

Third Quarter 2017

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PFAFX	Origin Asset Management LLP	MSCI ACWI Ex USA Index	Foreign Large Growth	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:

Overweight to information technology was the biggest contributor, driven by selection of Chinese stocks such as Sunny Optical and AAC Technologies. Holdings in consumer discretionary contributed, with Japanese stocks Start Today and Koito Manufacturing, as well as Chinese Auto manufacturer Geely Automobile Holdings leading the way. At a country level, securities in China were the outright leaders in terms of additive performance, but securities in Japan and the United Kingdom were also beneficial.

During last 12 months:

Similar to the quarter, overweight to information technology was the biggest contributor, driven by selection of Chinese stocks such as Sunny Optical, AAC Technologies, and Japanese Tokyo Electron Ltd. Holdings in consumer discretionary contributed, with Chinese Auto manufacturer Geely Automobile Holdings leading the way and private education provider New Oriental Education and Japanese Start Today Co. also contributed. Security selections in China were the outright leaders in terms of additive performance, with the emerging markets the most significant contributor in general, followed by the UK and North America.

Negative Contributors

During last quarter:

Underweight in the energy sector detracted. Materials also proved a drag over the period, with Canadian packaging company CCL Industries and Australian Centamin pls as the main detractors in this space. At a country level, underweight in the Netherlands detracted.

During last 12 months:

At a sector level positioning in financials proved the least beneficial. Holdings in the materials sector also detracted, with securities in Australia and the UK in particular proving a drag. Overall, developed Asia proved to be the most significant drag, with Australian mining companies such as Regis Resources, as well as the Japanese telecommunications company KDDI Corporation detracting the most.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

International Fund I (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	06/03/2014
International Fund I (A) (excl. sales charge)	10.25	30.06	21.03	7.54	9.91	1.33	6.11	Ext. Perf. Inc. Date	12/29/2003
International Fund I (A) (incl. sales charge)	4.20	22.92	14.37	5.54	8.68	0.76	5.68	Total Inv. Exp Gross	2.04
MSCI ACWI Ex USA Index	6.16	21.13	19.61	4.70	6.97	1.28	-	Total Inv Exp Net	1.46
Foreign Large Growth Category	6.51	25.37	18.47	6.96	8.81	2.25	-	Waiver Date	06/30/2018
Morningstar Percentile Ranking	-	-	19	32	23	80	-	Contractual Cap Date	06/30/2018
Total Funds in Category	425	408	396	325	280	192	-	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.

International Fund I (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					
International Fund I (A)	4.27	0.85	75.15	0.71	0.60	12.00	20	16	2.93	-1.86	95.66	75.08
MSCI ACWI Ex USA Index	N/A	N/A	N/A	N/A	N/A	N/A	19	17	3.06	-2.48	100.00	100.00
	5 Year						5 Year					
International Fund I (A)	3.85	0.92	81.13	0.89	0.67	11.79	36	24	2.89	-2.21	105.36	86.25
MSCI ACWI Ex USA Index	N/A	N/A	N/A	N/A	N/A	N/A	36	24	2.74	-2.57	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 (%)
Atos SE	1.96
Mini Msci Eafe Sep17	1.94
AAC Technologies Holdings Inc	1.91
Sunny Optical Technology (Group) Co Ltd	1.87
Tencent Holdings Ltd	1.86
Taiwan Semiconductor Manufacturing Co Ltd ADR	1.78
Samsung Electronics Co Ltd	1.61
Aristocrat Leisure Ltd	1.59
NetEase Inc ADR	1.55
Largan Precision Co Ltd	1.47
Total % in Top 10	17.53

International Fund I (A)

Manager(s)	Start Date	Degree	Alma Mater
Tarlock Randhawa	06/03/2014	B.S.	Brunel University
Nigel Dutson	06/03/2014	B.S.	Surrey University
Chris Carter	06/03/2014	M.A.	University of Cambridge
John Birkhold	06/03/2014	M.B.A.	University of Chicago
Grace Tolley	03/01/2017	B.S.	University of Birmingham

Fund Strategy

The investment seeks long-term growth of capital. The fund invests primarily in foreign equity securities. Usually, the fund's investments are diversified across many different countries and regions, including countries with emerging markets. It typically invests in foreign securities of at least ten countries. The fund invests in equity securities of small, medium, and large market capitalization companies. It invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued.

About Origin Asset Management LLP

Established in 2005, Origin Asset Management LLP is an owner-managed investment management boutique specializing in the construction of Global Equity, Global Small Cap, Global Emerging Market and International (ex-US) Equity portfolios for institutional clients. They use a distinctive, systematic and evidence based investment process. Origin's founding partners have an average of more than 25 years investment experience and have worked together for up to 18 years. Origin is 26% owned by its working partners. The balance of 74% is owned by Principal Global Investors LLC, which is part of Principal Financial Group of the US, a Fortune 500 company. Origin's working partners retain control over investment policy, process and the day-to-day management of the business.

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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Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

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 ACWI Ex USA Index is a free float-adjusted market capitalization index that is designed to measure the combined equity market performance of developed and emerging market countries excluding the US.

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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