Principal Financial Advisors, Inc.

Investment Advisory Report
City of Hallandale Beach General Employees' Plan

Contract No. 4-45661
October 01, 2007 - June 30, 2008

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Principal Financial Advisors, Inc. Overview

Making informed and effective asset allocation decisions may be one of the most important – and challenging – endeavors an employer undertakes for their retirement plan. This decision is key in determining whether the plan will meet its long-term investment goals and objectives. At the Principal Financial Group® (The Principal®), we understand the challenges and pressures employers face as a retirement plan sponsor, including the selection of optimal investment options.

For over 20 years, Principal Financial Advisors, Inc., a registered investment advisor, and a member company of the Principal Financial Group® has been providing asset allocation solutions for clients. Today, we manage over $5.9 billion in assets overall and have over 400 clients using our advisory services for retirement plans.

Our mission is to provide high quality investment advisory and consulting services to help clients meet their goals and objectives by offering premier investment managers and customized asset allocation solutions.

The investment advisory services of Principal Financial Advisors, Inc., are consistent with the following core beliefs:

1) Strategic asset allocation decisions are key determinants of investor success.
2) Liability analysis and plan sponsor attributes dictate asset allocation decisions for defined benefit plans.
3) Diversification by asset class, style, and manager is the primary tool for limiting investment risk.
4) Value is added through manager selection.

Principal Financial Advisors, Inc., provides:

1) Benefits of the Principal Due Diligence Program℠ provided by Principal Life Insurance Company.
2) Asset liability analysis for defined benefit plans and scenerios to help meet your plan's goals.
3) Assumption of fiduciary responsibility for asset allocation decisions.*
4) Experienced investment personnel.
5) Comprehensive reporting and top-tier client service.

Principal Financial Advisors, Inc., focuses on long-term asset allocation strategies with the goal of providing optimal return and risk scenarios to help meet your defined benefit plan's goals.

* The plan sponsor remains the named fiduciary of the plan, but Principal Financial Advisors, Inc., has been selected as the plan's investment advisor.

Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2007 through 06/30/2008					
Investment Advisor	Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
	Large U.S. Equity				
	Large Value				
AllianceBernstein LP	LargeCap Value III Separate Account-R6 [2, 19, 24, 34]	$1,584,979	5.24%	$1,109,255	3.91%
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 [17]	$1,593,418	5.26%	$2,198,060	7.75%
	Large Blend				
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 [9]	$3,645,417	12.04%	$2,224,479	7.84%
	Large Growth				
Columbus Circle Investors	LargeCap Growth Separate Account-R6 [13, 26]	$1,857,105	6.13%	$1,773,754	6.25%
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 [2, 11]	$1,844,422	6.09%	$1,777,315	6.27%
	Small/Mid U.S. Equity				
	Mid Cap Value				
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 [1, 15, 27]	$0	0.00%	$437,081	1.54%
	Mid Cap Growth				
Turner Investment Partners	MidCap Growth III Separate Account-R6 [1, 14, 28]	$0	0.00%	$454,310	1.60%
	Small Value				
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 [1, 2, 18]	$507,807	1.68%	$433,202	1.53%
	Small Growth				
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 [1, 2, 7]	$659,010	2.18%	$462,647	1.63%
	International Equity				
	Diversified Emerging Markets				
Principal Global Investors	International Emerging Markets Separate Account-R6 [3]	$478,286	1.58%	$340,602	1.20%
	Foreign Large Blend				
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 [3, 17, 21, 32]	$1,658,704	5.48%	$1,446,477	5.10%
	Foreign Large Growth				
Principal Global Investors	International Growth Separate Account-R6 [2, 3]	$1,682,923	5.56%	$1,472,186	5.19%
	Real Estate				
	Owned Real Estate				
Principal Real Estate Inv	U.S. Property Separate Account-R6 [5]	$1,820,523	6.01%	$1,559,889	5.50%
	Specialty-Real Estate				
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 [2, 8]	$366,426	1.21%	$442,781	1.56%
	Fixed Income				
	High Yield Bond				
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 [4, 17, 20, 22, 23, 33]	$608,143	2.01%	$1,547,462	5.46%

