

Third Quarter 2017

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PMSAX	Multiple Sub-Advisors	Hedge Fund Research, Inc. Fund of Funds Composite Index	Multialternative	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%).¹ From a style perspective, growth outperformed value within U.S. large-caps, while value outperformed growth in U.S. mid- and small-cap equities.² 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.³

Performance Contributors

Positive Contributors

During last quarter:

The emerging markets credit long/short sleeve, sub-advised by Finisterre Capital, contributed, with returns coming from Brazil, where positions in local rates and credit generated strong returns. Egyptian and Argentinian local currency bonds and sovereign credit exposures were also top contributors. The long/short equity sleeve, sub-advised by LA Capital, contributed, benefitting from overweight to information technology and underweight to consumer staples. Exposure to one-year momentum, as well as companies with higher earnings yield were also beneficial. The credit sleeve, sub-advised by Sound Point, contributed with gains coming from a number of core positions reporting positive news on restructuring or earnings.

During last 12 months:

The emerging markets credit long/short sleeve, sub-advised by Finisterre Capital, contributed with positive results coming from core positions in Brazil, Mexico, and Iraq. In Brazil, most of the performance came from positions in interest rates, Odebrecht and Petrobras. Similarly, in Mexico and Iraq a combination of government and corporate bond positions generated strong positive performance. The long/short equity sleeve, sub-advised by LA Capital, also contributed with strong returns coming from overweight to technology and euro-denominated countries, and underweight to telecom services and the Japanese yen. Overweight to book-to-price and earnings yield was also beneficial. The credit sleeve, sub-advised by Sound Point, also contributed. A number of core positions performed well.

Negative Contributors

During last quarter:

The market neutral sleeve, sub-advised by KLS, was the worst performer and largest detractor, albeit positive. U.S. rates detracted along with telecom infrastructure bonds and a post-reorganization equity position in the credit strategy. The event driven sleeve, sub-advised by York Capital, also contributed the least. The long/short equity sleeve, sub-advised by Wellington Management, was a bottom contributor. The futures and options positions of the core total return equity strategies, which are designed to hedge and mitigate the downside, detracted.

During last 12 months:

The long/short equity sleeve, sub-advised by Ascend Capital, was among the bottom contributors to performance. Losses came from energy, consumer discretionary, and utilities. The global macro sleeve, sub-advised by Graham Capital, was also among the bottom contributors. The manager experienced losses in fixed income, most notably on the long end of the yield curve in Europe. Smaller losses came from European short rates and currencies, while the long positioning in equities was positive. The credit sleeve long/short sleeve, sub-advised by Loomis Sayles, was among the bottom contributors to performance. The small allocation to equities, which has been focused on energy, detracted along with the hedges.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

Global Multi-Strategy Fund (A)

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 09/30/2017	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	10/24/2011
Global Multi-Strategy Fund (A) (excl. sales charge)	1.61	4.71	5.00	2.71	3.21	-	3.34	Ext. Perf. Inc. Date	10/24/2011
Global Multi-Strategy Fund (A) (incl. sales charge)	-2.16	0.80	1.07	1.41	2.43	-	2.68	Total Inv. Exp Gross	2.45
Hedge Fund Research, Inc. Fund of Funds Composite Index	2.24	5.52	6.43	2.21	3.85	1.07	-	Total Inv Exp Net	1.94
Multialternative Category	1.50	3.59	3.79	1.35	2.60	0.94	-	Waiver Date	06/30/2018
Morningstar Percentile Ranking	-	-	35	26	32	-	-	Contractual Cap Date	06/30/2018
Total Funds in Category	429	399	391	253	154	33	-	Contingent Deferred Sales Charge	1.00
								Maximum Up-front Sales Charge	3.75

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.

