

Second Quarter 2020

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PPEAX	Multiple Sub-Advisors	S&P Target Date 2050 Index	Target-Date 2050	Balanced

Economic Overview

The United States economy rushed higher in May after its previous collapse due to policies to check the spread of COVID-19. Regional manufacturing purchasing manager indices (PMIs) leapt to near breakeven or more in major U.S. cities. May retail sales sky-rocketed 17.7% over April. According to data from the Bureau of Labor and Statistics, May payrolls climbed a monster 2.5 million jobs and June payrolls had a gain of 4.8 million new jobs. The revival from suspending business closures continued the first half of June. However, gains seem to have stalled somewhat as daily new COVID-19 cases reached new records. The huge May pop from the April economic collapse was like taking the express elevator back to the ground floor from the sub-sub-basement, a V-shaped upwelling after a record contraction. China was the first to emerge from the COVID-19 lockdown. According to the Chinese government, industry was mostly back to normal and expecting output in June to exceed May's annual gain. Chinese consumers were more restrained, likely from lingering fear of infection and reports of renewed outbreak in Beijing. Retail sales recovered in May but were still down from the prior year. Still, demand seemed to be improving as June PMIs from services companies were robust. China reported incredible progress in just a few months. The Eurozone economy showed signs of life after the devastating collapse. The PMI for manufacturing companies was 47.4 in June, still below a 50 breakeven. But it's the second highest this year and up from a devastating April low of 33.4. The Eurozone benefitted from strong action by the European Central Bank to increase its country bond purchases and expand its bank lending program. Widespread work subsidy programs have kept the Eurozone jobless rate from roaring higher. Japan's economy in June was following two tracks: further weakness in industrial output, down another 8.8% in May. The other track showed clear gains in consumer activity with May retail sales up 2.2%. Recovery appeared to be underway.

June was good for most stock and bond markets. The S&P 500 index rose 1.8% in price but was outperformed by many foreign equity indices. The MSCI Emerging Market Index jumped 7.0% and the MSCI All Country World Index climbed 3%. While June returns were good, the second quarter was stellar; the S&P 500 Index soared 19.95%. Of the 47 markets we follow, only the Mongolian Top 20 index lost ground.

*All data from Bloomberg unless otherwise stated, commentary from Economic Insights: July 2020 by Robert F. Baur, Ph.D., executive director, chief global economist

Performance Contributors and Detractors

Contributors

During last quarter:

Active management in U.S. equities was a strong contributor with the LargeCap Value III, Equity Income, MidCap Growth III, MidCap Value I, SmallCap Growth I, and SmallCap Value II investment options outperforming their indices. Manager performance of the Core Fixed Income investment option contributed as it outpaced its index. Manager performance in the non-U.S. equity space helped drive positive performance as the Overseas and Diversified International investment options outperformed their indices. Overweight to growth exposure within U.S. equity across the series was a contributor as growth outperformed value. Overweight to dedicated high yield contributed as the asset class was the best performer within the fixed income space.

Detractors

During last quarter:

Manager performance in High Income was a detractor as the investment option underperformed its index. Underweight to the broad non-U.S. equity asset class throughout the series had a negative impact as the asset class experienced strong returns. Underweight to U.S. equity and overweight to fixed income hindered performance in the income vintage.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

Principal LifeTime 2050 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 06/30/2020	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	06/28/2005
Principal LifeTime 2050 Fund (A) (excl. sales charge)	19.45	-5.49	1.98	6.18	5.98	9.52	5.35	Ext. Perf. Inc. Date	03/01/2001
Principal LifeTime 2050 Fund (A) (incl. sales charge)	12.89	-10.68	-3.61	4.20	4.79	8.90	5.05	Total Inv. Exp Gross	1.17
S&P Target Date 2050 Index	17.61	-6.57	1.05	5.57	6.42	9.75	-	Total Inv Exp Net	1.05
Target-Date 2050 Category	18.08	-5.62	1.78	5.70	6.13	9.21	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	50	34	60	40	-	Contractual Cap Date	02/28/2021
Total Funds in Category	239	239	238	209	164	83	-	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.

