Principal® Lifetime Income Solutions II Variable Annuity

Help protect investments with Principal® volatility control

Why market volatility matters

Market volatility is something you have to plan for as you develop investment strategies. To coin a phrase—*it's part of doing business*. And hopefully your investors understand the ups and downs of the market are a natural part of investing.

We advise clients not to panic. Declines are generally followed by a recovery, and over time, *things generally even out*. But that theory depends on having the time to make new investments and make back what was lost. And there's a segment of your client base for whom this might not work—retirees.

Most retirees aren't earning a paycheck or contributing to 401(k)s. They're living off what they've saved. So a downturn in the market can affect them more than others.

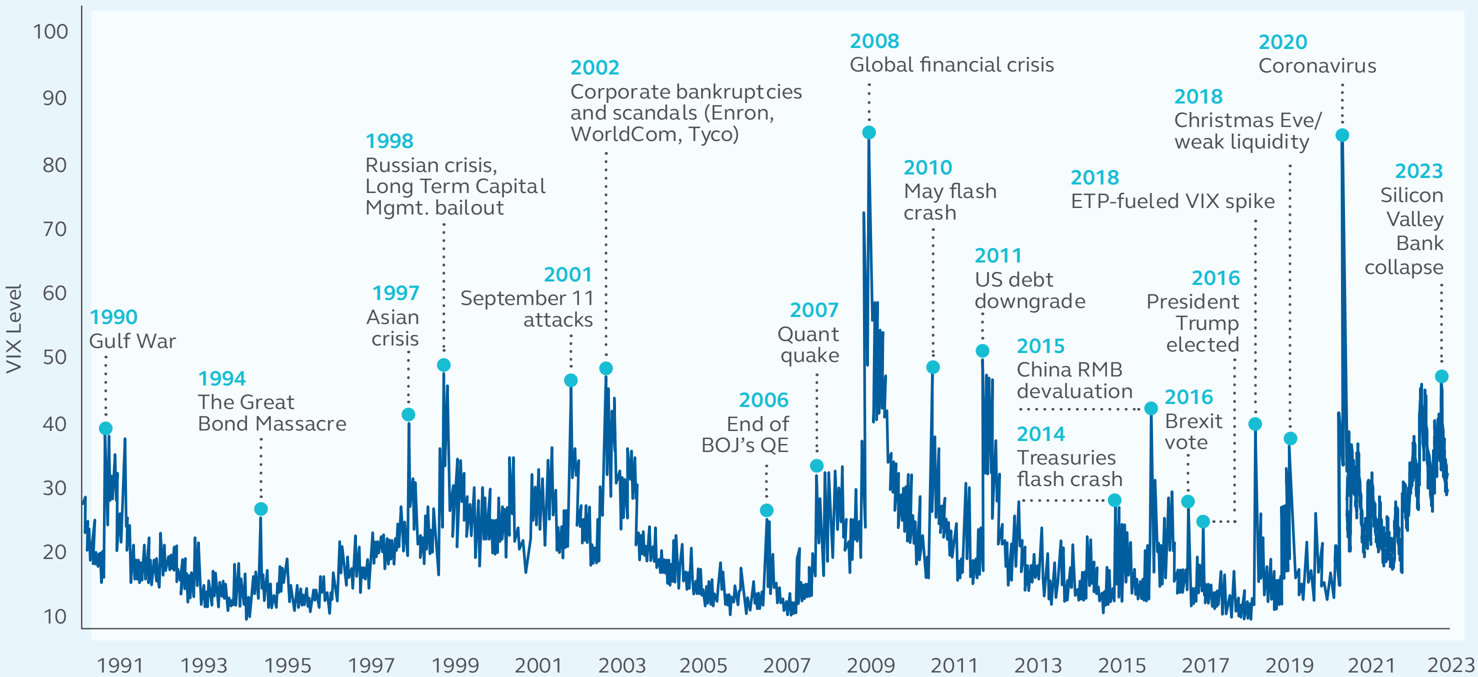
That's why these investors may need alternative options.

A look at historical volatility

Volatility is heavily influenced by global events, such as wars, political uncertainty, and stress on capital markets. These global influences are unpredictable, and even savvy investors can be affected. The chart below shows major world events over the past three decades and their impact on volatility in the market.