Portfolio and Strategic Asset Allocation Review

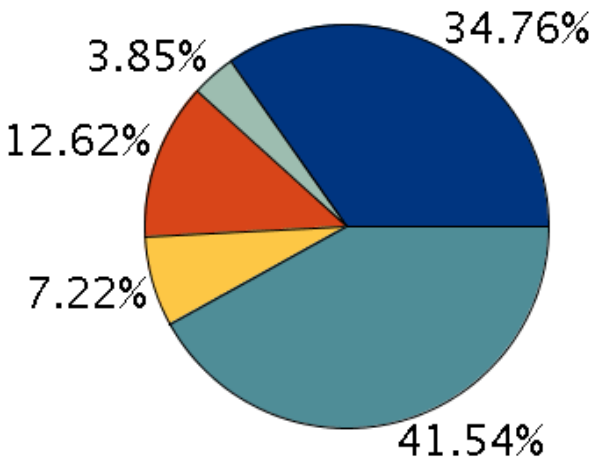
Investment Review - Allocation 10/01/2007 through 06/30/2008					
Investment Advisor	Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
	Intermediate-Term Bond				
Principal Global Investors	Bond and Mortgage Separate Account-I2 [20, 23]	$9,548,435	31.54%	$8,476,667	29.89%
Spectrum	Preferred Securities Separate Account-R6 [2, 20, 23]	$408,209	1.35%	$381,557	1.35%
	Inflation-Protected Bond				
Principal Global Investors	Inflation Protection Separate Account-R6 [17, 20, 23]	$2,011,905	6.65%	$1,821,579	6.42%
TOTAL		$30,275,712	100%	$28,359,303	100%

Please see important disclosures at the end of this presentation.

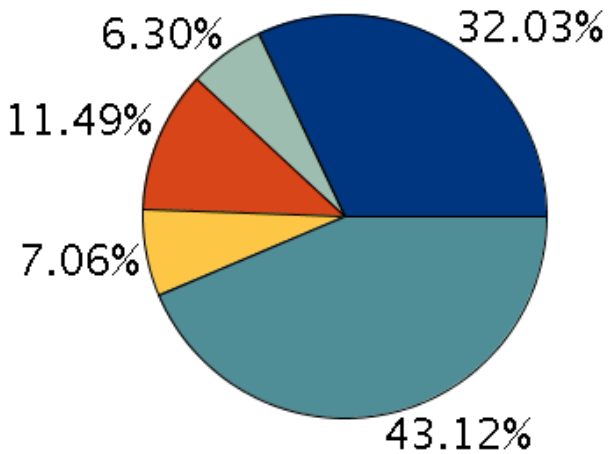
Portfolio and Strategic Asset Allocation Review

Asset Class Breakdown

Beginning % As Of 10/01/2007



Ending % As Of 06/30/2008



- Large U.S. Equity
- Small/Mid U.S. Equity
- International Equity
- Real Estate
- Fixed Income

Portfolio and Strategic Asset Allocation Review

The table below illustrates the plan's target allocation at the beginning and end of the reporting period.

Your plan's assets and liabilities are reviewed periodically during the year and we make changes as needed. We will continue to monitor your plan and adjust its allocation as necessary.

Target Allocation 10/01/2007 through 06/30/2008			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	Large U.S. Equity	33.40%	31.30%
	Large Value		
AllianceBernstein LP	LargeCap Value III Separate Account-R6 [2, 19, 24, 34]	5.20%	4.10%
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 [17]	5.20%	7.70%
	Large Blend		
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 [9]	11.90%	7.70%
	Large Growth		
Columbus Circle Investors	LargeCap Growth Separate Account-R6 [13, 26]	5.40%	5.90%
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 [2, 11]	5.70%	5.90%
	Small/Mid U.S. Equity	3.90%	6.00%
	Mid Cap Value		
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 [1, 15, 27]	0.00%	1.50%
	Mid Cap Growth		
Turner Investment Partners	MidCap Growth III Separate Account-R6 [1, 14, 28]	0.00%	1.50%
	Small Value		
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 [1, 2, 18]	1.80%	1.50%
	Small Growth		
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 [1, 2, 7]	2.10%	1.50%
	International Equity	11.20%	11.20%
	Diversified Emerging Markets		
Principal Global Investors	International Emerging Markets Separate Account-R6 [3]	1.20%	1.20%
	Foreign Large Blend		
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 [3, 17, 21, 32]	5.00%	5.00%
	Foreign Large Growth		
Principal Global Investors	International Growth Separate Account-R6 [2, 3]	5.00%	5.00%
	Real Estate	7.00%	7.00%
	Owned Real Estate		
Principal Real Estate Inv	U.S. Property Separate Account-R6 [5]	5.50%	5.50%