Global Multi-Strategy Fund (A)

Statistics Summary as of 09/30/2017

	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					
Global Multi-Strategy Fund (A)	1.16	0.64	66.62	0.92	0.27	2.60	25	11	0.54	-0.58	79.01	51.80
Hedge Fund Research, Inc. Fund of Funds Composite Index	N/A	N/A	N/A	N/A	N/A	N/A	26	10	0.68	-1.11	100.00	100.00
	5 Year						5 Year					
Global Multi-Strategy Fund (A)	0.51	0.68	73.89	1.15	-0.38	2.59	42	18	0.63	-0.57	76.15	65.82
Hedge Fund Research, Inc. Fund of Funds Composite Index	N/A	N/A	N/A	N/A	N/A	N/A	42	18	0.82	-0.87	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 08/31/2017

Security	Net Assets (%)
Recv Total Return Swap_receive	4.66
Payb Total Return Swap_pay	4.65
S&P500 Emini Fut Sep17	4.15
Us Long Bond(Cbt) Dec17	2.68
Euro-Bund Future Dec17	2.62
Recv Total Return Swap	2.33
Payb Total Return Swap	2.32
Bank Accept Futr Dec18	2.10
Payb Total Return Swap	1.80
Recv Total Return Swap	1.80
Total % in Top 10	29.12

Global Multi-Strategy Fund (A)

Manager(s)	Start Date	Degree	Alma Mater
Kelly A. Grossman	10/24/2011	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 to achieve long-term capital appreciation with an emphasis on positive total returns and managing volatility. In pursuing its strategies, the fund invests in a broad range of instruments including, but not limited to, equities, bonds, currencies, commodities, convertible securities, floating rate debt, and bank loans. Under normal market conditions, it invests in securities of issuers located throughout the world, including the U.S., invests at least 30% of its net assets in foreign and emerging market securities, and holds investments tied economically to at least ten countries.

About Loomis Sayles & Company

Loomis Sayles, a limited partnership, is a wholly-owned subsidiary of Natixis Global Asset Management (NGAM), which is the U.S.-based subsidiary of Natixis (based in Paris). NGAM is headquartered in Boston and has several investment management affiliates and distribution/service units in cities across the U.S.

About CNH Partners, LLC

CNH Partners, LLC is a merger arbitrage, convertible arbitrage, and diversified arbitrage research affiliate of AQR.

About Wellington Management Co, LLP

Wellington Management Company, LLP (Wellington Management) is a global investment manager based in Boston, Massachusetts. Wellington Management's expertise is investments - from global equities and fixed income to currencies and commodities. Wellington Management is described as a community of teams that create solutions designed to respond to specific client needs. Today, the firm is one of the largest private, independent investment management companies, with offices all around the world.

About York Capital Management

Since its inception in 1991, York Capital Management (York) has sought to achieve attractive risk-adjusted returns across business and market cycles through a combination of focused research and investment selection, coupled with disciplined risk management. Jamie Dinan, York's founder and CEO, has developed York by assembling a cohesive team of talented professionals with complementary backgrounds and diverse skill sets. York's employees are based in various locations around the world; the firm's primary locations are New York, London and Hong Kong. York's investment professionals possess multi-disciplinary knowledge and relationships across industry sectors, geographies, business cycles and equity and debt markets. York uses its global platform to employ a multi-strategy, event-driven investment approach that emphasizes the fundamental analysis of industries and businesses.

About Ascend Capital, LLC

Ascend Capital, LLC (Ascend), based in Orinda, CA, was established in 1999 by Mr. Malcolm Fairbairn, and launched its first fund on January 1, 2000. Mr. Fairbairn has over 22 years of hedge fund experience through a myriad of financial crises and market cycles, delivering positive returns in 20 of the 22 years. Ascend's mission is to generate superior risk-adjusted returns that maximize gains and minimize volatility over a broad range of market environments. Ascend has been translating this philosophy into results since 2000 with consistent performance in up and down markets, very few down months and low market correlation. As Chief Investment Officer, Mr. Fairbairn leads the investment team which is organized along sectors through Portfolio Managers who are primarily responsible for idea generation and managing the investments within their sector. In addition to managing his own sector portfolio, Mr. Fairbairn is ultimately responsible for the fund's overall portfolio construction. Ascend manages approximately \$ 2.8 billion in assets.

