

Principal Financial Advisors, Inc.



Investment Advisory Report  
City of Hallandale Beach General Employees' Plan



Contract No. 4-45661

October 01, 2007 - September 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<sup>SM</sup> provided by Principal Life Insurance Company.
- 2) Asset liability analysis for defined benefit plans and scenarios 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 09/30/2008					
Investment Advisor	Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
<b>Large U.S. Equity</b>					
<b>Large Value</b>					
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6 <sup>2, 19, 24, 34</sup>	\$1,584,979	5.24%	\$1,034,966	4.01%
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 <sup>17</sup>	\$1,593,418	5.26%	\$2,091,123	8.10%
<b>Large Blend</b>					
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 <sup>9</sup>	\$3,645,417	12.04%	\$2,064,343	7.99%
<b>Large Growth</b>					
Columbus Circle Investors	LargeCap Growth Separate Account-R6 <sup>13, 26</sup>	\$1,857,105	6.13%	\$1,567,235	6.07%
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 <sup>2, 11</sup>	\$1,844,422	6.09%	\$1,536,618	5.95%
<b>Small/Mid U.S. Equity</b>					
<b>Mid Cap Value</b>					
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 <sup>1, 15, 27</sup>	\$0	0.00%	\$405,421	1.57%
<b>Mid Cap Growth</b>					
Turner Investment Partners	MidCap Growth III Separate Account-R6 <sup>1, 14, 28</sup>	\$0	0.00%	\$368,984	1.43%
<b>Small Value</b>					
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 <sup>1, 2, 18</sup>	\$507,807	1.68%	\$445,708	1.73%
<b>Small Growth</b>					
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 <sup>1, 2, 7</sup>	\$659,010	2.18%	\$429,650	1.66%
<b>International Equity</b>					
<b>Diversified Emerging Markets</b>					
Principal Global Investors	International Emerging Markets Separate Account-R6 <sup>3</sup>	\$478,286	1.58%	\$247,206	0.96%
<b>Foreign Large Blend</b>					
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 <sup>3, 17, 21, 32</sup>	\$1,658,704	5.48%	\$1,171,357	4.54%
<b>Foreign Large Growth</b>					
Principal Global Investors	International Growth Separate Account-R6 <sup>2, 3</sup>	\$1,682,923	5.56%	\$1,118,236	4.33%
<b>Real Estate</b>					
<b>Owned Real Estate</b>					
Principal Real Estate Inv	U.S. Property Separate Account-R6 <sup>5</sup>	\$1,820,523	6.01%	\$1,556,705	6.03%
<b>Specialty-Real Estate</b>					
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 <sup>2, 8</sup>	\$366,426	1.21%	\$475,956	1.84%
<b>Fixed Income</b>					
<b>High Yield Bond</b>					
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 <sup>4, 17, 20, 22, 23, 33</sup>	\$608,143	2.01%	\$1,483,740	5.75%

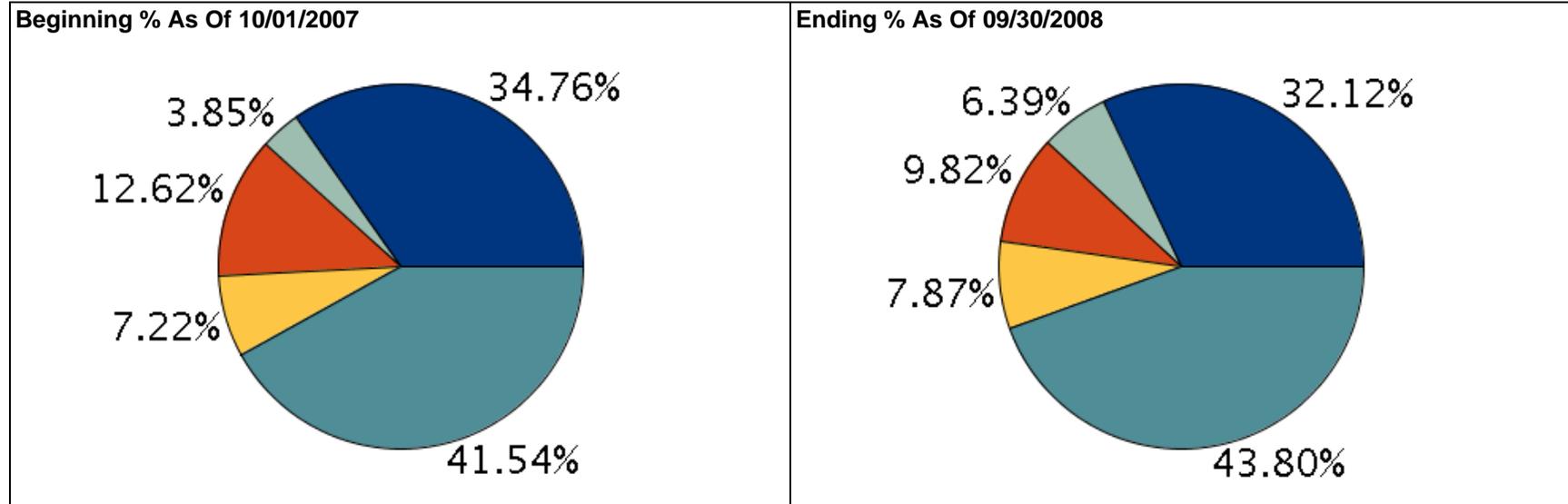
# Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2007 through 09/30/2008					
Investment Advisor	Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
<b>Intermediate-Term Bond</b>					
Principal Global Investors	Bond and Mortgage Separate Account-I2 <sup>20, 23</sup>	\$9,548,435	31.54%	\$7,792,478	30.17%
Spectrum	Preferred Securities Separate Account-R6 <sup>2, 20, 23</sup>	\$408,209	1.35%	\$309,304	1.20%
<b>Inflation-Protected Bond</b>					
Principal Global Investors	Inflation Protection Separate Account-R6 <sup>17, 20, 23</sup>	\$2,011,905	6.65%	\$1,725,770	6.68%
<b>TOTAL</b>		<b>\$30,275,712</b>	<b>100%</b>	<b>\$25,824,800</b>	<b>100%</b>

*Please see important disclosures at the end of this presentation.*

# Portfolio and Strategic Asset Allocation Review

## Asset Class Breakdown



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

# Holdings of International Separate Accounts by Region as of September 30, 2008

## Asia 4.712%

China	1.354%
India	0.630%
Indonesia	0.141%
Malaysia	0.027%
Pakistan	-
Philippines	-
South Korea	1.478%
Taiwan	0.860%
Thailand	0.221%

## Europe 62.458%

Austria	0.484%
Belgium	0.525%
Denmark	1.543%
Finland	1.119%
France	7.682%
Germany	8.394%
Greece	1.022%
Ireland	0.144%
Italy	2.315%
Luxembourg	0.247%
Netherlands	2.719%
Norway	1.147%
Portugal	0.540%
Spain	3.908%
Sweden	1.355%
Switzerland	9.254%
United Kingdom	20.061%

## Latin America 2.337%

Argentina	-
Brazil	1.559%
Chile	0.164%
Colombia	0.052%
Mexico	0.507%
Peru	0.056%

## North America 1.117%

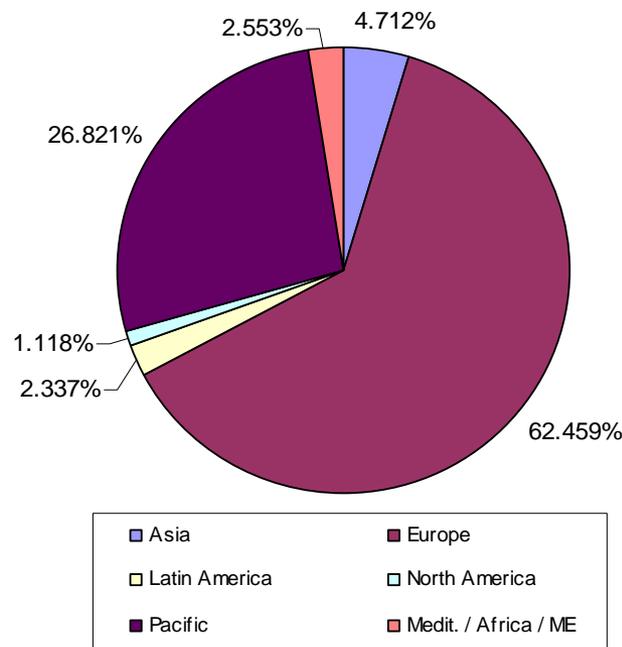
Canada	0.832%
United States	0.285%

## Pacific 26.821%

Australia	5.066%
Hong Kong	1.858%
Japan	19.198%
New Zealand	-
Singapore	0.699%

## Medit. / Africa / ME 2.553%

Cyprus	-
Czech Republic	0.162%
Egypt	0.133%
Hungary	0.013%
Iceland	-
Israel	0.436%
Jordan	-
Morocco	-
Nigeria	-
Poland	0.218%
Qatar	-
Russia	0.799%
Slovenia	-
South Africa	0.532%
Turkey	0.260%



# 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 09/30/2008			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	<b>Large U.S. Equity</b>	<b>33.40%</b>	<b>31.30%</b>
	<b>Large Value</b>		
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6 <sup>2, 19, 24, 34</sup>	5.20%	4.10%
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 <sup>17</sup>	5.20%	7.70%
	<b>Large Blend</b>		
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 <sup>9</sup>	11.90%	7.70%
	<b>Large Growth</b>		
Columbus Circle Investors	LargeCap Growth Separate Account-R6 <sup>13, 26</sup>	5.40%	5.90%
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 <sup>2, 11</sup>	5.70%	5.90%
	<b>Small/Mid U.S. Equity</b>	<b>3.90%</b>	<b>6.00%</b>
	<b>Mid Cap Value</b>		
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 <sup>1, 15, 27</sup>	0.00%	1.50%
	<b>Mid Cap Growth</b>		
Turner Investment Partners	MidCap Growth III Separate Account-R6 <sup>1, 14, 28</sup>	0.00%	1.50%
	<b>Small Value</b>		
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 <sup>1, 2, 18</sup>	1.80%	1.50%
	<b>Small Growth</b>		
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 <sup>1, 2, 7</sup>	2.10%	1.50%
	<b>International Equity</b>	<b>11.20%</b>	<b>11.20%</b>
	<b>Diversified Emerging Markets</b>		
Principal Global Investors	International Emerging Markets Separate Account-R6 <sup>3</sup>	1.20%	1.20%
	<b>Foreign Large Blend</b>		
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 <sup>3, 17, 21, 32</sup>	5.00%	5.00%
	<b>Foreign Large Growth</b>		
Principal Global Investors	International Growth Separate Account-R6 <sup>2, 3</sup>	5.00%	5.00%
	<b>Real Estate</b>	<b>7.00%</b>	<b>7.00%</b>
	<b>Owned Real Estate</b>		
Principal Real Estate Inv	U.S. Property Separate Account-R6 <sup>5</sup>	5.50%	5.50%

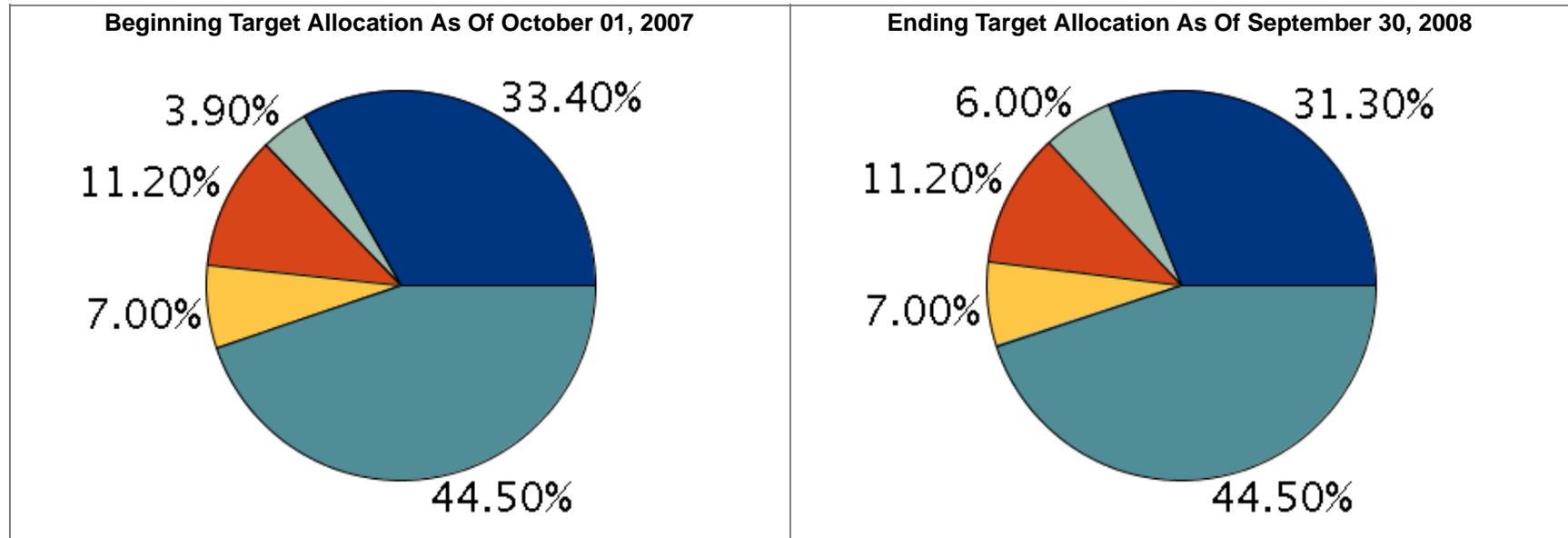
# Portfolio and Strategic Asset Allocation Review

