TARGET DATE FUND COMMENTARY
3RD QUARTER, 2021

CHARLIE MACBAIN
ANALYST, MANAGER RESEARCH

Our mission is to enrich the lives of our clients, colleagues and communities through sound financial advice, integrity, and commitment to service beyond expectation.

PRINCIPAL LIFETIME

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

Principal is altering its glidepath by increasing the equity allocation both before and after the retirement date. There are three aspects of this change, which are discussed below along with Principal's rationale for each. An illustration of the updated glidepath is on the following slide.

- Increasing the glidepath equity allocation for the vintages that are more than 10 years before retirement.
  - This change is primarily driven by lower forecasted capital market assumptions.
  - For example, in 2016, Principal's 10-year forecasted return for a 60/40 stock bond portfolio was 5.30%. In 2021, Principal's new 10-year forecasted return for a 60/40 stock bond portfolio is 3.50%.
  - Principal is increasing the equity exposure in this section of the glidepath to help investors maintain the ability to achieve successful retirement outcomes.
- Flattening the beginning of the glidepath by holding the equity allocation static until the glidepath is 25 years from retirement.
  - Previously, the glidepath equity allocation began to roll down immediately.
  - As part of the research process, Principal updated its human capital model with renewed participant data and observed that wealth accumulation is slower for younger investors but accelerates as they reach their 40s.
  - Principal is holding the equity allocation static until the glidepath is 25 years from retirement to improve the wealth accumulation potential for younger participants.
- Increasing the equity exposure in retirement and shortening the length of the glidepath from 15 years past retirement to 10 years.
  - In Principal's updated capital market assumptions, the forecast for U.S. core bonds fell from 3.50% in 2016 to 1.30% in 2021.
  - Given the lack of yield provided by investment grade bonds and concerns about the future viability of Social Security, Principal is increasing the equity exposure in retirement to provide more growth potential and to help participants maintain their standard of living.
  - Principal is shortening the length of the glidepath in retirement as it observed that most individuals have stopped contributing to their retirement accounts by age 75. As such, reaching a static allocation by that age is more appropriate than continuing to reduce the equity allocation.
- Principal is not changing the equity allocation at retirement or in the 10 years leading up to retirement as the existing equity exposure in these vintages was in line with the updated human capital model.

In addition to the equity allocation, Principal also adjusted the inflation-hedging allocations. Previously, the glidepath introduced TIPS and real assets 10 years before retirement. These assets will now enter the portfolio five years from retirement. In its updated research, the team observed that equities are an adequate hedge to inflation over a 10-year timeframe and concluded that it is unnecessary to introduce dedicated inflation-hedging assets that far from retirement. The real asset exposure will be reallocated to real estate and the TIPS exposure will be reallocated to core bonds.

These changes will be implemented over the fourth quarter of 2021.

Note: Benchmark relative performance refers to fund performance compared to the S&P Target Date Indices.

