

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PCACX	Principal Global Investors	Russell 1000 Value Index	Large Value	Growth and Income

Economy & Market Overview

During the fourth quarter, equities markets rebounded globally from the prior quarter's extremely weak performance, though not enough to fully recover from their third-quarter losses. Interestingly, while it was generally accepted that excess debt among developed nations drove the third-quarter sell-off,¹ the fourth-quarter rebound had no clear spark to trigger the upward move (though improving fundamentals in the U.S. could have helped initiate the rally).

Europe remained in a state of crisis during the quarter as its countries' governments worked to plot a course out of the excess leverage of Greece, Portugal, Italy, Ireland and Spain. However, obstacles continued to obstruct progress. The key issue to be resolved was determining who should be responsible for the losses incurred by the banking sector when the write-offs of sovereign debt occur. In terms of Greece, Ireland and Portugal, their debt already is far in excess of their ability to pay. Greece has an agreement to write down its debt by 50%, and when some of the covenants are taken into account, the write-off is closer to 70-75%.² Should similar write-downs from other nations occur, the losses to the European banking system could wipe out most (if not all) of the banks' capital base. While Germany has argued that recapitalization of the banking system is the responsibility of each individual nation, countries such as France, Spain and Italy likely can't afford the additional liability. The question of where the capital will come from continues to be a major overhang on the markets. It is particularly so in the currency markets, where the U.S. dollar has rallied 10% against the euro since summer 2011.

In the U.S., Congress's debt ceiling stand-off earlier in 2011 has faded from immediate focus. However, it hasn't gone away and likely will play a significant role in the political debates leading to the November elections. For the time being, focus has shifted to economic fundamentals, which have shown some improvement. Third-quarter GDP came in at 1.8%;³ while not a strong growth report, it is nowhere near recession level. Similarly, corporate earnings continued to increase, exceeding analysts' expectations and leading to a drop in unemployment from 9.4% in December 2010 to a revised 8.7% in November 2011.⁴ Consumers responded with heightened interest in spending, as reflected by a 4.1% increase in holiday sales for 2011 vs. 2010.⁵

For the quarter, U.S. equities returned 12.1%, with small-cap stocks outpacing large-caps. Value stocks performed better than growth due in part to a rally in financials (the largest sector within the Russell 3000 Value Index). The strong fourth-quarter performance bumped U.S. equities to a positive 1.0% return for the year.⁶ Meanwhile, international equities delivered 3.7% for the quarter and were down -13.7% for the year.⁷

As risk aversion abated, fixed income generally underperformed stocks for the quarter. Interest rates rose initially, reaching nearly 2.40% in late October, but ended up falling modestly from 1.91% to 1.88% at quarter-end. The 2-year U.S. Treasury yield fell from 0.25% to 0.24%, leaving the shape of the yield curve roughly unchanged from the prior quarter.⁸ At its December meeting, the Federal Reserve decided to maintain its current target range for the federal funds rate at 0.00% to 0.25%, stating that economic conditions are "likely to warrant exceptionally low levels for the federal funds rate at least through mid-2013."⁹ This assurance is likely to anchor the short end of the yield curve.

With risk back in favor, high-yield corporate bonds led U.S. fixed income with an absolute return of 6.46% for the quarter.¹⁰ Commercial mortgage-backed securities also performed very well, outpacing duration-adjusted Treasuries by 2.49%.¹¹

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Performance Contributors

Positive Contributors

During last quarter:

All sectors provided positive returns, led by the energy, industrial and materials sectors. Stock selections in the financial, consumer staples and health care sectors were most effective. In terms of individual stocks, an underweight to Bank of America and overweights to Protective Life and Pfizer added value. The portfolio's investment strategy was rewarded during the period as investors favored stocks with rising investor expectations, improving business fundamentals, sustainable competitive advantages and attractive relative valuations.

During last 12 months:

Stock selections in the financial, health care and consumer discretionary sectors were the most effective. Underweight positions in financial stocks Bank of America, Goldman Sachs and Citigroup benefited results as these securities struggled during the period. Similar to the quarter, the portfolio's investment strategy was rewarded as investors favored stocks with rising investor expectations, improving business fundamentals, sustainable competitive advantages and attractive relative valuations.

Negative Contributors

During last quarter:

Stock selections in industrials, information technology and utilities sectors were least effective. Stocks that negatively impacted performance included overweight positions in Symantec, FirstEnergy and Forest Laboratories.

During last 12 months:

Stocks that negatively impacted performance included overweight positions in Symantec, FirstEnergy and Forest Laboratories. Stock selections in the industrial, energy and telecommunication services sectors were less effective than selections in other sectors. Individual stocks that negatively impacted performance included overweight positions in J.P. Morgan and Freeport-McMoRan Copper & Gold and an underweight position in Cisco Systems.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

LargeCap Value Fund (A)

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 fund expense figure does not reflect any waivers or caps on the mutual fund. Performance shown reflects the application of net expenses of the fund. For more performance information, including most recent month-end performance, visit principalfunds.com, or contact your financial representative of The Principal.

In situations where the net and gross fund expense figures are different, the investment manager has contractually agreed to limit the investment option's expense. Differences may also be shown due to the investment manager choosing to pay certain expenses that would normally be payable by the fund. The gross fund expense figure does not reflect any waivers or caps on the mutual fund. Performance shown reflects the application of net expenses of the fund.

