

Principal Financial Advisors, Inc.



Investment Advisory Report
City of Hallandale Beach General Employees Retirement Plan



Contract No. 4-45661
October 01, 2012 - August 31, 2013

Contents

Page	
1	Principal Financial Advisors, Inc. Overview
2	Portfolio and Strategic Asset Allocation Review
10	Portfolio Performance Review
11	Investment Option Performance

Principal Financial Advisors, Inc. Overview

As a retirement plan sponsor, you face significant challenges in managing the plan on behalf of participants – fiduciary responsibility, risk management and plan investment decisions, just to name a few. **When you appoint Principal Financial Advisors, Inc. as the plan's ERISA Section 3(38) investment manager, we team with you to address these challenges.**

For 25 years, Principal Financial Advisors (a member company of the Principal Financial Group) has been managing investment strategies. As of June 30, 2013, we manage more than \$6.7 billion in assets and have nearly 350 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 access to premier investment managers and customized investment strategies.

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

- 1) Strategic asset allocation selection and implementation play key roles in a retirement plan's ability to successfully meet its obligations over the long term.
- 2) Careful analysis of a retirement plan's assets, liabilities and unique attributes guides asset allocation decisions.
- 3) Diversifying by asset class, style and investment manager is one of the most effective ways to control investment risk.
- 4) A portfolio's long-term success depends substantially on selecting appropriate managers and carefully monitoring their performance over time.

Principal Financial Advisors provides:

- 1) A customized investment strategy based on the plan's unique situation.
- 2) Assumption of fiduciary responsibility for asset allocation decisions.¹
- 3) Benefits of the due diligence process of Principal Life Insurance Company.²
- 4) Experienced investment personnel, comprehensive reporting and top-tier client service.

¹The plan sponsor remains the plan's named fiduciary, but Principal Financial Advisors, Inc. has been appointed as the plan's ERISA Section 3(38) investment manager.

²Principal Life Insurance Company is responsible for the hiring and monitoring of investment managers made available to you through the due diligence process. Principal Financial Advisors selects from these investment options for retirement portfolios.

Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2012 through 08/31/2013				
Inv Manager or Sub-Advisor	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
Investment Option				
Large U.S. Equity				
Large Value				
<i>Edge Asset Management, Inc.</i> Equity Income Separate Account-R6 ^{3, 11}	\$1,862,189	5.04%	\$2,096,527	5.12%
<i>Principal Global Investors</i> LargeCap Value Separate Account-R6	\$1,898,264	5.14%	\$2,101,597	5.14%
Large Blend				
<i>Principal Global Investors</i> LargeCap S&P 500 Index Separate Account-R6 ^{2, 8, 37}	\$1,683,913	4.56%	\$1,919,838	4.69%
Large Growth				
<i>T. Rowe Price/Brown Advisory</i> LargeCap Growth I Separate Account-R6 ^{3, 25, 27}	\$3,731,378	10.10%	\$4,409,579	10.78%
Small/Mid U.S. Equity				
Mid Cap Value				
<i>Principal Global/Barrow Hanley</i> MidCap Value III Separate Account-R6 ¹	\$584,179	1.58%	\$675,026	1.65%
Mid Cap Growth				
<i>Turner / Jacobs Levy</i> MidCap Growth III Separate Account-R6 ^{1, 12, 25}	\$554,463	1.50%	\$679,225	1.66%
Small Value				
<i>DFA/Vaughan Nelson/LA Capital</i> SmallCap Value II Separate Account-R6 ^{1, 14, 24, 25}	\$579,953	1.57%	\$682,319	1.67%
Small Growth				
<i>AllianceBern / CCI / Brown</i> SmallCap Growth I Separate Account-R6 ^{1, 3, 25, 32}	\$570,078	1.54%	\$713,562	1.74%
International Equity				
Diversified Emerging Markets				
<i>Principal Global Investors</i> International Emerging Markets Separate Account-R6 ⁴	\$753,696	2.04%	\$740,793	1.81%
Foreign Large Value				
<i>Causeway / Barrow Hanley</i> Overseas Separate Account-R6 ^{4, 14, 25, 31, 35}	\$1,942,218	5.26%	\$2,172,866	5.31%