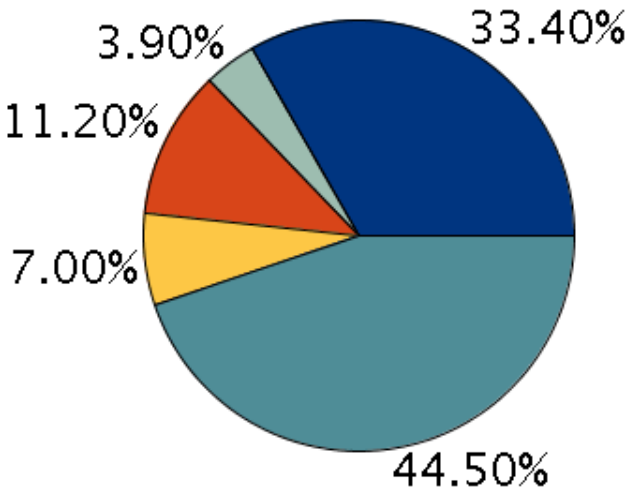
Portfolio and Strategic Asset Allocation Review

Target Allocation 10/01/2007 through 06/30/2008			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	Specialty-Real Estate		
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 [2, 8]	1.50%	1.50%
	Fixed Income	44.50%	44.50%
	High Yield Bond		
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 [4, 17, 20, 22, 23, 33]	2.00%	5.30%
	Intermediate-Term Bond		
Principal Global Investors	Bond and Mortgage Separate Account-I2 [20, 23]	34.50%	31.20%
Spectrum	Preferred Securities Separate Account-R6 [2, 20, 23]	1.40%	1.40%
	Inflation-Protected Bond		
Principal Global Investors	Inflation Protection Separate Account-R6 [17, 20, 23]	6.60%	6.60%

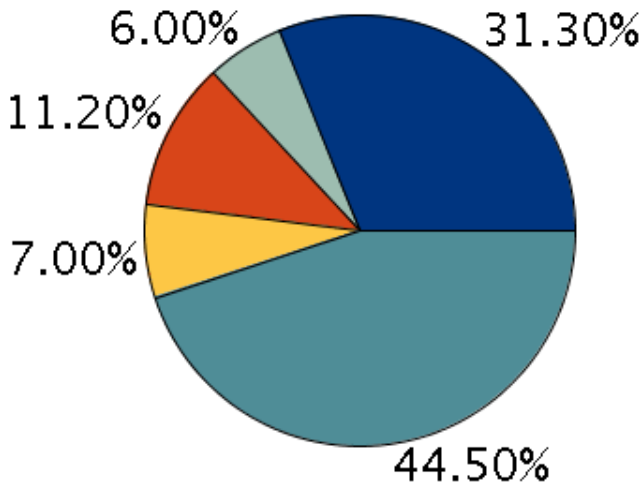
Portfolio and Strategic Asset Allocation Review

Please note that a slight variance between your plan's target allocation displayed in this report and its weightings is normal. This variance is due to changes in your account values caused by fluctuations in the market. We periodically initiate rebalancing transfers to bring the plan's assets back to its target allocation.

Beginning Target Allocation As Of October 01, 2007



Ending Target Allocation As Of June 30, 2008



- Large U.S. Equity
- Small/Mid U.S. Equity
- International Equity
- Real Estate
- Fixed Income

Portfolio and Strategic Asset Allocation Review

This section of your report includes all investment options with plan assets as of the end of the reporting period.

