

# Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PDASX	Am Century/Sawgrass Asset Mgmt	Russell 1000 Growth Index	Large Growth	Growth

## Economic Overview

The world economy appears to be in the midst of a synchronized economic upturn. Central bankers are now talking in a synchronized fashion about reducing the massive monetary accommodation put in place since the financial crises. In June the European Central Bank (ECB) President Mario Draghi spoke positively about euro-area economic activity and the U.S. Federal Reserve hiked the Fed funds rate another 0.25% and unveiled a specific plan to shrink its huge portfolio of bonds. Capital spending has been picking up, loan growth has improved, financial conditions have been easing; job gains have been excellent, and unemployment has fallen.

In China, purchasing manager indices (PMIs) picked up in June and trade data has been excellent. Even in Japan, confidence is at or near the highs of the cycle. Industrial production and machine orders have rebounded, and retail sales have been strong. Profits have been picking up at a double-digit pace, and the labor market is the best in decades. Robust activity has failed to inspire pricing power, and core inflation is still running well below 1%. Sentiment in the Eurozone is the highest in decades. Soft data soared over the last few months. Investors, businesses, and consumers have cheered the fading political risk and better growth prospects. Some German measures are the best since reunification, but Italian and French sentiment has been robust too. Hard data has picked up also with German industrial production and factory orders rebounding from contractionary territory. Retail sales have grown at a healthy 2.5% pace across the entire Eurozone. Spain's unemployment rate dropped to 17.7% from a peak of 26.3%; Germany's unemployment rate is currently 5.7%. U.S. consumer and business sentiment has soared to the best levels of this cycle with hard data rebounding from the first-quarter slump. Core retail sales (the number included in GDP) soared over 5% on a three-month annualized pace in May. Industrial production expanded 3.8%. Both manufacturing and non-manufacturing PMIs from the Institute for Supply Management (ISM) surprised to the upside in June. Fed regional surveys were also solid. Consumer confidence has edged lower from recent highs, but remains well above 2016 levels. Housing starts have lost some momentum, since the multifamily real estate cycle peaked; but, single-family sales remain strong.

German and U.S. yields rose sharply during the last week of June. German 10-year yields more than doubled, reaching 0.56% on July 6th. Other sovereign yields pushed higher too; rates on 10-year British gilts surged to 1.31% at the end of June 30 from 1.0% or so earlier in the month. Even ten-year Japanese government bond yields jumped to 0.09% from 0.0% in April.

## Large U.S. Equity

While lagging its global peers, U.S. markets grinded higher despite headwinds that came in the form of political policy uncertainty, tightening of monetary measures, and less attractive valuations. Much of the market appears to have moved on from speculative pro-growth and fiscal stimulus initiatives and focused on the earnings growth. Cap-orientation lacked differentiation highlighted by the S&P 500 and Russell 2000's respective returns of +3.1% and +2.5% though growth outpaced value by ~3.5%. The S&P 500 was up during the quarter with a 3.1% total return. The healthcare sector was the top performer during the period while the telecommunication services sector lagged during the quarter. U.S. large-cap stocks outperformed small-caps and growth continued to outperform value by 3.2%.<sup>1</sup>

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May lose value • Not a deposit • No bank or credit union guarantee  
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## Performance Contributors

### Positive Contributors

#### During last quarter:

Underweight to the information technology sector added value. Stock selection within the healthcare sector enhanced performance. Individual stock selection within real estate contributed to returns.

#### During last 12 months:

Stock selection within energy enhanced performance. A lower price-to-book ratio (measures a company's market price in relation to the value on its balance sheet), versus the index, was rewarded during the year. Underweight to the real estate sector contributed.

### Negative Contributors

#### During last quarter:

Overall stock selection detracted, led by selection in the consumer discretionary sector. Individual stock selection within materials detracted. Selection within the semiconductor industry was a drag on returns.

#### During last 12 months:

Overall, stock selection detracted, with consumer discretionary being a particular area of weakness. Overweight to the consumer staples sector was a detriment to returns. A lower beta (measure of a stock's volatility in relation to the market), when compared to the index, was not beneficial.

