

Third Quarter 2017

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PGLAX	Principal Global Investors	MSCI All Country World Index	World Large Stock	Foreign Stock

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.

International Equity

Global equity had robust and broad-based gains during the third quarter of 2017, in a continuation of favorable market conditions for the year to date. For another consecutive quarter, the market advance was led by emerging markets and international shares. The synchronized global expansion remained on track. Despite a reversal in September, the U.S. dollar weakened, while industrial commodity prices firmed, both consistent with signs of improving global growth trends. After a prolonged period of returns being driven by multiple rerating in recent years, 2017 has been defined by margin expansion and earnings growth. Corporate profits have returned to health with modest but meaningful top line growth and further extension of cost controls and capital redeployment. Much of the market action during the quarter conveyed a "risk-on" sentiment with sector leadership having a cyclical tilt. The S&P 500 advanced 4.5%, the MSCI EAFE index return posted a 5.5% return, while the MSCI Emerging Markets Index notched another sharp advance of 8.0%, in U.S. dollar terms.¹

Performance Contributors

Positive Contributors

During last quarter:

Sector allocation contributed overall, led by the energy, information technology, and healthcare sectors. Qualicorp and global pharmaceutical company AbbVie were top contributors. Allocation to Lonza, NN Group, and Repsol also contributed.

During last 12 months:

JPMorgan, the second largest U.S. bank by market capitalization, contributed. CSX Corporation, a Class I railroad in the U.S. providing rail, intermodal and rail-to-truck transload services, contributed. Qualicorp, which provides medical benefits administration, billing, benefits planning consulting, health insurance brokerage, health risk management services, contributed.

Negative Contributors

During last quarter:

Consumer staples and materials were the lone sectors to post negative absolute returns. In the consumer staples sector, British American Tobacco and Campbell Soup detracted. Summit Hotel Properties and Everest Re were top detractors overall. Asahi Glass, Southwest Airlines, and Indiabulls Housing Finance detracted.

During last 12 months:

Gilead Sciences, a leading biotech company focused on infectious diseases, including HIV/AIDS and Hepatitis C (HCV), detracted. Amgen, the second largest by revenues among the profitable biotech companies, detracted. EOG Resources, a high quality, vertically integrated exploration & development company operating in the Eagle Ford, Bakken, and Permian/Delaware basins, detracted.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

Global Opportunities 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	09/30/2013
Global Opportunities Fund (A) (excl. sales charge)	4.45	16.08	15.51	5.32	-	-	8.90	Ext. Perf. Inc. Date	12/28/2012
Global Opportunities Fund (A) (incl. sales charge)	-1.28	9.68	9.15	3.35	-	-	7.62	Total Inv. Exp Gross	1.92
MSCI All Country World Index	5.18	17.25	18.65	7.43	10.20	3.88	-	Total Inv Exp Net	1.50
World Large Stock Category	4.71	17.60	17.50	7.21	10.39	3.98	-	Waiver Date	06/30/2018
Morningstar Percentile Ranking	-	-	69	80	-	-	-	Contractual Cap Date	06/30/2018
Total Funds in Category	926	860	842	703	583	320	-	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.

Global Opportunities 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 Opportunities Fund (A)	-0.82	0.82	92.59	0.58	-0.68	9.03	23	13	1.87	-2.02	81.43	88.50
MSCI All Country World Index	N/A	N/A	N/A	N/A	N/A	N/A	23	13	2.30	-2.28	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 (%)
Alphabet Inc A	2.76
AbbVie Inc	2.11
JPMorgan Chase & Co	1.96
Cisco Systems Inc	1.87
Microsoft Corp	1.83
Wal-Mart Stores Inc	1.82
British American Tobacco PLC	1.81
Unilever NV DR	1.80
Philip Morris International Inc	1.74
Colgate-Palmolive Co	1.65
Total % in Top 10	19.35

Global Opportunities Fund (A)

Manager(s)	Start Date	Degree	Alma Mater
Xiaoxi Li	12/28/2012	M.B.A.	Duke University
Christopher Ibach	12/28/2012	M.B.A.	University of Iowa
Mustafa Sagun	12/28/2012	Ph.D.	University of South Florida

Fund Strategy

The investment seeks long-term growth of capital. Under normal market circumstances, the fund invests in equity 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 three countries. It invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued.

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, 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.

International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

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

¹International developed markets: MSCI EAFE Index; broad U.S. market: Russell 3000 Index; international emerging markets: MSCI Emerging Markets Index

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

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