Target Allocation 10/01/2007 through 09/30/2008			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	<b>Specialty-Real Estate</b>		
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 <sup>2, 8</sup>	1.50%	1.50%
	<b>Fixed Income</b>	<b>44.50%</b>	<b>44.50%</b>
	<b>High Yield Bond</b>		
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 <sup>4, 17, 20, 22, 23, 33</sup>	2.00%	5.30%
	<b>Intermediate-Term Bond</b>		
Principal Global Investors	Bond and Mortgage Separate Account-I2 <sup>20, 23</sup>	34.50%	31.20%
Spectrum	Preferred Securities Separate Account-R6 <sup>2, 20, 23</sup>	1.40%	1.40%
	<b>Inflation-Protected Bond</b>		
Principal Global Investors	Inflation Protection Separate Account-R6 <sup>17, 20, 23</sup>	6.60%	6.60%

*Please see important disclosures at the end of this presentation.*

# Portfolio and Strategic Asset Allocation Review

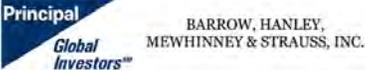
Please note that a slight variance between your plan's target allocation displayed in this report and its weightings is normal. This variance is due to changes in your account values caused by fluctuations in the market. We periodically initiate rebalancing transfers to bring the plan's assets back to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



- 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
<p>LargeCap Value III Separate Account-R6 <sup>2, 19, 24, 34</sup></p>  <p>LargeCap Value I Separate Account-R6 <sup>17</sup></p> 	<p>LargeCap Blend I Separate Account-R6 <sup>9</sup></p> 	<p>LargeCap Growth Separate Account-R6 <sup>13, 26</sup></p>  <p>LargeCap Growth I Separate Account-R6 <sup>2, 11</sup></p> 
Small/Mid U.S. Equity		
Mid Cap Value	Mid Cap Blend	Mid Cap Growth
<p>MidCap Value III Separate Account-R6 <sup>1, 15, 27</sup></p> 		<p>MidCap Growth III Separate Account-R6 <sup>1, 14, 28</sup></p> 
Small Value	Small Blend	Small Growth
<p>SmallCap Value I Separate Account-R6 <sup>1, 2, 18</sup></p> 		<p>SmallCap Growth II Separate Account-R6 <sup>1, 2, 7</sup></p> 

# Portfolio and Strategic Asset Allocation Review

International Equity	Real Estate	Balanced/Asset Allocation
<p>International I Separate Account-R6<sup>3, 17, 21, 32</sup></p>  <p>International Emerging Markets Separate Account-R6<sup>3</sup></p> <p>International Growth Separate Account-R6<sup>2, 3</sup></p> 	<p>Real Estate Securities Separate Account-R6<sup>2, 8</sup></p> <p>U.S. Property Separate Account-R6<sup>5</sup></p> <p>Principal Real Estate Investors</p>	
Short-Term Fixed Income	Fixed Income	
	<p>High Yield I Separate Account-R6<sup>4, 17, 20, 22, 23, 33</sup></p>  <p>LEHMAN BROTHERS ASSET MANAGEMENT</p> <p>Bond and Mortgage Separate Account-I2<sup>20, 23</sup></p> <p>Inflation Protection Separate Account-R6<sup>17, 20, 23</sup></p>  <p>Preferred Securities Separate Account-R6<sup>2, 20, 23</sup></p> 	

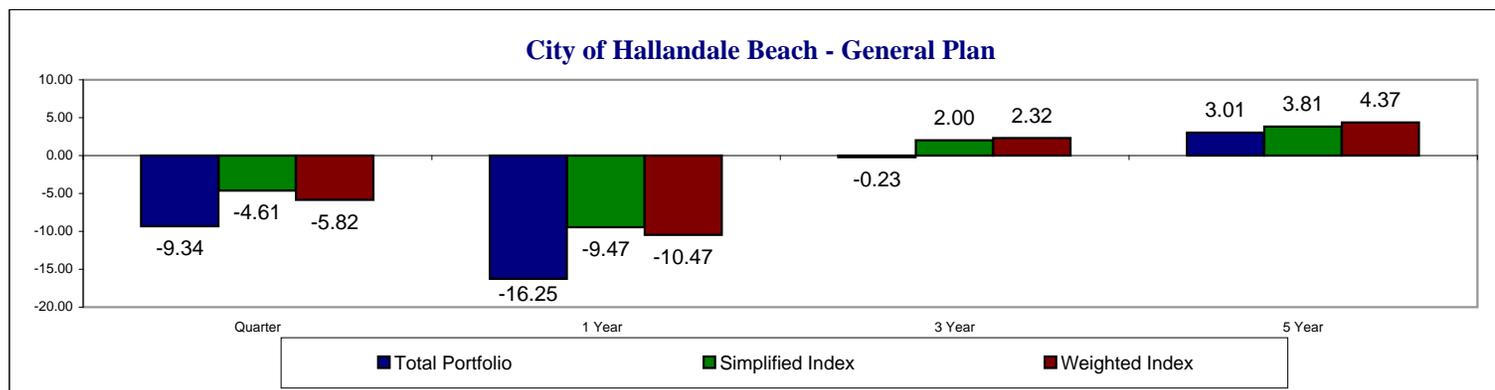
Please see important disclosures at the end of this presentation.

# Portfolio Performance Review

Return Information as of 09/30/2008

Time and Dollar Weighted Returns				
(returns achieved by your plan)				
	Quarter	1 Year	3 Year	5 Year
<b>Total Portfolio</b>	-9.34	-16.25	-0.23	3.01
<b>Simplified Index</b>	-4.61	-9.47	2.00	3.81
<b>Weighted Index</b>	-5.82	-10.47	2.32	4.37
<b>Difference - Simplified Index</b>	-4.73	-6.78	-2.23	-0.80
<b>Difference - Weighted Index</b>	-3.52	-5.78	-2.55	-1.36

<b>Portfolio's Fixed Income Return</b>	-5.77	-6.48	0.22	1.87
<b>Lehman Brothers Aggregate Bd Index</b>	-0.48	3.66	4.15	3.79
<b>Portfolio's U.S. Equity Return</b>	-10.47	-23.79	-2.24	2.77
<b>Russell 3000 Index</b>	-8.73	-21.53	0.27	5.70
<b>Portfolio's International Equity Return</b>	-24.08	-31.64	-2.11	5.92
<b>MSCI - EAFE Index NDTR D</b>	-20.56	-30.51	1.13	9.69
<b>Portfolio's Real Estate Return</b>	-0.52	-1.91	9.56	12.09
<b>Blended Real Estate Index (75% NCREIF Open, 25% MSCI US REIT)</b>	0.93	-0.35	10.53	13.50



We calculated performance of your plan assets with information provided to us by Principal Life Insurance Company from your September 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<sup>SM</sup> at [www.principal.com](http://www.principal.com), contact your representative of the Principal Financial Group® (The Principal®), or call our Client Contact Center at 1-800-547-7754.

Investment Advisor	Investment Option	Rates of Return through 09/30/2008							Percentile Rankings as of 09/30/2008					Total Inv. Expense Gross	
		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.		
<b>Large U.S. Equity</b>															
<b>Large Value</b>															
AllianceBernstein / Westwood	LargeCap Value III Separate Account-R6 <sup>2, 19, 24, 34</sup>	-8.76	-30.71	-3.76	3.50	-	2.59	12/29/2000	-	89	86	83	-	0.92	
	Russell 1000 Value Index	-6.11	-23.56	0.09	7.12	5.55	-	-	-	-	-	-	-	-	
UBS Global Asset Mgmt (NY)	LargeCap Value I Separate Account-R6 <sup>17</sup>	-6.80	-23.14	-0.10	-	-	3.76	06/01/2004	-	48	42	-	-	0.96	
	Russell 1000 Value Index	-6.11	-23.56	0.09	7.12	5.55	-	-	-	-	-	-	-	-	
	<b>Morningstar Category Average - Large Value</b>	<b>-7.94</b>	<b>-23.87</b>	<b>-0.84</b>	<b>5.56</b>	<b>4.67</b>	<b>Total Funds in Category</b>	<b>1528</b>	<b>1428</b>	<b>1180</b>	<b>960</b>	<b>435</b>	<b>-</b>		
<b>Large Blend</b>															
Goldman Sachs Asset Mgt	LargeCap Blend I Separate Account-R6 <sup>9</sup>	-9.12	-22.87	-1.53	4.61	-0.18	5.35	06/01/1995	-	60	74	55	97	0.76	
	Standard & Poor's 500 Index	-8.37	-21.98	0.22	5.17	3.06	-	-	-	-	-	-	-	-	
	<b>Morningstar Category Average - Large Blend</b>	<b>-10.21</b>	<b>-22.45</b>	<b>-0.45</b>	<b>4.84</b>	<b>3.61</b>	<b>Total Funds in Category</b>	<b>2219</b>	<b>2072</b>	<b>1719</b>	<b>1353</b>	<b>667</b>	<b>-</b>		
<b>Large Growth</b>															
Columbus Circle Investors	LargeCap Growth Separate Account-R6 <sup>13, 26</sup>	-13.47	-19.84	1.80	7.07	1.49	6.35	06/01/1995	-	21	15	8	60	0.71	
	Russell 1000 Growth Index	-12.33	-20.88	0.04	3.74	0.59	-	-	-	-	-	-	-	-	
T. Rowe Price Associates, Inc.	LargeCap Growth I Separate Account-R6 <sup>2, 11</sup>	-15.33	-26.17	-2.58	2.56	-	-2.97	12/29/2000	-	76	75	75	-	0.89	
	Russell 1000 Growth Index	-12.33	-20.88	0.04	3.74	0.59	-	-	-	-	-	-	-	-	
	<b>Morningstar Category Average - Large Growth</b>	<b>-13.81</b>	<b>-23.22</b>	<b>-0.90</b>	<b>3.96</b>	<b>2.35</b>	<b>Total Funds in Category</b>	<b>1920</b>	<b>1780</b>	<b>1489</b>	<b>1222</b>	<b>590</b>	<b>-</b>		
<b>Small/Mid U.S. Equity</b>															
<b>Mid Cap Value</b>															
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 <sup>1, 15, 27</sup>	-9.14	-21.42	-1.09	7.04	5.53	10.21	01/01/1991	-	49	55	56	96	0.81	
	Russell Midcap Value Index	-7.52	-20.50	0.51	9.97	9.19	-	-	-	-	-	-	-	-	
	<b>Morningstar Category Average - Mid Cap Value</b>	<b>-8.90</b>	<b>-21.33</b>	<b>-0.66</b>	<b>7.39</b>	<b>9.38</b>	<b>Total Funds in Category</b>	<b>461</b>	<b>437</b>	<b>328</b>	<b>224</b>	<b>78</b>	<b>-</b>		

# Investment Option Performance

Investment Advisor	Investment Option	Rates of Return through 09/30/2008							Percentile Rankings as of 09/30/2008					Total Inv. Expense Gross	
		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.		
<b>Mid Cap Growth</b>															
Turner Investment Partners	MidCap Growth III Separate Account-R6 <sup>1, 14, 28</sup>	-20.54	-26.70	-0.45	5.98	-	1.56	10/28/1999	-	61	51	51	-	1.16	
	Russell Midcap Growth Index	-17.75	-24.65	-0.75	6.53	5.51	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Mid Cap Growth	-16.28	-24.84	-0.41	5.94	6.09	Total Funds in Category	992	951	835	687	334	-		
<b>Small Value</b>															
JP Morgan/Mellon Capital Mgmt	SmallCap Value I Separate Account-R6 <sup>1, 2, 18</sup>	0.97	-16.43	-0.74	8.36	-	11.90	12/31/2002	-	58	61	45	-	1.17	
	Russell 2000 Value Index	4.96	-12.25	2.00	9.45	10.14	-	-	-	-	-	-	-		
	Morningstar Category Average - Small Value	-1.24	-15.71	-0.13	7.95	9.94	Total Funds in Category	461	435	335	267	117	-		
<b>Small Growth</b>															
UBS/Emerald/Essex	SmallCap Growth II Separate Account-R6 <sup>1, 2, 7</sup>	-8.89	-22.10	-1.30	4.59	-	-0.32	12/29/2000	-	44	58	58	-	1.16	
	Russell 2000 Growth Index	-6.99	-17.07	1.45	6.64	4.67	-	-	-	-	-	-	-		
	Morningstar Category Average - Small Growth	-9.79	-23.01	-1.10	5.21	6.86	Total Funds in Category	877	839	695	571	280	-		
<b>International Equity</b>															
<b>Diversified Emerging Markets</b>															
Principal Global Investors	International Emerging Markets Separate Account-R6 <sup>3</sup>	-29.30	-35.13	9.14	19.48	14.18	10.66	01/01/1995	-	67	26	24	43	1.51	
	MSCI - Emerging Markets NDTR D Index	-26.95	-33.20	8.36	18.64	-	-	-	-	-	-	-	-		
	Morningstar Category Average - Diversified Emerging Markets	-27.23	-33.36	7.42	17.50	14.01	Total Funds in Category	331	297	222	190	111	-		
<b>Foreign Large Blend</b>															
Fidelity (Pyramis Global Adv)	International I Separate Account-R6 <sup>3, 17, 21, 32</sup>	-20.87	-28.92	2.23	10.12	-	3.43	07/01/1999	-	35	34	30	-	1.28	
	MSCI - EAFE Index NDTR D	-20.56	-30.50	1.12	9.69	5.02	-	-	-	-	-	-	-		
	Morningstar Category Average - Foreign Large Blend	-20.73	-30.24	1.36	9.24	4.84	Total Funds in Category	854	775	557	453	239	-		
<b>Foreign Large Growth</b>															
Principal Global Investors	International Growth Separate Account-R6 <sup>2, 3</sup>	-25.81	-33.50	0.33	10.74	-	3.71	12/29/2000	-	75	66	20	-	1.16	
	MSCI World Ex US Growth Index	-22.83	-27.68	2.72	9.88	3.55	-	-	-	-	-	-	-		
	Morningstar Category Average - Foreign Large Growth	-22.56	-31.31	1.65	8.85	4.96	Total Funds in Category	255	224	181	153	70	-		
<b>Real Estate</b>															
<b>Owned Real Estate</b>															
Principal Real Estate Inv	U.S. Property Separate Account-R6 <sup>5</sup>	-2.23	-1.21	9.78	11.72	9.87	7.57	01/01/1982	-	-	-	-	-	1.15	
	NCREIF Open End Benchmark	-0.55	3.14	11.83	13.07	10.92	-	-	-	-	-	-	-		
<b>Specialty-Real Estate</b>															
Principal Real Estate Inv	Real Estate Securities Separate Account-R6 <sup>2, 8</sup>	5.47	-10.25	5.80	14.10	-	16.56	12/31/2002	-	11	22	19	-	1.13	
	MSCI US REIT Index	5.41	-11.63	5.39	13.18	12.38	-	-	-	-	-	-	-		
	Morningstar Category Average - Specialty-Real Estate	2.25	-14.46	3.41	11.62	12.11	Total Funds in Category	277	265	231	173	80	-		

