

First Quarter 2015

## Quarterly Commentary

Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
T.Rowe/Clearbridge Investments	Standard & Poor's 500 Index	Large Blend	Growth

### Economic Overview

Weather played a big factor, as the entire Eastern Seaboard was gripped with inclement weather for at least part of the quarter. Although the bad weather postponed sales growth, we saw a rebound in March. Seasonally adjusted sales for the period improved 2.9% from a year earlier and at the end of March, sales rose 3.4% from a year earlier<sup>1</sup>. The protracted strike by West Coast dockworkers also affected retail sales.

While the price of oil somewhat stabilized at around \$50, lower oil prices have had an impact on prices and jobs. Employment in March grew by only 126,000 workers, the lowest reading since 2013, and previous months were revised down further to 69,000. However, the unemployment rate fell to 5.5%, and the expansion of the workforce entered its 61st month as of April 2015.<sup>2</sup>

The equity markets were largely flat, with the S&P 500 gaining just 0.95% on the heels of a 12.73% move in the markets in 2014 as a result of decreased performance by integrated oil producers, which were down 8.2%. Although they only make up about 4% of the overall S&P 500, the decline was enough to hold back performance of the overall markets.<sup>3</sup>

The trade-weighted U.S. dollar rose an additional 4.2% in 2015.<sup>4</sup>This significant appreciation relative to global currencies had a huge impact on export/import businesses. Specifically, foreign goods are much less expensive in dollar terms, while sale of U.S. goods overseas is more difficult. As a result, foreign earnings are expected to rise, and the MSCI EAFE Index was up 4.88% in U.S. dollar terms, and over 10% in local currency terms in the first quarter of 2015.<sup>5</sup>

This translates into a strong U.S. economy, which posted 2.2% real growth in the fourth quarter.<sup>4</sup> Unemployment continues its downward march showing a reading of 5.5% in March<sup>2</sup>while inflation remains very low at essentially zero in its most recent reading as a result of decreased energy prices and the value of the U.S. dollar in relation to other currencies.<sup>4</sup>

Global growth is still anemic. China continues to struggle, as debt burdens hold companies back. Japan is out of recession but disappointing industrial production and weak consumer spending have slowed the growth path. The European Central Bank has begun a process of quantitative easing where German interest rates will be negative for up to 8 years. In fact, only Australia, New Zealand, and Greece have higher ten year Treasury yields than the U.S. This aggressive easing in monetary policy is a significant bet on stimulating foreign growth, but the long-term impact is unclear.

### Large U.S. Equity

U.S. large-cap equities returned 1.6% during the quarter, underperforming U.S. small-caps and U.S. mid-caps (which returned 4.3% and 4.0%, respectively) as well as lagging international equities in developed countries and emerging markets (which respectively delivered 4.9% and 2.2%).<sup>6</sup>

From a style perspective, large-cap growth equities outpaced large-cap value equities (as measured by the Russell 1000 Growth Index, which returned 3.9%, and the Russell 1000 Value Index, which returned -0.7%). Large-cap growth's outperformance was driven by the information technology, consumer staples and consumer discretionary sectors. The larger weighting to the consumer discretionary sector in the Russell 1000 Growth Index aided the index in beating the Russell 1000 Value Index during the period. Within the information technology and consumer staples sectors, the stocks held within the Russell 1000 Growth Index performed significantly better than the stocks held within the Russell 1000 Value Index.

## Performance Contributors

### Positive Contributors

#### During last quarter:

Overall stock selection, led by the industrial sector, contributed to performance. Overall sector positioning relative to the index aided returns. A lower relative strength profile (an overweight to stocks exhibiting lower price movement during the trailing 3-month period) than the index was beneficial.

#### During last 12 months:

Overall sector allocation, led by an underweight to the energy sector, contributed performance. A higher beta than the index (meaning it was positioned to benefit more than the index in an upward-trending market) contributed to returns. An overweight to CVS Caremark Corporation relative to the index enhanced performance, as it was the top contributor to returns.