VIX levels (1990-present)

The Volatility Index, created by the Chicago Board Options Exchange, and commonly referred to as VIX, is a measure of the stock market's expectation of volatility. It shows implied volatility of S&P 500® index options over a defined period of time. Principal® uses realized volatility for our volatility control strategy. Realized volatility measures what actually happened in the market, often making it less reactive. More information on how this strategy works is provided later in this brochure.



Source: Chicago Board Options Exchange (CBOE). Goldman Sachs Global Investment Research.

Helping to protect investors from market volatility

Retired investors, or those planning for retirement, often seek financial products that offer a combination of investment potential and income guarantees. A variable annuity with a guaranteed minimum withdrawal benefit (GMWB) offers these features. But investors in these products are still vulnerable to equity market declines.

One industry solution to this problem is risk-controlled investment options. We offer these through our income-focused variable annuity, Principal® Lifetime Income Solutions II. These funds provide clients an additional layer of protection in certain markets and offer access to competitive income guarantees.

We worked with the Principal Global Equities (PGE) team to create a transparent, cost-effective solution for additional market volatility protection. PGE uses a predetermined rules-based approach to react to what's happening in the market. Reactions are data-driven, no one's trying to predict the market.

Principal Equities team manages **$104.9 billion** in assets under management*

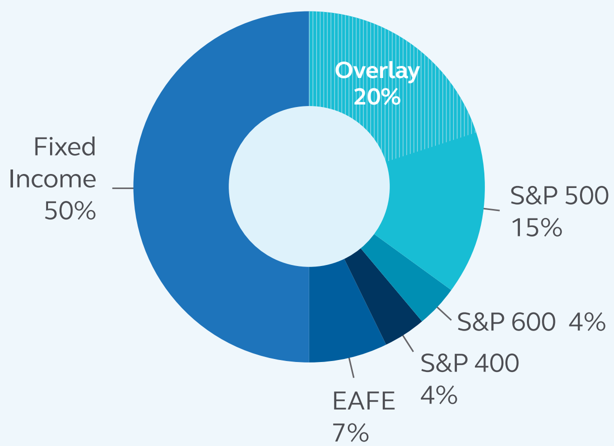
*As of Dec. 31, 2023.

How our volatility control diversified investment options work

The volatility control options are based on our traditional Diversified Growth and Diversified Balanced subaccounts. They use the same index fund-of-funds design but add an additional volatility overlay. The overlay is the portion of the portfolio that reallocates based on market volatility and controls the overall equity position of the portfolio.

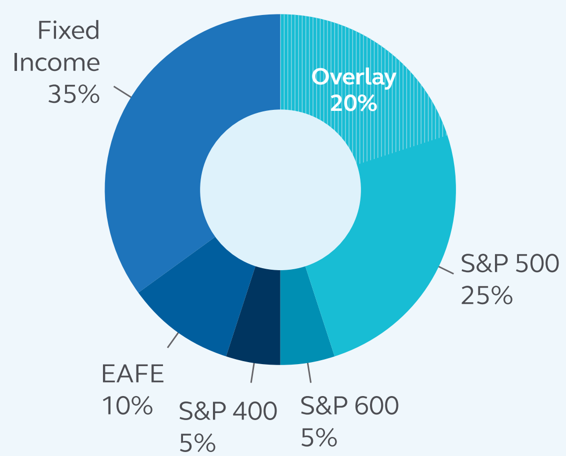
Diversified Balanced Volatility Control*

50% equity 50% fixed income



Diversified Growth Volatility Control*

65% equity 35% fixed income



*More information on specific asset allocations can be found at https://www.principal.com/FundInfo/AnnuityProductsList.do

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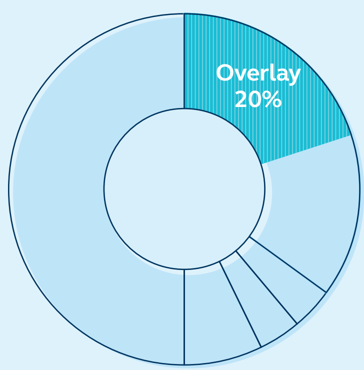


The key to our volatility control strategy is the use of an overlay that reacts based on market volatility. During periods of low volatility, the overlay is fully invested in S&P 500 equivalents. When volatility is high, the overlay systematically reduces its S&P 500 allocation by shifting to cash and/or shorting the market—which reduces the overall equity position of the fund.