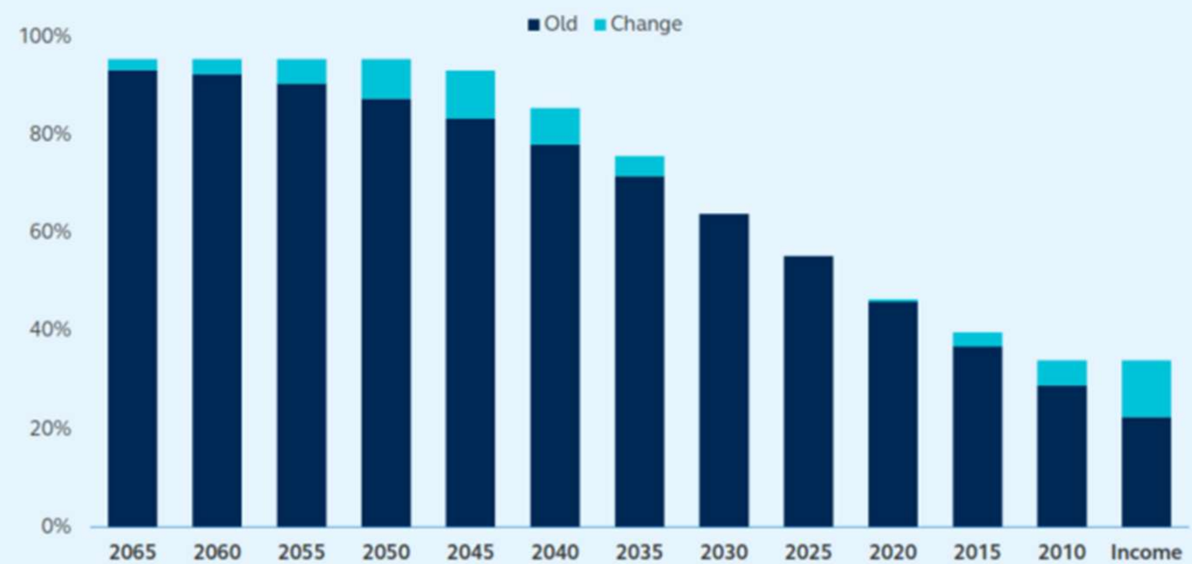
PRINCIPAL LIFETIME

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Investments Update continued

EXHIBIT 3: GLIDE PATH EQUITY EXPOSURE (INCLUDING REAL ASSETS) AS PERCENT OF TARGET DATE PORTFOLIO



	2065	2060	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	Income
New	95.5%	95.5%	95.5%	95.5%	93.2%	85.5%	75.8%	64.0%	55.4%	46.5%	39.8%	34.0%	34.0%
Old	93.3%	92.5%	90.6%	87.5%	83.4%	78.1%	71.7%	64.0%	55.4%	46.0%	37.0%	29.0%	22.5%

RETIREMENT

Source: Principal Global Asset Allocation. Data as of the publication of this document.

Note: Benchmark relative performance refers to fund performance compared to the S&P Target Date Indices.

PRINCIPAL LIFETIME

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Principal LifeTime Performance Update:
Principal LifeTime had mixed performance relative to peers and the benchmark in the third quarter.

- The series further-dated vintages from 2035 – 2065 outperformed peers as did the Strategic Income (landing point) vintage.
- However, the near-dated and in retirement vintages from 2010 – 2030 underperformed peers.
- The series' portfolio management approach contributed to further-dated vintages' outperformance while the Strategic Income vintage was aided by LifeTime's glidepath design.
- While Principal doesn't engage in tactical asset allocation like some peers, it has a flexible rebalance policy, which allows the team to let the series' stock/bond exposures float with the market to +/-5% of the strategic target depending on the team's outlook.
- As equity markets have generally moved higher over 2021, the LifeTime team has held the equity allocation at the upper bound of the rebalance threshold and has allocated most of this overweight to U.S. large-cap stocks.
- This overweight position helped the further-dated vintages' performance as U.S. large-caps outperformed in the third quarter.
- These vintages also benefited from LifeTime's lower allocation to international equities compared to peers as equity markets were primarily negative outside the U.S.
- The Strategic Income vintage was helped by its lower total exposure to equities relative to peers as most equity markets were negative in the third quarter.
- Manager selection was the primary cause for the 2010 – 2030 vintages' peer-relative underperformance and LifeTime's broad underperformance compared to the benchmark.
- LifeTime's international equity sleeve was the main weak spot with Principal Overseas, International Small Company, and Origin Emerging Markets all underperforming their benchmarks.

There were no changes made to the series' strategic asset allocation during the quarter.

Note: Benchmark relative performance refers to fund performance compared to the S&P Target Date Indices.

PRINCIPAL LIFETIME HYBRID

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

Principal is altering its glidepath by increasing the equity allocation both before and after the retirement date. There are three aspects of this change, which are discussed below along with Principal's rationale for each. An illustration of the updated glidepath is on the following slide.

- Increasing the glidepath equity allocation for the vintages that are more than 10 years before retirement.
  - This change is primarily driven by lower forecasted capital market assumptions.
  - For example, in 2016, Principal's 10-year forecasted return for a 60/40 stock bond portfolio was 5.30%. In 2021, Principal's new 10-year forecasted return for a 60/40 stock bond portfolio is 3.50%.
  - Principal is increasing the equity exposure in this section of the glidepath to help investors maintain the ability to achieve successful retirement outcomes.
- Flattening the beginning of the glidepath by holding the equity allocation static until the glidepath is 25 years from retirement.
  - Previously, the glidepath equity allocation began to roll down immediately.
  - As part of the research process, Principal updated its human capital model with renewed participant data and observed that wealth accumulation is slower for younger investors but accelerates as they reach their 40s.
  - Principal is holding the equity allocation static until the glidepath is 25 years from retirement to improve the wealth accumulation potential for younger participants.
- Increasing the equity exposure in retirement and shortening the length of the glidepath from 15 years past retirement to 10 years.
  - In Principal's updated capital market assumptions, the forecast for U.S. core bonds fell from 3.50% in 2016 to 1.30% in 2021.
  - Given the lack of yield provided by investment grade bonds and concerns about the future viability of Social Security, Principal is increasing the equity exposure in retirement to provide more growth potential and to help participants maintain their standard of living.
  - Principal is shortening the length of the glidepath in retirement as it observed that most individuals have stopped contributing to their retirement accounts by age 75. As such, reaching a static allocation by that age is more appropriate than continuing to reduce the equity allocation.
- Principal is not changing the equity allocation at retirement or in the 10 years leading up to retirement as the existing equity exposure in these vintages was in line with the updated human capital model.