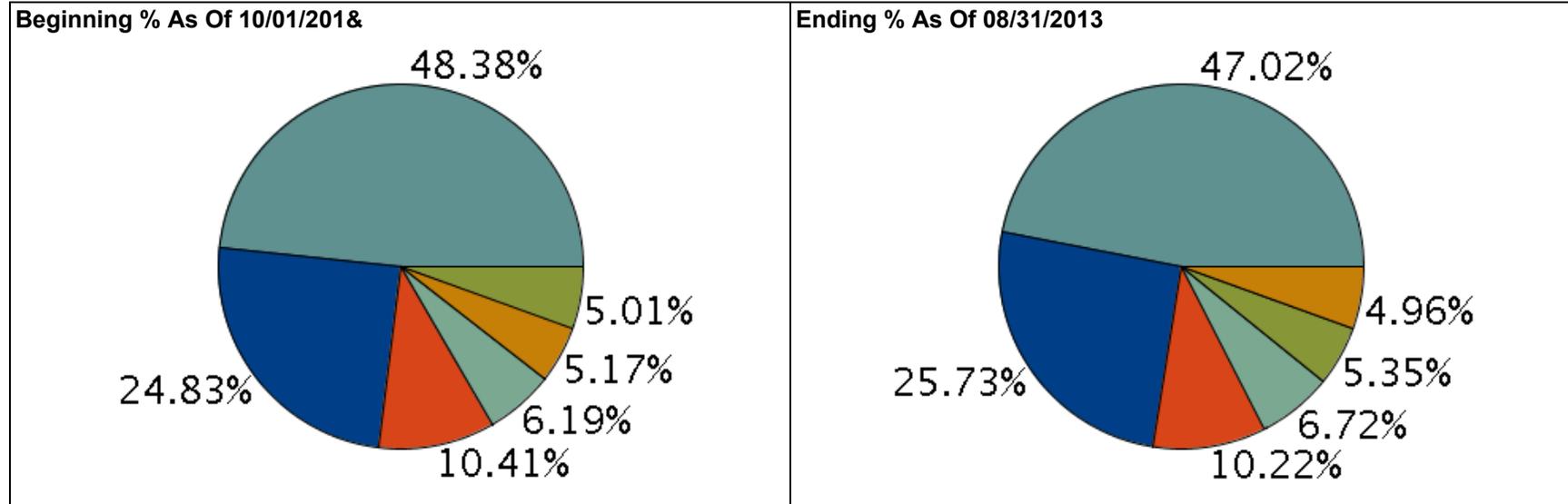
Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2012 through 08/31/2013				
<i>Inv Manager or Sub-Advisor</i>	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
Foreign Large Blend				
<i>Fidelity / Schroders</i> International I Separate Account-R6 ^{4, 14, 17, 25, 29}	\$1,151,916	3.12%	\$1,267,105	3.10%
Real Estate				
Owned Real Estate				
<i>Principal Real Estate Inv</i> U.S. Property Separate Account-R6 ³³	\$1,851,783	5.01%	\$2,186,892	5.35%
Balanced/Asset Allocation				
Conservative Allocation				
<i>Multiple Sub-Advisors</i> Diversified Real Asset Separate Account-R6 ^{3, 11, 30, 37}	\$1,911,361	5.17%	\$2,029,150	4.96%
Fixed Income				
High Yield Bond				
<i>JP Morgan / Neuberger Berman</i> High Yield I Separate Account-R6 ^{5, 14, 16, 18, 19}	\$1,878,834	5.08%	\$2,050,149	5.01%
Intermediate-Term Bond				
<i>PIMCO</i> Core Plus Bond I Separate Account-R6 ^{14, 16, 19, 37}	\$8,279,989	22.40%	\$8,910,026	21.78%
<i>Principal Global Investors</i> Bond and Mortgage Separate Account-I2 ^{16, 19, 37}	\$7,722,349	20.90%	\$8,278,072	20.23%
TOTAL	\$36,956,563	100%	\$40,912,726	100%

Please see important disclosures at the end of this presentation.

