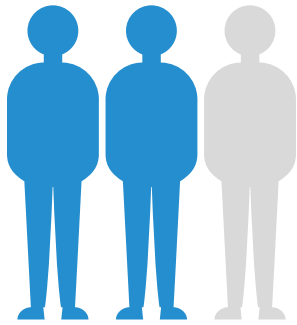


# The human element of target date investing

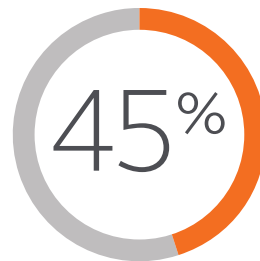
We want to help participants prepare for a comfortable retirement — and create the best possible investor experience. That's why we rely on data from 3 million investors to make sure we're considering their risks and concerns. We know we can't just focus on things like proprietary market assumptions. Instead, we have to consider the human element of investing.

## Here's what we know about investors

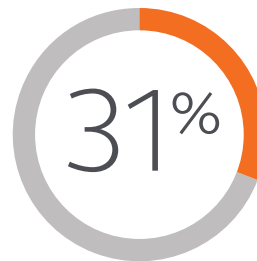


Of 3 million total investors, almost 2 million use a target date fund (TDF).<sup>1</sup>

### Percentage of investors concerned about<sup>2</sup>



economic uncertainty



rising costs from inflation



being financially prepared for a comfortable retirement

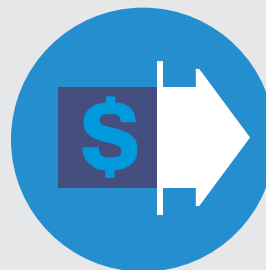
## Four key risks we try to help investors solve



**Shortfall**  
falling short of retirement savings goals



**Volatility**  
potential for loss of capital



**Longevity**  
outliving savings



**Inflation**  
losing real purchasing power over time


## Common characteristics of TDF investors







66%  
age 49 and under



34%  
age 50 and above

62%  were defaulted into the plan's TDF.

This suggests that most TDF investors are less-engaged investors.

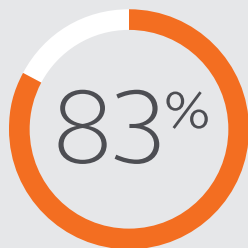
	 Average deferral rates	 Savings balances	 Salaries	 Employment tenure
<b>TDF investors</b> (typically less-engaged investors)	5.9%	\$27K	\$52K/year	7 years
<b>Non-TDF investors</b>	8.4%	\$83K	\$78K/year	12 years

### Why does this matter?

Because these characteristics help illustrate participant behaviors and risks. If we know that TDF investors are less engaged, for example, TDF managers can try to solve for that when creating and maintaining portfolios.

## Not all investors are investment experts

So education can help to encourage better savings habits, and help investors better understand and feel comfortable with investment decisions.

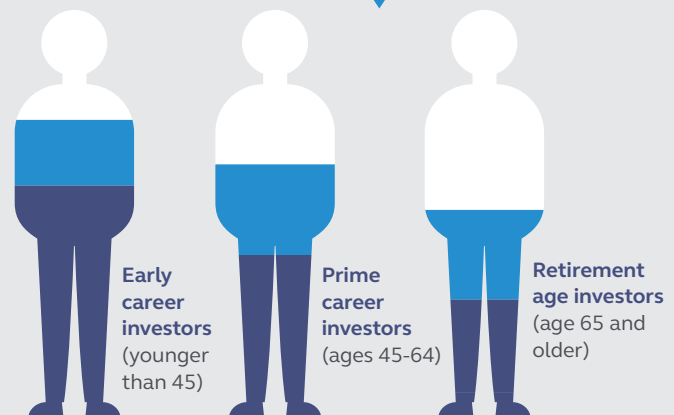




83% of investors are either in the vintage designed for their age, or in one designed for investors five years younger or five years older than they are<sup>3</sup>

### Why does this matter?

Not all participants are investment experts — we get that. That's why TDFs may be a good option less-savvy investors can understand — and ultimately feel more comfortable selecting.