Our volatility control strategy—as easy as 1 – 2 – 3

Principal Global Equities designed a simple process—they evaluate volatility on a daily basis, and, if necessary, rebalance the portfolio weekly based on that volatility.* **Here's how it's done.**

1. **Measure the S&P 500 closing price daily**
   Capture previous 60 trading day closing prices for the S&P 500 Total Return

2. **Determine realized volatility**
   Compute annualized realized volatility number using exponential weighting

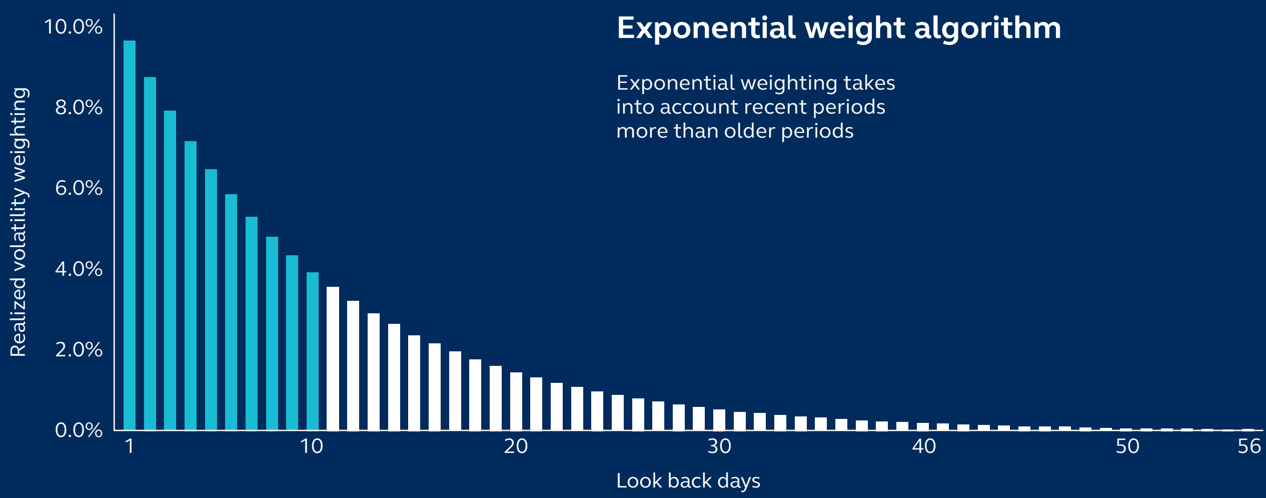
3. **Implement volatility control strategy**
   Rules-based systematic implementation

Measure the daily S&P 500 closing price

The PGE team captures the closing prices for the previous 60 trading days for the S&P 500 Total Return.

Determine realized volatility

The team then uses exponential weighting to calculate realized volatility. Of the 60 days evaluated, the most recent 10 days carry the most weight. The volatility measurement is then annualized to determine what action will be taken.



Exponential weight algorithm

Exponential weighting takes into account recent periods more than older periods

*While the strategy seeks to reduce risks by looking at historic volatility this is a backward looking indicator and is no indication that the strategy will be successful in the future. Additionally, while Principal seeks to track and reduce the exposure to volatility there is no guarantee that the volatility measure Principal tracks will track actual price volatility in the overall equity markets.

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Implementation in periods of high volatility

The annualized volatility level is what determines if action is taken with the overlay. Implementation is systematic and follows "rules of engagement." Any changes to asset allocation are based on realized volatility in the market.

