International Growth Fund (A)

Third Quarter 2011

Quarterly Commentary

Ticker	Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PIRAX	Principal Global Investors	MSCI World Ex US Growth Index	Foreign Large Growth	Foreign Stock

Economy & Market Overview

The third quarter was extremely difficult for the global markets. After moving sideways from February through mid-July, the markets began an abrupt sell-off in late July that shaved 13.9% off the S&P 500 Index and 19.9% off the broad international market for the quarter.[1] The catalyst was the wrangling in Washington over raising the debt ceiling and attempting to tie debt-reduction legislation to the extension of the ceiling. The rancorous discussion called into focus the extreme nature of the global debt problem. While the U.S. was not in an immediate crisis, the legislative gridlock unsettled investors already worried about Europe.

Europe currently is the global "problem child." Excess debt in Portugal, Ireland, Italy, Greece and Spain threatens to infect all of Europe. Since the 2008 credit crisis, lawmakers in developed nations have done little to address problems facing the financial system, particularly the fact that developed nations have accumulated liabilities far greater than they are able to service. This is especially true for Greece, Ireland and possibly Portugal. To date, efforts to deal with the sovereign debt crisis have focused largely on short-term loans, which have bought time but left the issue itself unresolved. Austerity programs introduced in the affected nations have lowered GDP, which in turn has lowered tax receipts and thus boosted deficits rather than cut them. Meanwhile, investors worry that the true issue is not Greece, but rather the amount of sovereign debt held by European banks. Their worst-case fear: A default in Greece could set off a contagion within the European banking system, leading to global depression.

In the U.S., the debt-ceiling debacle focused consumers' collective worry about the U.S. government's inability to agree on and implement a plan to effectively tackle the country's excessive debt. This concern, coupled with the rising possibility of another recession and the chronic issues of continued high unemployment and a weak real estate market, drove down consumer confidence, which declined sharply in August and remained essentially unchanged in September.[2] U.S. GDP grew at an annualized rate of 1.3% in the second quarter of 2011, up from 0.4% the previous quarter.[3] Though growth remained positive, it was weak, and as recession concerns mounted, many forecasters estimated the chance of another recession at 1 in 3 or higher.[4]

Unemployment remained stuck at 9.1% throughout the quarter.[5] In real estate, while August single-family housing starts were down about 2% year-over-year (reaching 30-year lows), sales of existing homes were up about 20% from August 2010. Home prices increased nationally by 3.6% in the second quarter (after falling 4.1% the prior quarter); however, on an annual basis, home prices were down 5.9% from a year earlier, dropping to early-2003 levels.[6]

With the memory of 2008 fresh in their minds, investors responded to the global turmoil by generally "fleeing for the exits." Global de-risking was broad-based, with almost all asset classes showing red ink. European equities were the biggest underperformers, with the equities market in Germany declining 30.9% for the quarter.[7] Similarly, the broad U.S. market was down more than 15%, with mid- and small-cap stocks suffering more than large-caps. Value stocks generally performed better than growth, except in large-caps, where the reverse was true.[8]

With the overall slowdown, fixed income generally outperformed stocks during the quarter. As risk aversion spiked, U.S. Treasuries performed best (despite Standard & Poor's August downgrade of the U.S. government's triple-A debt rating to AA+). Interest rates declined significantly as macro concerns in the U.S. and Europe cast gloom on the market. Confirmation from the Federal Reserve that interest rates would remain at "exceptionally low levels" into 2013 further anchored short-term rates. The yield curve flattened dramatically as the 10-year Treasury yield fell from 3.16% to 1.91%, while the 2-year Treasury yield fell from 0.46% to 0.25%.[9] High-yield corporate bonds suffered the most in this environment, with an absolute return of -6.06%.[10] Investment-grade corporates also struggled, underperforming duration-adjusted Treasuries by 5.11%. Commercial mortgage-backed securities and mortgage-backed securities faltered as well, with duration-adjusted excess returns of -3.52% and -2.29%, respectively.[11]

Performance Contributors

Positive Contributors

During last quarter:

Stock selection bolstered performance, consumer staples, financials, and materials sectors - more specifically in the metals and mining, food and staples retailing, and electric utilities industries. From a country perspective, stock selection was most effective in Japan, the United Kingdom, and Canada. Barrick Gold, a Canadian gold and copper producer, Yamana Gold, a Canadian gold producer, and KDDI, a Japanese telecommunication services provider, were among the stocks contributing positively to performance during the quarter.

During last 12 months:

Stock selection was most effective in the financials, information technology, and consumer discretionary sectors, and specifically, in the energy equipment & services, commercial banks, and food and staples retailing industries. From a country perspective, stock selection was most effective in Japan, the United Kingdom, and Hong Kong. The following stocks were among the top contributors to performance for the full year period: Lloyds Banking Group, a UK-based financial services group; KDDI, a Japan-based telecommunication services provider; and Iluka Resources, Australia-based metals & mining company.

