

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
SACAX	Edge Asset Management, Inc.	Standard & Poor's 500 Index	Large Blend	Growth

Economic Overview

Global equity markets rallied strongly during the quarter as headwinds that faced global economies in 2011 waned, driven in large part by resolution of the Greek debt crisis (which had dampened performance in global markets for much of the past two years) and continued stronger-than-expected economic data in the U.S. The crisis in Greece was averted when European governments successfully negotiated an orderly writedown of Greek debt with the country's creditors. This settlement was largely responsible for averting defaults by other struggling European governments, clearing the way for global markets to move higher.

In the U.S., economic fundamentals showed continued strength. Corporate earnings were strong throughout the recovery as demonstrated by the S&P 500 Index, which posted 16% earnings growth for 2011. With the S&P 500 Index trading at the end of 2011 at essentially the same level it was at a year prior (1258), its trailing price-to-earnings ratio dropped by 2% over the one-year period, from 15 to 13. Put in perspective, this result positioned the S&P 500 Index, at the end of 2011, at its cheapest price level since 1984 for each dollar of earnings.¹ The growth in corporate earnings was driven largely by efficiency gains on the part of corporations, which had been slow to replace workers laid off during the downturn. However, the pace of hiring picked up over the six-month period ending March 31, 2012, helping to lower the unemployment rate from 9.1% six months ago to its current level of 8.2%.² As the employment picture improved, so did personal income, growing at a pace of approximately 5% during 2011.³

Perhaps the one warning sign of possible trouble ahead is the Consumer Price Index (CPI). The year-over-year CPI was at 2.9% as of February 2012. To put this in context, the 2.9% CPI resulted in a negative 2.83% real yield against the U.S. government 3-month T-bill (3-month T-bill rate of 0.07% as of March 30, minus 2.9% CPI). This negative real yield means that should the CPI and T-bill rates remain static over the course of a full year, an investor in the 3-month T-bill would lose nearly 3% in purchasing power during that year.⁴

While part of the reason for extremely low yields on Treasuries is the Federal Reserve's accommodative monetary policy, there have been other key causes as well, including investors' risk aversion due to the situation in Europe and concerns about the U.S. economy's slow recovery. However, as resolution of the Greek debt woes began to unfold and the U.S. economy improved, yields on longer-dated Treasuries began to increase. If rates continue moving higher, prices of existing lower-rate Treasuries will decline. Thus, investors may choose to exercise caution when evaluating the prospects of fixed income investing.

Balanced/Asset Allocation

During the quarter, U.S. large- and mid-cap stocks performed similarly, returning 12.9%. Small-cap stocks trailed with a return of 12.4%. Growth stocks beat value, due in part to limited exposure to utilities, a traditional value sector. The utilities sector posted negative returns as investors moved into riskier sectors that were participating more fully in the upward-trending market environment. Within international stocks, emerging markets outperformed developed markets. Emerging markets' strong performance was led by Brazil, Russia, India, South Korea and Taiwan. In real estate, U.S. real estate investment trusts (REITs) returned 10.4%, underperforming the U.S. equities market. Meanwhile, global REITs delivered 12.9%, due in large part to strong performance by diversified REITs, especially in Hong Kong and Japan.⁵

Within fixed income, riskier asset classes, such as corporate bonds (both high-yield and investment-grade) and commercial mortgage-backed securities, performed best during the quarter. High-yield corporates outperformed duration-adjusted Treasuries by 5.91%. Within investment-grade bonds, corporates led with a 3.78% duration-adjusted excess return.⁶ Treasury yields generally rose during the period. The yield on the 10-year Treasury rose from 1.89% to 2.23%, while the yield on the 2-year Treasury moved only modestly, from 0.25% to 0.33%.⁷

Performance Contributors

Positive Contributors

During last quarter:

The portfolio's strategic underweight to U.S. large-cap value equities proved beneficial to overall results, as U.S. large-cap value equities underperformed relative to other U.S. style segments. Outperformance by the portfolio's mid- and small-cap growth holdings relative to their benchmark provided another positive contribution to performance. The portfolio's strategic allocation to international emerging-market equities, coupled with the rebound within emerging markets during the period, also aided results.

During last 12 months:

Security selection within large- and mid-cap value equities aided performance. Security selection within both international developed and international emerging markets was another positive factor. Also, the portfolio's strategic underweight to large-cap value equities coupled with outperformance by the large-cap growth segment contributed positively to results over the 12-month period.

Negative Contributors

During last quarter:

The portfolio's strategic allocation to mid- and small-cap equities and corresponding underweight to large-caps (relative to the S&P 500) contributed negatively to results, as large-cap equities substantially outperformed mid- and small-caps. Security selection within international developed-market equities was a negative factor, as those holdings underperformed their benchmarks. Additionally, large-cap value equities within the portfolio underperformed relative to their peer group, generating a negative contribution to overall portfolio performance.