# Investment Option Performance

Investment Advisor	Investment Option	Rates of Return through 09/30/2008							Percentile Rankings as of 09/30/2008					Total Inv. Expense Gross	
		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.		
	<b>Short-Term Fixed Income</b>														
	<b>Money Market</b>														
Principal Global Investors	Money Market Separate Account-R6 <sup>6, 35</sup>	0.41	3.07	4.06	3.00	3.32	6.00	12/10/1980	-	-	-	-	-	0.56	
	Lehman Brothers Treasury Bellwethers 3 Month Index	0.65	3.07	4.29	3.30	3.58	-	-	-	-	-	-	-	-	
	<b>Morningstar Category Average - Money Market</b>	<b>0.45</b>	<b>2.80</b>	<b>3.86</b>	<b>2.83</b>	<b>3.12</b>	<b>Total Funds in Category</b>	<b>1097</b>	<b>1078</b>	<b>968</b>	<b>884</b>	<b>623</b>	<b>-</b>		
	<b>Fixed Income</b>														
	<b>High Yield Bond</b>														
JP Morgan/Lehman Brothers	High Yield I Separate Account-R6 <sup>4, 17, 20, 22, 23, 33</sup>	-6.01	-7.67	1.66	-	-	2.06	12/31/2004	-	19	26	-	-	0.82	
	Lehman Brothers US Corporate High Yld 2% Issuer Capped Index	-8.56	-10.51	1.08	4.37	4.56	-	-	-	-	-	-	-	-	
	<b>Morningstar Category Average - High Yield Bond</b>	<b>-8.22</b>	<b>-11.29</b>	<b>0.38</b>	<b>3.59</b>	<b>3.57</b>	<b>Total Funds in Category</b>	<b>587</b>	<b>558</b>	<b>475</b>	<b>408</b>	<b>233</b>	<b>-</b>		
	<b>Intermediate-Term Bond</b>														
Principal Global Investors	Bond and Mortgage Separate Account-I2 <sup>20, 23</sup>	-4.67	-5.65	0.68	1.97	4.37	8.29	02/01/1983	-	78	74	66	38	0.55	
	Lehman Brothers Aggregate Bd Index	-0.49	3.65	4.15	3.78	5.20	-	-	-	-	-	-	-	-	
Spectrum	Preferred Securities Separate Account-R6 <sup>2, 20, 23</sup>	-20.93	-26.54	-8.42	-3.54	-	-1.09	05/31/2002	-	98	98	99	-	0.91	
	Preferreds Blended Index	-26.63	-33.38	-11.01	-5.12	-	-	-	-	-	-	-	-	-	
	<b>Morningstar Category Average - Intermediate-Term Bond</b>	<b>-3.65</b>	<b>-2.45</b>	<b>1.48</b>	<b>2.15</b>	<b>4.09</b>	<b>Total Funds in Category</b>	<b>1183</b>	<b>1126</b>	<b>984</b>	<b>848</b>	<b>456</b>	<b>-</b>		
	<b>Inflation-Protected Bond</b>														
Principal Global Investors	Inflation Protection Separate Account-R6 <sup>17, 20, 23</sup>	-7.28	-6.66	-1.01	-	-	-0.22	12/31/2004	-	94	95	-	-	0.57	
	Lehman Brothers US Treas TIPS Index	-3.54	6.19	4.32	5.15	7.12	-	-	-	-	-	-	-	-	
	<b>Morningstar Category Average - Inflation-Protected Bond</b>	<b>-4.32</b>	<b>4.06</b>	<b>3.14</b>	<b>4.01</b>	<b>5.86</b>	<b>Total Funds in Category</b>	<b>163</b>	<b>160</b>	<b>130</b>	<b>57</b>	<b>13</b>	<b>-</b>		

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. Although this investment option seeks to preserve the value of an investment, it is possible to lose money by investing in this portfolio.*

*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. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

35. Principal Life is voluntarily waiving a portion of its fees collected from the Money Market Separate Account through December 31, 2008. This waiver is equal to .10% annually.

## **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:*

*10/01/2003 - 05/31/2006 30% Russell 3000 Index and 70% Lehman Brothers Aggregate Bond Index.*

*06/01/2006 - 09/30/2008 50% Russell 3000 Index and 50% Lehman Brothers Aggregate Bond Index.*

*Weighted Index is composed of:*

*10/01/2003 - 05/31/2006 25.1% Russell 3000 Index, 4% MSCI EAFE Index, 4% NCREIF Open End Index, 0.9% MSCI US REIT Index, and 66% Lehman Brothers Aggregate Bond Index.*

*06/01/2006 - 02/28/2007 40.3% Russell 3000 Index, 8% MSCI EAFE Index, 5% NCREIF Open End Index, 1.7% MSCI US REIT Index, and 45% Lehman Brothers Aggregate Bond Index.*

*03/01/2007 - 09/30/2008 37.3% Russell 3000 Index, 11.2% MSCI EAFE Index, 5.5% NCREIF Open End Index, 1.5% MSCI US REIT Index, and 44.5% Lehman Brothers Aggregate Bond Index.*

# LargeCap Value III Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment seeks long-term growth of capital. The fund generally invests at least 80% of assets in companies with large market capitalizations at the time of purchase. The fund may invest up to 25% of assets in securities of foreign companies. AllianceBernstein invests primarily in undervalued equity securities of companies that it believes offer above average potential for growth in future earnings. Westwood generally invests in equity securities of domestic companies, but may also invest in equity securities of foreign companies and American Depositary Receipts.



## Portfolio managers

**Marilyn G. Fedak**, CFA. Since 12/06/2000. M.B.A., Harvard Business School

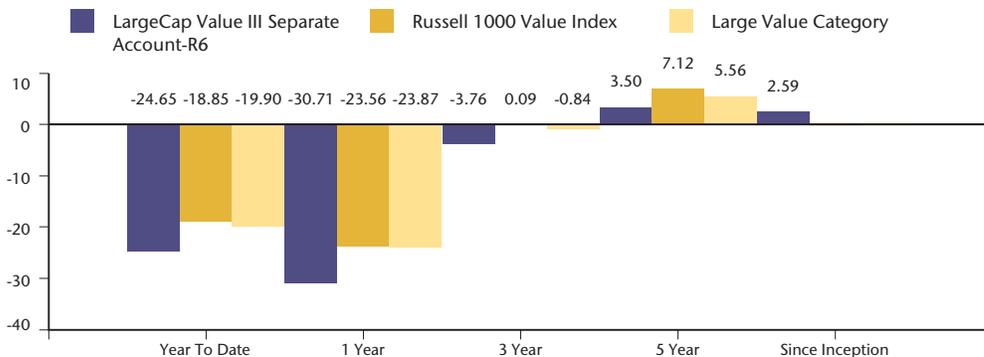
**John D. Phillips Jr.**, CFA. Since 11/01/2002. M.B.A., Harvard U

**Susan M. Byrne** Since 07/15/2008. , U of CA, Berkeley

**Mark R. Freeman**, CFA. Since 07/15/2008. M.S., Louisiana State U

**Scott Lawson**, CFA. Since 07/15/2008. M.B.A., St. Louis U

## Long-term returns % as of 09/30/2008



## Performance disclosure

*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. For more performance information, including the most recent month-end performance, visit [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.*

*In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.*

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-24.65	-30.71	-3.76	3.50	2.59
Russell 1000 Value Index %	-18.85	-23.56	0.09	7.12	-
Large Value Category %	-19.90	-23.87	-0.84	5.56	-
Morningstar Percentile Rankings	-	89	86	83	-
# of Funds in Category	1477	1428	1180	960	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-3.91	21.72	5.18	13.18	27.48
Russell 1000 Value Index %	-0.17	22.25	7.05	16.49	30.03
Large Value Category %	1.42	18.15	5.95	12.97	28.44
Morningstar Percentile Rankings	85	10	55	45	52
# of Funds in Category	1432	1371	1296	1220	1050

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Value

## Morningstar Style Box™

As of 08/31/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-3.54	-3.62
Beta	1.08	1.06
R-Squared	98.56	98.27
Standard Deviation	12.51	11.27
Mean	-3.76	3.50
Sharpe Ratio	-0.57	0.08
Excess Return	-3.85	-3.62
Excess Risk	1.73	1.61
Information Ratio	-2.23	-2.25

## Operations

Total Investment Expense Net	0.92%
Total Investment Expense Gross	0.92%
Inception Date	12/29/2000
Total Net Assets (mil)	\$2,022.66



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# LargeCap Value III Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	1.68	Healthcare	9.06	Consumer Goods	10.75
Hardware	3.52	Consumer Services	5.07	Industrial Materials	12.80
Media	2.27	Business Services	2.58	Energy	18.45
Telecom	7.16	Financial Services	24.31	Utilities	2.34

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.

The full name of this investment option is Principal LargeCap Value III Separate Account-R6.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

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.

Formerly known as Large-Cap Value Separate Account.

Effective July 15, 2008, Westwood Management Corp. was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# LargeCap Growth Separate Account-R6 as of 09/30/2008

## Investment Strategy

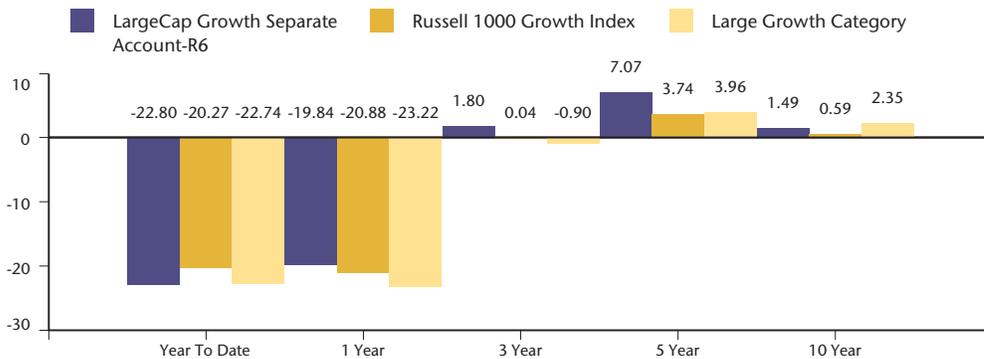
The investment option primarily invests in common stocks of large capitalization companies with strong earnings growth potential. It normally invests the majority of assets in companies with large market capitalizations at the time of purchase. Management places strong emphasis on companies it believes are guided by high quality management teams. It also attempts to identify those companies that are market leaders possessing the ability to control pricing and margins in their respective industries. It may invest up to 25% of assets in foreign securities.



## Portfolio managers

**Anthony Rizza, CFA.** Since 01/01/2005. B.S., U of Connecticut

## Long-term returns % as of 09/30/2008



## Performance disclosure

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

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-22.80	-19.84	1.80	7.07	1.49
Russell 1000 Growth Index %	-20.27	-20.88	0.04	3.74	0.59
Large Growth Category %	-22.74	-23.22	-0.90	3.96	2.35
Morningstar Percentile Rankings	-	21	15	8	60
# of Funds in Category	1840	1780	1489	1222	590

Annual Returns	2007	2006	2005	2004	2003
Total Return %	23.02	9.67	11.82	9.16	25.98
Russell 1000 Growth Index %	11.81	9.07	5.26	6.30	29.75
Large Growth Category %	13.35	7.05	6.71	7.81	28.66
Morningstar Percentile Rankings	9	25	14	36	59
# of Funds in Category	1748	1642	1495	1400	1311

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 08/31/2008

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	2.06	3.25
Beta	1.04	1.02
R-Squared	88.68	89.17
Standard Deviation	14.00	12.43
Mean	1.80	7.06
Sharpe Ratio	-0.09	0.36
Excess Return	1.75	3.32
Excess Risk	4.70	4.08
Information Ratio	0.37	0.81

## Operations

Total Investment Expense Net	0.71%
Total Investment Expense Gross	0.71%
Inception Date	06/01/1995
Total Net Assets (mil)	\$1,525.28



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# LargeCap Growth Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.18	Healthcare	22.11	Consumer Goods	8.51
Hardware	17.01	Consumer Services	9.48	Industrial Materials	10.30
Media	0.00	Business Services	8.99	Energy	10.21
Telecom	1.07	Financial Services	10.15	Utilities	0.00

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.

The full name of this investment option is Principal LargeCap Growth Separate Account-R6.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

Formerly known as Large Company Growth Separate Account.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# International I Separate Account-R6 as of 09/30/2008

## Investment Strategy

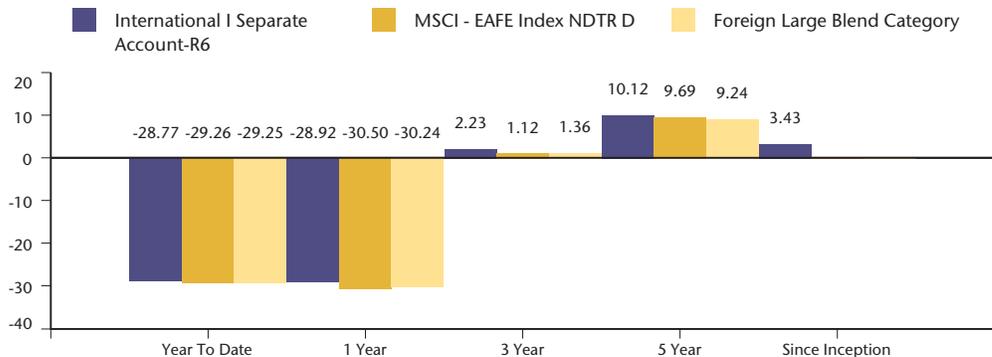
The investment seeks long-term growth of capital. The fund normally invests the fund's assets primarily in non-U.S. securities. Pyramis normally invests the fund's assets primarily in common stocks of companies with large market capitalizations (those with market capitalizations similar to companies in the MSCI EAFE (Europe, Australia and Far East)) index at the time of purchase. It normally diversifies the investments across different countries and regions.