TDFs are diversified and can be both actively and passively managed. They're designed to be used on their own.



 Total TDF investors  Total TDF investors using a single TDF

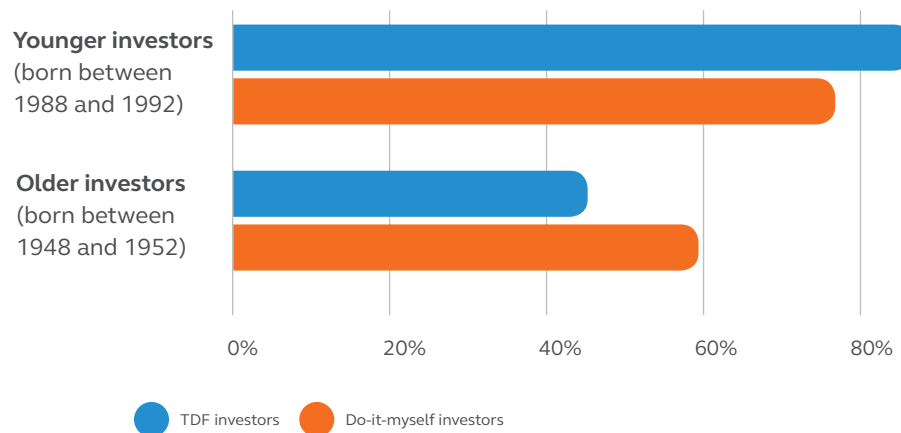
## What's the right amount of risk?

Compared to TDF investors, do-it-myself investors select fewer investment options that represent a smaller number of asset classes. And only a small percentage use automatic rebalancing.

<b>TDF investors</b>	19 investment options	Representing 12 asset classes	Nearly all TDFs rebalance automatically
<b>Do-it-myself investors</b>	3-5 investment options	Representing 2.8 asset classes	4.1% use automatic rebalancing*

\* See methodology for details.

### Average exposure to equity investments



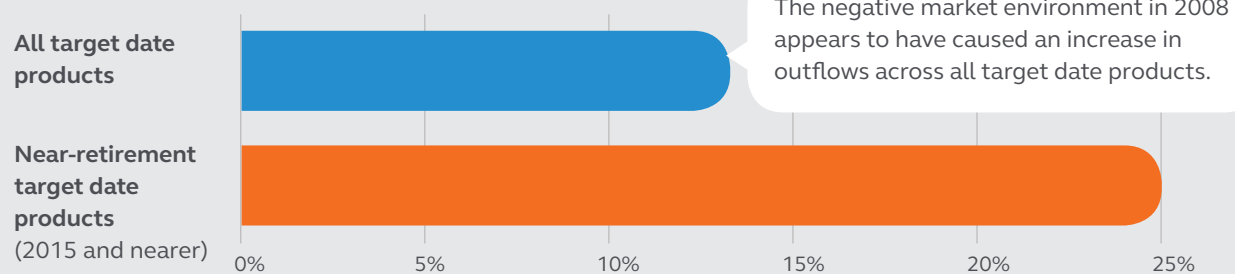
### Why does this matter?

Investors may benefit from a more professionally managed allocation that tries to meet their risk tolerance at any age. The goal of TDFs is to create a more balanced approach to investing overall with more investment options, asset classes and automatic rebalancing.

## Avoiding abandonment

Investors and plan fiduciaries seem to have a threshold for loss. When the market's not doing well, some will react and abandon their investment strategy.

### Increase in outflows in recent recession



### Why does this matter?

We know that volatility is a concern for investors. That's why TDFs generally strive to create a balance between risk and reward — providing investors with the greatest potential to grow their balances, while trying to control volatility and avoid abandonment.



## We're here to help to and through retirement

A "through retirement" approach may help provide an **appropriate exit point at any age**, regardless of when the investor leaves the TDF.



on time

5 years beyond

31%

of TDF investors stay invested in a TDF beyond retirement<sup>4</sup>

15 years beyond

### Why does this matter?

Managing a glide path through retirement considers an investor's needs as they age and change. We believe we're able to help all investors — whether they choose to retire "on time" or later on.



