Fourth Quarter 2014

Quarterly Commentary

Inv Manager or Sub-Advisor	Benchmark	Morningstar Category	Investment Objective
PIMCO	Barclays Aggregate Bond Index	Intermediate-Term Bond	Corp Bond - General

Economic Overview

The collapse of oil prices had a big impact on the economy. Prices for West Texas Intermediate dropped nearly 50 percent from year end 2013 to 2014, putting pressure on a variety of sectors, including the newly re-emergent U.S. oil producers.[1] For the fourth time in five months, the International Energy Administration cut its global demand forecast, this time on weak growth expectations for oil-producing countries. As a result, Russia raised its central bank rate to 10.5%, then to 17% a few days later, and Norway cut its target central bank rate for the first time in two years. After having rallied by about 10% from October lows, the S&P 500 also experienced significant volatility due to the energy sector in the last two weeks of the year. The price return was 4.39% for the quarter and 11.4% year to date, while the energy sector was down 11.26% and 10%, respectively.[2]

Although the energy sector only makes up 8.4% of the total market capitalization, its impact has been felt pervasively. With lower gas prices, U.S. consumer confidence continued to peak. The Bloomberg Consumer Comfort index increased to the best level since December 2007 and the Conference Board's measure of Consumer Confidence rose to its highest level in seven years in December.[3] The U.S. economy was strong, posting 5% real growth in the third quarter.[4] Unemployment remains low at 5.8% in November, while inflation also remains very low, at only 1.3% in its most recent reading.[5] In addition to the impact of energy prices; the rise in value of the U.S. dollar in relation to other currencies has contributed to depressing inflation figures. The U.S. dollar rallied over 13% versus the Euro over the past year, which allows for importing cheaper goods.[6]

However, the strong U.S. economy has not translated to strength overseas. The European Union's continuing crisis of confidence was evident in renewed concerns regarding Greece in late December, despite continued easing by the European Central Bank. Gross Domestic Product growth in Greece is two thirds of its 2007 peak and unemployment hovers around 25.7%, causing significant social concern and an unstable government.[7]Whether Greece exits the Euro is a topic of concern again reflected in recent spikes in the Greek ten year rates.[6] China also made headlines in early December by passing the U.S. as the world's largest economy (when measured in real purchasing power terms).[8] While Chinese growth has slowed, indications that the Chinese central bank stands ready to maintain a healthy economy has made China a key driver for economic growth throughout the region, and the world. Abenomics (measures introduced by Japanese Prime Minister Shinzo Abe) continue to fuel the Japanese economy, though the long term impact of the program is still in doubt. The yen has fallen, down over 10% in the fourth quarter alone.[6]

Fixed Income

Longer-dated U.S. Treasury yields moved lower as the 10-year Treasury fell from 2.49% on September 30th to 2.17% as of quarter-end and the 30-year Treasury yield fell from 3.20% to 2.75% over the same time period. The 2-year Treasury yield rose from 0.56% on September 30th to 0.67% as of quarter end, further flattening the yield curve.[9] The decline in longer-dated yields comes on the heels of falling oil prices, a stronger U.S. dollar, and diverging fiscal and monetary policies to fuel global economic growth. The Federal Reserve (the Fed) concluded its asset purchase program in October 2014 and during its December 2014 meeting, acknowledged improvements in U.S. economic activity and labor conditions as well as maintained guidance that short-term interest rates would remain low.[10]

Corporate bonds, both high-yield and investment-grade, underperformed duration-adjusted U.S. Treasuries by 2.32% and 1.12%, respectively, during the quarter as spreads widened. Within investment-grade corporates, securities in the industrial subsector suffered the most, lagging U.S. Treasuries by 1.61%. Agency mortgage-backed securities (MBS) also underperformed delivering duration-adjusted excess returns of -0.0.1%. In turn, commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) outperformed duration-adjusted Treasuries by 0.23% and 0.08%, respectively, amid steady spreads and continued investor demand.[11]

Performance Contributors

Positive Contributors

During last quarter:

Underweight to investment grade corporate bonds contributed as the sector underperformed like-duration treasuries. Currency positioning, including short exposure to the euro and yen, employed via currency forwards, contributed as both currencies weakened relative to the U.S. dollar. Exposure to local rates in Mexico added to returns as rates declined.