### Negative Contributors

#### During last quarter:

Stock selection in the consumer discretionary sector diminished returns. An out-of-index holding in Twenty-First Century Fox was the largest individual detractor. A lower dividend yield (a comparison of dividends paid relative to share price) than the index detracted.

#### During last 12 months:

Negative overall stock selection led by the health care sector, specifically an overweight to Pfizer Inc., detracted. Selection in the information technology sector also diminished returns. Holding stocks that exhibited higher price volatility (overweight position in stocks that have experienced more price movement than those within the index) than the index detracted.

#### Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

# LargeCap Blend II Separate Account-Pro

## 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. For more performance information, including most recent month-end performance, visit [www.principal.com](http://www.principal.com), contact your representative of the Principal Financial Group®, or contact our participant contact center at 1-800-547-7754.*

*In situations where the net and gross 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 investment option. 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.*

Average Annual Total Returns (%) as of 03/31/2015	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	12/29/2000
LargeCap Blend II Separate Account-Pro	0.73	0.73	8.39	12.84	11.03	5.95	3.95	Ext. Perf. Inc. Date	12/31/2000
Standard & Poor's 500 Index	0.95	0.95	12.73	16.11	14.47	8.01	-	Total Inv. Exp Gross	2.30
Large Blend Category	1.13	1.13	10.34	14.87	12.97	7.32	-	Total Inv Exp Net	2.28
Morningstar Percentile Ranking	-	-	77	84	87	90	-	Waiver Date	02/29/2016
Total Funds in Category	1633	1633	1556	1333	1184	808	-	Contractual Cap Date	02/29/2016

**Past performance is no guarantee of future results.** Market indices have been provided for comparison purposes only. They are unmanaged and do not reflect fees or expenses. Individuals cannot invest directly in an index.

# LargeCap Blend II Separate Account-Pro

## Statistics Summary as of 03/31/2015

	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 Blend II Separate Account-Pro	-2.98	1.01	98.68	1.29	-2.92	9.71	24	12	2.55	-2.35	90.62	108.61
Standard & Poor's 500 Index	N/A	N/A	N/A	N/A	N/A	N/A	25	11	2.81	-2.16	100.00	100.00
	5 Year						5 Year					
LargeCap Blend II Separate Account-Pro	-3.35	1.02	99.46	0.85	-3.37	13.30	37	23	3.05	-3.25	93.05	110.21
Standard & Poor's 500 Index	N/A	N/A	N/A	N/A	N/A	N/A	40	20	3.28	-2.95	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 02/28/2015

Security	Net Assets (%)
Apple Inc	3.43
Microsoft Corp	2.66
CVS Health Corp	2.30
Exxon Mobil Corporation	1.95
Wells Fargo & Co	1.95
Citigroup Inc	1.89
Merck & Co Inc	1.89
JPMorgan Chase & Co	1.88
Johnson & Johnson	1.77
E-mini S&P 500 Index Future Mar15	1.72
<b>Total % in Top 10</b>	<b>21.44</b>

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

## LargeCap Blend II Separate Account-Pro

Manager(s)	Start Date	Degree	Alma Mater
James W. Fennessey	06/02/2009	B.S.	Truman State University
Randy L. Welch	06/02/2009	M.B.A.	Drake University

### Investment Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of its net assets, plus any borrowings for investment purposes, in equity securities of companies with large market capitalizations at the time of each purchase. Employing a "blend" strategy, the fund's assets are invested in equity securities with both growth and/or value characteristics.