Portfolio and Strategic Asset Allocation Review

Asset Class Breakdown



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

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 10/01/2012 through 08/31/2013			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	Large U.S. Equity	24.00%	24.00%
	Large Value		
Edge Asset Management, Inc.	Equity Income Separate Account-R6 ^{3, 11}	4.90%	4.90%
Principal Global Investors	LargeCap Value Separate Account-R6	4.90%	4.90%
	Large Blend		
Principal Global Investors	LargeCap S&P 500 Index Separate Account-R6 ^{2, 8, 37}	4.40%	4.40%
	Large Growth		
T. Rowe Price/Brown Advisory	LargeCap Growth I Separate Account-R6 ^{3, 25, 27}	9.80%	9.80%
	Small/Mid U.S. Equity	6.00%	6.00%
	Mid Cap Value		
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 ¹	1.50%	1.50%
	Mid Cap Growth		
Turner / Jacobs Levy	MidCap Growth III Separate Account-R6 ^{1, 12, 25}	1.50%	1.50%
	Small Value		
DFA/Vaughan Nelson/LA Capital	SmallCap Value II Separate Account-R6 ^{1, 14, 24, 25}	1.50%	1.50%
	Small Growth		
AllianceBern / CCI / Brown	SmallCap Growth I Separate Account-R6 ^{1, 3, 25, 32}	1.50%	1.50%
	International Equity	10.00%	10.00%
	Diversified Emerging Markets		
Principal Global Investors	International Emerging Markets Separate Account-R6 ⁴	2.00%	2.00%
	Foreign Large Value		
Causeway / Barrow Hanley	Overseas Separate Account-R6 ^{4, 14, 25, 31, 35}	5.00%	5.00%
	Foreign Large Blend		
Fidelity / Schroders	International I Separate Account-R6 ^{4, 14, 17, 25, 29}	3.00%	3.00%
	Real Estate	5.00%	5.00%
	Owned Real Estate		
Principal Real Estate Inv	U.S. Property Separate Account-R6 ³³	5.00%	5.00%

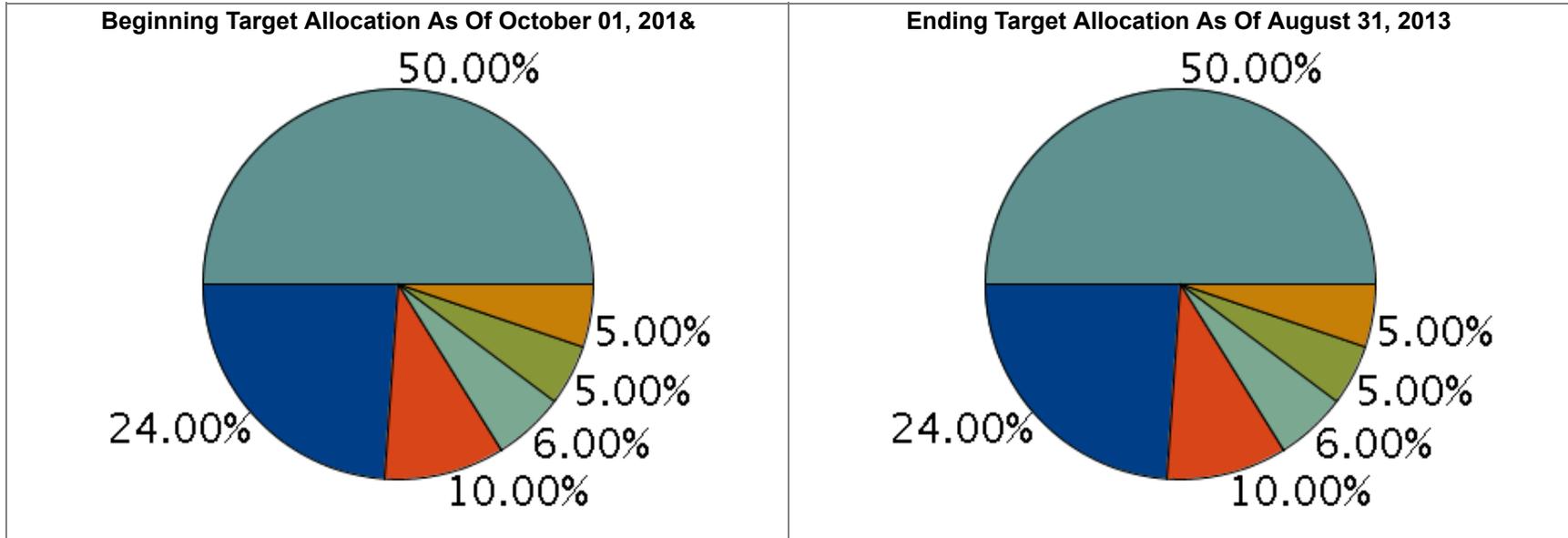
Portfolio and Strategic Asset Allocation Review