About Graham Capital Management

Founded by Kenneth G. Tropin in 1994 as a proprietary trading company, Graham Capital Management (GCM) is a leading investment manager within the alternative investment industry. GCM focuses on macro-oriented quantitative and discretionary investment strategies in the global fixed income, currency, commodity and equity markets.

About KLS Diversified Asset Mgmt LP

KLS Diversified Asset Management LP is a diversified fixed income investment management firm founded in 2007. The firm manages capital for pension funds, institutions, and retail investors across a number of assets and products, leveraging the significant trading, investing, and risk management experience of its founders and partners. The firm is based in New York City and is registered with the SEC and CFTC. KLS Diversified seeks to preserve investor capital while delivering high absolute returns with low volatility and low correlation to equity and bond markets. The Fund dynamically allocates and reallocates risk and capital across the three broad strategies where its managers maintain expertise - Credit, Structured Products and Rates - and is active in multiple sub-strategies at any given time.

About Sound Point Capital Management

Sound Point Capital Management, LP (Sound Point) is an SEC registered Investment Adviser founded in 2008 with particular expertise in corporate credit. Sound Point is the investment advisor for the Sound Point Credit Opportunities Fund, the Sound Point Senior Floating Rate Fund, the Sound Point Beacon Fund, the Sound Point CLO Fund, eleven Collateralized Loan Obligations (CLOs) and several separately managed accounts. Their primary investment objectives across all our products are (i) to preserve capital in all market conditions and (ii) to generate attractive rates of return with low volatility.

About Finisterre Capital LLP

Established in 2002, and headquartered in London, Finisterre Capital (Finisterre) is an Emerging Markets credit specialist dedicated to delivering risk-controlled, total-return investment strategies for institutional investors. Finisterre has employees in London, Connecticut, New York City, Malta and Hong Kong. The firm's six partners average 25 years' experience. Principal Global Investors own a majority interest in Finisterre; Finisterre's six partners own the remainder of the firm.

About AQR Capital Management, LLC

AQR Capital Management, LLC (AQR) is a global provider of investment management services. The firm was founded in 1998 and is headquartered in Greenwich, Connecticut. With a diverse, global institutional client base, AQR offers a wide range of investment products - from traditional benchmark-driven investments to absolute-return strategies such as hedge funds.

About LA Capital Management

LA Capital Management (LA Capital) is an employee-owned firm that utilizes a quantitative approach for security selection and portfolio management. Portfolios are tailored to meet the unique return and risk objectives of each assignment. The investment team members developed the investment process at Wilshire Asset Management, where they worked together for sixteen years beginning in 1986. In March 2002, the team purchased the business from Wilshire Associates to set up an independent investment boutique.

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, 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-Adviser 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.

This fund utilizes alternative investment strategies such as arbitrage, leverage, derivatives, and shorting securities in addition to traditional investments. Investment risk may be magnified with the use of these alternative strategies. In addition, securities such as bonds, equities, commodities, international and emerging market securities, and currencies are used to implement the investment strategy. These investments are subject to risks associated with market and interest rate movements. The fund is considered non-diversified which may make it more susceptible to price volatility if the fund does not meet its objective. Due to the nature of the investment process, investors should not expect significant outperformance during market rallies. Additional risks are included in the funds prospectus. It is possible to lose money when investing in the fund.

The Hedge Fund Research, Inc. Fund of Funds Composite Index is an equal-weighted index composed of over 650 constituent fund of funds, including both domestic and offshore funds.

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

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.

*Unless otherwise stated, all data from Bloomberg

¹U.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

²large-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.

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Important Notes

³High 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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