Global Diversified Income Inst Fund

Third Quarter 2017

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PGDIX	Multiple Sub-Advisors	Global Diversified Income Blended Index	Allocation--30% to 50% Equity	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.

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:

Emerging market debt contributed due to all sovereign credits except Venezuela. Regionally, Latin America, Argentina, Mexico, and Brazil contributed. Central and Eastern Europe, Middle East, and Africa (CEEMEA) contributed, led by Ukraine, Kazakhstan, and Egypt. High yield bonds contributed due to a generally stable interest rate environment, equity market performance, and higher oil prices. Commodity sectors, led by energy and metals & mining contributed. Sector allocation contributed, led by underweight to wirelines and retailers and overweight to metals & mining. Real estate investment trusts (REITs) contributed on strong U.S and Chinese corporate earnings, resilient Chinese and European macroeconomic data, and optimism for U.S. tax reform. Overweight to two U.S. retail-focused net lease companies, single family rentals and apartment owners, and within U.S. residential contributed.

During last 12 months:

High yield bonds contributed due to a strong rally and improving commodity prices. Overall, metals & mining, energy, technology, and cable were top performing sectors. Stock selection was strong in energy, basic industry, and consumer non-cyclical. Emerging market debt contributed to absolute performance due to spread compression relative to U.S. Treasurys. Country and issue selection decisions contributed, as well as off-benchmark hard currency corporate debt exposures. Positioning in CEEMEA, led by overweight to Ghana, Iraq, and Ukraine, and underweights in Poland and Russia, contributed. In Latin America, overweight and issue selection in Argentina and Mexico contributed. Global infrastructure stocks contributed as gains were led by growth infrastructure sectors. Passenger growth and well-received earnings numbers for airports supported strong share price performance.

Negative Contributors

During last quarter:

Security selection in global infrastructure detracted from relative performance. Security selection detracted the most within utilities and telecommunications. Allocation to opportunistic mortgage-backed securities (MBS) detracted on a relative basis as performance over the short-term has been negatively impacted by the recent rise in yields, particularly at the front end of the curve where the inverse interest only (IIO) portion of the portfolio is most exposed. Non-U.S. developed high yield lagged on a relative basis due to security selection in cable & media and in retail stores. Overweight to and security selection within leisure also weighed on performance.

During last 12 months:

Stock selection within large-caps detracted from relative returns. Performance headwinds persisted as stock selection remained challenged by abrupt shifts in style and sector leadership rotation, particularly in the United States. Several stock specific challenges, which left yield orientation out of favor, also weighed on relative performance. Performance of non-U.S. developed high yield lagged on a relative basis due to security selection in cable, media, and transportation. Overweight to and security selection within energy detracted. The equity volatility overlay strategy was a slight drag on total performance due to the strong positive performance across the global equity markets.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

Global Diversified Income Inst 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, 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 09/30/2017	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Global Diversified Income Inst Fund	2.71	8.44	8.14	4.82	6.06	-	11.53
Global Diversified Income Blended Index	3.18	9.81	9.67	4.72	5.97	-	-
Allocation--30% to 50% Equity Category	2.36	7.36	7.04	4.06	5.30	4.38	-
Morningstar Percentile Ranking	-	-	26	31	27	-	-
Total Funds in Category	530	505	502	395	356	257	-

Inception Date	12/15/2008
Ext. Perf. Inc. Date	12/15/2008
Total Inv. Exp Gross	0.87
Total Inv Exp Net	0.77
Waiver Date	06/30/2018
Contractual Cap Date	06/30/2018

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.

Global Diversified Income Inst Fund

Top Ten Holdings as of 08/31/2017

Security	Net Assets (%)
Us 2yr Note (Cbt) Dec17	2.14
Us 5yr Note (Cbt) Dec17	0.98
National Grid PLC	0.66
Hrg Grp 7.75%	0.61
Fremf Mtg Tr 2016-Kbam CMO	0.58
Crown Castle International Corp	0.54
NextEra Energy Inc	0.52
Argentina(Rep Of) 7.82%	0.51
Transurban Group	0.47
Foresight Engy 144A 11.5%	0.43
Total % in Top 10	**7.42**

Information is current as of the date noted. Keep in mind that all current and future portfolio holdings are subject to risk.

Manager(s)	Start Date	Degree	Alma Mater
Kelly A. Grossman	03/01/2010	B.A.	University of Northern Iowa
Benjamin E. Rotenberg	03/07/2014	B.A.	Pomona College
Marcus W. Dummer	03/07/2014	B.A.	University of Utah
Jessica S. Bush	03/07/2014	B.A.	University of Michigan
Jake S. Anonson	03/07/2014	B.A./B.S.	University of Northern Iowa

Investment Strategy

The investment seeks income. The fund generally invests a majority of its assets in fixed income securities, such as high yield bonds (also known as "junk" bonds), preferred securities, commercial mortgage-backed securities, and emerging market debt securities, in an effort to provide incremental yields over a portfolio of government securities. In addition, it invests in equity securities to provide incremental dividend yields and diversify fixed-income related risks in the fund.

About Logan Circle Partners, L.P.

