

# Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
SABPX	Principal Global Investors	SAM Balanced Blended Index	Allocation--50% to 70% Equity	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 gauge 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.

## Performance Contributors and Detractors

### Contributors

#### During last quarter:

Strategic allocation to international emerging market equities, which outperformed their U.S. and developed market counterparts, was the largest contributor. Strategic allocation to high yield bonds, which outperformed core fixed income in the risk-on environment, aided performance. Strategic underweight to government bonds, which underperformed core fixed income, contributed.

### Detractors

#### During last quarter:

Security selection in large-cap equities was the largest detractor. Security selection in international developed market value equities hindered performance. Strategic and tactical allocation to treasury inflation protected securities (TIPS), which posted positive returns but underperformed core fixed income, detracted.

#### Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

## SAM Balanced 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](http://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	07/25/1996
SAM Balanced Portfolio (A) (excl. sales charge)	4.97	19.57	19.57	9.05	6.37	8.03	7.28	Ext. Perf. Inc. Date	07/25/1996
SAM Balanced Portfolio (A) (incl. sales charge)	-0.79	12.99	12.99	7.01	5.16	7.42	7.02	Total Inv. Exp Gross	1.25
SAM Balanced Blended Index	5.34	20.63	20.63	9.73	7.30	8.55	-	Total Inv Exp Net	1.25
Allocation--50% to 70% Equity Category	5.03	19.23	19.23	8.55	6.22	7.90	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	48	43	46	46	-	Contractual Cap Date	-
Total Funds in Category	713	697	697	643	570	420	-	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.

# SAM Balanced Portfolio (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					
SAM Balanced Portfolio (A)	-0.67	1.01	98.54	1.03	-0.80	6.99	28	8	1.49	-2.35	97.10	103.59
SAM Balanced Blended Index	N/A	N/A	N/A	N/A	N/A	N/A	29	7	1.54	-2.27	100.00	100.00
	5 Year						5 Year					
SAM Balanced Portfolio (A)	-0.88	1.00	98.55	0.76	-1.10	7.07	42	18	1.49	-1.88	96.24	106.20
SAM Balanced Blended Index	N/A	N/A	N/A	N/A	N/A	N/A	43	17	1.55	-1.77	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 Equity Income Inst	13.24
Principal Income R6	12.29
Principal Diversified International R-6	11.65
Principal US Mega-Cap Multi-Factor ETF	10.19
Principal Blue Chip R-6	9.15
Principal Short-Term Income Inst	7.78
Principal Government & High Qual Bd Inst	6.77
Principal Active Global Dividend Inc ETF	5.04
Principal EDGE MidCap R-6	4.22
Principal Diversified Real Asset R6	3.15
<b>Total % in Top 10</b>	<b>83.50</b>

## SAM Balanced Portfolio (A)

Manager(s)	Start Date	Degree	Alma Mater
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 as high a level of total return (consisting of reinvested income and capital appreciation) as is consistent with reasonable risk. The fund operates as a fund of funds. It generally invests: between 20% and 60% of its assets in fixed-income funds, and less than 40% in any one fixed-income fund; between 40% and 80% of its assets in equity funds, 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](http://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.

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

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, 2019, the weighted average operating expenses of the underlying funds are: Flexible Income, 0.51%; Conservative Balanced, 0.62%; Balanced, 0.64%; Conservative Growth, 0.67%; Strategic Growth, 0.68%. 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.

SAM Balanced Blended Index is composed of 15% MSCI EAFE Index, 45% Russell 3000 Index and 40% 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.

### 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.

\*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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Principal Life Insurance Company, Des Moines, Iowa 50392-0001, [principal.com](http://principal.com)  
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