Principal LifeTime 2050 Fund (A)

Statistics Summary as of 06/30/2020

	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					
Principal LifeTime 2050 Fund (A)	0.46	1.05	99.18	0.35	0.37	16.07	26	10	2.73	-4.90	104.17	101.32
S&P Target Date 2050 Index	N/A	N/A	N/A	N/A	N/A	N/A	26	10	2.62	-4.84	100.00	100.00
	5 Year						5 Year					
Principal LifeTime 2050 Fund (A)	-0.57	1.04	98.88	0.41	-0.28	13.86	42	18	2.32	-4.26	100.22	102.76
S&P Target Date 2050 Index	N/A	N/A	N/A	N/A	N/A	N/A	44	16	2.31	-4.14	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 05/31/2020

Security	Net Assets (%)
Principal Large Cap S&P 500 Index Inst	14.88
Principal LargeCap Growth I R6	12.60
Principal Diversified International R-6	10.95
Principal Overseas Instl	9.87
Principal Large Cap Value III Inst	9.37
Principal MidCap Growth III Inst	6.60
Principal Core Fixed Income R6	5.74
Principal MidCap Value I R-6	4.91
Principal Blue Chip R-6	4.44
Principal Origin Emerging Markets R6	3.33
Total % in Top 10	82.69

Principal LifeTime 2050 Fund (A)

Manager(s)	Start Date	Degree	Alma Mater
James W. Fennessey	06/01/2007	B.S.	Truman State University
Randy L. Welch	06/01/2007	M.B.A.	Drake University
Scott W. Smith	05/02/2017	B.S.	Iowa State University

Fund Strategy

The investment seeks a total return consisting of long-term growth of capital and current income. The fund operates as a "target date fund" that invests according to an asset allocation strategy designed for investors having a retirement investment goal close to the year in 2050. It is a fund of funds and invests in underlying funds of Principal Funds, Inc. ("PFI"). Its underlying funds consist of domestic and foreign equity funds, fixed-income funds, real asset funds, and other funds that aim to offer diversification beyond traditional equity and fixed-income securities.

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.).

About Principal LifeTime

The Principal LifeTime portfolios, which are target date portfolios, invest in underlying Principal Funds. Each Principal LifeTime portfolio is managed toward a particular target (retirement) date, or the approximate date the participant or investor starts withdrawing money. As each Principal LifeTime portfolio approaches its target date, the investment mix becomes more conservative by increasing exposure to generally more conservative investment options and reducing exposure to typically more aggressive investment options. The asset allocation for each Principal LifeTime portfolio is regularly re-adjusted within a time frame that extends 10-15 years beyond the target date, at which point it reaches its most conservative allocation. Principal LifeTime portfolios assume the value of the investor's account will be withdrawn gradually during retirement.

Neither the principal nor the underlying assets of the Principal LifeTime portfolios are guaranteed at any time, including the target date. Investment risk remains at all times.

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.

This Principal LifeTime Fund indirectly bears its pro rata share of the management fees incurred by the underlying Principal Funds in which this fund invests. Based on the asset allocation of the Principal LifeTime Funds outlined in the prospectus dated March 1, 2020, the weighted average operating expenses of the underlying funds are: Principal LifeTime Strategic Income, 0.59%; Principal LifeTime 2010, 0.60%; Principal LifeTime 2020, 0.64%; Principal LifeTime 2030, 0.768%; Principal LifeTime 2040, 0.64%; Principal LifeTime 2050, 0.67%. While the operating expenses of the underlying mutual funds are not part of the Principal LifeTime Fund's operating expenses they are included in the Total Investment Expense. Performance results shown for the Principal LifeTime Fund reflect the application of these expenses.

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.

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

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.

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

Additional target date portfolios may be added to the Principal LifeTime portfolios series to accommodate plan participants with later normal retirement dates as they enter the workforce. Participants may also choose a portfolio with a target date that does not match the intended retirement date. Compare the different portfolios to see how the mix of investments might shift.

S&P Target Date 2050 Index provides varying levels of exposure to equities and fixed income. Each target date allocation is created and retired according to a pre-determined schedule related to the respective target date.

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.

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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.

The individual Principal LifeTime Funds may be combined with the Principal LifeTime Strategic Income Fund if the Board of Directors of Principal Funds, Inc., determines at the time that the combination is in the best interests of Fund shareholders.

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

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