If volatility levels are:

<16%

The overlay is 100% invested in equities

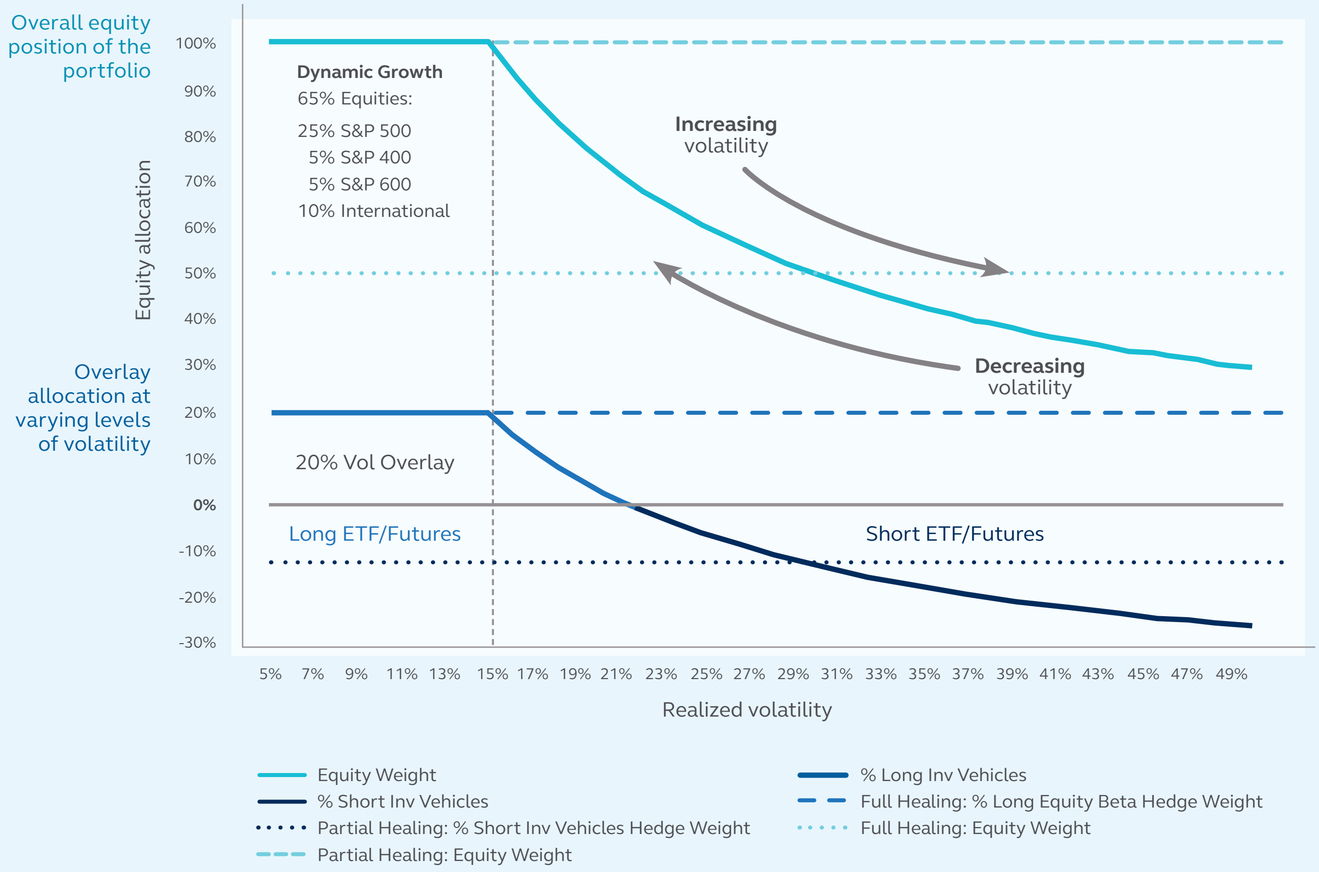
16-22%

The overlay begins moving assets out of equities and into cash

>22%

The overlay puts investments in 100% cash and begins shorting the market

This chart demonstrates how the Diversified Growth Volatility Control investment option is affected when the overlay reduces or increases its allocation in equities. The overall position in equities is simultaneously affected.



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As volatility rises, the equity exposure of the overall portfolio is reduced. When volatility decreases, the equity exposure of the overall portfolio is increased. The chart below shows an example of how the asset allocation of the investment option would change based on specific volatility level.