## Portfolio managers

**Cesar Hernandez**, CFA. Since 12/29/2003. M.B.A., Babson C

## Long-term returns % as of 09/30/2008



## Performance disclosure

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

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-28.77	-28.92	2.23	10.12	3.43
MSCI - EAFE Index NDTR D %	-29.26	-30.50	1.12	9.69	-
Foreign Large Blend Category %	-29.25	-30.24	1.36	9.24	-
Morningstar Percentile Rankings	-	35	34	30	-
# of Funds in Category	803	775	557	453	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	15.06	26.36	13.40	18.44	44.11
MSCI - EAFE Index NDTR D %	11.17	26.34	13.54	20.25	38.59
Foreign Large Blend Category %	12.71	24.77	14.72	17.39	33.58
Morningstar Percentile Rankings	27	30	62	37	3
# of Funds in Category	743	657	608	551	504

Morningstar percentile rankings are based on total returns.

## Morningstar category

Foreign Large Blend

## Morningstar Style Box™

As of 08/31/2008

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to MSCI - EAFE Index NDTR D

	3Yr	5Yr
Alpha	1.07	0.46
Beta	0.99	0.99
R-Squared	97.36	97.02
Standard Deviation	15.32	13.81
Mean	2.23	10.12
Sharpe Ratio	-0.04	0.54
Excess Return	1.11	0.43
Excess Risk	2.47	2.38
Information Ratio	0.45	0.18

## Operations

Total Investment Expense Net	1.28%
Total Investment Expense Gross	1.28%
Inception Date	07/01/1999
Total Net Assets (mil)	\$1,622.14

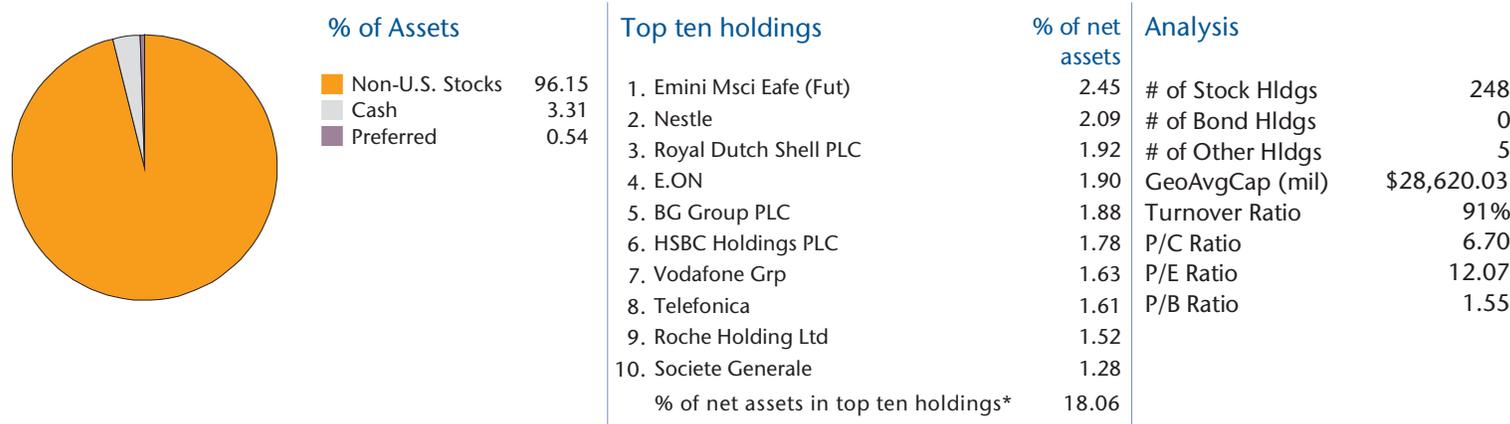


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# International I Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



### Top 5 Countries

	% of net assets
United Kingdom	22.13
Japan	20.99
Germany	9.32
France	8.98
Switzerland	8.09

### Regional exposure

	% of net assets
Europe	69.03
Japan	20.98
Pacific Rim	9.98

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.

The full name of this investment option is Principal International I Separate Account-R6.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

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.

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.

Formerly known as International Separate Account.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# LargeCap Blend I Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment seeks capital growth and invests primarily in common stocks of large capitalization companies. It normally invests the majority of assets in companies with market capitalizations similar to those of companies in the S&P 500 Index. Management focuses its stock selection on established companies that it believes have a sustainable competitive advantage. It may invest up to 25% of assets in foreign securities.



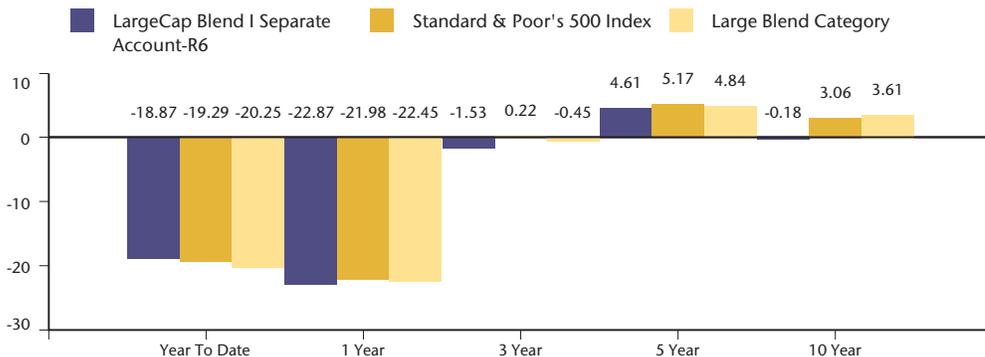
## Portfolio managers

**Robert C. Jones**, CFA. Since 12/16/2002. M.B.A., U of Michigan

**Andrew Alford** Since 02/29/2008. Ph.D, U of Chicago

**Mark M. Carhart**, CFA. Since 02/29/2008. Ph.D., U of Chicago

## Long-term returns % as of 09/30/2008



## Performance disclosure

*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. For more performance information, including the most recent month-end performance, visit [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.*

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-18.87	-22.87	-1.53	4.61	-0.18
Standard & Poor's 500 Index %	-19.29	-21.98	0.22	5.17	3.06
Large Blend Category %	-20.25	-22.45	-0.45	4.84	3.61
Morningstar Percentile Rankings	-	60	74	55	97
# of Funds in Category	2134	2072	1719	1353	667

Annual Returns	2007	2006	2005	2004	2003
Total Return %	0.62	14.60	6.51	12.12	28.46
Standard & Poor's 500 Index %	5.49	15.79	4.91	10.88	28.68
Large Blend Category %	6.16	14.17	5.88	10.02	27.05
Morningstar Percentile Rankings	90	46	38	21	28
# of Funds in Category	2090	1980	1743	1611	1526

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Blend

## Morningstar Style Box™

As of 08/31/2008

### Investment style

Value	Blend	Growth	
			Large
			Medium
			Small

Market capitalization

## Risk and Return Statistics

as of 09/30/2008 Relative to Standard & Poor's 500 Index

	3Yr	5Yr
Alpha	-1.86	-0.53
Beta	0.98	0.99
R-Squared	98.22	97.94
Standard Deviation	11.22	10.36
Mean	-1.54	4.60
Sharpe Ratio	-0.44	0.18
Excess Return	-1.76	-0.57
Excess Risk	1.50	1.49
Information Ratio	-1.17	-0.38

## Operations

Total Investment Expense Net	0.76%
Total Investment Expense Gross	0.76%
Inception Date	06/01/1995
Total Net Assets (mil)	\$1,735.97



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# LargeCap Blend I Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	5.05	Healthcare	13.41	Consumer Goods	7.34
Hardware	9.94	Consumer Services	9.44	Industrial Materials	12.05
Media	3.78	Business Services	3.84	Energy	13.81
Telecom	3.44	Financial Services	15.42	Utilities	2.49

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.

The full name of this investment option is Principal LargeCap Blend I Separate Account-R6.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# High Yield I Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment seeks high current income. The fund invests at least 80% of its assets in high yield, below investment grade quality debt and other income-producing securities including, corporate bonds, convertible securities, preferred securities, asset-backed securities and securities of companies in bankruptcy proceedings or otherwise in the process of debt restructuring. Loans of portfolio securities may not exceed 33 1/3% of the value of total assets. It primarily invests in securities rated Ba1 or lower by Moody's Investor Service, Inc. or BB+ or lower by Standard & Poor's Rating Service.

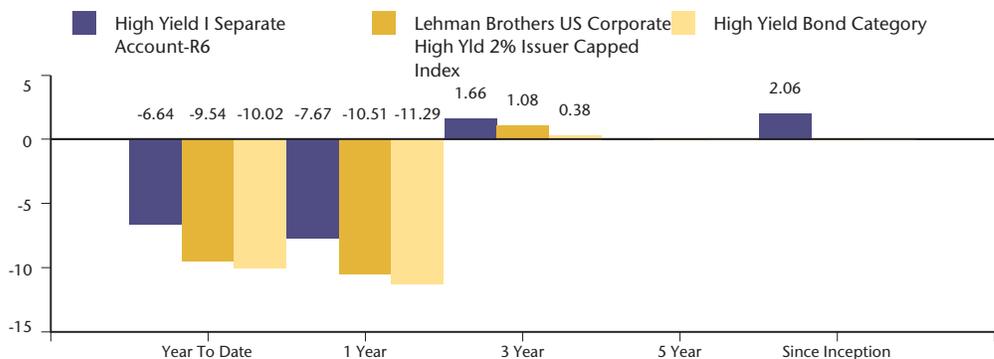


LEHMAN BROTHERS  
ASSET MANAGEMENT

## Portfolio managers

**Ann H. Benjamin** Since 07/19/2007. M.B.A., Carnegie Mellon U  
**James E. Gibson** Since 07/19/2007. B.S., University of Western Ontario, Canada  
**William J. Morgan** Since 07/19/2007. M.B.A., Xavier C  
**Thomas P. O'Reilly**, CFA. Since 07/19/2007. M.B.A., Loyola U  
**James Shanahan** Since 07/19/2007. J.D., U of Cincinnati College of Law

## Long-term returns % as of 09/30/2008



## Performance disclosure

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

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-6.64	-7.67	1.66	-	2.06
Lehman Brothers US Corporate High Yld 2% Issuer Capped Index %	-9.54	-10.51	1.08	4.37	-
High Yield Bond Category %	-10.02	-11.29	0.38	3.59	-
Morningstar Percentile Rankings	-	19	26	-	-
# of Funds in Category	570	558	475	408	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	2.37	8.71	3.91	-	-
High Yield Bond Category %	1.47	10.14	2.59	9.99	24.36
Morningstar Percentile Rankings	34	81	15	-	-
# of Funds in Category	542	549	518	493	455

Morningstar percentile rankings are based on total returns.

## Morningstar category

High Yield Bond

## Morningstar Style Box™

As of 08/31/2008

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

## Risk and Return Statistics

as of 09/30/2008 Relative to  
Lehman Brothers US Corporate High Yld  
2% Issuer Capped Index

	3Yr	5Yr
Alpha	-0.07	-
Beta	0.80	-
R-Squared	98.55	-
Standard Deviation	5.51	-
Mean	1.65	-
Sharpe Ratio	-0.41	-
Excess Risk	1.53	-
Information Ratio	0.37	-

## Operations

Total Investment Expense Net	0.82%
Total Investment Expense Gross	0.82%
Inception Date	12/31/2004
Total Net Assets (mil)	\$762.99

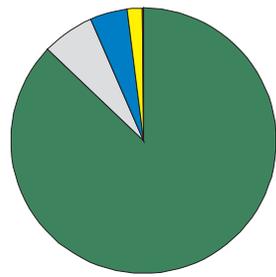


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# High Yield I Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



% of Assets	
U.S. Bonds	87.13
Cash	6.32
Non-U.S. Bonds	4.52
Other	1.85
Convertibles	0.18

## Top ten holdings

Rank	Holder	% of net assets
1.	Directv Hldgs	8.375%
2.	Engy Future Hldgs 144A	11.25%
3.	Roseton Danskammer Pt 2001	7.67%
4.	Chesapeake Engy	7.5%
5.	Aes 144A	8.75%
6.	Kinder Morgan	6.5%
7.	Ball	6.875%
8.	L-3 Comms	7.625%
9.	Hca	9.625%
10.	Arch Westn Fin	6.75%

## % of net assets

1.85
1.50
1.32
1.28
1.22
1.20
1.20
0.98
0.93
0.89

## Analysis

# of Stock Hldgs	0
# of Bond Hldgs	471
# of Other Hldgs	27
Turnover Ratio	69%

% of net assets in top ten holdings\* 12.37

## Credit Analysis

Rating	% Bonds
AAA	0.00
AA	0.19
A	0.23
BBB	1.94
BB	36.73
B	47.20
Below B	13.00
Not Rated	0.71

## Statistics

Avg Eff Duration (Yrs)	3.85
Avg Eff Maturity (Yrs)	6.16
Avg Credit Quality	B
Avg Weighted Coupon	7.89
Avg Weighted Price	93.14

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.

The full name of this investment option is Principal High Yield I Separate Account-R6.

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%.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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

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.

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.

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.

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

Formerly known as High Yield Separate Account.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# SmallCap Value I Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment seeks long-term growth of capital. The fund invests primarily in a diversified group of equity securities of U.S. companies with small market capitalizations (those with market capitalizations similar to companies in the Russell 2000 Value index) at the time of purchase. It normally invests at least 80% of the assets in equity securities of such companies. The fund may invest up to 25% of assets in foreign securities.