Large U.S. Equity		
Large Value	**Large Blend**	**Large Growth**
LargeCap Value III Separate Account-R6 [2, 19, 24, 34] AllianceBernstein Investments LargeCap Value I Separate Account-R6 [17] UBS Global Asset Management	LargeCap Blend I Separate Account-R6 [9] Goldman Sachs Asset Management	LargeCap Growth Separate Account-R6 [13, 26] LargeCap Growth I Separate Account-R6 [2, 11] T.Rowe Price INVEST WITH CONFIDENCE
Small/Mid U.S. Equity		
Mid Cap Value	**Mid Cap Blend**	**Mid Cap Growth**
MidCap Value III Separate Account-R6 [1, 15, 27] Principal Global Investors BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.		MidCap Growth III Separate Account-R6 [1, 14, 28] Turner investment partners
Small Value	**Small Blend**	**Small Growth**
SmallCap Value I Separate Account-R6 [1, 2, 18] JPMorgan Asset Management MELLON CAPITAL MANAGEMENT		SmallCap Growth II Separate Account-R6 [1, 2, 7] UBS Global Asset Management EMERALD ADVISERS, INC. ESSEX

Portfolio and Strategic Asset Allocation Review

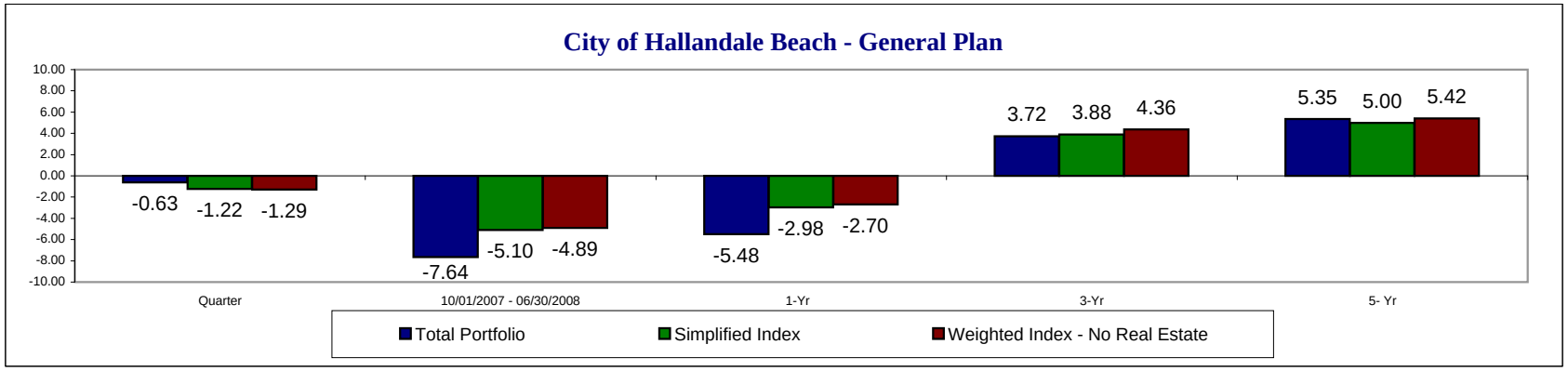
International Equity	Real Estate	Balanced/Asset Allocation
International I Separate Account-R6 [3, 17, 21, 32] Fidelity Investments International Emerging Markets Separate Account-R6 [3] International Growth Separate Account-R6 [2, 3] Principal Global Investors	Real Estate Securities Separate Account-R6 [2, 8] U.S. Property Separate Account-R6 [5] Principal Real Estate Investors	
Short-Term Fixed Income	**Fixed Income**	
	High Yield I Separate Account-R6 [4, 17, 20, 22, 23, 33] JPMorgan Asset Management Lehman Brothers Asset Management Bond and Mortgage Separate Account-I2 [20, 23] Inflation Protection Separate Account-R6 [17, 20, 23] Principal Global Investors Preferred Securities Separate Account-R6 [2, 20, 23] Spectrum	

Please see important disclosures at the end of this presentation.