### About T. Rowe Price Associates, Inc.

Founded in 1937, T. Rowe Price is a global investment management firm committed to providing investment management excellence, world-class service and guidance to institutional and individual investors worldwide. T. Rowe Price provides a broad array of proprietary mutual funds, sub-advisory investment services and separate account management for individual and institutional investors, retirement plans and financial intermediaries. Headquartered in Baltimore, Maryland, T. Rowe Price has offices in Buenos Aires, Dubai, Hong Kong, London, Toronto, Sydney, Luxemburg, Stockholm, Singapore, Denmark, Amsterdam, Tokyo and Zurich. The investment management services span the full range of U.S. and non-U.S. equity, fixed income and multi-asset-class investment styles. T. Rowe Price's disciplined, risk-aware investment approach focuses on diversification, style consistency and fundamental research. The T. Rowe Price investment approach strives to achieve superior performance but is always mindful of the risks incurred relative to the potential rewards.

### About Clearbridge Investments

ClearBridge Investments (ClearBridge) was introduced in December 2005 following Legg Mason's transaction with Citigroup, but traces back its asset management expertise more than 45 years to several prominent firms - including Smith Barney Asset Management, Davis Skaggs Investment Management and Salomon Brothers Asset Management (Salomon Brothers Asset Management and Smith Barney Asset Management are service marks of Citigroup, Inc.). ClearBridge benefits from the formidable strength of the Legg Mason organization, while continuing to operate with investment independence - maintaining its own investment strategies, philosophies and investment decision-making authority. ClearBridge is the largest equity manager of Legg Mason Inc. (NYSE: LM). ClearBridge offers the services of experienced portfolio managers who focus exclusively on equities covering all major market capitalizations, across a wide range of equity-focused disciplines. ClearBridge combines research-driven fundamental investing with the insights of its veteran portfolio managers to seek long-term competitive portfolio performance for its institutional and retail clients. In many cases, portfolio managers who built a portfolio's performance record over several decades continue to manage those assets today.

## Important Notes

Separate Accounts are available through a group annuity contract with Principal Life Insurance Company. Insurance products and plan administrative services, if applicable, 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 an 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.

**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.**

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.

© 2015 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.

The full name of this investment option is Principal LargeCap Blend II Separate Account-Pro. Principal LargeCap Blend II investment option is available as a mutual fund and as a Separate Account that invests wholly in Institutional class shares of the Principal Funds, Inc. LargeCap Blend II Inst Fund. 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 (PLBIX) at <http://www.principal.com/retirement/prospectuses/prospect.htm>.

### About Principal Financial Group



The Principal Financial Group® (The Principal®) is a leading global financial company offering businesses, individuals and institutional clients a wide range of financial products and services. Our range of products and services includes retirement solutions, life and health insurance, wellness programs, and investment and banking products through our diverse family of financial services companies and national network of financial professionals.

## Important Notes

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.

Effective October 1, 2009, ClearBridge Advisors was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

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.

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.

### **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.

**Up-Market Capture Ratio** - A statistical measure of an investment option's performance relative to a comparative index in months in which that index has risen. An up-market capture ratio of greater than 100 would indicate that the investment option performed better than the comparative index during months in which the index had risen over a specified time period.

**Down-Market Capture Ratio** - A statistical measure of an investment option's performance relative to a comparative index in months in which that index has fallen. A down-market capture ratio of greater than 100 would indicate that the investment option performed worse than the comparative index during months in which the index had fallen over a specified time period.

<sup>1</sup>The Johnson Redbook Sales Index



Principal Life Insurance Company, Des Moines, Iowa 50392-0001, principal.com 03/2015  
# t150402048p

## Important Notes

<sup>2</sup>Bureau of Labor Statistics

<sup>3</sup> S&P 500

<sup>4</sup>St Louis Federal Reserve

<sup>5</sup>MSCI EAFE Index

<sup>6</sup>U.S. large-cap equities: Russell 1000 Index; U.S. mid-cap equities: Russell Midcap Index; U.S. small-cap equities: Russell 2000 Index; international emerging markets: MSCI Emerging Markets Index; international developed markets: MSCI EAFE Index. Indices are unmanaged and not available for direct investment.

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



Principal Life Insurance Company, Des Moines, Iowa 50392-0001, principal.com 03/2015  
# t150402048p