During last 12 months:

The portfolio's strategic allocation to international developed-market equities detracted from overall performance, as international equities generally lagged U.S. equities for the period. The portfolio's strategic allocation to mid- and small-cap equities, and corresponding underweight of large-cap equities (relative to the S&P 500 Index), detracted from results because large-cap equities substantially outperformed mid- and small-caps. Additionally, the portfolio's tactical equity/fixed income positioning (overweight to equities) hindered performance; the strong equities rally over the last three months of the period was insufficient to fully counteract the weak performance by equities during the second half of 2011.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

SAM Strategic Growth Portfolio (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 03/31/2012	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	07/25/1996
SAM Strategic Growth Portfolio (A) (excl. sales charge)	11.45	11.45	3.46	21.17	1.34	4.40	7.20	Ext. Perf. Inc. Date	07/25/1996
SAM Strategic Growth Portfolio (A) (incl. sales charge)	5.31	5.31	-2.22	18.91	0.21	3.81	6.82	Total Inv. Exp Gross	1.48
Standard & Poor's 500 Index	12.59	12.59	8.54	23.42	2.01	4.12	-	Total Inv Exp Net	1.48
Large Blend Category	12.48	12.48	5.09	21.97	1.14	3.75	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	68	60	51	25	-	Contractual Cap Date	-
Total Funds in Category	1888	1888	1778	1578	1387	843	-	Contingent Deferred Sales Charge	-
								Maximum Up-front Sales Charge	5.50

SAM Strategic Growth Portfolio (A)

Statistics Summary as of 03/31/2012

	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					
SAM Strategic Growth Portfolio (A)	-2.33	1.02	98.34	1.23	-1.03	16.76	23	13	4.21	-3.93	97.37	106.17
Standard & Poor's 500 Index	N/A	N/A	N/A	N/A	N/A	N/A	25	11	4.33	-3.70	100.00	100.00
	5 Year						5 Year					
SAM Strategic Growth Portfolio (A)	-0.61	1.00	97.80	0.11	-0.23	19.39	33	27	3.98	-4.93	99.38	101.72
Standard & Poor's 500 Index	N/A	N/A	N/A	N/A	N/A	N/A	35	25	4.01	-4.85	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 02/29/2012

Security	Net Assets (%)
Principal Equity Income Inst	21.97
Principal Diversified Intl Inst	12.27
Principal Capital Appreciation Inst	12.25
Principal Large Cap Growth Inst	8.11
Principal SmallCap Growth I Inst	5.63
Principal Large Cap Blend II Inst	5.52
Principal Large Cap Value III Inst	5.39
Principal Large Cap Growth II Inst	4.63
Principal MidCap Blend Inst	4.60
Principal Intl Emerging Markets Inst	4.19
Total % in Top 10	84.57

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

SAM Strategic Growth Portfolio (A)

Manager(s)	Start Date	Degree	Alma Mater
Charlie Averill	01/01/2010	M.A.	Princeton University
Todd Jablonski	01/01/2010	M.B.A.	New York University
Jill R. Cuniff	01/01/2010	B.S.	Montana State University

Fund Strategy

The investment seeks to provide long-term capital appreciation. The fund operates as a fund of funds. It: (1) Generally invests between 0% and 25% of its assets in fixed-income funds, and less than 25% in any one fixed-income fund; (2) Generally invests between 75% and 100% of its assets in equity funds, and less than 50% in any one equity fund; (3) Generally invests less than 20% of its assets in specialty funds, and less than 20% in any one specialty fund. The fund may temporarily exceed the applicable percentage ranges for short periods.

About Edge Asset Management, Inc.

Edge Asset Management (Edge), based in Seattle, Washington, has a heritage dating back to 1939, when it launched one of the first 50 mutual funds in the U.S. The firm's primary areas of investment expertise are target risk portfolios, large-cap equities and taxable fixed income securities. As of December 31, 2011, Edge had more than \$20.4 billion in assets under management.

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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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Equity investment options involve greater risk, including heightened volatility, than fixed-income investment options. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise.

Asset allocation does not guarantee a profit or protect against a loss. Investing in real estate, small-cap, international, and high-yield investment options involves additional risks. Additionally there is no guarantee this investment option will provide adequate income at or through retirement.

This Principal Strategic Asset Management Portfolio (SAM) indirectly bears its pro rata share of the management fees incurred by the underlying Principal Funds in which this portfolio invests. Based on the asset allocation of the SAM Portfolio outlined in the prospectus dated February 29, 2012, the weighted average operating expenses of the underlying funds are: Flexible Income, 0.60%; Conservative Balanced, 0.61%; Balanced, 0.65%; Conservative Growth, 0.69%; Strategic Growth, 0.73%. While the operating expenses of the underlying mutual funds are not part of the SAM Portfolio operating expenses they are included in the Total Investment Expense. Performance results shown for the SAM Portfolios reflect the application of these expenses.

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.

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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.

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.

¹ pages.stern.nyu.edu/~adamodar/New_Home_Page/datafile/spearn.htm (Raw data for this table was obtained from Bloomberg and S&P.)

² As of March 2012; www.dol.gov

³ research.stlouisfed.org/fred2/series/PI

⁴ CPI: www.bls.gov/cpi/; U.S. T-bill and Treasuries rates: research.stlouisfed.org/fred2/categories/115; real yield = current yield minus CPI

⁵ Performance sources: U.S. large-cap stocks: Russell 1000 Index; U.S. mid-cap stocks: Russell Midcap Index; U.S. small-cap stocks: Russell 2000 Index; international developed markets: MSCI EAFE Index; international emerging markets: MSCI Emerging Markets Index; U.S. REITs: MSCI US REIT Index; global REITs: FTSE EPRA/NAREIT Developed Index

⁶ Source: Barclays Point

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Important Notes

⁷ Source: FactSet, U.S. Treasury Constant Maturity 10-year and 2-year yields

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

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