Portfolio Performance Review

Return Information as of 06/30/2008

Time and Dollar Weighted Returns (returns achieved by your plan)	Quarter	10/01/2007 - 06/30/2008	1-Yr	3-Yr	5- Yr
Total Portfolio	-0.63	-7.64	-5.48	3.72	5.35
Simplified Index	-1.22	-5.10	-2.98	3.88	5.00
Weighted Index - No Real Estate	-1.29	-4.89	-2.70	4.36	5.42
Difference - Simplified Index	0.59	-2.54	-2.50	-0.16	0.35
Difference - Weighted Index - No Real Estate	0.66	-2.75	-2.78	-0.64	-0.07
Portfolio's Fixed Income Return	-0.34	-0.86	0.87	1.90	2.75
Lehman Bros Aggregate Bond Index	-1.02	4.17	7.13	4.08	3.86
Portfolio's Domestic Equity Return	-1.16	-14.74	-13.44	3.02	6.63
Russell 3000 Index	-1.69	-14.02	-12.68	4.73	8.38
Portfolio's Foreign Equity Return	0.91	-10.47	-5.70	12.53	16.72
MSCI EAFE Index	-2.26	-12.52	-10.61	12.84	16.67
Portfolio's Real Estate Return	-2.00	-1.40	3.04	11.18	12.55
Custom Real Estate Bechmark (75% NCREIF Open, 25% MSCI US REIT)	-	-	-	-	-



We calculated performance of your plan assets with information provided to us by Principal Life Insurance Company from your June 30, 2008 Contractholder Fund Statement.

Please see important disclosures at the end of this presentation.

Investment Option Performance

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown.

The gross total investment expense figure does not reflect any waivers or caps on the mutual fund or underlying mutual fund in which a Separate Account invests. Returns displayed are always based on net total investment expense.

For more performance information, including most recent month-end performance, visit the Principal Sponsor Service Center[SM] at www.principal.com, contact your representative of the Principal Financial Group® (The Principal®), or call our Client Contact Center at 1-800-547-7754.

		Rates of Return through 06/30/2008							Percentile Rankings as of 06/30/2008					
Investment Advisor	Investment Option	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Total Inv. Expense Gross
	Large U.S. Equity													
	Large Value													
AllianceBernstein LP	LargeCap Value III Separate Account-R6 [2, 19, 24, 34]	-8.13	-24.88	0.30	5.95	-	3.94	12/29/2000	-	88	83	80	-	0.92
	Russell 1000 Value Index	-5.31	-18.77	3.52	8.92	4.91	-	-		-	-	-	-	-
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 [17]	-3.82	-18.40	3.40	-	-	5.80	06/01/2004	-	58	46	-	-	0.96
	Russell 1000 Value Index	-5.31	-18.77	3.52	8.92	4.91	-	-		-	-	-	-	-
	Morningstar Category Average - Large Value	-4.04	-17.88	3.05	7.76	4.16	Total Funds in Category		1500	1418	1180	926	425	-
	Large Blend													
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 [9]	-1.54	-14.71	3.47	7.39	0.07	6.23	06/01/1995	-	76	69	49	95	0.76
	Standard & Poor's 500 Index	-2.72	-13.11	4.40	7.58	2.88	-	-		-	-	-	-	-
	Morningstar Category Average - Large Blend	-1.60	-12.26	4.54	7.63	3.32	Total Funds in Category		2215	2068	1703	1316	654	-
	Large Growth													
Columbus Circle Investors	LargeCap Growth Separate Account-R6 [13, 26]	1.93	1.10	9.64	11.28	1.67	7.66	06/01/1995	-	12	11	9	63	0.71
	Russell 1000 Growth Index	1.24	-5.95	5.91	7.32	0.95	-	-		-	-	-	-	-
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 [2, 11]	2.19	-8.73	3.95	6.51	-	-0.89	12/29/2000	-	68	73	68	-	0.89
	Russell 1000 Growth Index	1.24	-5.95	5.91	7.32	0.95	-	-		-	-	-	-	-
	Morningstar Category Average - Large Growth	1.47	-6.01	5.87	7.81	2.61	Total Funds in Category		1884	1776	1484	1211	589	-
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 [1, 15, 27]	0.69	-16.47	3.67	9.74	5.25	10.97	01/01/1991	-	53	55	65	87	0.81
	Russell Midcap Value Index	0.06	-17.08	4.96	13.00	8.44	-	-		-	-	-	-	-
	Morningstar Category Average - Mid Cap Value	-0.33	-16.83	3.92	10.71	8.05	Total Funds in Category		459	418	316	224	69	-