During last 12 months:

Currency positioning, including short exposure to the euro and yen, employed via currency forwards, contributed as both currencies weakened relative to the U.S. dollar. Exposure to non-agency mortgage-backed securities aided performance on the back of the ongoing U.S. housing recovery and strong technicals. Underweight to credit combined with security selection within high yield also added to relative returns. Tactical duration exposures to select European countries, including Italy and Spain, contributed as rates declined in this region on the back of continued accommodative monetary policy from the European Central Bank.

Negative Contributors

During last quarter:

Curve positioning detracted from performance, particularly an underweight to long maturities, partially implemented via interest rate swaps, as intermediate and long-term maturities declined. Holdings of treasury inflation-protected securities (TIPS) detracted. Exposure to U.S. dollar-denominated emerging market debt, which underperformed like-duration treasuries, detracted.

During last 12 months:

Curve positioning, led by a focus on the front end of the curve while maintaining an underweight to long maturities, detracted. Holdings of treasury inflation-protected securities (TIPS), as inflation expectations declined, detracted. Exposure to U.S. dollar-denominated emerging market debt, which underperformed like-duration treasuries, detracted.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

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, 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 12/31/2014	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception
Core Plus Bond I Separate Account-R6	1.46	4.14	4.14	3.51	4.17	-	5.37
Barclays Aggregate Bond Index	1.79	5.97	5.97	2.66	4.45	4.71	-
Intermediate-Term Bond Category	1.11	5.18	5.18	3.38	4.78	4.41	-
Morningstar Percentile Ranking	-	-	83	43	75	-	-
Total Funds in Category	1070	1038	1038	913	807	588	-

Inception Date	09/30/2008
Ext. Perf. Inc. Date	09/30/2008
Total Inv. Exp Gross	0.72
Total Inv Exp Net	0.72
Waiver Date	-
Contractual Cap Date	-

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.

Core Plus Bond I Separate Account-R6

Statistics Summary as of 12/31/2014

	Risk and Return Statistics Summary						Upside/Downside Capture Ratio					
	Alpha	Beta	R2	Sharpe Ratio	Info Ratio	Std Dev	# of Months Up	# of Months Down	Avg Returns % Up	Avg Returns % Down	Benchmark % Up	Benchmark % Down
	3 Year						3 Year					
Core Plus Bond I Separate Account-R6	0.45	1.15	83.33	1.03	0.59	3.36	25	11	0.80	-0.72	125.05	117.83
Barclays Aggregate Bond Index	N/A	N/A	N/A	N/A	N/A	N/A	24	12	0.64	-0.61	100.00	100.00
	5 Year						5 Year					
Core Plus Bond I Separate Account-R6	-0.14	0.97	61.57	1.22	-0.14	3.34	43	17	0.75	-0.67	102.22	121.19
Barclays Aggregate Bond Index	N/A	N/A	N/A	N/A	N/A	N/A	43	17	0.73	-0.56	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 11/30/2014

Security	Net Assets (%)
90day Euro$ Futr Mar15	56.41
Interest Rate Swap Receive Fixed	32.85
Interest Rate Swap Receive Fixed	17.34
30 Year US Treasury Bond Future Mar15	12.74
90day Euro$ Futr Dec15	9.72
10 Year US Treasury Note Future Mar15	8.95
Interest Rate Swap Receive Fixed	8.65
Interest Rate Swap Receive Fixed	8.47
Interest Rate Swap Receive Fixed	7.77
90day Euro$ Futr Mar16	6.97
Total % in Top 10	**169.86**

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

Statistics as of 11/30/2014	
Average Eff Duration (yrs)	4.48
Average Eff Maturity (yrs)	8.94
Average Weighted Coupon	5.33
Average Weighted Price	$-

Manager(s)	Start Date	Degree	Alma Mater
Mark R. Kiesel	10/01/2014	M.B.A.	University of Chicago
Scott A. Mather	10/01/2014	Master	University of Pennsylvania
Mihir P. Worah	10/01/2014	Ph.D.	University of Chicago

Investment Strategy

The investment seeks maximum total return, consistent with preservation of capital and prudent investment management. Under normal circumstances, the fund invests at least 80% of its net assets, plus any borrowings for investment purposes, in a diversified portfolio of fixed-income instruments of varying maturities, represented by forwards or derivatives such as options, futures contracts, or swap agreements, at the time of each purchase. It invests in securities denominated in foreign currencies and in securities of foreign issuers, including securities tied to emerging market countries.