## Portfolio managers

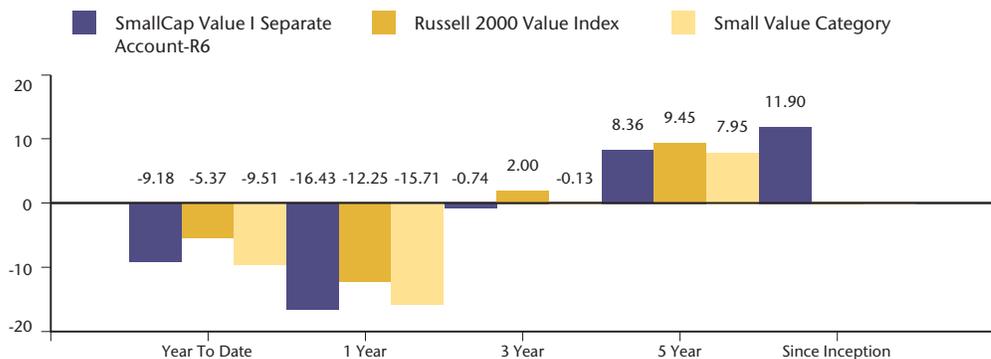
**Christopher T. Blum**, CFA. Since 12/30/2002. B.B.A., Bernard M. Baruch School for Business

**Dennis S. Ruhl**, CFA. Since 03/01/2005. M.S., MIT

**Peter D. Goslin**, CFA. Since 03/01/2006. M.B.A., U of Notre Dame

**Ronald P. Gala**, CFA. Since 01/16/2007. M.B.A., U of Pittsburgh

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-9.18	-16.43	-0.74	8.36	11.90
Russell 2000 Value Index %	-5.37	-12.25	2.00	9.45	-
Small Value Category %	-9.51	-15.71	-0.13	7.95	-
Morningstar Percentile Rankings	-	58	61	45	-
# of Funds in Category	446	435	335	267	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-9.49	18.19	6.32	23.03	50.29
Russell 2000 Value Index %	-9.78	23.48	4.71	22.25	46.03
Small Value Category %	-6.08	16.27	6.40	21.14	42.38
Morningstar Percentile Rankings	75	40	55	33	16
# of Funds in Category	438	389	348	307	303

Morningstar percentile rankings are based on total returns.

## Morningstar category

Small Value

## Morningstar Style Box™

As of 08/31/2008

### Investment style

	Value	Blend	Growth	
				Large
				Medium
				Small

Market capitalization

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell 2000 Value Index

	3Yr	5Yr
Alpha	-2.79	-0.95
Beta	0.97	0.99
R-Squared	97.56	98.13
Standard Deviation	13.63	13.95
Mean	-0.75	8.36
Sharpe Ratio	-0.28	0.42
Excess Return	-2.75	-1.09
Excess Risk	2.15	1.92
Information Ratio	-1.28	-0.57

## Operations

Total Investment Expense Net	1.17%
Total Investment Expense Gross	1.17%
Inception Date	12/31/2002
Total Net Assets (mil)	\$407.19

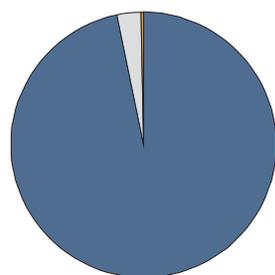


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# SmallCap Value I Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



% of Assets	
U.S. Stocks	96.71
Cash	2.91
Non-U.S. Stocks	0.35
Other	0.03

### Top ten holdings

Top ten holdings	% of net assets
1. Russell 2000 (Fut)	2.45
2. Rent-A-Center, Inc.	1.02
3. Lexington Realty Trust	0.90
4. Applied Industrial Technologies, Inc.	0.82
5. Portland General Electric Company	0.76
6. Aspen Insurance Holdings, Ltd.	0.74
7. Stone Energy Corporation	0.73
8. GrafTech International, Inc.	0.71
9. Enpro Industries, Inc.	0.70
10. Cash America International, Inc.	0.70
% of net assets in top ten holdings*	9.53

### Analysis

# of Stock Hldgs	563
# of Bond Hldgs	0
# of Other Hldgs	4
GeoAvgCap (mil)	\$971.35
Turnover Ratio	63%
P/C Ratio	5.00
P/E Ratio	12.61
P/B Ratio	1.39

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	3.06	Healthcare	5.48	Consumer Goods	6.62
Hardware	8.25	Consumer Services	6.52	Industrial Materials	17.30
Media	1.15	Business Services	8.55	Energy	4.08
Telecom	1.93	Financial Services	31.44	Utilities	5.63

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.

The full name of this investment option is Principal SmallCap Value I Separate Account-R6.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

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.

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.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# Bond and Mortgage Separate Account-I2 as of 09/30/2008

## Investment Strategy

The investment option invests primarily in intermediate-term, fixed-income investments such as public and private corporate bonds, commercial and residential mortgages, asset-backed securities, and US government and agency-backed securities. Value is added primarily through sector allocation and security selection. The Separate Account may enter into reverse repurchase agreements to attempt to enhance portfolio return and income.



### Portfolio managers

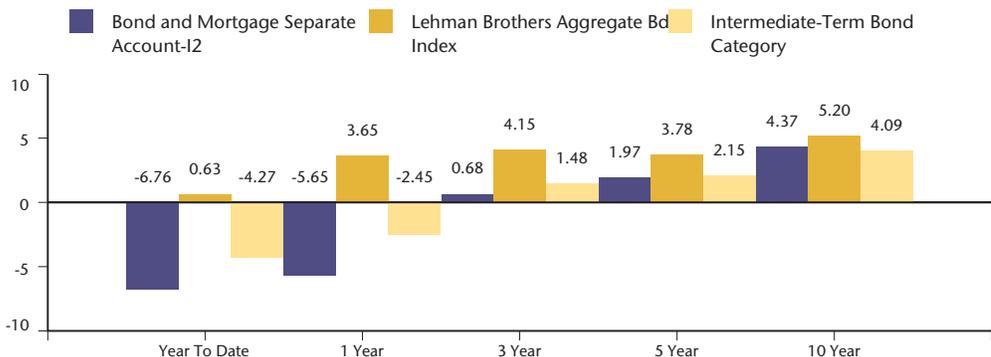
**William C. Armstrong**, CFA. Since 01/01/1997. Master, U of Iowa

**Timothy R. Warrick**, CFA. Since 06/01/2002. M.B.A., Drake U

**L. Phillip Jacoby IV** Since 11/07/2005. B.S., Boston U

**Bernard M. Sussman** Since 11/07/2005. M.B.A., Cornell U

## Long-term returns % as of 09/30/2008



## Performance disclosure

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

In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-6.76	-5.65	0.68	1.97	4.37
Lehman Brothers Aggregate Bd Index %	0.63	3.65	4.15	3.78	5.20
Intermediate-Term Bond Category %	-4.27	-2.45	1.48	2.15	4.09
Morningstar Percentile Rankings	-	78	74	66	38
# of Funds in Category	1149	1126	984	848	456

Annual Returns	2007	2006	2005	2004	2003
Total Return %	3.83	4.72	2.64	5.02	5.21
Lehman Brothers Aggregate Bd Index %	6.97	4.33	2.43	4.34	4.10
Intermediate-Term Bond Category %	4.70	4.15	1.80	3.91	5.10
Morningstar Percentile Rankings	78	19	9	14	34
# of Funds in Category	1097	1092	1043	1035	952

Morningstar percentile rankings are based on total returns.

Morningstar category  
Intermediate-Term Bond

Morningstar Style Box™  
As of 08/31/2008

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

## Risk and Return Statistics

as of 09/30/2008 Relative to  
Lehman Brothers Aggregate Bd Index

	3Yr	5Yr
Alpha	-3.36	-1.73
Beta	0.97	0.96
R-Squared	57.63	71.73
Standard Deviation	3.64	3.53
Mean	0.69	1.97
Sharpe Ratio	-0.94	-0.34
Excess Risk	2.25	1.85
Information Ratio	-1.54	-0.98

## Operations

Total Investment Expense Net	0.55%
Total Investment Expense Gross	0.55%
Inception Date	02/01/1983
Total Net Assets (mil)	\$5,512.61

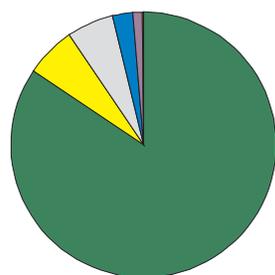


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# Bond and Mortgage Separate Account-I2 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



### % of Assets

U.S. Bonds	84.45
Other	6.09
Cash	5.67
Non-U.S. Bonds	2.45
Preferred	1.18
Non-U.S. Stocks	0.14
U.S. Stocks	0.02

### Top ten holdings

1. FGLMC 5.5%	6.17
2. FNMA 5.5%	5.53
3. FGLMC 5%	4.69
4. FGLMC 6%	3.44
5. FNMA 6%	3.25
6. FNMA 5%	2.99
7. US Treasury Bond 6.25%	2.08
8. FNMA 4.5%	1.73
9. US Treasury Note 4.25%	1.67
10. FNMA 5%	1.65
% of net assets in top ten holdings*	33.19

### % of net assets

### Analysis

# of Stock Hldgs	14
# of Bond Hldgs	1344
# of Other Hldgs	347
Turnover Ratio	29%

## Credit Analysis

	% Bonds
AAA	56.15
AA	6.73
A	13.30
BBB	14.66
BB	3.90
B	3.81
Below B	1.26
Not Rated	0.18

## Statistics

Avg Eff Duration (Yrs)	4.99
Avg Eff Maturity (Yrs)	9.29
Avg Credit Quality	AA
Avg Weighted Coupon	5.53
Avg Weighted Price	95.95

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.

The full name of this investment option is Principal Bond and Mortgage Separate Account-I2.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

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

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# Inflation Protection Separate Account-R6 as of 09/30/2008

## Investment Strategy

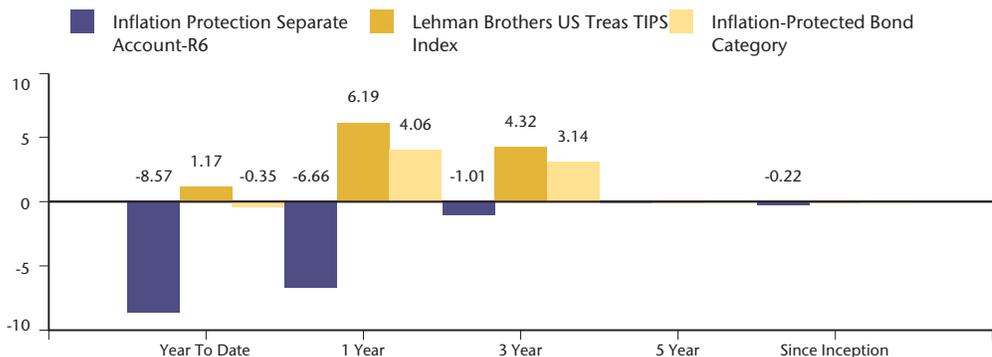
The investment seeks to provide current income and real (after-inflation) total returns. The fund invests primarily in inflation protected debt securities issued by the U.S. Treasury and U.S. government sponsored entities as well as corporations, floating rate notes, etc. It normally hedges at least 75% of exposure to foreign currency. The fund may invest up to 20% of assets in securities denominated in foreign currencies. It may invest up to 15% of assets in high yield securities but not in securities rated lower than CCC- or Caa3 by S&P or Moody's or, if unrated, determined by PGI to be of comparable quality.



## Portfolio managers

**Martin J. Schafer** Since 12/29/2004. B.B.A., U of Iowa  
**Bryan C. Davis**, CFA. Since 02/29/2008. B.S., U. of Iowa

## Long-term returns % as of 09/30/2008



## Performance disclosure

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In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-8.57	-6.66	-1.01	-	-0.22
Lehman Brothers US Treas TIPS Index %	1.17	6.19	4.32	5.15	-
Inflation-Protected Bond Category %	-0.35	4.06	3.14	4.01	-
Morningstar Percentile Rankings	-	94	95	-	-
# of Funds in Category	162	160	130	57	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	5.77	0.27	2.28	-	-
Lehman Brothers US Treas TIPS Index %	11.64	0.41	2.84	8.46	8.40
Inflation-Protected Bond Category %	9.86	0.09	2.09	7.48	7.15
Morningstar Percentile Rankings	90	27	37	-	-
# of Funds in Category	156	140	109	69	44

Morningstar percentile rankings are based on total returns.

Morningstar category  
Inflation-Protected Bond

Morningstar Style Box™  
As of 08/31/2008

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

## Risk and Return Statistics

as of 09/30/2008 Relative to  
Lehman Brothers US Treas TIPS Index

	3Yr	5Yr
Alpha	-5.20	-
Beta	0.93	-
R-Squared	77.64	-
Standard Deviation	5.89	-
Mean	-1.01	-
Sharpe Ratio	-0.84	-
Excess Risk	2.74	-
Information Ratio	-1.94	-

## Operations

Total Investment Expense Net	0.57%
Total Investment Expense Gross	0.57%
Inception Date	12/31/2004
Total Net Assets (mil)	\$459.03



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# Inflation Protection Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Credit Analysis

	% Bonds
AAA	70.94
AA	6.72
A	8.70
BBB	10.71
BB	1.46
B	1.06
Below B	0.10
Not Rated	0.30

## Statistics

Avg Eff Duration (Yrs)	7.36
Avg Eff Maturity (Yrs)	10.43
Avg Credit Quality	AA
Avg Weighted Coupon	2.74
Avg Weighted Price	102.40

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The full name of this investment option is Principal Inflation Protection Separate Account-R6.

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

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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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.

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

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# International Emerging Markets Separate Account-R6

as of 09/30/2008

## Investment Strategy

The investment option normally invests the majority of assets in equities of companies in emerging market countries. It invests in securities of companies with their principal place of business or principal office in emerging market countries; companies for which the principal securities trade in an emerging market; or companies, regardless of where their securities are traded, that derive 50% of their total revenue from either goods or services produced in emerging market countries. The fund may invest in securities of companies with small to medium market capitalizations.