Investment Option Performance

		Rates of Return through 06/30/2008							Percentile Rankings as of 06/30/2008					
Investment Advisor	Investment Option	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Total Inv. Expense Gross
	Mid Cap Growth													
Turner Investment Partners	MidCap Growth III Separate Account-R6 [1, 14, 28]	4.39	-0.94	9.97	13.04	-	4.33	10/28/1999	-	23	29	27	-	1.16
	Russell Midcap Growth Index	4.64	-6.42	8.19	12.32	5.64	-	-		-	-	-	-	-
	Morningstar Category Average - Mid Cap Growth	4.31	-6.52	7.84	11.09	5.86	Total Funds in Category		982	944	811	682	324	-
	Small Value													
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 [1, 2, 18]	-2.92	-22.67	0.10	9.92	-	12.28	12/31/2002	-	71	73	52	-	1.17
	Russell 2000 Value Index	-3.54	-21.63	1.39	10.01	7.46	-	-		-	-	-	-	-
	Morningstar Category Average - Small Value	-1.74	-19.81	1.74	9.75	7.63	Total Funds in Category		462	439	331	265	108	-
	Small Growth													
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 [1, 2, 7]	4.32	-13.85	3.63	9.00	-	0.92	12/29/2000	-	47	56	56	-	1.16
	Russell 2000 Growth Index	4.47	-10.83	6.07	10.36	2.79	-	-		-	-	-	-	-
	Morningstar Category Average - Small Growth	3.18	-13.94	4.10	9.24	5.17	Total Funds in Category		889	854	704	570	272	-
	International Equity													
	Diversified Emerging Markets													
Principal Global Investors	International Emerging Markets Separate Account-R6 [3]	1.02	4.49	29.93	31.88	15.63	13.76	01/01/1995	-	38	16	10	36	1.51
	MSCI - Emerging Markets NDTR D Index	-0.86	4.63	27.11	29.71	-	-	-		-	-	-	-	-
	Morningstar Category Average - Diversified Emerging Markets	-0.31	2.26	25.92	28.30	14.60	Total Funds in Category		315	292	216	188	109	-
	Foreign Large Blend													
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 [3, 17, 21, 32]	-0.80	-7.02	14.38	17.98	-	6.25	07/01/1999	-	29	36	18	-	1.28
	MSCI - EAFE Index NDTR D	-2.25	-10.61	12.83	16.66	5.83	-	-		-	-	-	-	-
	Morningstar Category Average - Foreign Large Blend	-1.57	-9.03	13.41	15.90	5.28	Total Funds in Category		839	759	555	446	236	-
	Foreign Large Growth													
Principal Global Investors	International Growth Separate Account-R6 [2, 3]	2.68	-6.49	15.55	19.15	-	8.05	12/29/2000	-	53	31	10	-	1.16
	MSCI World Ex US Growth Index	1.61	-1.69	16.02	17.22	4.73	-	-		-	-	-	-	-
	Morningstar Category Average - Foreign Large Growth	-1.42	-6.20	14.72	16.10	5.54	Total Funds in Category		251	225	180	155	75	-
	Real Estate													
	Owned Real Estate													
Principal Real Estate Inv	U.S. Property Separate Account-R6 [5]	-1.04	5.86	12.14	12.54	10.34	7.73	01/01/1982	-	-	-	-	-	1.15
	NCREIF Open End Benchmark	-	-	-	-	-	-	-		-	-	-	-	-
	Specialty-Real Estate													
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 [2, 8]	-5.17	-12.53	5.27	15.10	-	16.25	12/31/2002	-	13	37	30	-	1.13
	MSCI US REIT Index	-5.46	-14.14	4.80	14.08	10.55	-	-		-	-	-	-	-
	Morningstar Category Average - Specialty-Real Estate	-6.93	-17.33	4.04	13.49	10.46	Total Funds in Category		435	391	278	190	88	-

