

Third Quarter 2017

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PRRAX	Principal Real Estate Inv	MSCI US REIT Index	Real Estate	Speciality - Real Estate

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.

Real Estate

Both U.S. and global real estate investment trusts (REITs) ended positive for the quarter, underperforming the general equity indices but outperforming bonds. The MSCI World Index for global equities rallied to 4.84%, outperforming global real estate's FTSE EPRA NAREIT Developed NTR Index which rose 1.6% and the JPM Global Bond Index, which returned 0.3% in USD terms.¹ The MSCI US REIT Index increased 0.9% during the second quarter and lagged the S&P 500, which advanced to 4.48%. Real estate stocks performed similarly to bond indices such as the Barclay's US Aggregate Bond Index, which increased 0.9%.²

Strong corporate earnings out of the U.S. and China, resilient macroeconomic data particularly from China and Europe, and renewed optimism for U.S. tax reform buoyed markets despite higher odds for another rate hike by year end and rising geopolitical tensions. The Federal Reserve also announced its balance sheet normalization plan would begin at a measured pace in October, with negligible impact on markets. Long-term interest rates ended the quarter relatively unchanged despite some volatility in between.

Performance Contributors

Positive Contributors

During last quarter:

Overweight to STORE Capital Corporation contributed as the stock has recovered from the selloff in the previous quarter, caused by tenant credit concerns. Overweight to Hilton Worldwide Holdings, Inc. contributed. Lack of allocation to Ventas Inc. contributed.

During last 12 months:

Overweight to Hilton Worldwide Holdings, Inc. contributed. Overweight to Equinix, Inc. contributed due to strong execution and industry-wide demand dynamics that remain very strong due the secular shift towards increasing data usage and cloud computing. Overweight to Interxion Holding N.V. contributed as demand accelerated in its European markets and the company continued to execute on its growth plans.

Negative Contributors

During last quarter:

Overweight to Physicians Realty Inc. detracted as concerns around its tenant base grew following the disclosure that a meaningful tenant had stopped paying rent due to financial difficulties and an acquisition completed during the summer showed compressing investment spreads. Overweight to AvalonBay Communities, Inc. detracted. Lack of allocation to Iron Mountain, Inc. detracted.

During last 12 months:

Overweight to Simon Property Group was a top detractor. Overweight to Spirit Realty Capital, Inc. detracted. Lack of allocation to Digital Realty Trust, Inc. detracted.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

Real Estate Securities Fund (A)

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	Inception Date	06/28/2005
Real Estate Securities Fund (A) (excl. sales charge)	1.20	4.97	1.14	9.93	9.95	6.47	11.19	Ext. Perf. Inc. Date	12/06/2000
Real Estate Securities Fund (A) (incl. sales charge)	-4.38	-0.78	-4.41	7.87	8.71	5.87	10.81	Total Inv. Exp Gross	1.25
MSCI US REIT Index	0.93	3.61	0.54	9.67	9.58	5.79	-	Total Inv Exp Net	1.25
Real Estate Category	0.76	4.16	1.78	8.76	8.73	5.13	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	35	19	10	17	-	Contractual Cap Date	-
Total Funds in Category	268	258	255	230	203	141	-	Contingent Deferred Sales Charge	1.00
								Maximum Up-front Sales Charge	5.50

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.

Real Estate Securities Fund (A)

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					
Real Estate Securities Fund (A)	0.36	0.99	98.41	0.70	0.14	14.37	20	16	4.07	-2.33	98.65	96.21
MSCI US REIT Index	N/A	N/A	N/A	N/A	N/A	N/A	18	18	4.13	-2.42	100.00	100.00
	5 Year						5 Year					
Real Estate Securities Fund (A)	0.54	0.98	98.45	0.75	0.22	13.53	35	25	3.41	-2.70	98.60	95.40
MSCI US REIT Index	N/A	N/A	N/A	N/A	N/A	N/A	35	25	3.46	-2.83	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 (%)
Simon Property Group Inc	7.50
Equinix Inc	7.32
Essex Property Trust Inc	5.56
AvalonBay Communities Inc	4.98
Prologis Inc	4.64
Welltower Inc	3.56
Apartment Investment & Management Co	3.40
Alexandria Real Estate Equities Inc	3.34
STORE Capital Corp	2.94
Regency Centers Corp	2.92
Total % in Top 10	46.15

Real Estate Securities Fund (A)

Manager(s)	Start Date	Degree	Alma Mater
Kelly D. Rush	12/06/2000	M.B.A.	University of Iowa
Anthony Kenkel	06/15/2012	M.B.A.	University of Chicago
Keith Bokota	11/22/2013	B.A.	Georgetown University

Fund Strategy

The investment seeks to generate a total return. Under normal circumstances, the fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies principally engaged in the real estate industry at the time of purchase. It invests in value equity securities, an investment strategy that emphasizes buying securities that appear to be undervalued. The fund concentrates its investments (invest more than 25% of its net assets) in securities in the real estate industry. It 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.

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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.

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.

MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

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

¹U.S. equities: Russell 3000 Index; U.S. mid-cap stocks: Russell Midcap Index; U.S. small-cap stocks: Russell 2000 Index; U.S. large-cap stocks: Russell 1000 Index; U.S. mid-cap growth stocks: Russell Midcap Growth Index; U.S. mid-cap value stocks: Russell Midcap Value Index; U.S. small-cap growth stocks: Russell 2000 Growth Index; U.S. small-cap value stocks: Russell 2000 Value Index; U.S. large-cap growth stocks: Russell 1000 Growth Index; U.S. large-cap value stocks: Russell 1000 Value Index.

²U.S. REITs: DJ US Select REIT TR USD; Global REITs: FTSE/EPRA NAREIT Developed Markets Index; international equities in developed markets: MSCI EAFE Index; international emerging markets: MSCI Emerging Markets Index.

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Important Notes

³Federal Reserve Bank Federal Open Market Committee statement, released September 2017

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

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