VOLATILITY LEVEL	OVERALL EQUITY POSITION
<16%	65.00%
20%	48.75%
28%	34.82%

Example provided for illustrative purposes only. Actual equity exposure will vary based on market conditions. It's not constant but changes based on the realized volatility.

Implementation in periods of falling volatility

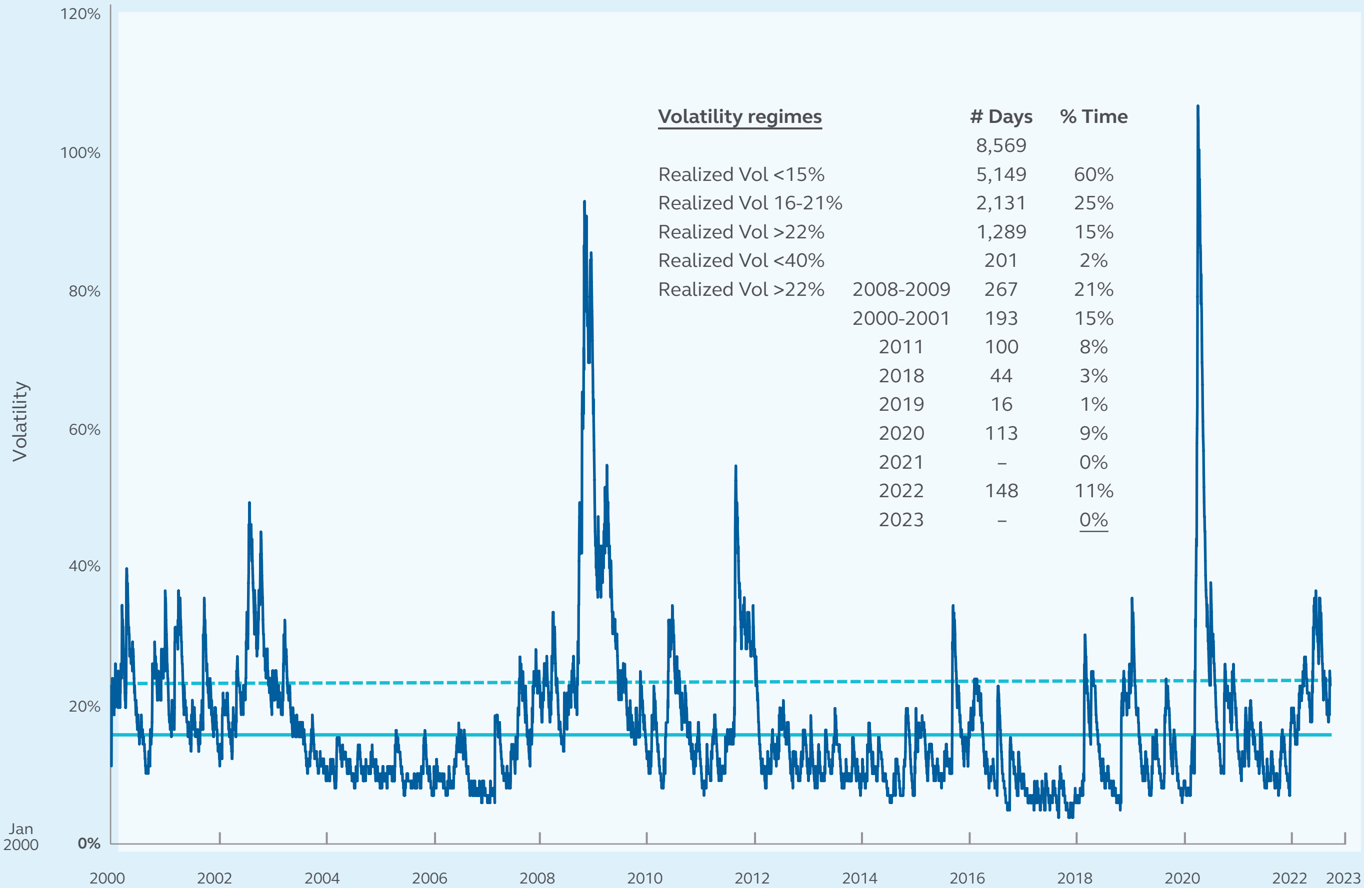
Still following a rules-based methodology, the portfolio managers identify periods of market healing by the following factors:

- Market correction (S&P 500)
- Elevated and falling current volatility (VIX)

If the above factors are met, the hedge is either reduced or completely removed. The percentage of the hedge removal is based on the current level of VIX at that time. If the S&P 500 and VIX fail to meet those factors, the fund will revert back to the original rules where assets are transferred back into the market based on the volatility of the S&P 500 (refer to chart on page 7).

