

Third Quarter 2017

# Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PBLAX	Principal Global Investors	Russell 1000 Growth Index	Large Growth	Growth

## 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.

## Large U.S. Equity

U.S. equities again reached new highs. The S&P 500 was up during the quarter with a 4.48% total return. The information technology sector was the top performer, while the consumer staples sector lagged. U.S. large-cap stocks underperformed small-caps. From a style perspective, growth outperformed value - a continuation of the first half of 2017.<sup>1</sup>

## Performance Contributors

### Positive Contributors

#### During last quarter:

Allocation to MasterCard, a technology company that provides transaction processing and other payment-related services in the United States and internationally, contributed. Allocation to Visa, a dominant company in the global electronic payments market, accounting for roughly half of all credit card transactions and nearly three-fourths of debit card transactions in recent years, contributed. Allocation to Berkshire Hathaway, a diversified company with businesses ranging from insurance to railroads, contributed. Allocation to Alphabet, contributed as its core Google business has tremendous advantages and due to results driven by growth in mobile search. Allocation to CarMax, the largest used car retailer in the U.S., which purchases, reconditions, and sells used vehicles, operates wholesale auctions on their store lots, and provides financing to their used vehicle customers through CarMax Auto Finance, contributed due in part to its disciplined inventory management.

#### During last 12 months:

Allocation to Alphabet, contributed due in part to growth driven by growth in mobile search. Allocation to Berkshire Hathaway, a diversified company with businesses ranging from insurance to railroads, contributed. Allocation to MasterCard, which provides transaction processing and other payment-related services in the United States and internationally, contributed. Allocation to Amazon, an e-commerce company started by Jeff Bezos in 1994, contributed as the company continues to reap the rewards of long-term investments that have given them a closer relationship with customers. Allocation to Wells Fargo, a nationwide bank that offers traditional bank/lending services as well as securities brokerage, wealth management, and insurance services, contributed due to the higher interest rate environment.

### Negative Contributors

#### During last quarter:

Allocation to Starbucks, which sells gourmet coffee, tea, related products, and more, detracted mainly due to a slowdown in U.S. sales growth. Allocation to DENTSPLY Sirona, a global dental solutions provider focused on developing and commercializing dental supplies and equipment on a worldwide basis, detracted as benefits of the merger have been slow to develop. Allocation to AutoZone, a retailer in the auto parts aftermarket, serving primarily consumers who repair their own vehicles, detracted due in part to concerns regarding the potential of online competition. Allocation to Amazon, an e-commerce company started by Jeff Bezos in 1994, detracted. Allocation to Martin Marietta, the second largest producer of aggregates in the United States, detracted due to weak aggregates volume, particularly in their high margin Southeast area, where weather had some impact.

#### During last 12 months:

Allocation to AutoZone, a retailer in the auto parts aftermarket, serving primarily consumers who repair their own vehicles, detracted due in part to concerns regarding the potential of online competition. Allocation to Kinder Morgan, which owns and manages a diversified portfolio of energy transportation and storage assets, detracted mainly due to concerns about the IPO of the company's Canadian operations. Allocation to AB InBev (ABI), which is by far the largest brewer in the world with operations in 50 markets, detracted due in part to slow beer demand from emerging market countries, especially Brazil and China. Allocation to Dollar Tree, a well-managed discount store that manages to achieve high net margins, while charging only \$1 for the items in their stores, detracted due to weaker than expected growth in its Family Dollar segment, and more general concern about competition. Allocation to GE, a diversified industrial and financial services conglomerate, detracted.

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

No material changes occurred in the portfolio structure.

# Blue Chip 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](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	09/30/2013
Blue Chip Fund (A) (excl. sales charge)	5.94	20.21	19.38	12.85	14.38	-	15.29	Ext. Perf. Inc. Date	06/14/2012
Blue Chip Fund (A) (incl. sales charge)	0.10	13.58	12.80	10.74	13.10	-	14.07	Total Inv. Exp Gross	1.28
Russell 1000 Growth Index	5.90	20.72	21.94	12.69	15.26	9.08	-	Total Inv Exp Net	1.28
Large Growth Category	5.29	19.85	19.75	10.36	13.70	7.55	-	Waiver Date	06/30/2018
Morningstar Percentile Ranking	-	-	55	17	40	-	-	Contractual Cap Date	06/30/2018
Total Funds in Category	1478	1416	1398	1259	1125	800	-	Contingent Deferred Sales Charge	1.00
								Maximum Up-front Sales Charge	5.50

**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.

## Blue Chip 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					
Blue Chip Fund (A)	0.46	0.97	92.96	1.15	0.05	10.79	24	12	2.90	-1.83	100.82	100.39
Russell 1000 Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	22	14	2.87	-1.82	100.00	100.00
	5 Year						5 Year					
Blue Chip Fund (A)	0.08	0.95	91.15	1.39	-0.27	9.98	42	18	2.91	-1.64	95.42	96.81
Russell 1000 Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	37	23	3.05	-1.69	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 (%)
Amazon.com Inc	7.90
Alphabet Inc C	7.88
Berkshire Hathaway Inc B	6.85
American Tower Corp	4.95
Brookfield Asset Management Inc Class A	4.94
Visa Inc Class A	4.91
Mastercard Inc A	4.88
Microsoft Corp	4.53
TransDigm Group Inc	3.58
Liberty Global PLC C	3.46
<b>Total % in Top 10</b>	<b>53.87</b>

## Blue Chip Fund (A)

Manager(s)	Start Date	Degree	Alma Mater
K. William Nolin	06/14/2012	M.B.A.	Yale University
Thomas Rozycki	12/28/2012	B.A.	Drake University

### Fund Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations at the time of purchase. It invests in foreign securities. The fund invests in growth equity securities, particularly with respect to equity securities of blue chip companies whose potential for growth of capital and earnings is expected to be above average.

### About Principal Global Investors

Principal Global Investors - a member of the Principal Financial Group® - uses a unified investment philosophy and process that emphasize independent fundamental research and superior stock selection. The firm's capabilities encompass large-, mid-, and small-cap stocks in developed and emerging markets worldwide.

## 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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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.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

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

<sup>1</sup>U.S. large-cap equities: Russell 1000 Index; U.S. mid-cap equities: Russell Midcap Index; U.S. small-cap equities: Russell 2000 Index; international emerging markets: MSCI Emerging Markets Index; international developed markets: MSCI EAFE Index

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

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