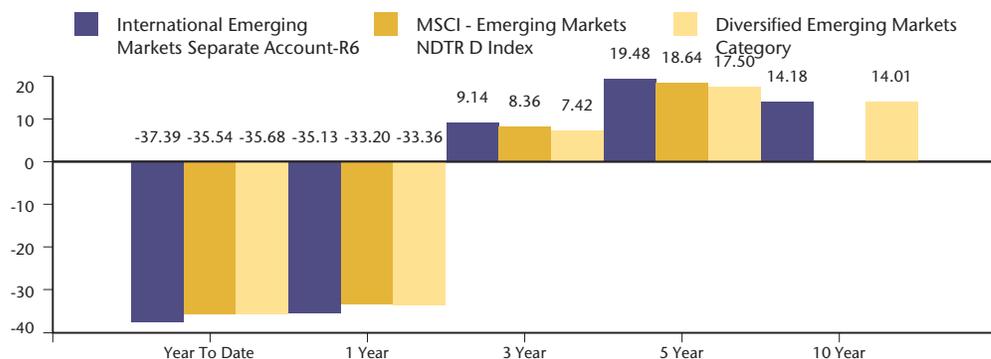
## Portfolio managers

**Michael L. Reynal** Since 02/01/2001. M.B.A., Dartmouth C

**Michael Ade**, CFA. Since 05/30/2007. B.S., U of Wisconsin

**Mihail Dobrinov**, CFA. Since 05/30/2007. M.B.A., U of Iowa

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-37.39	-35.13	9.14	19.48	14.18
MSCI - Emerging Markets NDTR D Index %	-35.54	-33.20	8.36	18.64	-
Diversified Emerging Markets Category %	-35.68	-33.36	7.42	17.50	14.01
Morningstar Percentile Rankings	-	67	26	24	43
# of Funds in Category	311	297	222	190	111

Annual Returns	2007	2006	2005	2004	2003
Total Return %	41.60	36.36	35.09	25.63	58.03
MSCI - Emerging Markets NDTR D Index %	39.39	32.17	34.00	25.55	55.82
Diversified Emerging Markets Category %	36.68	32.06	31.54	23.54	55.19
Morningstar Percentile Rankings	20	17	29	34	27
# of Funds in Category	274	242	212	202	196

Morningstar percentile rankings are based on total returns.

Morningstar category  
Diversified Emerging Markets

Morningstar Style Box™

As of 08/31/2008

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to  
MSCI - Emerging Markets NDTR D Index

	3Yr	5Yr
Alpha	0.74	0.52
Beta	1.01	1.02
R-Squared	98.49	98.52
Standard Deviation	24.67	22.05
Mean	9.14	19.48
Sharpe Ratio	0.32	0.78
Excess Return	0.77	0.81
Excess Risk	3.01	2.69
Information Ratio	0.26	0.30

## Operations

Total Investment Expense Net	1.51%
Total Investment Expense Gross	1.51%
Inception Date	01/01/1995
Total Net Assets (mil)	\$1,104.37



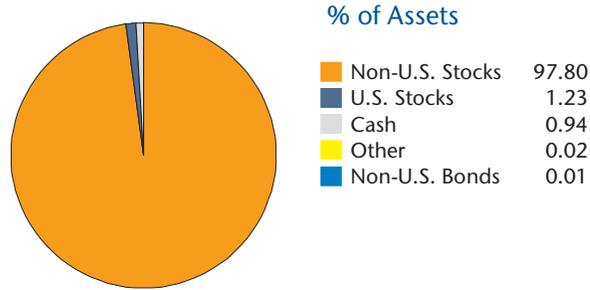
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# International Emerging Markets Separate Account-R6

as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



Top ten holdings	% of net assets
1. Brazilian Petroleum Corporation ADR	4.98
2. Vale	3.13
3. Gazprom OAO (EDR)	2.73
4. China Mobile Ltd	2.42
5. Taiwan Semiconductor Mfg.	2.09
6. Teva Pharmaceutical Industries, Ltd. ADR	1.97
7. Samsung Electronics	1.80
8. America Movil S.A.B. de C.V. ADR	1.66
9. Sasol Ltd	1.63
10. Lukoil Company ADR	1.61
% of net assets in top ten holdings*	24.03

Analysis	
# of Stock Hldgs	165
# of Bond Hldgs	1
# of Other Hldgs	2
GeoAvgCap (mil)	\$18,174.19
Turnover Ratio	100%
P/C Ratio	3.78
P/E Ratio	9.85
P/B Ratio	1.67

### Top 5 Countries

	% of net assets
Brazil	15.77
China	13.98
South Korea	12.06
Taiwan	9.04
Russia	8.81

### Regional exposure

	% of net assets
Pacific Rim	47.68
Other	25.58
Latin America	24.10
Europe	1.40
United States	1.24

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The full name of this investment option is Principal International Emerging Markets Separate Acct-R6.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# International Growth Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment seeks long-term growth of capital. The fund invests in common stocks and other securities of companies domiciled in any of the nations of the world. It invests in securities listed on foreign or domestic securities exchanges, securities traded in foreign or domestic over-the-counter markets and depositary receipts.

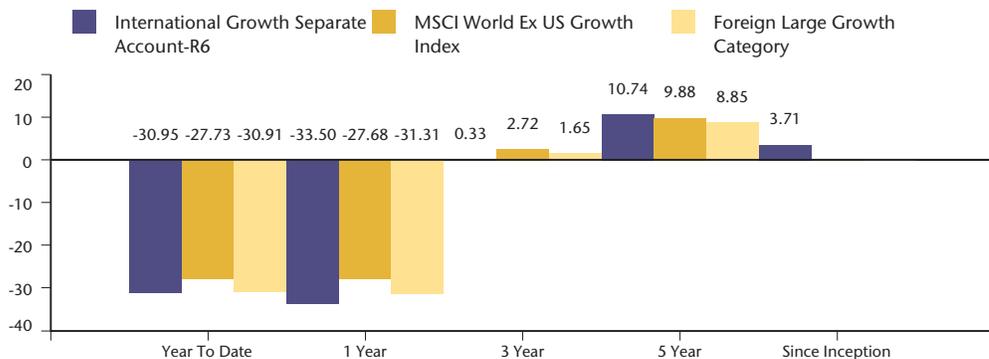


### Portfolio managers

**Steve Larson**, CFA. Since 11/01/2002. B.A., Drake U

**John Pihlblad**, CFA. Since 11/01/2002. B.A., C of Westminster

## Long-term returns % as of 09/30/2008



## Performance disclosure

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

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-30.95	-33.50	0.33	10.74	3.71
MSCI World Ex US Growth Index %	-27.73	-27.68	2.72	9.88	-
Foreign Large Growth Category %	-30.91	-31.31	1.65	8.85	-
Morningstar Percentile Rankings	-	75	66	20	-
# of Funds in Category	235	224	181	153	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	12.32	24.16	22.14	22.64	38.97
MSCI World Ex US Growth Index %	18.03	22.12	14.41	16.27	32.99
Foreign Large Growth Category %	16.26	23.95	15.23	16.23	33.83
Morningstar Percentile Rankings	80	39	8	8	24
# of Funds in Category	220	243	213	221	226

Morningstar percentile rankings are based on total returns.

## Morningstar category

Foreign Large Growth

## Morningstar Style Box™

As of 08/31/2008

### Investment style

	Value	Blend	Growth	
				Large
				Medium
				Small

Market capitalization

## Risk and Return Statistics

as of 09/30/2008 Relative to MSCI World Ex US Growth Index

	3Yr	5Yr
Alpha	-2.13	0.58
Beta	1.07	1.05
R-Squared	96.95	96.01
Standard Deviation	17.23	15.02
Mean	0.33	10.74
Sharpe Ratio	-0.13	0.55
Excess Return	-2.38	0.86
Excess Risk	3.15	3.06
Information Ratio	-0.76	0.28

## Operations

Total Investment Expense Net	1.16%
Total Investment Expense Gross	1.16%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,733.68



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# International Growth Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



### Top 5 Countries

	% of net assets
United Kingdom	21.40
Japan	18.55
Switzerland	10.31
Canada	8.26
Germany	7.92

### Regional exposure

	% of net assets
Europe	63.76
Japan	18.55
Pacific Rim	9.43
Other	8.26

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.

The full name of this investment option is Principal International Growth Separate Account-R6.

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).

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

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.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# MidCap Value III Separate Account-R6 as of 09/30/2008

## Investment Strategy

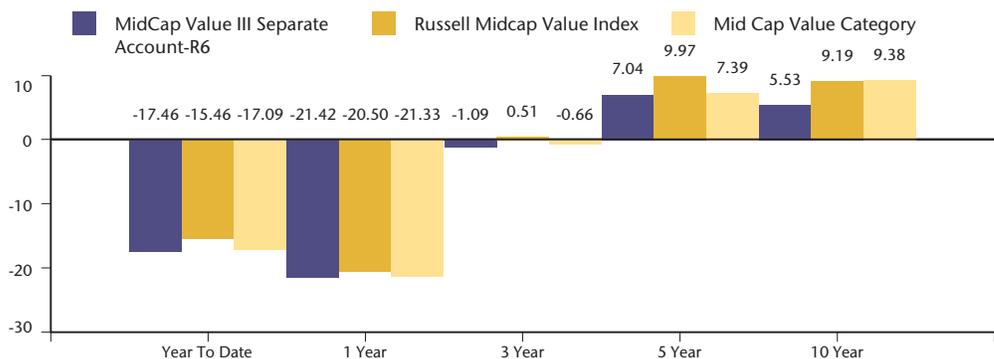
The investment seeks long-term growth of capital and normally invests the majority of assets in companies with market capitalizations similar to those of companies in the Russell MidCap Value Index. Management selects investments primarily on the basis of fundamental security analysis, focusing on the company's financial stability, sales, earnings, dividend trends, return on equity and industry trends. It may invest up to 25% of assets in foreign securities.



## Portfolio managers

**Jeffery A. Schwart**, CPA, CFA. Since 02/01/2005. B.A., Northern Iowa U  
**Mark Giambro**, CPA. Since 07/01/2005. M.B.A., U of Chicago  
**James P. Barrow** Since 07/12/2005. B.S., U of South Carolina  
**Stephen Musser** Since 05/18/2007. M.B.A., U of Missouri

## Long-term returns % as of 09/30/2008



## Performance disclosure

*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. For more performance information, including the most recent month-end performance, visit [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.*

*In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.*

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-17.46	-21.42	-1.09	7.04	5.53
Russell Midcap Value Index %	-15.46	-20.50	0.51	9.97	9.19
Mid Cap Value Category %	-17.09	-21.33	-0.66	7.39	9.38
Morningstar Percentile Rankings	-	49	55	56	96
# of Funds in Category	449	437	328	224	78

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-0.59	16.00	13.15	16.34	29.08
Russell Midcap Value Index %	-1.42	20.22	12.65	23.71	38.07
Mid Cap Value Category %	0.83	15.87	8.82	17.85	33.85
Morningstar Percentile Rankings	65	46	9	55	70
# of Funds in Category	405	375	310	320	331

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Mid Cap Value

## Morningstar Style Box™

As of 08/31/2008

### Investment style

	Value	Blend	Growth	
				Large
				Medium
				Small

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell Midcap Value Index

	3Yr	5Yr
Alpha	-1.80	-0.46
Beta	0.95	0.82
R-Squared	97.71	94.04
Standard Deviation	11.94	10.72
Mean	-1.09	13.53
Sharpe Ratio	-0.37	1.02
Excess Return	-1.60	-3.10
Excess Risk	1.90	3.46
Information Ratio	-0.84	-0.89

## Operations

Total Investment Expense Net	0.81 %
Total Investment Expense Gross	0.81 %
Inception Date	01/01/1991
Total Net Assets (mil)	\$756.79

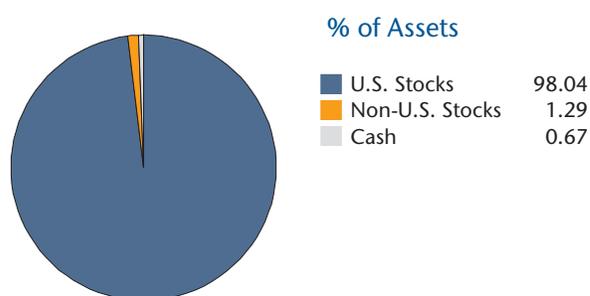


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# MidCap Value III Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



Top ten holdings	% of net assets	Analysis
1. Lorillard, Inc.	1.96	# of Stock Hldgs 181
2. L-3 Communications Holdings, Inc.	1.95	# of Bond Hldgs 0
3. MDU Resources Group, Inc.	1.87	# of Other Hldgs 1
4. Annaly Capital Management, Inc.	1.82	GeoAvgCap (mil) \$6,341.08
5. Eaton Corporation	1.80	Turnover Ratio 90%
6. Family Dollar Stores, Inc.	1.78	P/C Ratio 6.05
7. Computer Sciences Corporation	1.70	P/E Ratio 12.18
8. El Paso Corporation	1.67	P/B Ratio 1.59
9. Omnicare, Inc.	1.52	
10. Avery Dennison Corp.	1.44	
% of net assets in top ten holdings*	17.50	

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	2.99	Healthcare	8.99	Consumer Goods	10.22
Hardware	3.61	Consumer Services	9.61	Industrial Materials	14.89
Media	1.59	Business Services	2.76	Energy	7.91
Telecom	1.13	Financial Services	25.32	Utilities	10.96

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The full name of this investment option is Principal MidCap Value III Separate Account-R6.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

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.

