

First Quarter 2017

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PYHPX	Principal Global Investors	Bloomberg Barclays US Corp High Yld 2% Issuer Capped Index	High Yield Bond	Corp Bond - High Yield

Economic Overview

The first quarter of 2017 saw the dawning of the Trump administration. That factor was by far the biggest driver of the markets. Initially, the markets reacted with euphoria, as the expectation was that the new Trump administration would usher in a regime change of lower taxes and lower regulatory burdens. This excitement continued well into March when the Dow, S&P 500, and Nasdaq all hit record highs. Interestingly, seemingly left behind were small-cap stocks, as evidenced by the Russell 2000 which underperformed their larger counter parts substantially (Russell 2000 +2.47 vs Russell 1000 +6.03) year-to-date.¹ The idea being that larger companies would benefit more from Trump's policies.

The cyclical reflation continued through the first quarter of 2017. The market continues its back and forth and the world's underlying economic fundamentals have stayed robust and are improving in Europe and Japan. The rebound in commodity prices has slowed, headline inflation has eased, and sentiment indicators are positive. But, deflation is over and for the first time since 2010, no major country is encountering deflation in producer or consumer prices.

In the United States, despite the rally in risk assets, longer-term interest rates declined slightly due to increasing global political risks. Meanwhile, the Federal Reserve (Fed) raised its target rate in March and is expected to make additional rate hikes in 2017. Consumer and business confidence is strong, the housing market is improving, and manufacturing output has seen steady gains in recent months. In addition, wage growth is accelerating and the unemployment rate continues to decline. Business surveys in Europe were positive. Core inflation, excluding food and energy, fell in March to 0.7% over the prior year. In Japan, the unemployment rate dropped to 2.8%, its lowest level since 1994. Manufacturing surveys stayed solid. In China, reflation remains entrenched as growth stabilized at a good level and industrial profits surged 31.5% in January and February. At the end of the quarter, the S&P 500 and the Dow Jones 30 Industrials total return indices were both almost perfectly flat in March after hitting record highs earlier in March. Most European and developing countries looked better. The MSCI Europe and MSCI Emerging Market indices were each up 3.6% and 2.4% for March and surged 6.5% and 11.2% for the quarter, both respectively. Emerging market bonds had good returns as developing country interest rates slid a bit or were flat during the first quarter and the improving economic data led to narrower credit yield spreads. Euro area stocks were on the leader boards of both the March and the first quarter as economic data steadily improved, rising above expectations.

Fixed Income

Rates were mixed across the U.S. Treasury yield curve as the two-year Treasury yield increased 6 basis points (bps) to 1.26% while the 10-year and 30-year Treasury yields declined modestly. The 10-year Treasury yield fell 5 bps to 2.39% and the 30-year Treasury decreased 6 bps to 3.01% on March 31, 2017.² The flattening of the yield curve can be attributed, in part, to the Federal Reserve (Fed) raising short-term rates by 25 bps at its March 2017 meeting³ while declining fiscal policy expectations weighed on long-term yields. Rates accelerated throughout most of the quarter, peaking in early March, but retreated following a drop in oil prices and uncertainty regarding the passage of President Trump's tax and fiscal policy initiatives to further spur U.S. economic growth.

Most fixed income spread products outperformed duration-adjusted U.S. Treasuries for the period. Extending its outperformance, below investment-grade corporate bonds delivered duration-adjusted excess returns of 2.13%. This was followed by investment-grade corporate bonds of 0.38%, among which industrial and financials sub-sector excess returns were 0.34% and 0.55%, respectively. Commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) also delivered excess returns of 0.08% and 0.22%, respectively. In turn, agency mortgage-backed securities (MBS) underperformed duration-adjusted U.S. Treasuries by 0.17%.⁴

Performance Contributors

Positive Contributors

During last quarter:

Security selection contributed to performance. Allocation to Navios Maritime Holdings, Pinnacle Operation Corp., Blueline Rental Finance, Goodman Networks, Inc. and Eletson Holdings contributed to performance. Underweight to retailers, technology, and consumer products as well as overweight to transportation services and cable satellite contributed.

