

TARGET DATE FUND COMMENTARY 2ND QUARTER, 2021

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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: JULY 20, 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 currently researching possible changes to the glidepath. Following the most recent update to the firm's long-term capital market assumptions, the expected returns for most asset classes, especially equities, came down. As a result, Principal began modeling an increase to the starting equity allocation and keeping that allocation static for longer (Principal's glidepath currently starts reducing its equity allocation 40 years from retirement). The team is also exploring shortening the glidepath from 15 years through retirement to 10 years through retirement. This would cause the landing point equity allocation to increase from 20% to 30%. In Principal's initial modeling of these changes, the team has observed that participants' spending balances at the landing point improve and there is no material increase in participant abandonment risk (participants selling out and moving to cash). Principal will complete this research and make final decisions about these changes over the second half of this year. This would mark a significant change to Principal's glidepath should it elect to make these changes. As such we will be monitoring this situation very closely and will be in regular dialogue with the team as their research progresses and they make decisions. We will share further details and information as they become available.

Principal International Small Company has been placed on the watch list by Principal's manager research team. The strategy was placed on watch at the end of the first quarter as a result of poor performance over the last 18 months, and it remained on watch through the end of the second quarter. In Principal's view, there are no qualitative issues with the strategy. The portfolio managers have been running the strategy for over 20 years and the team still has confidence in their abilities. However, the strategy had underperformed its benchmark and peer group two out of the last three quarters as of 3/31/2021, which triggered its placement on the watch list. The strategy continued to struggle and underperformed again in the second quarter. Unless performance improves, the manager research team will conduct a formal review of the strategy 12 months after it was placed on watch. Pending that review, the manager research team will decide whether to hold or replace the manager. We will continue to monitor the status of Principal International Small Company and will share all relevant updates.

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



PRINCIPAL LIFETIME

MEETING DATE: JULY 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Principal LifeTime Performance Update:

In a reversal from the first quarter, Principal LifeTime mostly outperformed peers and the benchmark.

- Manager selection and Principal's asset class positioning were the two biggest drivers of the series' outperformance in the second quarter.
- At the underlying manager level, gains were led by LifeTime's U.S. equity and fixed income managers.
- Within the equity portfolio, Principal Blue Chip and Principal LargeCap Growth I were the top performers, with both managers outperforming their benchmarks and respective peer groups.
- Within fixed income, Principal Core Fixed Income and Principal Inflation Protected Bond were the top contributors as both exhibited solid security selection during the quarter.
- LifeTime's asset class positioning also helped drive performance in the second quarter.
- Principal 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.
- The LifeTime series is currently running at a 4% overweight to stocks, which has been a positive contributor to performance.
- Within equities, Principal has also let the portfolios drift to a U.S. equity overweight versus international equity, and this has also helped performance as the U.S. continues to outperform international markets.

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

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PRINCIPAL LIFETIME HYBRID

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FOCUS AREA

Organizational Update

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PRINCIPAL LIFETIME HYBRID

MEETING DATE: JULY 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Principal LifeTime Hybrid Performance Update:

Principal LifeTime Hybrid struggled in the second quarter, posting mixed performance relative to the benchmark and underperforming the peer group.

- LifeTime Hybrid's underlying managers were the primary driver of the series' underwhelming performance.
- LifeTime Hybrid's U.S. equity portfolio is fully passive, and a unique aspect of Principal's approach is that it has dedicated exposures to large-, mid-, and small-cap stocks using the S&P 500, S&P 400, and S&P 600 indices, respectively.
- By taking this approach, LifeTime Hybrid has a somewhat larger exposure to value-oriented sectors as well as small- and mid-cap stocks.
- While this approach helped performance in the first quarter as small- and mid-cap value stocks outperformed, it was a detractor in the second quarter as large-caps and higher growth names rebounded.
- Also hurting performance were the series' international equity managers as each underperformed their benchmarks and peers.
- These managers have struggled in 2021 as international markets have lacked a consistent trend, especially developed markets.
- Principal is not too concerned with the managers, with the exception of International Small Company, as their longer-term track records remain solid.
- Somewhat offsetting the losses due to manager selection, were positive effects from Principal's asset class positioning.
- Principal 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.
- The LifeTime Hybrid series is currently running at a 4% overweight to stocks, which has been a positive contributor to performance.
- Within equities, Principal has also let the portfolios drift to a U.S. equity overweight versus international equity, and this has also helped performance as the U.S. continues to outperform international markets.

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

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PRINCIPAL LIFETIME HYBRID CIT

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Organizational Update

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PRINCIPAL LIFETIME HYBRID CIT

MEETING DATE: JULY 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Principal LifeTime Hybrid CIT Performance Update:

Principal LifeTime Hybrid CIT struggled in the second quarter, posting mixed performance relative to the benchmark and underperforming the peer group.

- LifeTime Hybrid CIT's underlying managers were the primary driver of the series' underwhelming performance.
- LifeTime Hybrid CIT's U.S. equity portfolio is fully passive, and a unique aspect of Principal's approach is that it has dedicated exposures to large-, mid-, and small-cap stocks using the S&P 500, S&P 400, and S&P 600 indices, respectively.
- By taking this approach, LifeTime Hybrid CIT has a somewhat larger exposure to value-oriented sectors as well as small- and mid-cap stocks.
- While this approach helped performance in the first quarter as small- and mid-cap value stocks outperformed, it was a detractor in the second quarter as large-caps and higher growth names rebounded.
- Also hurting performance were the series' international equity managers as each underperformed their benchmarks and peers.
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- Principal 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.
- The LifeTime Hybrid CIT series is currently running at a 4% overweight to stocks, which has been a positive contributor to performance.
- Within equities, Principal has also let the portfolios drift to a U.S. equity overweight versus international equity, and this has also helped performance as the U.S. continues to outperform international markets.

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