We put a lot of emphasis on demographic profiles and investor behavior — and our large database is a huge advantage. Why? Because it means we get to help investors prepare for something we think they deserve — a comfortable retirement.

For more information on the TDFs we make available, visit [principal.com](http://principal.com) or [principalfunds.com](http://principalfunds.com). Or, contact your local representative of Principal®.



Past performance is not a guarantee of future results. The investment advisor's investment philosophy and strategy may not perform as intended, and could result in a loss or gain.

### About target date investment options:

Target date portfolios are managed toward a particular target date, or the approximate date the investor is expected to start withdrawing money from the portfolio. As each target date portfolio approaches its target date, the investment mix becomes more conservative by increasing exposure to generally more conservative investments and reducing exposure to typically more aggressive investments. Neither the principal nor the underlying assets of target date portfolios are guaranteed at any time, including the target date. Investment risk remains at all times. Asset allocation and diversification do not ensure a profit or protect against a loss. Be sure to see the relevant prospectus or offering document for full discussion of a target date investment option including determination of when the portfolio achieves its most conservative allocation.

This research encompasses participants with assets in any target date strategy within a defined contribution plan serviced by Principal. All data is from calendar year 2015 unless stated otherwise.

<sup>1</sup> Participants in defined contribution plans serviced by Principal and who have any account value in a TDF strategy.

<sup>2</sup> Principal Financial Well-Being Index<sup>SM</sup>, fourth quarter 2015

<sup>3</sup> Based on 2015 vintage

<sup>4</sup> Of the approximately 96,000 investors who were invested in a target date 2010 fund at the target date (12/31/2010), nearly 30,100 were still invested in a target date product as of 12/31/2015.

---

## Methodology:

This research is as of 12/31/2015 and based on 3 million participants of which:

- Approximately 1.9 million are target date users (TDF investors), defined as participants with 50% or more assets in a diversified target date investment option on the Principal platform (Sub-Advised Investment Options and Mutual Fund Network). We believe more than 50% is an accurate representation of participant behavior.
- The remaining participants are categorized as non-target date users (non-TDF investors), defined as participants with no assets in any target date investment option on the Principal platform.

While not all target date funds are allocated the same, to compare the average equity exposure of do-it-myself investors to the average equity exposure of target date investors, the following methodology was used:

- For participants in retirement plans recordkept by us, the average equity exposure for each target date category,

according to each specific vintage, was compared against the combined total across the following asset classes as categorized by Morningstar's U.S. open-end mutual fund categories: Employer Security, International Equity, Large U.S. Equity and Small/Mid U.S. Equity.

To compare the average number of funds invested in by do-it-myself investors to the average number of funds invested in by TDF investors, the following methodology was used:

- The average number of holdings for the oldest share class of each fund in the Morningstar target date categories was compared to the average investment count for participants in retirement plans recordkept by Principal according to each specific vintage.
- TDFs that invest in individual securities (rather than fund of funds) were excluded, as well as those target date funds that invest primarily in another underlying asset allocation option.

---

## Important information:

### *Investing involves risk, including possible loss of principal.*

**Asset allocation** and diversification does not ensure a profit or protect against a loss. **Equity investment** options involve greater risk, including heightened volatility, than fixed-income investment options. **Fixed-income** investments are subject to interest rate risk; as interest rates rise their value will decline. International and global investing involves greater risks such as currency fluctuations, political/social instability and differing accounting standards. These risks are magnified in **emerging markets**. Fixed-income and asset allocation investment options that invest in **mortgage securities** are subject to increased risk due to real estate exposure.

There is no guarantee that a target date investment will provide adequate income at or through retirement.

Insurance products and plan administrative services provided through Principal Life Insurance Co. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities offered through Principal Securities, Inc., 800-547-7754, [member SIPC](#) and/or independent broker/dealers. Principal Life, Principal Funds Distributor, Inc. and Principal Securities are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

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