Target Allocation 10/01/2012 through 08/31/2013			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	Balanced/Asset Allocation	5.00%	5.00%
	Conservative Allocation		
Multiple Sub-Advisors	Diversified Real Asset Separate Account-R6 ^{3, 11, 30, 37}	5.00%	5.00%
	Fixed Income	50.00%	50.00%
	High Yield Bond		
JP Morgan / Neuberger Berman	High Yield I Separate Account-R6 ^{5, 14, 16, 18, 19}	5.00%	5.00%
	Intermediate-Term Bond		
PIMCO	Core Plus Bond I Separate Account-R6 ^{14, 16, 19, 37}	22.50%	22.50%
Principal Global Investors	Bond and Mortgage Separate Account-I2 ^{16, 19, 37}	22.50%	22.50%

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
- Balanced/Asset Allocation
- 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
Equity Income Separate Account-R6 ^{3, 11}  LargeCap Value Separate Account-R6 	LargeCap S&P 500 Index Separate Account-R6 ^{2, 8, 37 ++}	LargeCap Growth I Separate Account-R6 ^{3, 25, 27}  
Small/Mid U.S. Equity		
Mid Cap Value	Mid Cap Blend	Mid Cap Growth
MidCap Value III Separate Account-R6 ¹  		MidCap Growth III Separate Account-R6 ^{1, 12, 25}  
Small Value	Small Blend	Small Growth
SmallCap Value II Separate Account-R6 ^{1, 14, 24, 25}   		SmallCap Growth I Separate Account-R6 ^{1, 3, 25, 32}   

Portfolio and Strategic Asset Allocation Review

International Equity	Real Estate	Balanced/Asset Allocation
<p>Overseas Separate Account-R6 ^{4, 14, 25, 31, 35}</p>  <p>BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC</p> <p>International I Separate Account-R6 ^{4, 14, 17, 25, 29}</p>   <p>International Emerging Markets Separate Account-R6 ⁴</p> 	<p>U.S. Property Separate Account-R6 ³³</p> 	<p>Diversified Real Asset Separate Account-R6 ^{3, 11, 30, 37}</p>       
Short-Term Fixed Income	Fixed Income	
	<p>High Yield I Separate Account-R6 ^{5, 14, 16, 18, 19}</p>   <p>Core Plus Bond I Separate Account-R6 ^{14, 16, 19, 37}</p>  <p>Bond and Mortgage Separate Account-I2 ^{16, 19, 37}</p> 	

Please see important disclosures at the end of this presentation.

Portfolio Performance Review

Time & Dollar Weighted Rates of Return August 31, 2013

Time & Dollar Weighted Returns	YTD*	1 Year	3 Year	5 Year
Total Portfolio Return	5.97	7.60	9.93	4.88
Weighted Index	5.16	6.41	8.79	5.61
Excess Return	0.81	1.19	1.14	-0.73

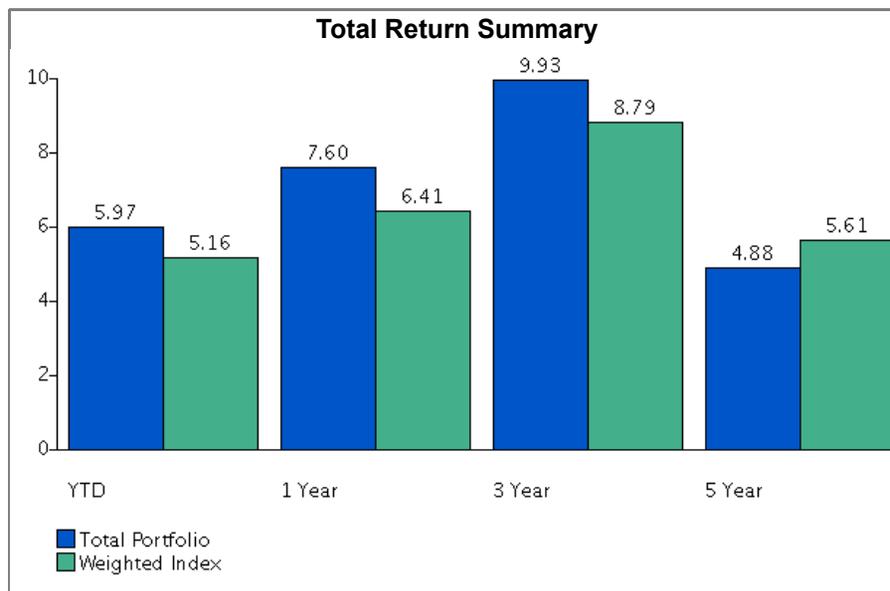
Asset Class Return Information	YTD*	1 Year	3 Year	5 Year
Your Plan's U.S. Equity Return	16.94	19.76	18.78	6.79
Standard & Poor's 1500 Total Market Stock Index	16.44	19.38	18.66	7.57
Your Plan's International Equity Return	9.03	13.12	8.32	2.19
MSCI - EAFE Index NDTR D	15.25	18.66	9.28	1.62
Your Plan's Real Asset Return ¹	5.87	7.00	10.99	2.61
Blended Real Asset Index	2.27	2.98	7.07	-1.91
Your Plan's Fixed Income Return	-1.45	-0.83	4.20	4.33
Barclays Aggregate Bond Index	-2.60	-2.47	2.58	4.93

