

Principal International Emerging Markets

Sub-advised by 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.

Investment Philosophy and Process

Philosophy

The equity investment philosophy of Principal Global Investors is based on the beliefs that **1) stock selection** is the most reliable and repeatable source of consistent performance and **2) integration** of traditional and quantitative fundamental research is superior to either in isolation.

The firm seeks to identify the most compelling investment opportunities within a clearly defined focus universe. It believes superior stocks are characterized by companies consistently demonstrating three key characteristics:

- 1. Positive and sustainable fundamental change.** Principal Global Investors seeks companies offering improving and sustainable business fundamentals, with a particular emphasis on accelerating earnings trends.
- 2. Rising investor expectations.** The objective of Principal Global Investors is to be early — but not alone — in identifying positive fundamental change and improving investor sentiment.
- 3. Attractive relative valuations.** The firm’s research shows that performance potential of positive fundamental change is greatest when accompanied by discounted valuations.

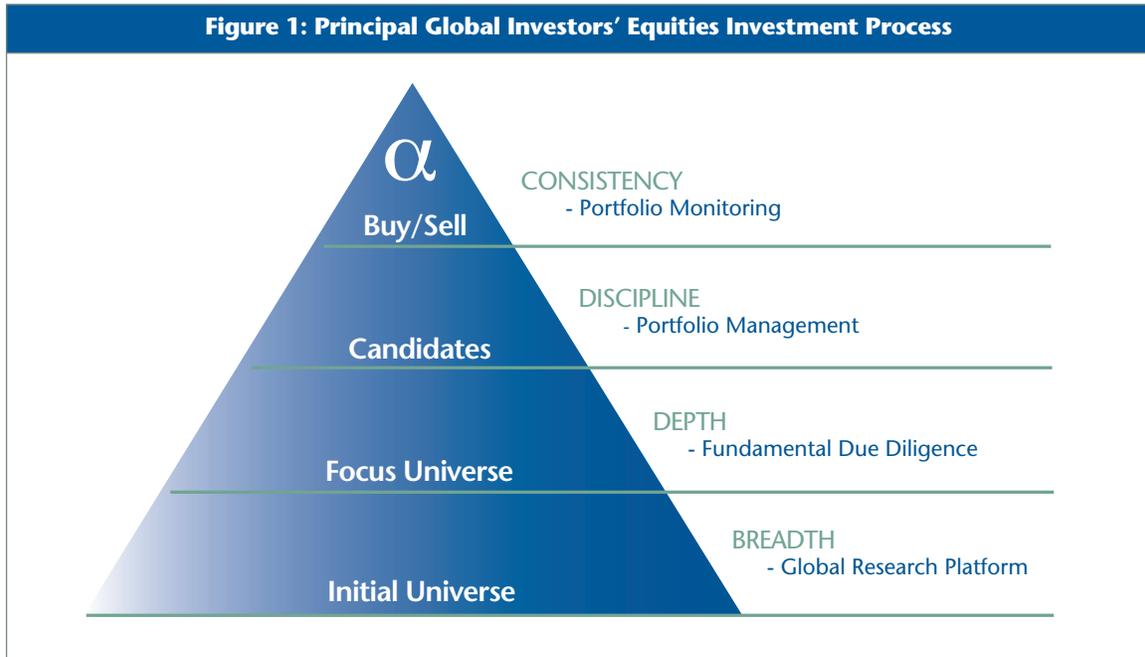
The investment advisor’s investment philosophy and strategy may not perform as intended and could result in a loss or gain.

Not FDIC or NCUA insured

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

Process

To maximize global information advantages, Principal Global Investors employs a uniform and globally integrated process (Figure 1) combining fundamental research analytics, systematic disciplines and risk management tools.



The firm's proprietary stock ranking framework — the Global Research Platform (GRP) — serves as a cornerstone of a disciplined stock selection approach by providing breadth and objectivity within the research process. The GRP systematically covers a universe of more than 10,000 companies, large and small, in both developed and emerging markets. The models underlying the GRP framework combine hundreds of complex stock evaluation tools and proprietary factors that are customized to ensure alignment with the group's investment philosophy.

As an information management framework, the GRP is used to isolate a manageable focus-universe of stocks by providing analysts with rankings of each company's fundamental characteristics relative to regional sector peers. This helps to make efficient use of analysts' time as they focus their due diligence efforts on a condensed list of top-ranked companies that the firm believes have the most performance potential and are aligned with its investment philosophy.

The fundamental research analyst team provides the depth of research coverage driving the firm's stock selection discipline over time. Organized primarily by economic sector and industry specialization, analysts are responsible for conducting fundamental analysis in their areas of specialty. They provide essential insights into industry trends and company-specific considerations. Their forward-looking professional judgment includes qualitative considerations such as intangibles, event-driven opportunities, management credibility, the quality and transparency of company financial reporting, and data integrity.

The focus universe centers on the top-ranked stocks, primarily those in the upper 20% among their regional sector peers. Analysts are responsible for reviewing the specific characteristics underlying the GRP ranking for each company to determine the most promising subset that warrants further due diligence and analysis; preference is for those demonstrating the key characteristics the firm seeks. Generally, an analyst's fundamental evaluation includes a review of financial statements, regulatory filings, news flow, independent research sources and select sell-side research. Analysts also engage company management and industry contacts to develop a complete assessment of key business drivers, corporate operating performance and competitive position. Also, analysts carefully evaluate sell-side estimate revisions and rating changes to determine the consensus base-case, and they probe key areas of dispute in order to identify opportunities for positive earnings surprise.

Based on the rigorous multi-stage process of company due diligence, the analysts identify and recommend a subset of well-ranked companies that warrant the highest degree of consideration by the portfolio managers. Analysts communicate their stock recommendations directly to the portfolio managers, who have final authority on all buy/sell decisions.

All portfolios are well-diversified, with active positions deliberately limited relative to the benchmark. The firm's disciplined approach is intended to provide consistency and isolate stock selection as the primary driver of relative performance over time.

Portfolio management team

Mihail Dobrinov has been with Principal Global Investors since 2002. He earned an M.B.A. in Finance from the University of Iowa and a law degree from Sofia University, Bulgaria. Mr. Dobrinov has earned the right to use the Chartered Financial Analyst designation. (Mr. Dobrinov does not provide legal services on behalf of any of the member companies of the Principal Financial Group.)

Mohammed Zaidi returned to Principal Global Investors in 2012, where he formerly worked from 2001 to 2006. As a co-employee of Principal Global Investors and Principal Global Investors (Singapore) Limited, Mr. Zaidi manages Principal Fund assets as an employee of Principal Global Investors. Previously, he was with Martin Currie Investment Management and Scottish Widows Investment Partnership. He earned a bachelor's degree in Economics from the Wharton School of University of Pennsylvania and an M.B.A. from Massachusetts Institute of Technology, Sloan School of Management.

Additional Information

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, or calling 1-800-547-7754. Read the prospectus carefully before investing.

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

Investment options are subject to investment risk. Shares or unit values will fluctuate and investments, when redeemed, may be worth more or less than their original cost.

This investment option is available through a separate account or Principal Funds, Inc. mutual fund. Separate accounts are made available through a group annuity contract with the Principal Life Insurance Company, Des Moines, IA 50392.

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.



WE'LL GIVE YOU AN EDGE®

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