

Third Quarter 2017

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
SAUPX	Principal Global Investors	SAM Flexible Income Blended Index	Allocation--15% to 30% Equity	Asset Allocation

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.

Balanced Asset Allocation/Lifecycle

U.S. and international equities delivered strong results for the quarter. The broad U.S. equities market, as measured by the Russell 3000, returned 5.67%, while the international developed and emerging markets returned 5.59% and 8.64%, respectively. U.S. small-caps (5.96%) outperformed both U.S. large-caps (4.48%) and mid-caps (3.22%).¹ From a style perspective, growth outperformed value within U.S. large-caps, while value outperformed growth in U.S. mid- and small-cap equities.² Real estate investment trusts (REITs) posted positive but lower results, underperforming the broad U.S. equities and international developed markets. U.S. REITs returned 0.38% for the quarter with global REITs returning 2.47%. Most fixed income spread products performed positively during the quarter, led by high yield returning 1.64%. Core fixed income and treasury inflation protected securities (TIPS) had positive performance coming in at 0.79% and 0.87%, respectively.³

Performance Contributors

Positive Contributors

During last quarter:

Strategic allocation to high yield bonds was the largest contributor as high yield bonds posted positive returns in the risk-on market environment and benefited from spread tightening. Security selection in mid-cap value equities aided performance. Strategic and tactical underweight to government bonds contributed as they underperformed other fixed income asset classes.

During last 12 months:

Strategic allocation to high yield bonds, which outperformed in the risk-on environment, was the largest contributor. Strategic and tactical underweight to government bonds, which underperformed other fixed income asset classes, aided performance. Security selection in high yield bonds contributed.

Negative Contributors

During last quarter:

Security selection in investment grade corporate bonds was the largest detractor. Strategic allocation to treasury inflation protected securities (TIPS) hindered performance. TIPS tend to underperform when inflation comes in below expectations, as seen during the quarter. Security selection in TIPS detracted.

During last 12 months:

Strategic allocation to TIPS was the largest detractor. TIPS tend to underperform when inflation comes in below expectations, as seen during the period. Security selection in commercial mortgage-backed securities (CMBS) hindered performance. Security selection in large-cap growth equities detracted.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

SAM Flexible Income Portfolio (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	07/25/1996
SAM Flexible Income Portfolio (A) (excl. sales charge)	1.96	5.94	5.48	3.96	4.82	5.04	6.01	Ext. Perf. Inc. Date	07/25/1996
SAM Flexible Income Portfolio (A) (incl. sales charge)	-1.87	1.94	1.56	2.63	4.02	4.64	5.82	Total Inv. Exp Gross	1.18
SAM Flexible Income Blended Index	1.82	6.04	4.53	4.52	4.82	5.05	-	Total Inv Exp Net	1.18
Allocation--15% to 30% Equity Category	1.56	4.90	4.46	2.92	3.33	3.78	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	23	21	21	11	-	Contractual Cap Date	-
Total Funds in Category	208	202	201	175	149	80	-	Contingent Deferred Sales Charge	1.00
								Maximum Up-front Sales Charge	3.75

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.

SAM Flexible Income Portfolio (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					
SAM Flexible Income Portfolio (A)	-1.08	1.13	88.17	0.97	-0.42	3.73	24	12	0.81	-0.92	103.65	133.62
SAM Flexible Income Blended Index	N/A	N/A	N/A	N/A	N/A	N/A	26	10	0.78	-0.69	100.00	100.00
	5 Year						5 Year					
SAM Flexible Income Portfolio (A)	-0.60	1.13	90.77	1.20	-0.01	3.79	-	-	-	-	-	-
SAM Flexible Income Blended Index	N/A	N/A	N/A	N/A	N/A	N/A	-	-	-	-	-	-

