P 500 High Yield Corporate Bond Index; Core Fixed Income: S&P US Aggregate Bond TR USD; TIPS: S&P US Treasury TIPS Index TR

This report is not complete unless all pages, as noted below, are included.

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