*YTD is the plan year to date, from 10/01/2012 to 08/31/2013.

We calculated performance of your plan assets with information provided to us by Principal Life Insurance Company from your August 31, 2013 Contractholder Fund Statement.

¹ As of September 30, 2011, the Real Estate asset class was changed to the Real Asset asset class. Your Plan's Real Asset Return includes the weighted investment performance from the following Separate Accounts for any reporting periods during which they were applicable to your plans allocation: US Property Separate Account, sub-advised by Principal Real Estate Investors; Real Estate Securities Separate Account, sub-advised by Principal Real Estate Investors and Diversified Real Asset Separate Account, sub-advised by multiple sub-advisors.

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 www.principal.com, contact your representative of the Principal Financial Group® (The Principal®), or call our Participant Call Center at 1-800-547-7754.

Inv Manager or Sub-Advisor Investment Option	Average Annual Total Returns through 08/31/2013						Percentile Rankings as of 08/31/2013					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.
Large U.S. Equity													
Large Value													
Edge Asset Management, Inc. Equity Income Separate Account-R6 ^{3, 11}	0.01	16.17	15.80	7.24	8.51	8.44	06/30/2009	-	86	70	28	11	0.68
Principal Global Investors LargeCap Value Separate Account-R6	0.05	19.76	17.76	5.68	6.45	7.11	06/01/1995	-	63	28	64	65	0.61
Russell 1000 Value Index	0.51	23.10	18.20	6.69	7.61	-	-	-	-	-	-	-	-
Morningstar Category Average - Large Value	0.61	20.94	16.62	6.28	6.94	Total Funds in Category		1245	1176	1028	928	607	-
Large Blend													
Principal Global Investors LargeCap S&P 500 Index Separate Account-R6 ^{2, 8, 37}	0.59	18.28	18.01	6.99	6.80	8.62	01/01/1990	-	58	29	35	45	0.31
Standard & Poor's 500 Index	0.67	18.70	18.40	7.32	7.12	-	-	-	-	-	-	-	-
Morningstar Category Average - Large Blend	0.74	19.17	16.76	6.38	6.71	Total Funds in Category		1640	1547	1351	1220	766	-
Large Growth													
T. Rowe Price/Brown Advisory LargeCap Growth I Separate Account-R6 ^{3, 25, 27}	3.35	18.95	19.56	10.03	7.81	3.29	12/29/2000	-	33	16	8	24	0.79
Russell 1000 Growth Index	1.55	16.43	19.20	8.40	7.24	-	-	-	-	-	-	-	-
Morningstar Category Average - Large Growth	2.23	17.54	17.31	6.78	6.87	Total Funds in Category		1755	1680	1478	1299	879	-
Small/Mid U.S. Equity													
Mid Cap Value													
Principal Global/Barrow Hanley MidCap Value III Separate Account-R6 ¹	3.27	25.19	20.17	9.68	9.37	10.63	01/01/1991	-	49	20	25	43	0.81
Russell Midcap Value Index	0.43	25.37	19.14	8.87	10.37	-	-	-	-	-	-	-	-
Morningstar Category Average - Mid Cap Value	1.60	25.84	18.07	8.45	8.92	Total Funds in Category		430	414	361	306	175	-