Negative Contributors

During last quarter:

Stock selection was least effective in the industrials, consumer discretionary, and health care sectors - more specifically, in the industrial conglomerates, construction & engineering, and automobiles industries. From a country perspective, stock selection was least effective in Sweden, Australia, and France. Volvo, a Swedish truck and machinery supplier, Faurecia, a France-based automotive equipment supplier, and Wendel, a France-based investment company, were among the stocks that contributed most negatively to portfolio performance for the period.

During last 12 months:

A majority of the portfolio's underperformance during the year was driven by stock selection within the industrials, health care, and utilities sectors, and more specifically in oil, gas, and consumable fuels, machinery, and industrial conglomerates industries. From a country perspective, stock selection was least effective in Sweden, Finland, and Belgium. The largest detractors to portfolio performance included Bekaert, a Belgium-based company specialized in advanced metal transformation and advanced materials and coatings, Volvo, a Swedish truck and machinery supplier, and Suncor Energy, a Canada-based integrated energy company.

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 09/30/2011	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
International Growth Fund (A) (excl. sales charge)	-19.75	-16.09	-8.56	-4.34	-5.73	4.37	0.99
International Growth Fund (A) (incl. sales charge)	-24.17	-20.67	-13.63	-6.12	-6.78	3.79	0.46
MSCI World Ex US Growth Index	-19.16	-16.06	-8.93	-0.67	-1.77	5.33	-
Foreign Large Growth Category	-20.34	-17.01	-10.21	0.73	-1.85	5.63	-
Morningstar Percentile Ranking	-	-	38	97	95	73	-
Total Funds in Category	248	247	243	206	163	104	-

Inception Date	10/01/2007
Ext. Perf. Inc. Date	12/06/2000
Total Inv. Exp Gross	2.19
Total Inv Exp Net	1.54
Waiver Date	02/29/2012
Contractual Cap Date	02/29/2012
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.

International Growth Fund (A)

Statistics Summary as of 09/30/2011

	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					
International Growth Fund (A)	-3.54	1.04	99.08	-0.05	-1.40	25.42	18	18	5.57	-5.76	100.11	111.21
MSCI World Ex US Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	18	18	5.56	-5.18	100.00	100.00
	5 Year						5 Year					
International Growth Fund (A)	-3.67	1.04	98.55	-0.20	-1.33	22.81	32	28	4.45	-5.64	99.02	112.17
MSCI World Ex US Growth Index	N/A	N/A	N/A	N/A	N/A	N/A	32	28	4.50	-5.03	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 08/31/2011

Security	Net Assets (%)
BHP Billiton Ltd	3.08
Roche Holding AG	3.05
British American Tobacco PLC	2.49
BG Group PLC	1.89
HSBC Holdings PLC	1.78
Siemens AG	1.73
Unilever NV	1.61
Rio Tinto PLC	1.59
Rio Tinto Ltd	1.48
Suncor Energy, Inc.	1.44
Total % in Top 10	**20.13**

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
John Pihlblad	03/01/2005	B.A.	Westminster College
Mark R. Nebelung	05/27/2010	B.A.	University of Waterloo

Fund Strategy

The investment seeks long-term growth of capital. The fund invests primarily in equity securities of companies domiciled in any developed nations of the world. It has no limitation on the percentage of assets that are invested in any one country or denominated in any one currency, but the fund typically invests in at least 20 countries. The fund invests in growth equity securities.

About Principal Global Investors

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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.

International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.

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.

Effective October 14, 2011, the International Growth investment option will merge into the Diversified International investment option.

The MSCI World Ex US Growth Index measures global developed market equity performance of growth securities outside of the United States. It is comprised of half the securities in the MSCI World Ex US Index, with half of the market capitalization of each country index in the Growth Index (the other half is in the Value Index).

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] Broad international markets return: MSCI All Country World (ex-U.S.) Index

[2] www.conference-board.org/data/consumerconfidence.cfm

[3] Bureau of Economic Analysis GDP Press Release, Third Estimate, September 29, 2011; www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

[4] *On the Other Hand: Economic Insights*, Third Quarter 2011 edition, by Bob Baur and the Principal Global Investors Economic Committee

[5] U.S. Bureau of Labor Statistics; www.bls.gov

[6] "Nationally, Home Prices Went Up in the Second Quarter of 2011 According to the S&P/Case-Shiller Home Price Indices;" standardandpoors.com

[7] S&P Germany Broad Market Index

[8] Russell family of Indexes

[9] FactSet

[10] 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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