In addition to the equity allocation, Principal also adjusted the inflation-hedging allocations. Previously, the glidepath introduced TIPS and real assets 10 years before retirement. These assets will now enter the portfolio five years from retirement. In its updated research, the team observed that equities are an adequate hedge to inflation over a 10-year timeframe and concluded that it is unnecessary to introduce dedicated inflation-hedging assets that far from retirement. The real asset exposure will be reallocated to real estate and the TIPS exposure will be reallocated to core bonds.

These changes will be implemented over the fourth quarter of 2021.

Note: Benchmark relative performance refers to fund performance compared to the S&P Target Date Indices.

PRINCIPAL LIFETIME HYBRID

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Investments Update continued

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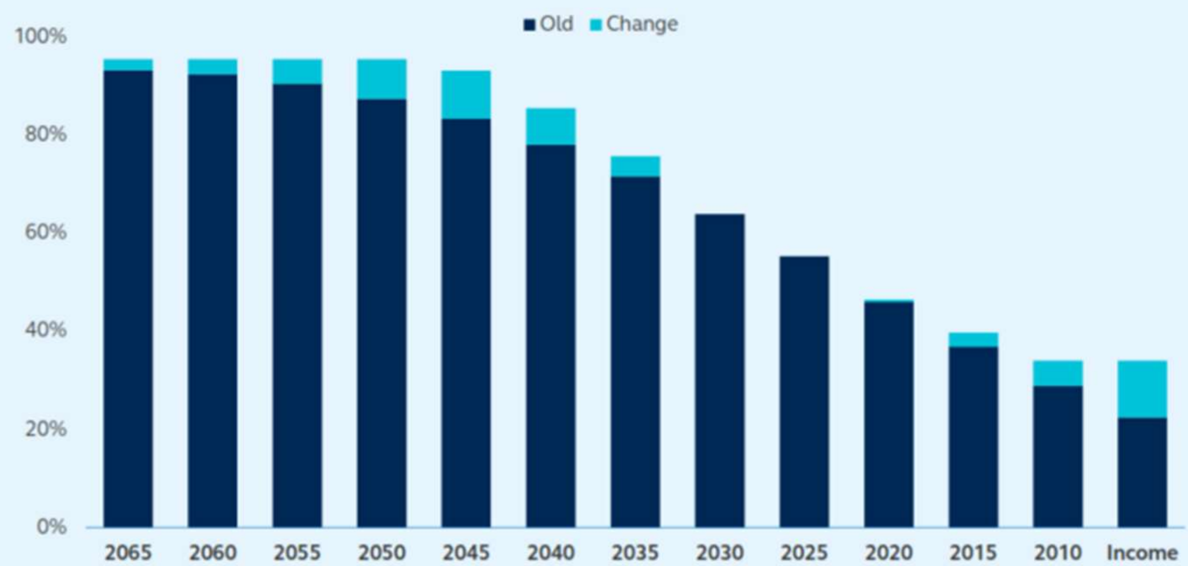

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PRINCIPAL LIFETIME HYBRID

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Principal LifeTime Hybrid Performance Update:
Principal LifeTime Hybrid had mixed performance in the third quarter as it mostly outperformed peers but trailed the benchmark.

- The primary driver for LifeTime Hybrid's peer-relative outperformance is the series' below average allocation to international equities as most non-U.S. markets were negative for the quarter.
- At the end of the glidepath, LifeTime Hybrid has a smaller total equity allocation compared to most peers, and this contributed to performance in the Strategic Income vintage as most equity markets were flat to negative during the quarter.
- The series' portfolio management approach was also a contributor to performance.
- While Principal doesn't engage in tactical asset allocation like some peers, it has a flexible rebalance policy, which allows the team to let the series' stock/bond exposures float with the market to +/-5% of the strategic target depending on the team's outlook.
- As equity markets have generally moved higher over 2021, the LifeTime Hybrid team has held the equity allocation at the upper bound of the rebalance threshold and has allocated most of this overweight to U.S. large-cap stocks.
- This overweight position helped performance as U.S. large-caps outperformed in the third quarter.
- Manager selection was the primary cause for the series' broad underperformance compared to the benchmark.
- LifeTime Hybrid's international equity sleeve was the main weak spot with Principal International Strategic Equity CIT, International Small Company, and Origin Emerging Markets all underperforming their benchmarks.