Investment Option Performance

Inv Manager or Sub-Advisor Investment Option	Average Annual Total Returns through 08/31/2013							Percentile Rankings as of 08/31/2013					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.	
Mid Cap Growth													
Turner / Jacobs Levy MidCap Growth III Separate Account-R6 ^{1, 12, 25}	3.90	20.46	17.39	6.78	7.78	4.63	10/28/1999	-	64	63	63	65	1.13
Russell Midcap Growth Index	2.93	23.97	20.27	9.14	9.42	-	-	-	-	-	-	-	-
Morningstar Category Average - Mid Cap Growth	3.34	22.06	18.26	7.67	8.41	Total Funds in Category	729	688	629	550	409	-	-
Small Value													
DFA/Vaughan Nelson/LA Capital SmallCap Value II Separate Account-R6 ^{1, 14, 24, 25}	2.64	27.86	19.82	8.63	-	7.28	06/01/2004	-	39	31	40	-	1.29
Russell 2000 Value Index	1.31	24.38	18.36	6.88	8.55	-	-	-	-	-	-	-	-
Morningstar Category Average - Small Value	1.93	26.31	18.14	8.62	9.22	Total Funds in Category	381	361	296	252	152	-	-
Small Growth													
AllianceBern / CCI / Brown SmallCap Growth I Separate Account-R6 ^{1, 3, 25, 32}	7.35	26.00	24.03	11.14	9.93	4.38	12/29/2000	-	47	21	25	20	1.26
Russell 2000 Growth Index	4.81	28.14	22.59	9.01	8.84	-	-	-	-	-	-	-	-
Morningstar Category Average - Small Growth	5.74	26.11	21.13	9.31	8.71	Total Funds in Category	726	691	612	540	359	-	-
International Equity													
Diversified Emerging Markets													
Principal Global Investors International Emerging Markets Separate Account-R6 ⁴	-7.49	-1.22	1.80	0.77	12.06	9.09	01/01/1995	-	66	34	57	32	1.51
MSCI - Emerging Markets NDTR D Index	-7.01	0.54	1.09	1.88	12.17	-	-	-	-	-	-	-	-
Morningstar Category Average - Diversified Emerging Markets	-7.85	1.46	0.74	1.12	11.46	Total Funds in Category	648	579	371	274	148	-	-
Foreign Large Value													
Causeway / Barrow Hanley Overseas Separate Account-R6 ^{4, 14, 25, 31, 35}	0.62	17.29	9.71	-	-	6.54	09/30/2008	-	53	24	-	-	1.28
MSCI EAFE Value Index	0.32	19.06	8.36	1.21	7.42	-	-	-	-	-	-	-	-
Morningstar Category Average - Foreign Large Value	0.53	17.12	8.31	1.00	7.03	Total Funds in Category	366	340	306	262	140	-	-
Foreign Large Blend													
Fidelity / Schroders International I Separate Account-R6 ^{4, 14, 17, 25, 29}	0.53	16.14	8.31	0.12	6.80	3.29	07/01/1999	-	45	52	78	57	1.17
MSCI - EAFE Index NDTR D	0.19	18.66	9.28	1.62	7.57	-	-	-	-	-	-	-	-
Morningstar Category Average - Foreign Large Blend	-0.27	15.67	8.16	1.43	7.14	Total Funds in Category	852	800	703	618	322	-	-

Investment Option Performance

Inv Manager or Sub-Advisor Investment Option	Average Annual Total Returns through 08/31/2013						Percentile Rankings as of 08/31/2013					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.
Real Estate													
Owned Real Estate													
<i>Principal Real Estate Inv</i> U.S. Property Separate Account-R6 ³³	3.19	11.94	15.17	-0.57	5.63	6.32	01/01/1982	-	-	-	-	-	1.15
NFI-ODCE Equal-Weight	-	-	-	-	-	-	-	-	-	-	-	-	-
Balanced/Asset Allocation													
Conservative Allocation													
<i>Multiple Sub-Advisors</i> Diversified Real Asset Separate Account-R6 ^{3, 11, 30, 37}	-1.05	2.14	7.62	-	-	7.02	12/31/2010	-	77	37	-	-	1.03
Diversified Real Asset Custom Index	-1.07	2.33	9.11	-	-	-	-	-	-	-	-	-	-
Morningstar Category Average - Conservative Allocation	-1.58	4.26	6.85	5.20	5.19	Total Funds in Category		781	728	588	499	205	-
Short-Term Fixed Income													
Money Market													
<i>Principal Global Investors</i> Money Market Separate Account-R6 ^{6, 36}	-0.10	-0.34	-0.17	0.06	1.52	5.08	12/10/1980	-	-	-	-	-	0.56
Barclays Treasury Bellwethers 3 Month Index	0.02	0.12	0.12	0.25	1.75	-	-	-	-	-	-	-	-
Morningstar Category Average - Money Market	0.00	0.02	0.02	0.14	1.47	Total Funds in Category		961	957	926	830	632	-
Fixed Income													
High Yield Bond													
<i>JP Morgan / Neuberger Berman</i> High Yield I Separate Account-R6 ^{5, 14, 16, 18, 19}	-1.70	6.70	8.97	11.36	-	8.08	12/31/2004	-	54	43	6	-	0.81
Barclays US Corp High Yld 2% Issuer Capped Index	-1.38	7.56	9.87	11.49	9.03	-	-	-	-	-	-	-	-
Morningstar Category Average - High Yield Bond	-1.34	7.17	8.82	9.15	7.59	Total Funds in Category		681	619	517	462	318	-

