

# The Principal® Perspective

S U M M E R 2 0 1 1

## NEW MONEY MANAGERS TO Enhance Your Portfolios

*In the last issue of The Principal Perspective, we told you about several enhancements to the Strategic Asset Management (SAM) Portfolios. These improvements are designed to manage risk more efficiently and enhance results. In this and future issues, we'll tell you more about the changes — and how they may help you meet your long-term investment goals.*

### Enhanced manager selection and analysis

Manager selection now plays an even more critical role in the SAM investment process. When selecting managers for each asset class in your SAM Portfolio, Edge Asset Management (Edge) focuses on each manager's specific asset class and on their abilities to manage risk and improve performance. Moving forward, Edge will continually monitor each manager to ensure the right manager is selected for every asset class.

### Fourteen new managers

To help in the new manager selection process, Edge widened the range of management firms in which they invest. Fourteen new money managers were chosen based on their expertise, as well as on their ability to manage risk and enhance performance.

To ensure the best fit for each Portfolio, Edge closely analyzed the underlying manager composition of the Portfolios, taking into account each Portfolio's

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### One-Stop Access to Multiple Investment Managers

The SAM Portfolios are sub-advised by Edge Asset Management, one of the premier boutique affiliates of Principal Global Investors, an investment manager whose wide-ranging capabilities and global reach are enhanced by 21 offices operating worldwide (including affiliates). Through their fund-of-funds structure, the SAM Portfolios gain an additional layer of diversification by accessing the expertise of multiple investment managers that guide the Portfolios' underlying funds:

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## FINANCIAL TIPS

# for Recent Grads

Help the recent college graduate in your life start out on the right financial footing.

Few times in life are as exciting and filled with opportunity as college graduation. Final exams are finished, the freshly minted diploma is in hand, and the new college graduate is ready to take on the world.

As graduates enter the “real world,” now is a great time to encourage them to establish good financial habits. Share the following tips to start the conversation.

### 1 PAY YOURSELF FIRST.

The best time to save money is before you even see it. Set up regular automatic transfers from your checking account (through your bank) or from your paycheck (through your employer) to an investment account. If you start these contributions right away, you won't even miss the money, and you'll take an important step toward building life-long financial security.

### 2 AVOID CREDIT CARD DEBT LIKE THE PLAGUE.

Credit card debt is one of the biggest threats to your short- and long-term financial security. If you choose to use a credit card, it's best to pay it off every month *in full*. Credit card interest can snowball quickly, and that can limit your

ability to invest for the future and buy the things you need today.

### 3 SET UP AN EMERGENCY FUND.

One of your first investing goals should be building an emergency fund. Think of this as your “Oh, shoot” fund. (As in, “Oh, shoot — my car needs a new transmission.” Or, “Oh, shoot — my roommate just moved out, and I have to pay the rent myself.” Or, even worse, “Oh, shoot — I just lost my job.”).

The ultimate goal for this fund is three to six months worth of living expenses; however, even a month or two of living expenses is a great start. This financial cushion will help you avoid turning to a credit card in the event of unexpected costs.

### 4 IF YOUR EMPLOYER OFFERS FREE MONEY, TAKE IT.

Hopefully, your first job comes with a retirement plan, such as a 401(k) or 403(b) plan. The great thing about these plans — in addition to the fact that you don't pay taxes on money you put into the plan until you take it out at retirement — is that they often include an employer match.

An employer match is a way for your company to help you save for retirement,

by contributing money into your retirement plan. But you have to contribute some as well. Let's say your employer matches 50 percent of the first six percent you contribute into the plan. If your gross pay for a pay period is \$1,500 and you contribute six percent of that (or \$90) into the plan, your employer will then pitch in another \$45 (50 percent of \$90). That's like an instant 50 percent return on your investment.

### 5 LEARN THE ART OF FINANCIAL COMPROMISE.

Careful spending doesn't necessarily require all-or-nothing decisions. You can still enjoy life and invest for the future through small compromises. For example, buy a used car instead of a new one. Wait for sales. Bring your lunch a few days a week instead of eating out every day.

### 6 CHOOSE INVESTMENTS CAREFULLY.

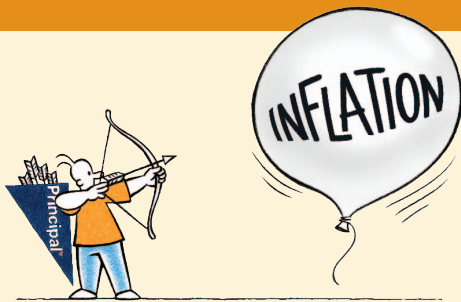
When selecting investments, consider when you'll need the money. For instance, your emergency fund should be invested conservatively. If you're investing for the long term (such as for retirement), however, a more aggressive fund from Principal Funds may help your investment gain in value over time. No matter your station in life, Principal Funds offers a number of investment options for the long-term investor.

Here's one last bit of advice. If managing money isn't your forte, consider working with a financial professional. These experts can give you the one-on-one guidance you need to help you form a strong financial foundation, and one that will continue to pay off throughout your life.

## Visit [DreamAgain.com](http://DreamAgain.com) to Dream — and Plan — for the Future

Recent college graduates have a lot of dreams. So many, in fact, they may need to prioritize them. Principal Funds can help with a fun new tool called the Dreamcatcher. The Dreamcatcher is an online social application that allows people to create a photo collage of their dreams.

Once they've completed their Dreamcatcher, we can help create a plan to achieve those dreams. Our planning center at [DreamAgain.com](http://DreamAgain.com) has the resources they'll need, including information and tools for retirement planning, life-stage planning, and money management.