There were no changes made to the series' strategic asset allocation during the quarter.

Note: Benchmark relative performance refers to fund performance compared to the S&P Target Date Indices.

PRINCIPAL LIFETIME HYBRID CIT

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Organizational Update

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PRINCIPAL LIFETIME HYBRID CIT

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Investments Update continued

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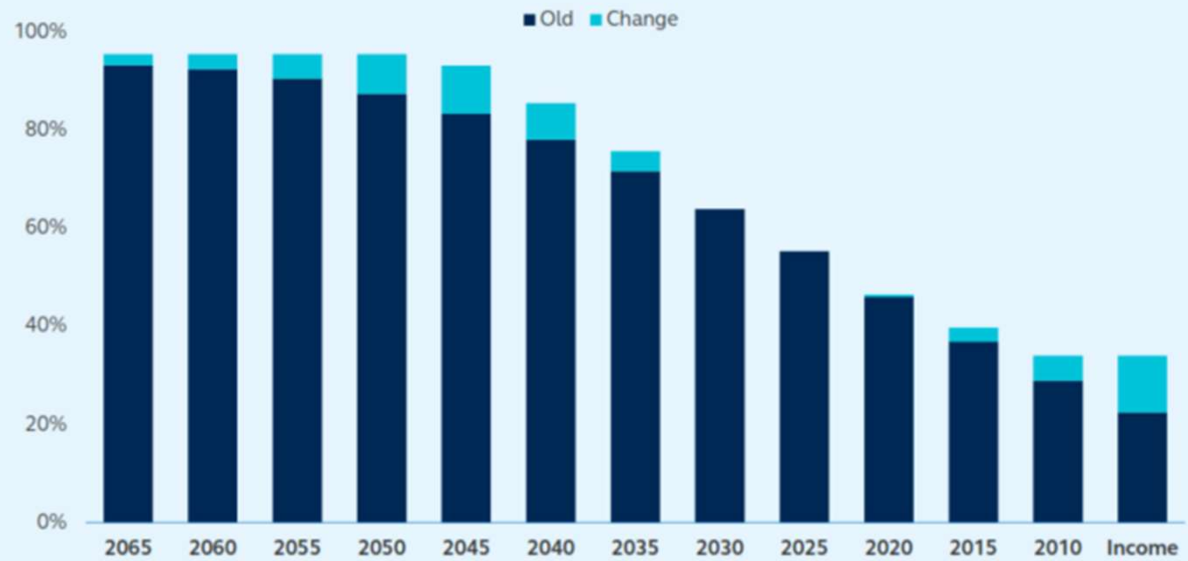

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RETIREMENT

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PRINCIPAL LIFETIME HYBRID CIT

MEETING DATE: OCTOBER 25, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Principal LifeTime Hybrid CIT Performance Update:
Principal LifeTime Hybrid CIT had mixed performance in the third quarter as it mostly outperformed peers but trailed the benchmark.

- The primary driver for LifeTime Hybrid CIT's peer-relative outperformance is the series' below average allocation to international equities as most non-U.S. markets were negative for the quarter.
- At the end of the glidepath, LifeTime Hybrid CIT has a smaller total equity allocation compared to most peers, and this contributed to performance in the Strategic Income vintage as most equity markets were flat to negative during the quarter.
- The series' portfolio management approach was also a contributor to performance.
- While Principal doesn't engage in tactical asset allocation like some peers, it has a flexible rebalance policy, which allows the team to let the series' stock/bond exposures float with the market to +/-5% of the strategic target depending on the team's outlook.
- As equity markets have generally moved higher over 2021, the LifeTime Hybrid CIT team has held the equity allocation at the upper bound of the rebalance threshold and has allocated most of this overweight to U.S. large-cap stocks.
- This overweight position helped performance as U.S. large-caps outperformed in the third quarter.
- Manager selection was the primary cause for the series' broad underperformance compared to the benchmark.
- LifeTime Hybrid CIT's international equity sleeve was the main weak spot with Principal International Strategic Equity CIT, International Small Company, and Origin Emerging Markets all underperforming their benchmarks.

There were no changes made to the series' strategic asset allocation during the quarter.

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