Logan Circle Partners, L.P. (Logan Circle) is an asset management firm providing primarily separate account, fixed income investment management services to institutional clients. The firm was founded on April 2007 by Mr. Jude T. Driscoll, Chief Executive Officer and Chief Investment Officer. Prior to founding Logan Circle, Mr. Driscoll was the President and CEO of Delaware Investments, where he was responsible for overseeing all firm activities. On April 16, 2010, Logan Circle was acquired by Fortress Investment Group LLC, a publicly traded company (NYSE: FIG) and a leading global investment management firm, as its traditional asset management arm. Fortress offers a range of alternative investment strategies for institutional and private investors around the world. Fortress has in excess of 1,100 employees working across four business lines: private equity funds, credit funds, hedge funds and traditional asset management. Logan Circle retained its name and Mr. Driscoll continues as the firm's CEO and CIO.We believe that the key to unlocking value within the fixed income marketplace revolves around understanding asset quality and valuation. Whether in the sovereign market or the corporate market, understanding the underlying fundamentals of each potential investment is paramount to our process and will help us frame how we view a position within a potential portfolio. Secondly, we seek to understand how the volatility or potential volatility of a particular idea fits within our macro view of the market, our willingness to take risk, and our determination of whether that idea is appropriate for our blended portfolio. .

About First State Investments

First State Investments, the consolidated asset management division of the Commonwealth Bank of Australia, is a global asset manager with experience across a range of asset classes and specialist investment sectors. The firm has been committed to delivering quality investment strategies for more than 140 years.

About W.H. Reaves and Co., Inc

Reaves Asset Management (Reaves), an SEC Registered Investment Adviser, has been managing institutional portfolios since 1978. Reaves' portfolios target a disciplined balance of earnings growth and income in a wide variety of critical, non-discretionary, infrastructure industries. The firm is located in Jersey City, New Jersey.

About Analytic Investors

Analytic believes that a quantitative investment process produces the best and most consistent risk adjusted returns over the long run. Short option strategies have exposure to the volatility risk premium (VRP) and Analytic believes that a VRP exists across global markets and asset classes. Short VRP exposure has a consistent positive payoff that is relatively uncorrelated to other risk premiums. They believe that our volatility forecasting model will outperform other forecasts such as implied volatility and historical realized volatility and will on average identify the largest (most negative) VRPs. It is not just a volatility forecast, it is a valuation model which actively targets the most underpriced contractsTheir expected return model allows the ranking of options on different underlying indexes or ETFs with different expiration dates and strikes. Employing an optimizer allows their portfolio manager to utilize more data effectively than in a qualitative process. The resulting option portfolios have the highest expected return with a tracking error versus the underlying less than the target level and with other exposures equal to client specified levels.

About Stone Harbor

Stone Harbor Investment Partners LP (Stone Harbor) is a global institutional fixed income investment manager specializing in credit and asset allocation strategies. The firm manages institutional clients' assets across a range of investment products. The firm's investment strategies are based on fundamental insights, derived from a combination of proprietary research and the in-depth knowledge and specialized experience of the firm's team. Based in New York, Stone Harbor employs more than 100 people across its headquarters and offices in London and Singapore.

About Post Advisory Group

Post Advisory Group, LLC (Post), founded in 1992 by Larry Post, is a global investment manager specializing in high-yield fixed income securities with a multi-strategy, value-oriented investment approach. The firm's team of highly experienced investment professionals applies Post's investment philosophy - which emphasizes intensive credit research and detailed analysis of covenant terms and capital structure - in a consistent, conservative manner with the goal of maximizing returns and minimizing risk. Post combines world-class investment expertise, detailed fundamental analysis and risk management capabilities in its efforts to provide the firm's client base with the investment objectives of consistent and attractive risk-adjusted returns.

About 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.

About DDJ Capital Management, LLC

DDJ Capital Management, LLC (DDJ) is a Massachusetts-based limited liability company that was founded in 1996 to specialize in high yield and distressed and special situations investing. DDJ is 100% privately owned by its founders and key employees.

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.

About Spectrum

Spectrum Asset Management (Spectrum) - an affiliate of Principal Global Investors - offers specialized expertise in the management of preferred securities. The firm was founded in 1987 and is based in Stamford, Connecticut. Spectrum's clients include insurance companies, corporations, pension funds, retirement plans, mutual funds, charitable trusts and financial institutions in the U.S. and abroad.

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, 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.

Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Lower-rated securities are subject to additional credit and default risks. Risks associated with preferred securities differ from risks inherent with other investments. In particular, in the event of bankruptcy, a company's preferred securities are senior to common stock but subordinated to all other types of corporate debt. International investing involves increased risks due to currency fluctuations, political or social instability, and differences in accounting standards, these risks are magnified in emerging markets. REIT securities are subject to risk factors associated with the real estate industry and tax factors of REIT registration.

The risks associated with derivative investments include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.

Principal Funds Class P shares automatically converted to Institutional Class shares effective close of business June 23, 2017.

About Principal Financial Group

Principal℠

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

Global Diversified Income Blended Index is composed of 40% Bloomberg Barclays Global Credit Index, 30% Bloomberg Barclays Global High Yield Index, and 30% MSCI ACWI Value 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.

[*]Unless otherwise stated, all data from Bloomberg

[1]U.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

[2]large-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.

[3]High 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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