Third Quarter 2017

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PRDYX	Principal Real Estate Inv	Bloomberg Barclays CMBS ERISA Eligible Index	Intermediate-Term Bond	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.

Fixed Income

Spreads continued their nearly uninterrupted tightening trend due to the combination of an improved macroeconomic backdrop and strong corporate fundamentals. In addition, reduced-expectations of monetary tightening helped risk assets outperform because central banks took a more-dovish tone due to weak inflation data. Despite escalating tension with North Korea, volatility remained exceptionally low. The Treasury curve flattened during the quarter with short-term interest rates rising faster than longer-term rates. The two-year U.S. Treasury rate rose 0.10% while the five-year U.S. Treasury rate rose 0.05%. The ten-year and thirty-year rates each increased 0.03%. The slope of the two-to-ten-year Treasury curve fell from 0.92% to 0.85%.[1]

The Bloomberg Barclays U.S. Aggregate Index, a proxy for the overall fixed income market, had an excess return of 0.41% for the quarter when compared to similar-duration U.S. Treasury securities. The best-performing sectors were emerging market debt, below investment-grade corporate bonds, and investment-grade corporate bonds with excess returns of 1.86%, 1.60%, and 0.87%, respectively. Mortgage-backed securities (MBS) also outperformed with an excess return of 0.47%. Commercial mortgage-backed securities (CMBS), asset-backed securities (ABS), and U.S. agencies outperformed similar duration U.S. Treasury securities but underperformed the Bloomberg Barclays U.S. Aggregate Index with excess returns of 0.34%, 0.14%, and 0.05%, respectively.[2]

Performance Contributors

Positive Contributors

During last quarter:

Holdings of BBB-rated bonds were top contributors due to the strong carry generated by these higher yielding securities, along with stable credit performance. This sector continues to garner investor interest due to the relative value offered vs. competing high yield fixed income alternatives. Holdings of A-rated bonds and out-of-index allocations to commercial mortgage-backed securities (CMBS) interest only (IO) strips contributed because investment-grade buyers continue to show demand for these sectors given the incremental yield generated in these portions of the capital structure. Holdings of certain AAA-rated bonds performed well over the month due to a relatively stable interest rate environment and modest spread tightening as demand persisted for this high-quality paper amid a steady stream of new issuance.

During last 12 months:

Holdings of post-crisis BBB-bonds contributed to relative performance due to their higher yield profile, strong investor demand for yield, and supportive real estate fundamentals. Out-of-benchmark holdings of legacy bonds (i.e. those issued prior to the financial crisis) contributed due to positive loan-level outcomes and investor interest in short duration, high yield investments pushed market prices higher. Out-of-benchmark holdings of CMBS interest only (IO) strips due to ongoing investor demand for the attractive cash flow and yield profile offered by these shorter duration securities.

Negative Contributors

During last quarter:

Holdings of more liquid government-sponsored enterprise (GSE)-guaranteed securities detracted from overall returns based on the lower level of carry generated by these high-quality, lower yielding securities during a period of relative spread stability. Holdings of unsecured real estate investment trust (REIT) debt detracted from overall performance. One portfolio holding in a higher-yielding BBB-security detracted due to negative mark-to-market since investors priced in potential credit stress associated with a few larger loans in this pool of collateral.

During last 12 months:

Interest rates rose, which generally resulted in negative mark-to-market pressures due to the fixed-rate nature of the investments in the portfolio. Longer duration securities with maturities of 8-10 years were especially impacted by the rate sell-off. Holdings of certain AAA securities with longer durations detracted because the amount of carry generated by these high quality, lower yielding securities was not enough to overcome the negative mark-to-market caused by the sell-off in interest rates. One of the portfolio's holdings of a downgraded AA-rated bond detracted due to negative mark-to-market experienced by this security related to a specific retail loan referenced in this issuance and the composition of remaining pool collateral.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

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
Real Estate Debt Income Fund (A) (excl. sales charge)	0.96	3.92	1.02	-	-	-	2.06
Real Estate Debt Income Fund (A) (incl. sales charge)	-2.84	0.05	-2.79	-	-	-	0.65
Bloomberg Barclays CMBS ERISA Eligible Index	0.79	2.99	-0.13	2.91	2.51	5.04	-
Intermediate-Term Bond Category	0.88	3.40	0.83	2.51	2.12	4.26	-
Morningstar Percentile Ranking	-	-	37	-	-	-	-
Total Funds in Category	1032	1006	985	852	773	546	-

Inception Date	12/31/2014
Ext. Perf. Inc. Date	12/31/2014
Total Inv. Exp Gross	1.05
Total Inv Exp Net	1.01
Waiver Date	06/30/2018
Contractual Cap Date	06/30/2018
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.

Real Estate Debt Income Fund (A)

Top Ten Holdings as of 08/31/2017

Security	Net Assets (%)
FHLMC CMO	5.54
Comm Mtg Tr 2016-Dc2 CMO 3.765%	3.34
Ms Bofa Ml Tr 2016-C28 CMO 3.951%	3.32
Citigrp Coml Mtg Tr 2016-Gc36 CMO 3.616%	2.75
Gs Mtg Secs Tr 2015-Gc34 CMO 3.506%	2.74
FHLMC CMO 3.01%	2.72
Gs Mtg Secs Tr 2015-Gc28 CMO 3.136%	2.68
Gs Mtg Secs Tr 2013-Gcj14 CMO	2.38
Ms Bofa Ml Tr 2013-C13 CMO	2.23
Jpmcc Coml Mtg Sec Tr 2017-Jp6 CMO	2.13
Total % in Top 10	**29.83**

Statistics as of 08/31/2017	
Average Eff Duration (yrs)	5.36
Average Eff Maturity (yrs)	6.69
Average Weighted Price	$87.18

Information is current as of the date noted. Keep in mind that all current and future portfolio holdings are subject to risk.

Real Estate Debt Income Fund (A)

Manager(s)	Start Date	Degree	Alma Mater
Scott M. Carson	12/31/2014	B.A.	Iowa State University
Marc Peterson	12/31/2014	B.A./B.S.	Luther College

Fund Strategy

The investment seeks current income. Under normal circumstances, the fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in debt securities of U.S. companies principally engaged in the real estate industry at the time of purchase. A real estate company has at least 50% of its assets, income or profits derived from products or services related to the real estate industry. The fund is non-diversified.

About Principal Real Estate Inv

Principal Real Estate Investors is the dedicated real estate asset manager for Principal Global Investors. Principal Real Estate Investors' capabilities include commercial mortgage-backed securities, real estate equity securities and a broad range of private market real estate equity and debt alternatives.

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.

Real Estate investment options are subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Property values can decline due to environmental and other reasons. In addition, fluctuation in interest rates can negatively impact the performance of real estate investment options.

During 2016, the Class experienced a significant withdrawal of monies by an affiliate. As the remaining shareholders held relatively small positions, the total return amounts expressed herein are greater than those that would have been experienced without the withdrawal.

Bloomberg Barclays CMBS ERISA Eligible Index measures the performance of the ERISA-eligible commercial mortgage-backed securities market.

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

Principal℠

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

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.

[*] Unless otherwise stated, all data from Bloomberg

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

[2] Components 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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