During last 12 months:

Security selection contributed to performance. Chaparral Energy, Inc., Navios Maritime Holdings, and Everest ACQ LLC/Finance contributed. Underweight to healthcare and retailers as well overweight to independent contributed.

Negative Contributors

During last quarter:

Asset allocation detracted from performance. Allocation to Academy Ltd, Tenet Healthcare Corp., Intelsat Jackson Holdings, Valeant Pharmaceuticals, and Lennar Corp. detracted. Underweight to oil field services, industrial other, and electric as well as overweight to finance companies and packaging detracted.

During last 12 months:

Asset allocation had a negative impact. Freeport-McMoran C&G, Pinnacle Operating Corp., and Academy Ltd detracted. Underweight to oil field services, metals and mining, and midstream detracted.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

High Yield Fund (P)

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, 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 03/31/2017	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	09/27/2010
High Yield Fund (P) (excl. sales charge)	2.91	2.91	15.71	4.59	6.76	7.10	7.66	Ext. Perf. Inc. Date	04/08/1998
Bloomberg Barclays US Corp High Yld 2% Issuer Capped Index	2.70	2.70	16.39	4.58	6.82	7.54	-	Total Inv. Exp Gross	0.62
High Yield Bond Category	2.31	2.31	13.52	3.15	5.56	5.86	-	Total Inv Exp Net	0.62
Morningstar Percentile Ranking	-	-	25	11	14	9	-	Waiver Date	02/28/2018
Total Funds in Category	727	727	697	596	471	318	-	Contractual Cap Date	02/28/2018
								Contingent Deferred Sales Charge	-
								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.

These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

High Yield Fund (P)

Statistics Summary as of 03/31/2017

	Risk and Return Statistics Summary						Upside/Downside Capture Ratio					
	Alpha	Beta	R2	Sharpe Ratio	Info Ratio	Std Dev	# of Months		Avg Returns %		Benchmark %	
							Up	Down	Up	Down	Up	Down
	3 Year						3 Year					
High Yield Fund (P)	0.49	0.88	97.49	0.82	0.00	5.44	21	15	1.40	-1.21	91.86	86.50
Bloomberg Barclays US Corp High Yld 2% Issuer Capped Index	N/A	N/A	N/A	N/A	N/A	N/A	22	14	1.53	-1.40	100.00	100.00
	5 Year						5 Year					
High Yield Fund (P)	0.52	0.91	97.63	1.32	-0.07	4.94	41	19	1.32	-1.23	94.79	89.39
Bloomberg Barclays US Corp High Yld 2% Issuer Capped Index	N/A	N/A	N/A	N/A	N/A	N/A	42	18	1.39	-1.37	100.00	100.00

Risk and return statistical data is calculated by Morningstar, Inc. Please see Important Notes section for definitions of Risk and Return Statistics.

Top Ten Holdings as of 02/28/2017

Security	Net Assets (%)
Ing U S FRN	1.34
Cco Hldgs Llc / Cco Hldgs Ca 144A 5.125%	1.14
Arcelormittal Sa Luxembourg 7%	0.98
Jpmorgan Chase FRN	0.98
Navios Maritime Acquisition 144A 8.125%	0.94
Sabine Pass Liquefaction 5.625%	0.79
Signode Indl Grp Us 144A 6.375%	0.73
Diamond 1 Fin Corp/Diamond 2 144A 7.125%	0.70
Commrcl Metals 4.875%	0.67
Zayo Grp Llc/Zayo Cap 6%	0.64
Total % in Top 10	8.89

Statistics as of 02/28/2017	
Average Eff Duration (yrs)	3.42
Average Eff Maturity (yrs)	6.56
Average Weighted Price	\$104.43
30-Day SEC Yield - Subsidized (Net) as of 03/31/2017	5.20%
30-Day SEC Yield - Non-Subsidized (Gross) as of 03/31/2017	5.20%

