

Third Quarter 2017

Quarterly Commentary

Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
LA Capital Mgmt/Victory	Russell Midcap Value Index	Mid Cap Value	Growth and 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.

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%.¹

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Performance Contributors

Positive Contributors

During last quarter:

Sector allocation enhanced performance, especially an overweight to the materials sector. Stock selection contributed overall, particularly within industrials and information technology. Both Victory and LA Capital outperformed the index.

During last 12 months:

Positive stock selection within the industrials and consumer discretionary sectors contributed to returns. Sector allocation was positive overall, with an average underweight to the real estate sector leading the way. Victory outpaced the index during the year, which contributed to performance.

Negative Contributors

During last quarter:

Stock selection within the financials sector hampered performance. An average overweight to the consumer staples sector detracted. Individual stock selection within the materials sector detracted.

During last 12 months:

Stock selection overall, especially in the energy sector, diminished performance. An average overweight to the healthcare sector held back returns. Selection within the financials sector detracted due to individual stock selections in the insurance industry.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

MidCap Value I Separate Account-R6

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, 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 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 investment option. The gross total investment expense figure does not reflect any waivers or caps on the mutual fund or underlying mutual fund in which a Separate Account invests. Returns displayed are always based on net total investment expense.

Average Annual Total Returns (%) as of 09/30/2017	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	07/01/1999
MidCap Value I Separate Account-R6	3.63	8.33	14.04	7.04	12.60	7.32	8.58	Ext. Perf. Inc. Date	06/30/1999
Russell Midcap Value Index	2.14	7.43	13.37	9.19	14.33	7.85	-	Total Inv. Exp Gross	1.19
Mid Cap Value Category	3.06	7.46	14.83	7.90	12.71	6.85	-	Total Inv Exp Net	1.07
Morningstar Percentile Ranking	-	-	61	74	66	39	-	Waiver Date	02/28/2018
Total Funds in Category	435	416	410	363	319	226	-	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.

MidCap Value I Separate Account-R6

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 Value I Separate Account-R6	-2.19	1.03	96.39	0.64	-1.02	10.98	21	15	2.36	-2.12	93.06	107.15
Russell Midcap Value Index	N/A	N/A	N/A	N/A	N/A	N/A	22	14	2.53	-1.98	100.00	100.00
	5 Year						5 Year					
MidCap Value I Separate Account-R6	-1.56	1.00	96.77	1.15	-0.91	10.60	38	22	2.56	-2.24	94.74	104.34
Russell Midcap Value Index	N/A	N/A	N/A	N/A	N/A	N/A	41	19	2.70	-2.15	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 (%)
S&P Mid 400 Emini Sep17	3.26
Archer-Daniels Midland Co	1.66
Crown Holdings Inc	1.54
Aflac Inc	1.48
Reliance Steel & Aluminum Co	1.42
SunTrust Banks Inc	1.42
VF Corp	1.30
Celanese Corp	1.29
Alleghany Corp	1.26
Citizens Financial Group Inc	1.26
Total % in Top 10	15.90

MidCap Value I Separate Account-R6

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 medium market capitalizations at the time of purchase. It invests in value equity securities, an investment strategy that emphasizes buying equity securities that appear to be undervalued. The fund also invests in real estate investment trusts, and actively trades portfolio securities.

About Victory Capital Management

Victory Capital Management Inc. (Victory Capital) is an independent SEC-registered investment advisor that focuses on active investment management delivered through a multi-boutique structure of autonomous investment franchises that manage domestic and international equities, fixed income and convertibles. The Sycamore Capital investment franchise is responsible for the management of the Sycamore Mid Cap Value Equity strategy.

About LA Capital Management

LA Capital Management (LA Capital) is an employee-owned firm that utilizes a quantitative approach for security selection and portfolio management. Portfolios are tailored to meet the unique return and risk objectives of each assignment. The investment team developed the investment process at Wilshire Asset Management, where they worked together for sixteen years beginning in 1986. In March 2002, the team purchased the business from Wilshire Associates to set up an independent investment boutique.

Important Notes

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. See the fact sheet for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for an orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

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.

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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The full name of this investment option is Principal MidCap Value I Separate Account-R6. Principal MidCap Value I investment option is available as a mutual fund and as a Separate Account that invests wholly in Institutional class shares of the Principal Funds, Inc. MidCap Value I Inst Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund (PVMIX) at <http://www.principal.com/retirement/prospectuses/prospect.htm>.

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.

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

Investment manager/sub-advisor means either the Investment Advisor or Sub-Advisor to the investment option or the underlying asset(s).

This Separate Account invests solely in the least expensive share class of a mutual fund (Fund) from Principal Funds, Inc. The investment 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 June 30, 2016, this portfolio is sub-advised by LA Capital and Victory Capital. Prior to June 30, 2016, the portfolio was sub-advised by Goldman Sachs and LA Capital. 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.

Russell Midcap Value Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap index having lower price-to-book ratios and lower 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.



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Important Notes

*Unless otherwise stated, all data from Bloomberg

¹U.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.



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