## SOMETHING PRICEY

# THIS WAY COMES

*Inflation is on the way. How prepared is your portfolio?*

In many parts of the world, inflation has already arrived. **Rising prices for commodities — everything from oil to cotton to steel — are resulting in a rash of inflation** in many regions.

In 2010, for example, retail prices in China rose almost five percent. The cost to borrow money in China and Europe is escalating quickly. And in April of this year, World Bank President Robert Zoellick said that the global economy is “one shock away from a full-blown crisis” due to rising food prices.

### In the U.S., we’re already starting to feel the pressure.

Gas prices are climbing steadily. Clothing prices are predicted to rise by 10 percent this year. The USDA forecasts a 3.5 to 4.5 percent jump in grocery store prices, with the cost of some food items — such as beef and pork — rising by as much as eight percent. Prices are also increasing for electronics, appliances, and more.

Inflation, of course, is **one of the biggest threats to long-term investing**. It can eat away at the purchasing power of your portfolio and create a surprisingly big gap between what you *thought* you could afford and what you can actually afford.

Take a look at the table on the right for examples of the impact inflation can have on retirement income needs. As you can see, even a one percent increase in the average inflation rate can have a big impact on purchasing power over time.

### Minimize inflation’s impact

Although you can’t prevent inflation, you can help minimize its impact on your portfolio. One investment option worth considering is real assets. Real assets are tangible assets like gold, land, buildings, and commodities.

### Real assets offer several advantages, including:

- **A hedge against inflation.** The value of real assets tends to rise with consumer prices. That can help protect the purchasing power of your investment.
- **Diversification.** Because real assets have a historically low correlation to traditional stocks and bonds, they help to lower your overall portfolio risk.
- **Enhanced return potential.** With attractive historical returns, real assets have the potential to enhance total portfolio return in various market environments.

Aside from investing in individual real assets (which could be complex and time-consuming), another option is a mutual fund with exposure to real assets. Because different kinds of real assets perform differently depending on the economic conditions — and since no single strategy performs well in all inflationary environments — the **Principal**

### Diversified Real Asset Fund (PRDAX) combines multiple strategies.

The Principal Diversified Real Asset Fund uses an approach that targets broad inflationary and market concerns. It achieves diversification by allocating assets among:

- Treasury Inflation-Protected Securities (TIPS)
- U.S. real estate investment trusts (REITs)
- Natural resource stocks
- Commodities
- Master limited partnerships

Premier sub-advisors, chosen for their experience and track record, manage each strategy within the Fund. Principal Management Corporation provides overall asset allocation and day-to-day management of the Fund.



To learn more about the Principal Diversified Real Asset Fund visit [principalfunds.com/DRA](http://principalfunds.com/DRA), or contact your financial professional.

Current Annual Income Need	Years to Retirement	Annual Income Needed at Retirement (3% average inflation)	Annual Income Needed at Retirement (4% average inflation)
\$50,000	15	\$77,898	\$90,047
\$75,000	15	\$116,848	\$135,071
\$100,000	15	\$155,797	\$180,094
\$50,000	20	\$90,306	\$109,556
\$75,000	20	\$135,458	\$164,334
\$100,000	20	\$180,611	\$219,112

*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. Investments concentrated 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. Investing 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.*

## “New Money Managers to Enhance Your Portfolios”

Continued from Page 1

core characteristics, manager correlation, asset class forecasts, performance, and fees. They're confident these new additions will contribute fresh perspectives and depth of experience.

### So what do these changes mean for you?

Exactly what they should mean — the potential for improved results.

These enhancements to manager selection offer increased control and a better ability to manage the asset mix of the Portfolios. With more active, hands-on manager selection, this can help ensure you get the most out of each underlying asset class and its contribution to overall risk and return results.

The knowledge and expertise of the new managers, along with the proven ability of the SAM Asset Allocation Team, will help effectively balance risk and return, as well as create new opportunities to deliver results. With the improved manager selection process and composition, the SAM Portfolios are even better aligned to help you meet your long-term investment goals.



For more on the SAM Portfolios, including allocation changes, performance, and our outlook on the economy and markets, visit [principalfunds.com/SAMnews](http://principalfunds.com/SAMnews).

## IN THE NEWS

### Social Security Changes

The Social Security Administration (SSA) announced several changes that may impact you, even if you don't currently receive Social Security benefits:

- **Elimination of statements.** The SSA has suspended mailing statements to all workers and retirees in an effort to cut expenses. All other methods for requesting a statement have also been disabled, such as online and telephone requests. You can still get an estimate of your Social Security benefits, however, by using the SSA's Retirement Estimator at [ssa.gov/estimator](http://ssa.gov/estimator).
- **Elimination of the do-over option.** Individuals will no longer be able to begin payments at age 62, pay back all the benefits received at age 70 without interest, and then reclaim at a higher rate due to delayed claiming. Under the new rules, Social Security beneficiaries may withdraw an application for retirement benefits only within 12 months of their first Social Security payment and are limited to one withdrawal per lifetime.
- **Retroactive benefit suspensions halted.** Retirees will still be allowed to temporarily suspend their benefits and restart them later, which can result in bigger Social Security checks to account for the months or years in which payment wasn't received. However, beneficiaries won't be able to retroactively suspend benefits and pay back money already received in exchange for higher payments going forward.
- **No longer issuing paper checks.** Retirees who applied for Social Security benefits on or after May 1, 2011, no longer have the option of receiving a paper check in the mail. Seniors can have their entitlement payments directly deposited into a bank or credit union account or loaded onto a prepaid Direct Express Debit MasterCard.

If you have questions about these changes, contact your financial professional or visit the Social Security Administration website at [ssa.gov](http://ssa.gov).



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*A mutual fund's share price and investment return will vary with market conditions, and the principal value of an investment when you sell your shares may be more or less than the original cost.*

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