Formerly known as Medium Company Value Separate Account.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# Real Estate Securities Separate Account-R6 as of 09/30/2008

## Investment Strategy

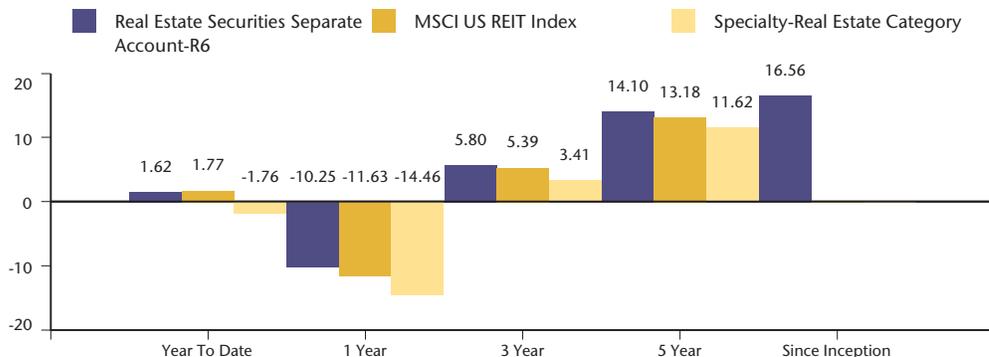
The investment seeks to generate a total return. The fund normally invests at least 80% of the net assets (plus any borrowings for investment purposes) in equity securities of companies principally engaged in the real estate industry, which include real estate investment trusts and companies with substantial real estate holdings such as paper, lumber, hotel and entertainment companies.

## Principal Real Estate Investors

### Portfolio managers

**Kelly D. Rush**, CFA. Since 12/06/2000. M.B.A., U of Iowa

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	1.62	-10.25	5.80	14.10	16.56
MSCI US REIT Index %	1.77	-11.63	5.39	13.18	-
Specialty-Real Estate Category %	-1.76	-14.46	3.41	11.62	-
Morningstar Percentile Rankings	-	11	22	19	-
# of Funds in Category	269	265	231	173	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-17.73	36.03	15.28	33.69	37.83
MSCI US REIT Index %	-16.82	35.92	12.13	31.49	36.74
Specialty-Real Estate Category %	-14.66	33.58	11.51	32.02	36.80
Morningstar Percentile Rankings	70	30	16	36	32
# of Funds in Category	372	306	279	252	206

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Specialty-Real Estate

## Morningstar Style Box™

As of 08/31/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to MSCI US REIT Index

	3Yr	5Yr
Alpha	0.40	0.79
Beta	0.99	1.01
R-Squared	98.31	98.52
Standard Deviation	17.43	17.98
Mean	5.80	14.10
Sharpe Ratio	0.18	0.65
Excess Return	0.41	0.92
Excess Risk	2.27	2.20
Information Ratio	0.18	0.42

## Operations

Total Investment Expense Net	1.13%
Total Investment Expense Gross	1.13%
Inception Date	12/31/2002
Total Net Assets (mil)	\$1,608.74



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# Real Estate Securities Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	0.00	Healthcare	0.00	Consumer Goods	0.00
Hardware	0.00	Consumer Services	0.74	Industrial Materials	0.00
Media	0.00	Business Services	0.00	Energy	0.00
Telecom	0.00	Financial Services	99.26	Utilities	0.00

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The full name of this investment option is Principal Real Estate Securities Separate Account-R6.

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.

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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.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# U.S. Property Separate Account-R6 as of 09/30/2008

## Investment Strategy

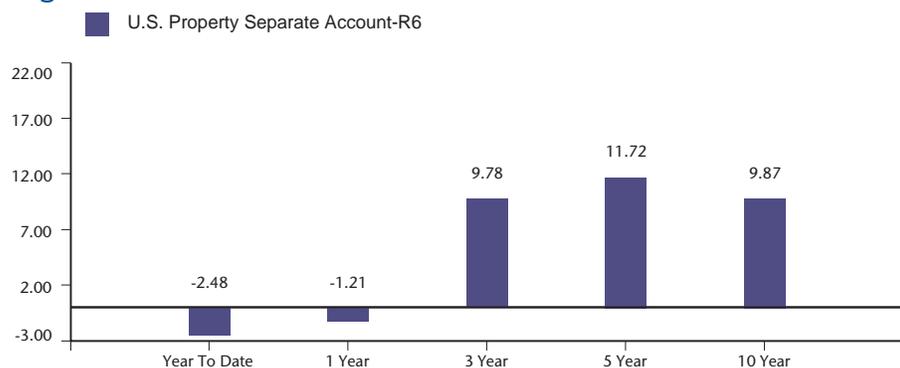
The investment invests the majority of assets on commercial real estate holdings. It focuses on properties that return both lease income and appreciation of the buildings' marketable value. The property holdings usually contain real estate from the multi-family, office, warehouse/manufacturing, and retail sectors.

## Principal Real Estate Investors

### Portfolio managers

**John Berg** Since 12/01/2003. MBA, University of Iowa

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	-2.48	-1.21	9.78	11.72	9.87

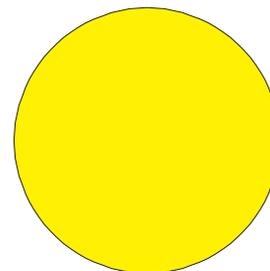
Annual Returns	2007	2006	2005	2004	2003
Total Return %	13.42	15.14	18.61	12.52	8.26

## Operations

Total Investment Expense Net	1.15%
Total Investment Expense Gross	1.15%
Inception Date	01/01/1982
Total Net Assets (mil)	\$5,709.30

## Portfolio information

Composition as of 08/31/2008



### % of Assets

Other	100.00
-------	--------

### Analysis

Total Number of Hldgs	153
-----------------------	-----

## Portfolio composition

Top ten holdings	% of net assets
OFFICE SAN FRANCISCO, CA	5.16
OFFICE NEW YORK, NY	4.33
OFFICE BELLEVUE, WA	3.04
Office New York, Ny	2.76
Retail Burbank, Ca	2.39
Office - Scottsdale, AZ	2.25
APARTMENT MERCER ISLAND, VA	1.97
OFFICE SAN DIEGO, CA	1.96
APARTMENT CAMBRIDGE, MA	1.92
OFFICE CAMBRIDGE, MA	1.89

% of net assets in top ten holdings\* 27.68%

\*Values may exceed 100% if both long and short positions are included in the portfolio.

## Geographical diversity

	% of properties
West	47.12
East	23.13
South	18.60
Midwest	11.15

## Property type

	% of account
Office	42.51
Apartments	23.88
Retail	18.24
Warehouse	14.25
Other	1.12

# U.S. Property Separate Account-R6 as of 09/30/2008

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Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Princor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker/dealers. Securities sold by a Princor® Registered Representative are offered through Princor. Principal Funds Distributor, Princor and Principal Life 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.

Due to the unique composition of the portfolio, Morningstar does not track an index or peer group that provides an appropriate comparison for this Separate Account.

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.

# Preferred Securities Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment seeks to provide current income. The fund invests primarily in preferred securities of U.S. companies rated BBB or higher by Standard & Poor's Rating Service ("S&P") or Moody's Investor Service, Inc. ("Moody's") or, if unrated, of comparable quality in the opinion of the Sub-Advisor, Spectrum. It normally invests at least 80% of net assets (plus any borrowings for investment purposes) in preferred securities. The fund focuses primarily on the financial services, Real Estate Investment Trust and utility industries.

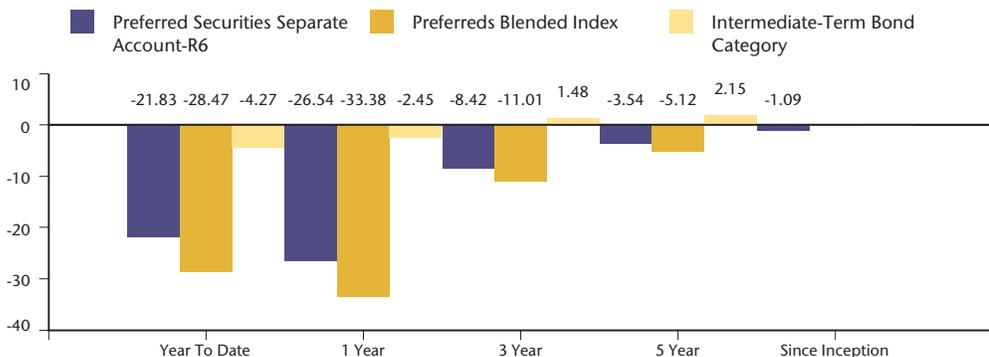
## SPECTRUM

### Portfolio managers

**L. Phillip Jacoby IV** Since 05/01/2002. B.S., Boston U

**Bernard M. Sussman** Since 05/01/2002. M.B.A., Cornell U

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-21.83	-26.54	-8.42	-3.54	-1.09
Preferreds Blended Index %	-28.47	-33.38	-11.01	-5.12	-
Intermediate-Term Bond Category %	-4.27	-2.45	1.48	2.15	-
Morningstar Percentile Rankings	-	98	98	99	-
# of Funds in Category	1149	1126	984	848	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	-8.14	6.77	1.46	4.20	10.55
Preferreds Blended Index %	-8.57	7.03	1.91	5.67	10.49
Intermediate-Term Bond Category %	4.70	4.15	1.80	3.91	5.10
Morningstar Percentile Rankings	99	4	67	84	35
# of Funds in Category	1097	1092	1043	1035	952

Morningstar percentile rankings are based on total returns.

Morningstar category  
Intermediate-Term Bond

Morningstar Style Box™  
As of 08/31/2008

Duration			Quality	
Short	Int	Long		
				High
				Medium
			Low	

## Risk and Return Statistics

as of 09/30/2008 Relative to Preferreds Blended Index

	3Yr	5Yr
Alpha	0.28	0.29
Beta	0.85	0.85
R-Squared	98.09	97.77
Standard Deviation	13.55	10.99
Mean	-8.43	-3.54
Sharpe Ratio	-0.88	-0.56
Excess Risk	3.02	2.48
Information Ratio	0.86	0.64

## Operations

Total Investment Expense Net	0.91%
Total Investment Expense Gross	0.91%
Inception Date	05/31/2002
Total Net Assets (mil)	\$1,218.47



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# Preferred Securities Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Credit Analysis

	% Bonds
AAA	0.00
AA	8.69
A	47.96
BBB	41.14
BB	2.05
B	0.00
Below B	0.00
Not Rated	0.16

## Statistics

Avg Eff Duration (Yrs)	7.38
Avg Eff Maturity (Yrs)	66.02
Avg Credit Quality	A
Avg Weighted Coupon	7.21
Avg Weighted Price	106.90

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The full name of this investment option is Principal Preferred Securities Separate Account-R6.

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.

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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.

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

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# LargeCap Growth I Separate Account-R6 as of 09/30/2008

## Investment Strategy

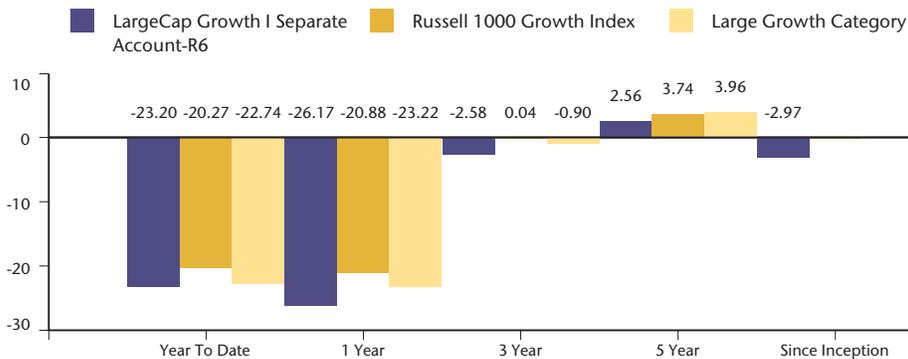
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in equity securities of companies with market capitalizations within the range of companies in the Russell 1000 Growth index at the time of purchase. It invests less than 25% of total assets in foreign companies. The fund may also purchase futures and options. It generally looks for companies with an above-average rate of earnings and cash flow growth and a lucrative niche in the economy that gives them the ability to sustain earnings momentum even during times of slow economic growth.



## Portfolio managers

**Robert W. Sharps**, CPA, CFA. Since 08/19/2004. M.B.A., U of Pennsylvania

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-23.20	-26.17	-2.58	2.56	-2.97
Russell 1000 Growth Index %	-20.27	-20.88	0.04	3.74	-
Large Growth Category %	-22.74	-23.22	-0.90	3.96	-
Morningstar Percentile Rankings	-	76	75	75	-
# of Funds in Category	1840	1780	1489	1222	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	8.18	5.93	7.44	9.12	24.01
Russell 1000 Growth Index %	11.81	9.07	5.26	6.30	29.75
Large Growth Category %	13.35	7.05	6.71	7.81	28.66
Morningstar Percentile Rankings	75	63	40	37	75
# of Funds in Category	1748	1642	1495	1400	1311

Morningstar percentile rankings are based on total returns.

## Morningstar category

Large Growth

## Morningstar Style Box™

As of 08/31/2008

Investment style			Market capitalization	
Value	Blend	Growth		
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell 1000 Growth Index

	3Yr	5Yr
Alpha	-1.98	-1.04
Beta	1.12	1.11
R-Squared	94.91	92.57
Standard Deviation	14.56	13.25
Mean	-2.57	2.56
Sharpe Ratio	-0.38	0.02
Excess Return	-2.62	-1.18
Excess Risk	3.61	3.82
Information Ratio	-0.73	-0.31

## Operations

Total Investment Expense Net	0.89%
Total Investment Expense Gross	0.89%
Inception Date	12/29/2000
Total Net Assets (mil)	\$1,467.70



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# LargeCap Growth I Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	9.07	Healthcare	19.53	Consumer Goods	0.86
Hardware	19.58	Consumer Services	15.00	Industrial Materials	7.95
Media	0.00	Business Services	7.51	Energy	6.10
Telecom	5.49	Financial Services	7.87	Utilities	1.06

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.

The full name of this investment option is Principal LargeCap Growth I Separate Account-R6.

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.

