Principal Diversified Real Asset Fund

Global balanced fund | Institutional Class

**Investment objective**
The investment seeks a long-term total return in excess of inflation.

**Investment strategy**
The fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in investments related to real assets and real asset companies. The fund seeks to achieve its investment objective by allocating its assets among general investment categories related to real assets and real asset companies (which include tangible assets and investments that are expected to perform well in periods of high inflation).

**General note**
An additional recordkeeping or administrative fee may be charged to participants investing plan assets in the fund. The recordkeeping fee will be deducted directly from participants’ accounts. Please log on to your employer plans at Vanguard.com, or contact Participant Services at 1-800-523-1188, prior to investing, for additional fee information.

**Benchmark**
BBgBarc US Treasury US TIPS TR USD

**Annual returns**

<table>
<thead>
<tr>
<th>Periods ended June 30, 2019</th>
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<tbody>
<tr>
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<tr>
<td>Fund</td>
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<td>Benchmark</td>
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The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors’ shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at vanguard.com/performance. Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns. Performance figures include the reinvestment of all dividends and any capital gains distributions. All returns are net of expenses.

**Fund allocation**

- Short-Term Reserves: 91.4%
- Domestic Bonds: 46.4%
- Foreign Stocks: 37.4%
- Domestic Stocks: 23.6%
- Foreign Bonds: 3.6%
- Preferred Stock: 0.0%
- Convertible Stock: 0.0%
- Other: 0.0%

†Morningstar Risk evaluates a mutual fund’s downside volatility relative to that of other funds in its Morningstar Category. It is an assessment of the variations in a fund’s monthly returns, with an emphasis on downside variations, in comparison with the mutual funds in its Morningstar Category. In each Morningstar Category, the 10% of funds with the lowest measured risk are described as Low Risk (LOW), the next 22.5% Below Average (-AVG), the middle 35% Average (AVG), the next 22.5% Above Average (+AVG), and the top 10% High (HIGH). Morningstar Risk is measured for up to three time periods (three-, five-, and 10 years). These separate measures are then weighted and averaged to produce an overall measure for the mutual fund. Funds with less than three years of performance history are not rated.
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**Ten largest holdings**

<table>
<thead>
<tr>
<th>Position</th>
<th>Security</th>
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<tbody>
<tr>
<td>1</td>
<td>Dracay Credit Suisse - 30</td>
<td></td>
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<tr>
<td>2</td>
<td>2 Year US Treasury Note Future Sept19</td>
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<tr>
<td>3</td>
<td>Put - 2 Year Interest Rate Swap</td>
<td></td>
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<tr>
<td>4</td>
<td>United States Treasury Bills 2.39%</td>
<td></td>
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<tr>
<td>5</td>
<td>Call - 2 Year Interest Rate Swap</td>
<td></td>
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<tr>
<td>6</td>
<td>RECV CME INTEREST RATE SW_Receive</td>
<td></td>
<td></td>
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<tr>
<td>7</td>
<td>Put - 1 Year Interest Rate Swap</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Enbridge Inc</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>United States Treasury Bills 2.43%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Call - 2 Year Interest Rate Swap</td>
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</tbody>
</table>

**Distribution by issuer–bonds**

- Future/Forward: 38.1%
- Cash & Equivalents: 26.5%
- Government: 13.4%
- Bank Loan: 9.5%
- Government Related: 6.9%

**Top sector holdings–stocks**

- Energy: 28.1%
- Real Estate: 20.0%
- Utilities: 18.7%
- Basic Materials: 15.2%
- Industrials: 10.7%

**Risk terms**

**Credit and Counterparty**: The issuer or guarantor of a fixed-income security, counterparty to an OTC derivatives contract, or other borrower may not be able to make timely principal, interest, or settlement payments on an obligation. In this event, the issuer of a fixed-income security may have its credit rating downgraded or defaulted, which may reduce the potential for income and value of the portfolio.

**Foreign Securities**: Investments in foreign securities may be subject to increased volatility as the value of these securities can change more rapidly and extremely than can the value of U.S. securities. Foreign securities are subject to increased issuer risk because foreign issuers may not experience the same degree of regulation as U.S. issuers do and are held to different reporting, accounting, and auditing standards. In addition, foreign securities are subject to increased costs because there are generally higher commission rates on transactions, transfer taxes, higher custodial costs, and the potential for foreign taxes charges on dividend and interest payments. Many foreign markets are relatively small and, securities issued in less-developed countries face the risks of nationalization, expropriation or confiscatory taxation, and adverse changes in investment or exchange control regulations, including suspension of the ability to transfer currency from a country. Economic, political, social, or diplomatic developments can also negatively impact performance.

**Not FDIC Insured**: The investment is not a deposit or obligation of, or guaranteed or endorsed by, any bank and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other U.S. governmental agency.

**Commodity**: Investments in commodity-related instruments are subject to the risk that the performance of the overall commodities market declines and that weather, disease, political, tax, and other regulatory developments adversely impact the value of commodities, which may result in a loss of principal and interest. Commodity-linked investments face increased price volatility and credit, and issuer risks compared with their underlying measures.