Investment Option Performance

		Rates of Return through 06/30/2008							Percentile Rankings as of 06/30/2008					
Investment Advisor	Investment Option	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Total Inv. Expense Gross
	Short-Term Fixed Income													
	Money Market													
Principal Global Investors	Money Market Separate Account-R6 [6]	0.58	3.90	4.17	2.95	3.42	6.04	12/10/1980	-	-	-	-	-	0.56
	Lehman Brothers Treasury Bellwethers 3 Month Index	0.33	3.81	4.35	3.22	3.66	-	-		-	-	-	-	-
	Fixed Income													
	High Yield Bond													
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 [4, 17, 20, 22, 23, 33]	1.47	-1.25	4.31	-	-	4.04	12/31/2004	-	27	41	-	-	0.82
	Lehman Brothers US Corporate High Yld 2% Issuer Capped Index	1.95	-1.74	4.48	6.83	5.00	-	-		-	-	-	-	-
	Morningstar Category Average - High Yield Bond	1.49	-3.40	3.76	5.98	3.66	Total Funds in Category		575	556	473	410	213	-
	Intermediate-Term Bond													
Principal Global Investors	Bond and Mortgage Separate Account-I2 [20, 23]	-0.43	0.74	2.18	2.93	5.24	8.58	02/01/1983	-	80	72	57	23	0.55
	Lehman Brothers Aggregate Bd Index	-1.02	7.12	4.08	3.85	5.68	-	-		-	-	-	-	-
Spectrum	Preferred Securities Separate Account-R6 [2, 20, 23]	-3.81	-8.87	-0.77	1.00	-	2.75	05/31/2002	-	98	98	97	-	0.91
	Preferreds Blended Index	-3.01	-10.91	-1.34	1.00	-	-	-		-	-	-	-	-
	Morningstar Category Average - Intermediate-Term Bond	-1.14	3.37	2.57	2.88	4.77	Total Funds in Category		1178	1121	986	828	436	-
Principal Global Investors	Inflation Protection Separate Account-R6 [17, 20, 23]	-0.74	3.15	1.47	-	-	1.94	12/31/2004	-	94	93	-	-	0.57
	Lehman Brothers US Treas TIPS Index	-0.28	15.08	5.58	5.97	7.79	-	-		-	-	-	-	-
	Morningstar Category Average - Inflation-Protected Bond	-0.63	12.99	4.62	4.99	6.73	Total Funds in Category		161	155	118	54	13	-

This section of your report includes all investment options with plan assets as of the end of the reporting period.

Please see important disclosures at the end of this presentation.

Disclosures

Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths.

Investment Advisory Services are provided by Principal Financial Advisors, Inc., a registered investment advisor and wholly owned subsidiary of the Principal Financial Group®.

+ This is not a foundation option. Guarantees are backed by all the assets in the Principal Life general account.

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1. Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

2. This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

3. International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

4. High yield investment options are subject to greater credit risk associated with high yield bonds.

5. This investment option is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Payment of principal and earnings may be delayed.

6. This investment option is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency.

7. Effective May 1, 2002, this portfolio was sub-advised solely by UBS Global Asset Management. Effective September 1, 2004, Emerald Advisers was added as an additional sub-advisor. Effective June 30, 2006, Essex was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

8. Real estate investment options are subject to some risks inherent in real estate and Real Estate Investment Trusts, such as risks associated with general and local economic conditions.

9. Effective November 13, 2006, this portfolio is sub-advised by Goldman Sachs Asset Management. From November 18, 2002, to November 16, 2006, the portfolio was sub-advised by Goldman Sachs Asset Management and Wellington Management Company, LLP. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

11. Effective August 24, 2004, this portfolio is sub-advised by T. Rowe Price Associates, Inc. Prior to August 24, 2004, the portfolio was sub-advised by Morgan Stanley Investment Management Inc.

13. Effective January 5, 2005, this portfolio is sub-advised by Columbus Circle Investors. Prior to January 5, 2005, the portfolio was sub-advised by Principal Global Investors.