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

No material changes occurred in the portfolio structure.

# LargeCap Growth II R1 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 06/30/2017	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	11/01/2004
LargeCap Growth II R1 Fund	3.99	12.38	15.83	8.23	12.21	6.96	3.54	Ext. Perf. Inc. Date	12/06/2000
Russell 1000 Growth Index	4.67	13.99	20.42	11.11	15.30	8.91	-	Total Inv. Exp Gross	1.78
Large Growth Category	5.01	14.14	20.02	8.80	13.87	7.51	-	Total Inv Exp Net	1.74
Morningstar Percentile Ranking	-	-	85	63	82	66	-	Waiver Date	02/28/2018
Total Funds in Category	1490	1455	1424	1277	1152	803	-	Contractual Cap Date	02/28/2018

**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.

# LargeCap Growth II R1 Fund

## Statistics Summary as of 06/30/2017

	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					
LargeCap Growth II R1 Fund	-2.08	0.94	98.13	0.78	-1.84	10.50	19	17	2.74	-1.84	88.37	103.16
Russell 1000 Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	20	16	3.10	-1.78	100.00	100.00
	5 Year						5 Year					
LargeCap Growth II R1 Fund	-2.26	0.97	98.20	1.21	-2.26	9.82	36	24	2.76	-1.82	90.46	107.87
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 05/31/2017

Security	Net Assets (%)
Alphabet Inc A	5.66
Apple Inc	5.21
Microsoft Corp	4.15
S&P500 Emini Fut Jun17	3.76
Comcast Corp Class A	2.99
Amazon.com Inc	2.43
Walt Disney Co	1.80
TJX Companies Inc	1.71
The Home Depot Inc	1.58
Johnson & Johnson	1.57
<b>Total % in Top 10</b>	<b>30.87</b>

Manager(s)	Start Date	Degree	Alma Mater
James W. Fennessey	06/02/2009	B.S.	Truman State University
Randy L. Welch	06/02/2009	M.B.A.	Drake 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 large market capitalizations at the time of purchase. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

### About Sawgrass Asset Management

Sawgrass Asset Management, L.L.C. is a 100 percent employee-owned registered investment advisor, based in Jacksonville Beach, Florida. Since the firm's founding on January 15, 1998, our primary focus has been managing assets with a specific focus on institutional client relationships. Sawgrass was founded by its active principals Andrew Cantor, Dean McQuiddy, and Brian Monroe as a lift-out from Registered Investment Advisor, Barnett Capital Advisors, Inc. Our investment professionals have worked together for more than two decades. Sawgrass provides active high-quality fixed income and growth equity investment management services to institutional investors. Our products include high-quality core, intermediate and short-term fixed income as well as large and small cap growth equity portfolios. The portfolio managers at Sawgrass have an average of more than 25 years of experience in establishing and managing investment portfolios in these products.

### About American Century Inv. Mgmt.

American Century Investments® is a full-service investment management firm with an expanding range of investment products and services. Founded in 1958, American Century is committed to being a premier investment manager dedicated to the pursuit of solid, long-term performance for clients worldwide. American Century offers a broad spectrum of mutual funds, with solid results across multiple disciplines and multiple fund classes suitable for a variety of investment products. The majority of domestic equity management and equity trading is conducted at the company's headquarters in Kansas City, Missouri. American Century's office in New York oversees the company's global equity management while its office in Mt. View, California oversees its fixed income, quantitative and asset allocation investment products. The firm has recently expanded to include international distribution via offices in London and Hong Kong. American Century gives investment professionals an increasingly rare commodity: a distinct, active investment style and a management approach that's grounded in solid market experience. For more than 50 years, American Century has stringently followed its investment practices. American Century's guiding principles of investment management have enabled the company to develop innovative quality investment products and deliver results to clients.

## 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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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.

The manager of the Fund, Principal Global Investors, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.

Effective December 30, 2014, this portfolio is sub-advised by American Century and Sawgrass Asset Management. Prior to December 30, 2014, the portfolio was sub-advised by American Century and Montag & Caldwell. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

### 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

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.

### **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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