Investment Option Performance

Inv Manager or Sub-Advisor Investment Option	Average Annual Total Returns through 08/31/2013						Percentile Rankings as of 08/31/2013					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.
Intermediate-Term Bond													
<i>PIMCO</i> Core Plus Bond I Separate Account-R6 ^{14, 16, 19, 37}	-2.79	-1.74	2.46	-	-	5.69	09/30/2008	-	51	72	-	-	0.72
<i>Principal Global Investors</i> Bond and Mortgage Separate Account-I2 ^{16, 19, 37}	-2.37	-0.97	4.26	6.58	4.94	8.17	02/01/1983	-	32	19	22	36	0.55
Barclays Aggregate Bond Index	-1.92	-2.47	2.58	4.93	4.77	-	-	-	-	-	-	-	-
Morningstar Category Average - Intermediate-Term Bond	-2.41	-1.35	3.23	5.60	4.62	Total Funds in Category		1234	1169	1011	868	615	-

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 Principal Life Insurance Company. Insurance products and plan administrative, if applicable, services are provided by Principal Life Insurance Company, a member of the Principal Financial Group, Des Moines, IA 50392. See the fact sheet for the full name of the Separate Account. Certain investment options may not be available in all states or U.S. commonwealths. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life Separate Accounts as described in the group annuity contracts providing access to the Separate Accounts or as required by applicable law. Such deferment will be based on factors that may include situations such as: unstable or disorderly financial markets; investment conditions which do not allow for orderly investment transactions; or investment, liquidity, and other risks inherent in real estate (such as those associated with general and local economic conditions). If you elect to allocate funds to a Separate Account, you may not be able to immediately withdraw them.

+ *This is not a sub-advised investment option. Guarantees are backed by all the assets in the Principal Life general account.*

++ *Investment options sub-advised by Principal Global Investors.*

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

No investment strategy, such as diversification or asset allocation, can guarantee a profit or protect against loss in periods of declining value.

Asset allocation strategies are developed using Separate Accounts available through a group annuity contract of Principal Life Insurance Company.

Before directing retirement funds to a separate account, investors should carefully consider the investment objectives, risks, charges and expenses of the separate account as well as their individual risk tolerance, time horizon and goals. For additional information contact us at 1-800-547-7754 or by visiting principal.com.

Investment options are subject to investment risk. Shares or unit values will fluctuate and investments, when redeemed, may be worth more or less than their original cost. This does not apply, however, to the guaranteed portions of group annuity contracts issued by Principal Life that constitute guaranteed benefit policies as defined in ERISA §401(b)(2)(B).

This report includes investment options that contain information from a variety of sources. A primary source is Morningstar which provides holdings information, operations data, and rankings or statistics proprietary to Morningstar. Morningstar is generally the source of information on mutual funds unaffiliated with the Principal.

(C) 2013 Morningstar, Inc. All Rights Reserved. Part of the mutual fund data contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information.

Compliance number: t13072602s6

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. Each index based investment option is invested in the stocks or bonds of the index it tracks. Performance of indexes reflects the unmanaged results for the market segment the selected stocks or bonds represent. There is no assurance an index based investment option will match the performance of the index tracked.