Average Annual Total Returns (%) as of 12/31/2011	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	06/28/2005
LargeCap Value Fund (A) (excl. sales charge)	13.41	0.81	0.81	9.63	-3.30	2.67	1.95	Ext. Perf. Inc. Date	12/06/2000
LargeCap Value Fund (A) (incl. sales charge)	7.23	-4.69	-4.69	7.56	-4.39	2.09	1.44	Total Inv. Exp Gross	1.03
Russell 1000 Value Index	13.11	0.39	0.39	11.55	-2.64	3.89	-	Total Inv Exp Net	1.03
Large Value Category	11.97	-0.75	-0.75	11.76	-2.00	3.32	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	35	78	70	66	-	Contractual Cap Date	-
Total Funds in Category	1309	1258	1258	1127	996	571	-	Contingent Deferred Sales Charge	-
								Maximum Up-front Sales Charge	5.50

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.

LargeCap Value Fund (A)

Statistics Summary as of 12/31/2011

	Risk and Return Statistics Summary						Upside/Downside Capture Ratio					
	Alpha	Beta	R2	Sharpe Ratio	Info Ratio	Std Dev	# of Months		Avg Returns %		Benchmark %	
							Up	Down	Up	Down	Up	Down
	3 Year						3 Year					
LargeCap Value Fund (A)	-1.39	0.96	98.67	0.55	-0.78	20.33	21	15	5.02	-4.77	95.51	100.97
Russell 1000 Value Index	N/A	N/A	N/A	N/A	N/A	N/A	21	15	5.25	-4.73	100.00	100.00
	5 Year						5 Year					
LargeCap Value Fund (A)	-0.90	0.96	98.83	-0.14	-0.29	19.39	32	28	4.09	-4.63	95.46	98.60
Russell 1000 Value Index	N/A	N/A	N/A	N/A	N/A	N/A	31	29	4.29	-4.69	100.00	100.00

Risk and return statistical data is calculated by Morningstar, Inc. Please see Important Notes section for definitions of Risk and Return Statistics.

Top Ten Holdings as of 11/30/2011

Security	Net Assets (%)
Chevron Corp	4.86
Pfizer Inc	4.38
AT&T Inc	3.34
JPMorgan Chase & Co	3.10
S&P500 Emini Fut Dec11	2.51
General Electric Co	2.25
Comcast Corp A	2.15
Wal-Mart Stores Inc	2.11
UnitedHealth Group Inc	2.07
Tyco International Ltd	1.70
Total % in Top 10	28.47

Information is current as of the date noted. Keep in mind that all current and future portfolio holdings are subject to risk.

LargeCap Value Fund (A)

Manager(s)	Start Date	Degree	Alma Mater
Arild Holm	05/18/2007	M.B.A.	University of Colorado
Jeffrey A. Schwarte	02/01/2010	B.A.	University of Northern Iowa

Fund Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of net assets in common stocks of companies with large market capitalizations (those with market capitalizations similar to companies in the Russell 1000(R) Value Index) at the time of purchase. It invests in value equity securities; the value orientation selection emphasizes buying equity securities that appear to be undervalued.

About Principal Global Investors

Principal Global Investors managed \$47.8 billion in global equity assets as of December 31, 2010. The firm's capabilities encompass large-cap, mid-cap and small-cap stocks in developed and emerging equity markets worldwide. Principal Global Investors draws on a unified investment philosophy focused on independent fundamental research and superior stock selection. Principal Global Investors is a member of the Principal Financial Group®.

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The value of the investment options will fluctuate so that when redeemed, shares or units may be worth more or less than the original cost.

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. Any operating expenses of a mutual fund or underlying mutual fund that are part of net Total Investment Expense are obtained from the mutual fund's most recent prospectus. The operating expenses shown as part of the Total Investment Expense include voluntary expense limits and fee credit.

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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.

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.

Extended Performance Inception Date (Ext. Perf. Inc. Date) - Inception date of the oldest share class of the fund, or underlying fund of the Separate Account.

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Important Notes

Risk and Return Statistics:

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.

Sharpe Ratio - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance.

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.

¹ "U.S. Stocks Tumble, Capping S&P 500's Worst Quarter Since 2008," businessweek.com, October 1, 2011; businessweek.com/news/2011-10-01/u-s-stocks-tumble-capping-s-p-500-s-worst-quarter-since-2008.html

² "A Voluntary Greek Debt Deal?", Matina Stevis, WSJ Blogs, December 30, 2011; blogs.wsj.com/brussels/2011/12/30/a-voluntary-greek-debt-deal

³ U.S. Dept. of Commerce, Bureau of Economic Analysis, December 22, 2011; bea.gov

⁴ U.S. Dept. of Labor, Bureau of Labor Statistics Economic News Release, January 6, 2011; bls.gov/news.release/pdf/empsit.pdf

⁵ National Retail Federation

⁶ Russell family of indexes

⁷ MSCI ACWI ex-U.S. Index

⁸ Source: FactSet

⁹ U.S. Federal Reserve Press Release, December 13, 2011; federalreserve.gov

¹⁰ BarCap High Yield Index: FactSet

¹¹ Barclays Capital Point

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Important Notes

This report is not complete unless all pages, as noted below, are included.

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