**Alpha** - The difference between an investment's actual returns and its expected performance, given its level of risk (as measured by beta). **Beta** - An investment's sensitivity to market movements. **R-squared** - Ranges from 0 to 100 and reveals how closely an investment's returns track those of a benchmark index. **Standard Deviation** - Measures how much an investment's returns are likely to fluctuate. **Mean** - Represents the annualized total return for a fund over 3 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Excess Risk** - The standard deviation or volatility of excess returns. **Information Ratio** - A risk-adjusted measure commonly used to evaluate an active manager's involvement skill. It's defined as the manager's excess return divided by the variability or standard deviation of the excess return.

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.

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.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# MidCap Growth III Separate Account-R6 as of 09/30/2008

## Investment Strategy

The investment seeks long-term growth of capital. The fund invests primarily in common stocks and other equity securities of U.S. companies with strong earnings growth potential. It normally invests at least 80% of assets in companies with market capitalizations similar to those of companies in the Russell Midcap Growth index. It may invest in securities of companies that are diversified across economic sectors. The fund may invest up to 25% of assets in foreign securities.



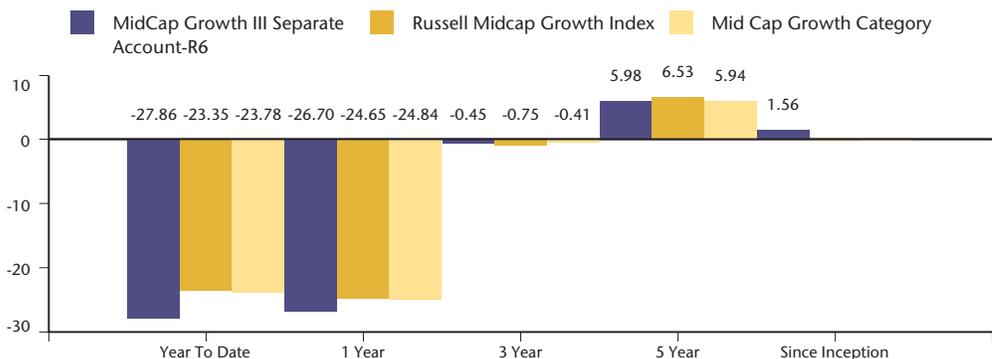
## Portfolio managers

**Christopher K. McHugh**, CFA. Since 12/06/2000. M.B.A., St. Joseph's U

**Tara Hedlund**, CPA, CFA. Since 01/16/2007. B.A., Villanova U

**Jason Schrotberger**, CFA. Since 01/16/2007. M.B.A., U of Illinois

## Long-term returns % as of 09/30/2008



## Performance disclosure

*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. For more performance information, including the most recent month-end performance, visit [www.principal.com](http://www.principal.com), contact your representative of The Principal, or call our Client Contact Center at 1-800-547-7754.*

*In situations where the net and gross total investment expense figures are different, the mutual fund or the underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the waiver expiration date or contractual cap expiration date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are based on net total investment expense.*

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-27.86	-26.70	-0.45	5.98	1.56
Russell Midcap Growth Index %	-23.35	-24.65	-0.75	6.53	-
Mid Cap Growth Category %	-23.78	-24.84	-0.41	5.94	-
Morningstar Percentile Rankings	-	61	51	51	-
# of Funds in Category	977	951	835	687	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	24.40	6.26	11.59	11.41	49.44
Russell Midcap Growth Index %	11.43	10.66	12.10	15.48	42.71
Mid Cap Growth Category %	15.09	9.00	9.84	13.23	35.96
Morningstar Percentile Rankings	12	69	37	65	5
# of Funds in Category	967	994	936	903	890

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Mid Cap Growth

## Morningstar Style Box™

As of 08/31/2008

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell Midcap Growth Index

	3Yr	5Yr
Alpha	0.84	-0.64
Beta	1.07	1.11
R-Squared	91.89	93.09
Standard Deviation	17.43	16.49
Mean	-0.45	5.98
Sharpe Ratio	-0.17	0.24
Excess Return	0.30	-0.55
Excess Risk	5.05	4.58
Information Ratio	0.06	-0.12

## Operations

Total Investment Expense Net	1.16%
Total Investment Expense Gross	1.16%
Inception Date	10/28/1999
Total Net Assets (mil)	\$678.87



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# MidCap Growth III Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	5.01	Healthcare	12.88	Consumer Goods	9.37
Hardware	13.26	Consumer Services	10.43	Industrial Materials	14.79
Media	0.84	Business Services	11.96	Energy	9.59
Telecom	2.11	Financial Services	8.14	Utilities	1.62

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The full name of this investment option is Principal MidCap Growth III Separate Account-R6.

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.

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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.

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Formerly known as Mid-Cap Growth Separate Account.

\* Values may exceed 100% if both long and short positions are included in the portfolio.

# LargeCap Value I Separate Account-R6 as of 09/30/2008

## Investment Strategy

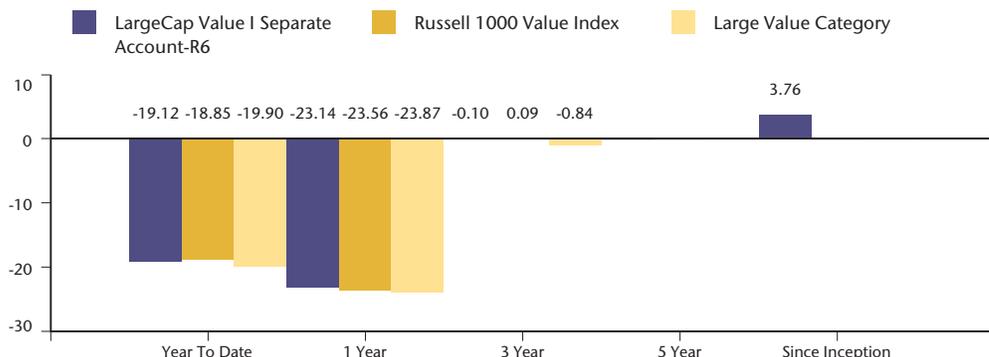
The investment seeks long-term growth of capital. The fund invests primarily in common stocks and other equity securities of large capitalization companies. It normally invests at least 80% of net assets in securities of companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000 Value index (as of December 31, 2007 this range was between approximately \$0.5 billion and \$27.8 billion)) at the time of purchase. The fund may invest up to 25% of assets in securities of foreign companies.



## Portfolio managers

**Thomas M. Cole**, CFA. Since 06/01/2004. M.B.A., U of Wisconsin  
**Thomas J. Digenan**, CPA, CFA. Since 06/01/2004. M.S., DePaul U  
**Scott C. Hazen**, CFA. Since 03/01/2006. M.B.A., U of Chicago  
**John C. Leonard**, CFA. Since 01/16/2007. M.B.A., U of Chicago

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-19.12	-23.14	-0.10	-	3.76
Russell 1000 Value Index %	-18.85	-23.56	0.09	7.12	-
Large Value Category %	-19.90	-23.87	-0.84	5.56	-
Morningstar Percentile Rankings	-	48	42	-	-
# of Funds in Category	1477	1428	1180	960	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	0.31	18.01	9.75	-	-
Russell 1000 Value Index %	-0.17	22.25	7.05	16.49	30.03
Large Value Category %	1.42	18.15	5.95	12.97	28.44
Morningstar Percentile Rankings	61	53	16	-	-
# of Funds in Category	1432	1371	1296	1220	1050

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Large Value

## Morningstar Style Box™

As of 08/31/2008

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell 1000 Value Index

	3Yr	5Yr
Alpha	-0.28	-
Beta	0.97	-
R-Squared	91.86	-
Standard Deviation	11.63	-
Mean	-0.11	-
Sharpe Ratio	-0.30	-
Excess Return	-0.20	-
Excess Risk	3.30	-
Information Ratio	-0.06	-

## Operations

Total Investment Expense Net	0.96%
Total Investment Expense Gross	0.96%
Inception Date	06/01/2004
Total Net Assets (mil)	\$1,117.72



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# LargeCap Value I Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	12.23	Healthcare	47.74	Consumer Goods	40.03
Hardware	2.66	Consumer Services	11.61	Industrial Materials	2.14
Media	0.15	Business Services	1.88	Energy	14.42
Telecom	3.77	Financial Services	7.18	Utilities	16.25
	5.65		27.07		7.22

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\* Values may exceed 100% if both long and short positions are included in the portfolio.

# SmallCap Growth II Separate Account-R6 as of 09/30/2008

## Investment Strategy

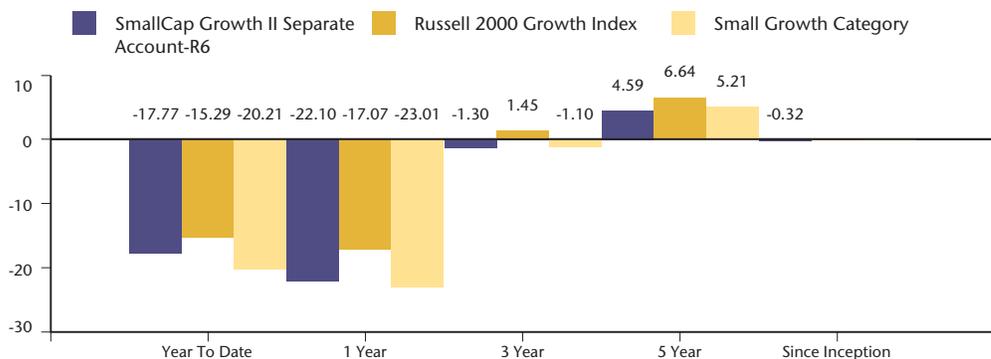
The investment seeks long-term growth of capital. The fund normally invests at least 80% of assets in common stocks of companies with small market capitalizations (those with market capitalizations equal to or smaller than the greater of \$2.5 billion or the highest market capitalization of the companies in the Russell 2000 Growth index) at the time of purchase. It may invest up to 25% of assets in securities of foreign companies. It may, but is not required to, use derivative instruments for risk management purposes or as part of the fund's investment strategies.



## Portfolio managers

**Paul A. Graham, Jr**, CFA. Since 04/22/2002. B.A., Dartmouth C  
**David N Wabnik** Since 04/22/2002. M.B.A., Columbia Business School  
**Kenneth G. Mertz II**, CFA. Since 09/01/2004. B.A., Millersville U  
**Stacey Sears** Since 09/01/2004. M.B.A., Villanova U  
**Joseph W. Garner** Since 03/01/2006. M.B.A., U of Pittsburgh

## Long-term returns % as of 09/30/2008



## Performance disclosure

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Long Term Returns	Year To Date	1 Year	3 Year	5 Year	Since Inception
Total Return %	-17.77	-22.10	-1.30	4.59	-0.32
Russell 2000 Growth Index %	-15.29	-17.07	1.45	6.64	-
Small Growth Category %	-20.21	-23.01	-1.10	5.21	-
Morningstar Percentile Rankings	-	44	58	58	-
# of Funds in Category	855	839	695	571	-

Annual Returns	2007	2006	2005	2004	2003
Total Return %	5.64	8.79	6.88	11.00	45.09
Russell 2000 Growth Index %	7.05	13.35	4.15	14.31	48.54
Small Growth Category %	7.59	10.81	6.02	12.41	45.54
Morningstar Percentile Rankings	58	63	42	60	44
# of Funds in Category	829	763	723	711	696

*Morningstar percentile rankings are based on total returns.*

## Morningstar category

Small Growth

## Morningstar Style Box™

As of 08/31/2008

### Investment style

Value	Blend	Growth	Market capitalization	
				Large
				Medium
			Small	

## Risk and Return Statistics

as of 09/30/2008 Relative to Russell 2000 Growth Index

	3Yr	5Yr
Alpha	-3.01	-1.67
Beta	0.92	0.90
R-Squared	96.02	94.71
Standard Deviation	15.23	14.94
Mean	-1.31	4.58
Sharpe Ratio	-0.27	0.16
Excess Return	-2.76	-2.05
Excess Risk	3.29	3.82
Information Ratio	-0.84	-0.54

## Operations

Total Investment Expense Net	1.16%
Total Investment Expense Gross	1.16%
Inception Date	12/29/2000
Total Net Assets (mil)	\$469.18

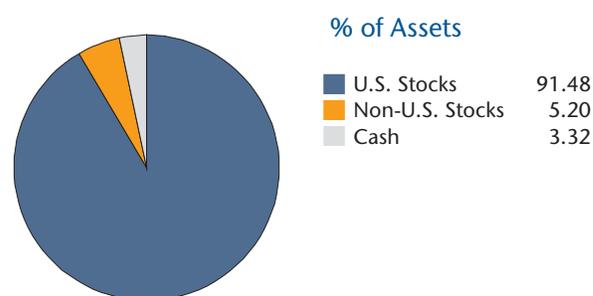


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# SmallCap Growth II Separate Account-R6 as of 09/30/2008

## Portfolio information

Composition as of 08/31/2008



Top ten holdings	% of net assets	Analysis
1. Russell Mini (Fut)	3.28	# of Stock Hldgs 267
2. Microsemi Corporation	1.74	# of Bond Hldgs 0
3. Kandle International, Inc.	1.57	# of Other Hldgs 3
4. Hub Group, Inc. A	1.46	GeoAvgCap (mil) \$1,304.76
5. Phase Forward, Inc.	1.21	Turnover Ratio 63%
6. Ansys, Inc.	1.20	P/C Ratio 11.13
7. Nuance Communications, Inc.	1.19	P/E Ratio 20.03
8. Pediatrix Medical Group, Inc.	1.19	P/B Ratio 2.58
9. SBA Communications Corporation	1.15	
10. FactSet Research Systems, Inc.	1.06	
% of net assets in top ten holdings*	15.05	

## Stock Sector Breakdown

Information	% of net assets	Service	% of net assets	Manufacturing	% of net assets
Software	8.54	Healthcare	22.99	Consumer Goods	4.09
Hardware	12.44	Consumer Services	7.23	Industrial Materials	14.89
Media	0.00	Business Services	15.42	Energy	7.46
Telecom	3.33	Financial Services	3.62	Utilities	0.00

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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.

\* Values may exceed 100% if both long and short positions are included in the portfolio.