**High-Yield Securities**: Investments in below-investment-grade debt securities and unrated securities of similar credit quality, commonly known as “junk bonds” or “high-yield securities,” may be subject to increased interest, credit, and liquidity risks.

**Underlying Fund/Fund of Funds**: A portfolio’s risks are closely associated with the risks of the securities and other investments held by the underlying or subsidiary funds, and the ability of the portfolio to meet its investment objective likewise depends on the ability of the underlying funds to meet their objectives. Investment in other funds may subject the portfolio to higher costs than owning the underlying securities directly because of the management fees.

**Derivatives**: Investments in derivatives may be subject to the risk that the advisor does not correctly predict the movement of the underlying security, interest rate, market index, or other financial asset, or that the value of the derivative does not correlate perfectly with either the overall market or the underlying asset from which the derivative’s value is derived. Because derivatives usually involve a small investment relative to the magnitude of liquidity and other risks assumed, the resulting gain or loss from the transaction will be disproportionately magnified. These investments may result in a loss if the counterparty to the transaction does not perform as promised.

**Fixed-Income Securities**: The value of fixed-income or debt securities may be susceptible to general movements in the bond market and are subject to interest-rate and credit risk.

**Shareholder Activity**: Frequent purchases or redemptions by one or multiple investors may harm other shareholders by interfering with the efficient management of the portfolio, increasing brokerage and administrative costs and potentially diluting the value of shares. Additionally, shareholder purchase and redemption activity may have an impact on the per-share net income and realized capital gains distribution amounts, if any, potentially increasing or reducing the tax burden on the shareholders who receive those distributions.

**MLP**: Investments in master limited partnerships may be subject to the risk that their value is reduced because of poor performance of the underlying assets or if they are not treated as partnerships for federal income tax purposes. Investors in MLPs have more-limited control and voting rights on matters affecting the partnership compared with shareholders of common stock.

**Currency**: Investments in securities traded in foreign currencies or more directly in foreign currencies are subject to the risk that the foreign currency will decline in value relative to the U.S. dollar, which may reduce the value of the portfolio. Investments in currency hedging controls are subject to the risk that the value of the U.S. dollar will decline relative to the currency being hedged, which may result in a loss of money on the investment as well as the position designed to act as a hedge. Cross-currency hedging strategies and active currency positions may increase currency risk because actual currency exposure may be substantially different from that suggested by the portfolio’s holdings.

**Loss of Money**: Because the investment’s market value may fluctuate up and down, an investor may lose money, including part of the principal, when he or she buys or sells the investment.

**Bank Loans**: Investments in bank loans, also known as senior loans or floating-rate loans, are rated below-investment grade and may be subject to a greater risk of default than are investment-grade loans, reducing the potential for income and potentially leading to impairment of the collateral provided by the borrower. Bank loans pay interest at rates that are periodically reset based on changes in interest rates and may be subject to increased prepayment and liquidity risks.

**Equity Securities**: The value of equity securities, which include common, preferred, and convertible preferred stocks, will fluctuate based on changes in their issuers’ financial conditions, as well as overall market and economic conditions, and can decline in the event of deteriorating issuer, market, or economic conditions.

**Industry and Sector Investing**: Concentrating assets in a particular industry, sector of the economy, or markets may increase volatility because the investment will be more susceptible to the impact of market, economic, regulatory, and other factors affecting that industry or sector compared with a more broadly diversified asset allocation.

**U.S. Government Obligations**: Investments in U.S. government obligations are subject to varying levels of government support. In the event of default, some U.S. government securities, including U.S. Treasury obligations and Ginnie Mae securities, are issued and guaranteed as to principal and interest by the full faith and credit of the U.S. government. Other securities are obligations of U.S. government-sponsored entities but are neither issued nor guaranteed by the U.S. government.

**Leverage**: Leverage transactions may increase volatility and result in a significant loss of value if a transaction fails. Because leverage usually involves investment exposure that exceeds the initial investment, the resulting gain or loss from a relatively small change in an underlying indicator will be disproportionately magnified.

**Maturity/Duration**: Securities with longer maturities or durations typically have higher yields but may be subject to increased interest-rate risk and price volatility compared with securities with shorter maturities, which have lower yields but greater price stability.
Management: Performance is subject to the risk that the advisor’s asset allocation and investment strategies do not perform as expected, which may cause the portfolio to underperform its benchmark, other investments with similar objectives, or the market in general. The investment is subject to the risk of loss of income and capital invested, and the advisor does not guarantee its value, performance, or any particular rate of return.

Real Estate/REIT Sector: Concentrating assets in the real estate sector or REITs may disproportionately subject the portfolio to the risks of that industry, including loss of value because of changes in real estate values, interest rates, and taxes, as well as changes in zoning, building, environmental, and other laws, among other factors. Investments in REITs may be subject to increased price volatility and liquidity risk, and shareholders indirectly bear their proportionate share of expenses because of their management fees.

Note on frequent trading restrictions
Frequent trading policies may apply to those funds offered as investment options within your plan. Please log on to Vanguard.com for your employer plans or contact Participant Services at 800-523-1188 for additional information.

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For more information about any fund offered, call 800-523-1188 to obtain a prospectus or, if available, a summary prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.
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