

Fourth Quarter 2019

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PTCAX	Multiple Sub-Advisors	S&P Target Date 2030 Index	Target-Date 2030	Balanced

Economic Overview

Economic momentum has clearly improved in the U.S. and China. A modest upturn has started in the Eurozone, and Japan's economy appears to be nearing an economic trough. China's leading economic indicator created by the Organization of Economic Cooperation and Development troughed in February, and our own activity guide has been picking up since spring. Broad gauges like retail sales, industrial production, and fixed asset investment all improved significantly in November. The partial detente in the U.S.-China trade conflict bodes well for better growth next year. U.S. activity appears to be bouncing. Manufacturing picked up in November. Small business optimism has perked up and remains near all-time highs. Job growth is extraordinarily strong for this late in an expansion, which boosted consumer confidence. Household balance sheets are in excellent shape and the savings rate stays high at 8%.

The Eurozone economy has lagged the U.S. and China recently, avoiding recession as the weak link this year. Germany kept expanding in the third quarter. For the Eurozone as a whole, the trough was likely the fourth quarter of 2019. Service sector surveys have picked up from the bottom, but canvasses of manufacturing companies may not be there yet. Those latter surveys showed activity ticked down in December after weak October activity. But overall business sentiment shows signs of recovery. Robust household activity has kept a recession at bay, buoyed by a vigorous labor market. The Eurozone appears set for an upswing. Wage growth has accelerated, and job gains stay hardy as the labor market tightens.

The hike in the value-added tax (VAT) in Japan on October 1 had the same negative impact as prior ones: heightened sales before the hike and a collapse afterwards. It may cause growth to contract in the fourth quarter and has surely delayed a rebound in Japan. Manufacturing remains weak from global headwinds. Although the job market is incredibly tight and job openings plentiful, the unemployment rate remains remarkably tiny at 2.2%. Nevertheless, Japanese industry is in recession as machine tool orders and industrial production keep falling. We do look for growth to pick up modestly in 2020 as the tax impact fades. The government has proposed a large stimulus package to offset the VAT and the 2020 Olympics will likely provide a temporary lift. Industrial output in Taiwan and South Korea has trended somewhat higher, a harbinger of a broader pickup in Southeast Asia from which Japan will likely benefit.

We believe the foundation is being set for a mild but sustained pickup in world growth for 2020. Central banks are very accommodative. Interest rates stay extremely low. The lagged impact of rate cuts should stay beneficial next year. Stimulus in China, while timid, appears to be supporting growth. Trade uncertainty has lessened. The U.S. dollar has weakened. Credit stress is negligible. Inflation stays moderate. Commodity prices are rising, sniffing the aroma of better growth. The wave of revival seems to have begun.

Not FDIC or NCUA insured

May lose value • Not a deposit • No bank or credit union guarantee
Not insured by any Federal government agency

Performance Contributors and Detractors

Contributors

During last quarter:

Manager performance in Core Fixed Income contributed as the investment option outperformed its index. An overweight to dedicated high yield contributed as the asset class was the highest performer within the fixed income space. Manager performance in the non-U.S. equity space contributed driven by the Overseas investment option.

Detractors

During last quarter:

Active management in the U.S. equity space detracted as all investment options underperformed their index. An underweight to the broad non-U.S. equity asset class throughout the series detracted as the asset class was the highest performer for the three-month period. An overweight to real assets was a drag on performance, causing the portfolio to forgo better opportunities for absolute performance in other asset classes. An underweight to U.S. equity and an 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 2030 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 12/31/2019	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	06/28/2005
Principal LifeTime 2030 Fund (A) (excl. sales charge)	5.69	21.96	21.96	9.91	6.68	8.39	5.64	Ext. Perf. Inc. Date	03/01/2001
Principal LifeTime 2030 Fund (A) (incl. sales charge)	-0.12	15.23	15.23	7.85	5.47	7.77	5.33	Total Inv. Exp Gross	1.10
S&P Target Date 2030 Index	5.81	20.38	20.38	9.55	7.27	8.66	-	Total Inv Exp Net	1.08
Target-Date 2030 Category	5.49	20.07	20.07	9.43	6.75	8.12	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	18	36	64	45	-	Contractual Cap Date	02/29/2020
Total Funds in Category	250	241	241	206	164	95	-	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 2030 Fund (A)

Statistics Summary as of 12/31/2019

	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 2030 Fund (A)	-0.15	1.07	98.48	0.94	0.29	8.62	29	7	1.81	-2.63	104.70	105.78
S&P Target Date 2030 Index	N/A	N/A	N/A	N/A	N/A	N/A	28	8	1.73	-2.49	100.00	100.00
	5 Year						5 Year					
Principal LifeTime 2030 Fund (A)	-0.81	1.04	98.52	0.67	-0.54	8.57	42	18	1.72	-2.33	99.99	107.02
S&P Target Date 2030 Index	N/A	N/A	N/A	N/A	N/A	N/A	43	17	1.72	-2.18	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 11/30/2019

Security	Net Assets (%)
Principal Income R6	17.21
Principal Large Cap S&P 500 Index Inst	10.99
Principal Bond Market Index Instl	9.28
Principal LargeCap Growth I R6	8.93
Principal Diversified International R-6	7.66
Principal Overseas Instl	7.59
Principal Large Cap Value III Inst	7.52
Principal MidCap R-6	5.63
Principal High Income Inst	4.24
Principal MidCap Value I R-6	3.47
Total % in Top 10	82.52

Principal LifeTime 2030 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 2030. 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.

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.

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.

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

S&P Target Date 2030 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.

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.

*Commentary taken from December 2019 Economic Insights by Robert F. Baur, Ph.D., executive director, chief global economist. All data from Bloomberg, unless otherwise stated.

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



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