LargeCap Growth Fund (A)

Fourth Quarter 2011

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PRGWX	Columbus Circle Investors	Russell 1000 Growth Index	Large Growth	Growth

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]

Performance Contributors

Positive Contributors

During last quarter:

Starbucks' strength during the period was based on strong comparable-store sales in the U.S. and China, along with optimism around the upcoming K-cup launch. Home Depot also increased, due to strong comparable-store sales and expanded profit margins based on several productivity initiatives. Caterpillar benefited from an expanded backlog and incremental profit margins that returned to attractive levels after a recent decline.

During last 12 months:

Mastercard benefited from final Durbin Amendment debit card "swipe" fee regulations that were not as onerous as preliminary indications indicated they might be. The company also benefited from the continued consumer migration from cash and checks to credit and debit card usage for convenience purposes. Apple's strength was due to innovative new iPhone and iPad products that were strongly received by consumers, as well as to continued geographic expansion of distribution to address underserved foreign countries (particularly emerging markets). Starbucks generated strong comparable sales throughout the period, continued to innovate around its core brand and established partnerships to roll out branded K-cups to the rapidly growing single-serve coffee market segment.

Negative Contributors

During last quarter:

Amazon declined amid anxieties about whether fourth-quarter revenue growth would adequately offset continued investments in future growth initiatives, given the current global economic uncertainty. Somewhat offsetting these worries were strong initial responses to the company's initial foray into the tablet market with its price-disruptive Kindle Fire device. Watson Pharmaceutical's weakness was due primarily to competitor Ranbaxy resolving some of its manufacturing issues earlier than expected and taking modest market share from the genericization of prominent cholesterol-lowering drug Lipitor. Oracle suffered from macro uncertainty that prompted higher approval levels within customer organizations to consummate deals, causing modest slippage of transactions into subsequent quarters. This more than offset continued product cycle strength within its big data solutions.

During last 12 months:

Ford was hurt by commodity-related cost pressures, the adverse impact on auto sales from the Japanese tsunami (because of supply chain disruption) and the slower-than-expected recovery in vehicle sales due to ongoing economic uncertainty. Netapp suffered from a spending pause by key financial services and government customers, concerns about the impact of the European sovereign crisis on customer spending in that region and ongoing fears of chief competitor infringement on market share gains with its revitalized mid-range product. Halliburton was weak on cost pressures adversely impacting profit margins and greater-than-expected rig downtime that compromised revenue growth. Also, the company's international recovery has not played out at the pace expected.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

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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
LargeCap Growth Fund (A) (excl. sales charge)	8.23	-4.86	-4.86	12.14	-0.37	1.72	-1.62
LargeCap Growth Fund (A) (incl. sales charge)	2.28	-10.13	-10.13	10.08	-1.49	1.15	-2.12
Russell 1000 Growth Index	10.61	2.64	2.64	18.02	2.50	2.60	-
Large Growth Category	9.30	-2.46	-2.46	15.34	0.79	2.29	-
Morningstar Percentile Ranking	-	-	73	84	70	63	-
Total Funds in Category	1739	1683	1683	1478	1279	804	-

Inception Date	06/28/2005
Ext. Perf. Inc. Date	12/06/2000
Total Inv. Exp Gross	1.35
Total Inv Exp Net	1.35
Waiver Date	-
Contractual Cap Date	-
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.

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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 Growth Fund (A)	-5.56	1.03	95.71	0.69	-1.48	18.99	21	15	4.63	-4.44	95.16	118.70
Russell 1000 Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	22	14	4.87	-3.74	100.00	100.00
	5 Year						5 Year					
LargeCap Growth Fund (A)	-2.72	1.02	94.46	0.02	-0.61	19.99	31	29	4.11	-4.72	97.30	108.14
Russell 1000 Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	33	27	4.23	-4.37	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 (%)
Apple, Inc.	5.13
Qualcomm, Inc.	3.60
MasterCard Incorporated A	3.33
Starbucks Corporation	3.03
Caterpillar Inc	2.99
Bed Bath & Beyond, Inc.	2.59
Las Vegas Sands Corp	2.55
Oracle Corporation	2.48
Amazon.com Inc	2.42
Ford Motor Co	2.42
Total % in Top 10	**30.52**

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

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Manager(s)	Start Date	Degree	Alma Mater
Anthony Rizza	01/05/2005	B.S.	University of Connecticut
Thomas J. Bisighini	03/01/2009	M.B.A.	Fordham University

Fund Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of net assets in equity securities of companies with market capitalizations within the range of companies in the Russell 1000(R) Growth Index at the time of purchase. It may also invest in initial public offerings and foreign securities. It invests in growth equity securities; growth orientation emphasizes buying equity securities of companies whose potential for growth of capital and earnings is expected to be above average.

About Columbus Circle Investors

Principal Global Investors offers expertise in the management of growth equity portfolios through its subsidiary, Columbus Circle Investors (CCI). With nearly $16.6 billion in assets under management (as of December 31, 2010), CCI provides a strong history in growth-oriented equity investment management with a consistent emphasis on independent, fundamental research and bottom-up stock selection. CCI's investment philosophy is simple and straightforward and based on the premise that companies doing better than expected will have rising securities prices, while companies producing less than expected results will not.

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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.

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 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.

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

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