14. This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holder investing in the Separate Account. For further information on the underlying mutual fund see the prospectus of the fund.

15. Effective July 12, 2005, Barrow Hanley was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

17. This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.

18. Effective August 8, 2005, Mellon Capital Management was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

19. From March 1, 2006 to December 31, 2007, Bank of New York served as a sub-advisor for managing the cash portion of this investment option.

20. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.

21. Effective March 31, 2007, references to Fidelity Management & Research as investment advisor were replaced with Fidelity (Pyramis Global Adv). This is a name change only and does not affect the management, objective, or strategy of this investment option.

22. Effective January 2, 2008, this portfolio is co-sub-advised by JP Morgan and Lehman Brothers. Prior to January 2, 2008 Post Advisory Group was a third sub-advisor for this portfolio. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

23. Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

24. Formerly known as Large-Cap Value Separate Account.

26. Formerly known as Large Company Growth Separate Account.

27. Formerly known as Medium Company Value Separate Account.

28. Formerly known as Mid-Cap Growth Separate Account.

32. Formerly known as International Separate Account.

33. Formerly known as High Yield Separate Account.

34. Effective July 15, 2008, Westwood Management Corp. was added as an additional sub-advisor.

Benchmark Descriptions

Blended Real Estate Index is composed of 75% NCREIF Open End Index and 25% MSCI US REIT Index. The NCREIF Open-end Benchmark is the open-end fund component of the NCREIF Property Index that consists of U.S. commercial real estate properties that have been acquired, at least in part, on behalf of tax-exempt institutions and are held in a fiduciary environment. The universe of properties includes wholly owned and joint venture investments, operating properties only (no development projects) and investment grade (no-agricultural) income-producing properties in the Multi-family, Industrial, Office and Retail sectors. The MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

Lehman Brothers Aggregate Bd Index represents securities that are domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

Lehman Brothers Treasury Bellwethers 3 Month Index is composed of public obligations of the U. S. Treasury with a maturity of three months.

Lehman Brothers US Corporate High Yld 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

Lehman Brothers US Treas TIPS Index consists of inflation-protected securities issued by the U.S. Treasury.

MSCI - EAFE Index NDTR D is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

MSCI - Emerging Markets NDTR D Index measures equity market performance in the global emerging markets. It consists of 26 emerging market countries in Europe, Latin America and the Pacific Basin.

MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

NCREIF Open End Benchmark is the open-end fund component of the NCREIF Property Index that consists of U.S. commercial real estate properties that have been acquired, at least in part, on behalf of tax-exempt institutions and are held in a fiduciary environment. The universe of properties includes wholly owned and joint venture investments, operating properties only (no development projects) and investment grade (no-agricultural) income-producing properties in the Multi-family, Industrial, Office and Retail sectors.

Preferreds Blended Index is composed of 65% Merrill Lynch Fixed Rate Preferred Securities Index and 35% Lehman Brothers U.S. Tier I Capital Securities Index.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Russell Midcap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Value Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap index having lower price-to-book ratios and lower forecasted growth values.

Standard & Poor's 500 Index is a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market.

The MSCI World Ex US Growth Index measures global developed market equity performance of growth securities outside of the United States. It is comprised of half the securities in the MSCI World Ex US Index, with half of the market capitalization of each country index in the Growth Index (the other half is in the Value Index).

Simplified Index is composed of:
07/01/2003 - 05/31/2006 30% Russell 3000 Index and 70% Lehman Brothers Aggregate Bond Index.
06/01/2006 - 06/30/2008 50% Russell 3000 Index and 50% Lehman Brothers Aggregate Bond Index.

Weighted Index - No Real Estate is composed of:
07/01/2003 - 05/31/2006 26% Russell 3000 Index, 4% MSCI EAFE Index, and 70% Lehman Brothers Aggregate Bond Index.
06/01/2006 - 02/28/2007 42% Russell 3000 Index, 8% MSCI EAFE Index, and 50% Lehman Brothers Aggregate Bond Index.
03/01/2007 - 06/30/2008 38.8% Russell 3000 Index, 11.2% MSCI EAFE Index, and 50% Lehman Brothers Aggregate Bond Index.