How frequently is the strategy implemented?

The chart below shows measured volatility levels over the past three decades. Based on this, we can determine the volatility overlay never comes in to play 60% of the time.



Volatility regimes		# Days	% Time
		8,569	
Realized Vol <15%		5,149	60%
Realized Vol 16-21%		2,131	25%
Realized Vol >22%		1,289	15%
Realized Vol <40%		201	2%
Realized Vol >22%	2008-2009	267	21%
	2000-2001	193	15%
	2011	100	8%
	2018	44	3%
	2019	16	1%
	2020	113	9%
	2021	–	0%
	2022	148	11%
	2023	–	0%

Remember, these volatility levels are based on our proprietary measurement system using realized volatility.

Example provided for illustrative purposes only. This is a backward looking indicator and is no indication that the strategy will be successful in the future.

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Performance history

Our volatility control investment options were introduced in 2017 as part of our Principal Lifetime Income Solutions II Variable Annuity.

						Returns					
Account/ model	Portfolio inception date[1,2]	Subaccount inception date[1,2,3]	Equity/ non-equity allocation	Total expenses	Surrender charges	YTD as of Mar. 31, 2023	1 yr. avg.	3 yr. avg.	5 yr. avg.	10 yr. avg.	Since inception[3]
Diversified Balanced Volatility Control[4,5]	3/30/2017	3/30/2017	50/50	0.53%	Excluding	13.57	11.15	1.82	4.26	—	4.06
					Including	-2.43	5.15	0.19	3.75	—	4.06
Diversified Growth Volatility Control[4,5]	3/30/2017	3/30/2017	65/35	0.53%	Excluding	5.02	14.68	3.65	5.92	—	5.44
					Including	-0.98	8.68	2.08	5.43	—	5.44

[1] The portfolio inception date column refers to the date the underlying funds were established; these are the funds in which the subaccounts invest. The subaccount inception date column refers to the date that each subaccount was included in the account. Performance including surrender charges for each subaccount is based on the subaccount inception date. Performance excluding surrender charges is based on the portfolio inception date. The time frame for each may vary.

[2] If inception date is less than one year from the date of these returns, the performance is a cumulative return, not an annual return.

[3] Performance since each subaccount's date of inclusion in the separate account.

[4] The Diversified Balanced Volatility Control Account and the Diversified Growth Volatility Control Account each indirectly bears its pro-rata share of the management fees incurred by the underlying funds in which these funds invest. Based on the asset allocation of the funds outlined in the prospectus dated May 1, 2023, the weighted average operating expenses of the underlying funds are: Diversified Balanced Volatility Control Account 0.16% and the Diversified Growth Volatility Control Account 0.18%. Diversified Balanced Volatility Control and Diversified Growth Volatility Control were first offered to investors April 6, 2017. Investment results include all charges and expenses, but exclude any additional charges for riders.

[5] Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap and international high-yield investment options involves additional risks.

Learn more about our volatility control investment options

Our *Diversified Balanced Volatility Control* and *Diversified Growth Volatility Control* investment options are available in our Principal® Lifetime Income Solutions II variable annuity (PLIS II).

They were created as a cost-effective, transparent way to offer additional market volatility protection. Sub-advised by the Principal Equities team, our volatility control investment options react to market trends using a rules-based approach.

Volatility in the market concerns all investors. But retired investors, and those near retirement, are often the most adversely affected by an economic downturn. These investors often benefit from financial products that offer income guarantees.

If you think your clients could benefit from the extra protection provided by the volatility control funds available through PLIS II, contact your Principal representative for more information.

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