3. *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.*
4. *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.*
5. *High yield investment options are subject to greater credit risk and volatility that is associated with high yield bonds.*
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.*
8. *S&P 500 is a trademark of The McGraw-Hill Companies, Inc., and has been licensed for use by Principal Life Insurance Company and Principal Management Corporation. The product is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the product.*
11. *These calculated returns reflect the historical performance of the oldest share class of the fund, adjusted to reflect a portion of the fees and expenses of this share class. For time periods prior to inception date of the fund, predecessor performance is reflected. Please see the fund's prospectus for more information on specific expenses, and the fund's most recent shareholder report for actual date of first sale. Expenses are deducted from income earned by the fund. As a result, dividends and investment results will differ for each share class.*
12. *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.*
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 holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.*
16. *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.*
17. *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.*
18. *Effective January 2, 2008, this portfolio is co-sub-advised by JP Morgan and Neuberger Berman Fixed Income LLC (formerly named Lehman Brothers Asset Management). 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.*
19. *Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.*
24. *Effective May 1, 2009, LA Capital was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*

25. *This Separate Account invests solely in the Institutional class share of a mutual fund (Fund) from Principal Funds, Inc. The manager of the Fund, Principal Management Corporation, invests between 10% and 40% of the Fund's assets in common stocks in an attempt to match or exceed the performance of the Fund's benchmark index for performance.*
27. *Effective July 14, 2009, Brown Advisory was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
29. *Effective January 11, 2010, Schroders was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
30. *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. or any other government entity. Concentrating investments in natural resources industries can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations and other factors. Investment in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. REIT securities are subject to risk factors associated with the real estate industry and tax factors of REIT registration. An MLP that invests in a particular industry (e.g., oil and gas) may be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income paid by an MLP to its investors.*
31. *Effective August 10, 2010, this portfolio is sub-advised by Causeway and Barrow Hanley. Prior to August 10, 2010, the portfolio was sub-advised by AXA Rosenberg and Causeway. 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.*
32. *Effective September 20, 2010, Brown Advisory was added as an additional sub-advisor. Effective May 1, 2009, Columbus Circle Investors was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
33. *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. If you elect to contribute funds into the U.S. Property Separate Account, withdrawals may be delayed for up to 3 years.*
35. *Formerly known as International Value I Separate Account.*
36. *The net return experienced may be negative if the costs to maintain and operate the Money Market Separate Account exceed returns. Participants may also see negative returns if plan expenses, if applicable, are netted or deducted from their accounts.*
37. *The risks associated with derivative investments include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.*

Benchmark Descriptions

Barclays Aggregate Bond 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.

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

Barclays US Corp 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%.

Blended Real Asset Index through September 30, 2011, is as follows: 75% NFI-ODCE Equal-Weight and 25% MSCI US REIT Index. The NFI-ODCE Equal-Weight is the NCREIF Fund Index-Open End Diversified Core Equity. It is a fund-level equal-weighted, time-weighted return index and includes property investments at ownership share, cash balances and Leverage. The return series is net of the average fee charged by accounts that make up the index. 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. Effective October 1, 2011, the Blended Real Asset Index is comprised of 100% Consumer Price Index (CPI) plus 1.5%. Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Diversified Real Asset Custom Index is composed of 17% Barclays U.S. Treasury TIPS Index, 18% Dow Jones UBS Commodity Index, 8% S&P N.A. Natural Resources Index, 12% Tortoise MLP Index, 20% Dow Jones Brookfield Global Infrastructure Index, 20% Credit Suisse Leveraged Loan Index, and 5% FTSE EPRA/NAREIT Developed Index. The blended index historic returns reflect the allocation as of the time of production. Previous allocation changes are not restated.

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 EAFE Value Index is a subset of the MSCI EAFE Index, which is an unmanaged index that measures the stock returns of companies in developed economies outside of North America. The MSCI EAFE Value Index consists of securities classified by MSCI as most representing the value style.

NFI-ODCE Equal-Weight is the NCREIF Fund Index - Open End Diversified Core Equity. It is a fund-level equal-weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage. The return series is net of the average fee charged by accounts that make up the 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 1500 Total Market Stock Index is an index of small, medium and large stocks. It is comprised of stocks from the Standard & Poor's 500, 400 and 600 stock indices.

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.

Weighted Index is composed of:

09/01/2008 - 10/31/2011: 38.8% S&P 1500 Index, 11.2% MSCI EAFE Index, and 50% Barclays Aggregate Bond Index.

11/01/2011 - present: 30% S&P 1500 Index, 10% MSCI EAFE Index, 50% Barclays Aggregate Bond Index, and 10% Blended Real Assets Index.