

# Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PHPPX	Columbus Circle Investors	Russell Midcap Growth Index	Mid Cap 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.

## Small/Mid U.S. Equity

U.S equity markets continued their march higher, with major market indexes posting solid gains for the third quarter in a row to start 2017. Many asset classes rose during the period, with investors willing to take on more risk. Categories that are typically more volatile, such as small-cap and international stocks, led the way. Larger companies did maintain their lead over smaller peers, however, when considering all of 2017 to date. From a style perspective growth outpaced value for the third straight quarter. The Russell 2000 index produced a return of 5.67% and the Russel Midcap returned 3.47%. While volatility was apparent as the U.S. 10-year Treasury Yield started the quarter at 2.27%, it touched as low as 2.04% in early September, to only move higher and end the quarter at 2.31%.<sup>1</sup>

**Not FDIC or NCUA insured**

May lose value • Not a deposit • No bank or credit union guarantee  
Not insured by any Federal government agency

## Performance Contributors

### Positive Contributors

#### During last quarter:

An out-of-index allocation to Micron Technology, a leading manufacturer of DRAM and NAND storage semiconductors for electronic devices, contributed on the back of a strengthening market for the company's key products. An out-of-index allocation to Applied Materials, a leading supplier of manufacturing equipment and services to the semiconductor industry, contributed as the company is a primary beneficiary of several key technology changes that are driving better than expected revenue and backlog. Allocation to Take-Two Interactive, a leading video game software company, contributed in part due to its key title, Grand Theft Auto Online, registering the most users in the games four-year history.

#### During last 12 months:

An out-of-index allocation to Micron Technology, a leading manufacturer of DRAM and NAND storage semiconductors for electronic devices, contributed due to a strengthening market for the company's key products, which caused spot and contract prices to increase. An out-of-index allocation to Applied Materials, a leading supplier of manufacturing equipment to the semiconductor industry, contributed as it is a primary beneficiary of a key technology change occurring within flash memory. Allocation to Take-Two Interactive, a leading video game software company, contributed in part due to its key title, Grand Theft Auto Online, registering the most users in the games four-year history.

### Negative Contributors

#### During last quarter:

Allocation to Commscope Holding, a communications-related company that provides connectivity and infrastructure services for wireless, enterprise, and residential broadband markets, detracted because of reduced spending from some of its key customers. Allocation to Coach, a designer and manufacturer of handbags and accessories, declined after reporting disappointing quarterly results. An out-of-index allocation to Southwest Airlines detracted as a result of more competitive pricing in some of its markets, which negatively affected its quarterly financial results.

#### During last 12 months:

Allocation to Edwards Lifesciences, a cardiovascular medical device company with industry leading transcatheter aortic valve replacement (TAVR) technology, detracted after reporting only in-line domestic TAVR sales and concerns over increasing competition. An out-of-index allocation to PVH Corporation, an apparel manufacturer with brands such as Calvin Klein and Tommy Hilfiger, detracted due to its exposure to traditional department stores that are witnessing increased secular decline. Allocation to Zimmer Biomet, a developer of artificial knees, hips, and other products, detracted due to market share losses as well as manufacturing issues at one of its plants.

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

No material changes occurred in the portfolio structure.

# MidCap Growth R5 Fund

## 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. For more performance information, including most recent month-end performance, visit [www.principal.com](http://www.principal.com), contact your representative of the Principal Financial Group®, or contact our participant contact center at 1-800-547-7754.*

*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	12/06/2000
MidCap Growth R5 Fund	6.27	20.85	18.74	9.76	13.74	7.39	3.57	Ext. Perf. Inc. Date	12/06/2000
Russell Midcap Growth Index	5.28	17.29	17.82	9.96	14.18	8.20	-	Total Inv. Exp Gross	0.93
Mid Cap Growth Category	4.63	16.84	18.18	9.13	12.62	6.92	-	Total Inv Exp Net	0.93
Morningstar Percentile Ranking	-	-	43	40	25	40	-	Waiver Date	-
Total Funds in Category	641	627	614	563	484	362	-	Contractual Cap Date	-

**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.

# MidCap Growth R5 Fund

## 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					
MidCap Growth R5 Fund	-0.01	0.99	85.42	0.82	-0.05	11.84	23	13	2.56	-2.21	100.20	101.59
Russell Midcap Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	23	13	2.55	-2.17	100.00	100.00
	5 Year						5 Year					
MidCap Growth R5 Fund	-0.73	1.04	83.18	1.09	-0.09	12.38	38	22	2.98	-2.27	101.21	105.64
Russell Midcap Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	39	21	2.94	-2.14	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 (%)
ServiceNow Inc	3.43
IDEXX Laboratories Inc	2.99
Royal Caribbean Cruises Ltd	2.67
Micron Technology Inc	2.48
Expedia Inc	2.39
WellCare Health Plans Inc	2.39
Illumina Inc	2.24
TransUnion	2.17
Trimble Inc	2.15
AMETEK Inc	2.09
<b>Total % in Top 10</b>	<b>25.00</b>

## MidCap Growth R5 Fund

Manager(s)	Start Date	Degree	Alma Mater
Clifford G. Fox	01/05/2005	M.B.A.	New York University (Stern)
Michael Iacono	12/31/2005	B.S.	Boston College
Katerina Wasserman	12/31/2009	M.S.	New York University

### Investment Strategy

The investment seeks long-term growth of capital. Under normal circumstances, the fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with medium market capitalizations at the time of purchase. For this fund, companies with medium market capitalizations are those with market capitalizations within the range of companies comprising the Russell Midcap (R) Growth Index (as of December 31, 2016, this range was between approximately \$394.9 million and \$57.0 billion).

### About Columbus Circle Investors

Principal Global Investors offers expertise in the management of growth equity portfolios through its affiliate, Columbus Circle Investors (CCI). CCI provides a strong history in growth-oriented equity investment management - with a consistent emphasis on independent, fundamental research and bottom-up stock selection. CCI's investment philosophy is straightforward and easy to understand. It is based on the premise that companies doing better than expected will have rising securities prices, while companies producing less than expected results will not.

## Important Notes

Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company. Principal mutual funds are part of the Principal Funds, Inc. series. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Principal Securities Inc., 800-547-7754, member SIPC and/or independent brokers/dealers. Principal Funds Distributor, Principal Securities and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

**Investors should carefully consider a mutual 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 [principal.com](http://principal.com), or calling 1-800-547-7754. 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 stocks may have additional risks, including greater price volatility.

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.

Russell Midcap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap Index having 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. small-cap stocks: Russell 2000 Index; U.S. mid-cap stocks: Russell Midcap Index

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



Principal Life Insurance Company, Des Moines, Iowa 50392-0001, [principal.com](http://principal.com) 09/2017  
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