High Yield Fund (P)

Manager(s)	Start Date	Degree	Alma Mater
Mark P. Denkinge	05/04/2009	M.B.A.	University of Iowa
Darrin E. Smith	05/04/2009	M.B.A.	Drake University
Joshua Rank	06/12/2015	B.A.	Iowa State University

Fund Strategy

The investment seeks to provide a high level of current income. The fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in below investment grade bonds (sometimes called "high yield bonds" or "junk bonds") which are rated, at the time of purchase, Ba1 or lower by Moody's and BB+ or lower by S&P Global. It also invests in bank loans (also known as senior floating rate interests) and securities of foreign issuers, including those located in developing or emerging countries.

About Principal Global Investors

Principal Global Investors' fixed income team draws on the strength of more than 80 fixed income investment professionals, including a diverse group of global credit analysts, structured debt specialists, economists, portfolio managers, traders and risk management specialists.

Important Notes

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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, 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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These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.

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

Class P shares are available only to certain investors. See the prospectus for more information.

High yield investment options are subject to greater credit risk and volatility that is associated with high yield bonds.

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. government.

Bloomberg Barclays US Corp High Yld 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

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

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.

Risk and Return Statistics:

Alpha - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta).

Beta - An investment's sensitivity to market movements.

R-squared - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index.

Standard Deviation - Measures how much an investment's returns are likely to fluctuate.

Sharpe Ratio - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance.

Information Ratio - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

Up-Market Capture Ratio - A statistical measure of an investment option's performance relative to a comparative index in months in which that index has risen. An up-market capture ratio of greater than 100 would indicate that the investment option performed better than the comparative index during months in which the index had risen over a specified time period.

Down-Market Capture Ratio - A statistical measure of an investment option's performance relative to a comparative index in months in which that index has fallen. A down-market capture ratio of greater than 100 would indicate that the investment option performed worse than the comparative index during months in which the index had fallen over a specified time period.

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Important Notes

Statistics:

30-Day SEC Yield - Subsidized (Net) - This yield citation reflects the income that the investment option produced taking into consideration all expense waivers, caps, and breakpoints in place during the 30 day period. Without these waivers, the investment option's yield would be lower.

30-Day SEC Yield - Non-Subsidized (Gross) - This yield citation reflects the income that the investment option would produce if the investment option did not have a portion of its total investment expense waived or capped.

Average Effective Duration - A measure of a fixed income investment option's interest-rate sensitivity and represents an approximate percent change in bond's price for a one percent change in interest rates-the longer a fund's duration, the more sensitive the portfolio is to shifts in interest rates. The duration of a fixed income investment option is determined by a formula that includes projected cash flows, such as coupons and principal payout at maturities for bonds.

Average Effective Maturity - Average effective maturity is a weighted average of all the effective maturities of the bonds in a portfolio.

Average Weighted Price - The statistic is calculated by weighting the price of each bond by its relative size in the portfolio. This number reveals if the investment option favors bonds selling at prices above or below face value (discount or premium securities, respectively). A higher number indicates a bias toward premiums. This statistic is expressed as a percentage of par (face) value.

Effective Duration - A measure of a fixed income investment option's interest-rate sensitivity and represents an approximate percent change in bond's price for a one percent change in interest rates-the longer a fund's duration, the more sensitive the portfolio is to shifts in interest rates. The duration of a fixed income investment option is determined by a formula that includes projected cash flows, such as coupons and principal payout at maturities for bonds.

*All data sourced to Bloomberg, unless footnoted

¹FTSE Russell

²U.S. Treasury Constant Maturity 30-year, 10-year and 2-year yields

³Federal Reserve Bank Federal Open Market Committee statement, March 15, 2017

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Important Notes

⁴Components of Bloomberg Barclays U.S. Aggregate Bond Index, via Barclays Live. Duration-adjusted excess return is a measure the relative performance to that of U.S. Treasurys with a similar duration profile.

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

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