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 (%)
Principal Income R6	26.02
Principal Short-Term Income Inst	12.77
Principal Government & High Qual Bd Inst	11.36
Principal Equity Income Inst	9.61
Principal Inflation Protection Inst	6.47
Principal Preferred Securities R-6	5.23
Principal Global Div Inc R-6	5.04
Principal HighYield R-6	4.46
Principal Global Real Estate Sec R6	3.53
Principal EDGE Active Income ETF	2.47
Total % in Top 10	86.97

SAM Flexible Income Portfolio (A)

Manager(s)	Start Date	Degree	Alma Mater
Charles D. Averill	01/01/2010	M.A.	Princeton University
Todd A. Jablonski	01/01/2010	M.B.A.	New York University
Gregory L. Tornga	10/02/2017	M.B.A.	Chapman University

Fund Strategy

The investment seeks to provide a high level of total return (consisting of reinvestment of income with some capital appreciation). The fund operates as a fund of funds. It generally invests: between 55% and 95% of its assets in fixed-income funds, and less than 40% in any one fixed-income fund; between 5% and 45% of its assets in equity funds that invest in foreign and domestic securities, and less than 30% in any one equity fund; and less than 20% of its assets in specialty funds, and less than 20% in any one specialty fund.

About Principal Global Investors

Principal Global Investors - the institutional asset management affiliate of the Principal Financial Group - the firm focuses on delivering consistently competitive investment performance and superior service on behalf of its clients. Principal Global Investors has expertise in equities, fixed income and real estate investments, as well as specialized overlay and advisory services. The firm upholds the highest standards of excellence in investment research, risk management, ethics, fiduciary responsibility and client service. (Principal Global Investors is the asset management arm of the Principal Financial Group® (The Principal®) and includes the asset management operations of the following subsidiaries of The Principal: Principal Global Investors, LLC; Principal Real Estate Investors, LLC; Spectrum Asset Management, Inc.; Post Advisory Group, LLC; Columbus Circle Investors; Edge Asset Management, Inc.; Principal Global Investors (Europe) Limited; Principal Global Investors (Singapore) Ltd.; Principal Global Investors (Australia) Ltd.; and the majority owned affiliates of Principal International, Inc.).

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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International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

This Principal Strategic Asset Management Portfolio (SAM) indirectly bears its pro rata share of the management fees incurred by the underlying Principal Funds in which this portfolio invests. Based on the asset allocation of the SAM Portfolio outlined in the prospectus dated March 1, 2017, the weighted average operating expenses of the underlying funds are: Flexible Income, 0.57%; Conservative Balanced, 0.68%; Balanced, 0.74%; Conservative Growth, 0.79%; Strategic Growth, 0.78%. While the operating expenses of the underlying mutual funds are not part of the SAM Portfolio operating expenses they are included in the Total Investment Expense. Performance results shown for the SAM Portfolios reflect the application of these expenses.

Asset allocation and diversification do not ensure a profit or protect against a loss. Additionally there is no guarantee this investment option will provide adequate income at or through retirement.

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

SAM Flexible Income Blended Index is composed of 5% MSCI EAFE Index, 20% Russell 3000 Index and 75% Bloomberg Barclays Aggregate Bond Index.

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

¹U.S. equities: Russell 3000 Index, U.S. large-cap stocks: S&P 500 Index, U.S. mid-cap stocks: S&P MidCap 400 Index, U.S. small-cap stocks: S&P SmallCap 600 Index, Developed Markets Index; S&P Developed Ex US BMI, international emerging markets equities: S&P Emerging BMI

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Important Notes

²large-cap growth stocks: S&P 500 Growth Index; U.S. large-cap value stocks: S&P 500 Value Index, U.S. mid-cap growth stocks: S&P MidCap 400 Growth Index; U.S. mid-cap value stocks: S&P MidCap 400 Value Index; U.S. small-cap growth stocks: S&P SmallCap 600 Growth Index; U.S. small-cap value stocks: S&P SmallCap 600 Value Index: U.S.

³High Yield Corporate Bonds: S&P 500 High Yield Corporate Bond Index; Core Fixed Income: S&P US Aggregate Bond TR USD; TIPS: S&P US Treasury TIPS Index TR

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

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