About PIMCO

PIMCO, which is headquartered in Newport Beach, CA, is a leading global institutional money manager specializing in fixed income investments. The firm managed nearly $2 trillion in assets as of December 31, 2013. PIMCO's fixed income strategies are designed to outperform benchmark indexes over the long term. Clients include corporate pension plans, foundations, endowments, public retirement plans, corporate treasury departments, governments, high-net-worth families and retail investors. In addition to being one of the largest active fixed income managers in the world, PIMCO serves its global client base from offices in New York, Singapore, Tokyo, London, Sydney, Munich, Toronto, Hong Kong, Zurich, Amsterdam, Milan and Rio de Janeiro.

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.

The full name of this investment option is Principal Core Plus Bond I Separate Account-R6. Principal Core Plus Bond I 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. Core Plus Bond I 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 (PCBZX) at http://www.principal.com/retirement/prospectuses/prospect.htm.

About Principal Financial Group

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

The risks associated with derivative investments include that the underlying security, interest rate, market index, or other financial asset will not move in the direction the Investment Adviser and/or Sub-Advisor anticipated, the possibility that there may be no liquid secondary market, the risk that adverse price movements in an instrument can result in a loss substantially greater than a fund's initial investment, the possibility that the counterparty may fail to perform its obligations; and the inability to close out certain hedged positions to avoid adverse tax consequences.

Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.

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. government.

Barclays Aggregate Bond Index represents securities that are domestic, taxable, and dollar denominated. The index covers the U.S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.

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.

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Statistics:
30-Day SEC Yield - Subsidized (Net) - This yield citation reflects the income that the investment option produced taking into consideration all expense waivers, caps, and breakpoints in place during the 30 day period. Without these waivers, the investment option's yield would be lower.
30-Day SEC Yield - Non-Subsidized (Gross) - This yield citation reflects the income that the investment option would produce if the investment option did not have a portion of its total investment expense waived or capped.
Average Effective Duration - A measure of a fixed income investment option's interest-rate sensitivity and represents an approximate percent change in bond's price for a one percent change in interest rates-the longer a fund's duration, the more sensitive the portfolio is to shifts in interest rates. The duration of a fixed income investment option is determined by a formula that includes projected cash flows, such as coupons and principal payout at maturities for bonds.
Average Effective Maturity - Average effective maturity is a weighted average of all the effective maturities of the bonds in a portfolio.
Average Weighted Price - The statistic is calculated by weighting the price of each bond by its relative size in the portfolio. This number reveals if the investment option favors bonds selling at prices above or below face value (discount or premium securities, respectively). A higher number indicates a bias toward premiums. This statistic is expressed as a percentage of par (face) value.
Effective Duration - A measure of a fixed income investment option's interest-rate sensitivity and represents an approximate percent change in bond's price for a one percent change in interest rates-the longer a fund's duration, the more sensitive the portfolio is to shifts in interest rates. The duration of a fixed income investment option is determined by a formula that includes projected cash flows, such as coupons and principal payout at maturities for bonds.

[1]U.S. Energy Information Administration

[2]S&P 500

[3]Bloomberg and the Conference Board

[4]Bureau of Economic Analysis

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Important Notes

[5]St. Louis Federal Reserve

[6]Bloomberg

[7]EuroStat

[8]IMF

[9]U.S. Treasury Constant Maturity 10-year and 2-year yields

[10]Federal Reserve Bank Federal Open Market Committee statement, released December 17, 2014

[11]Components of Barclays Aggregate Bond Index, via Barclays Live. Duration-adjusted excess return is a measure the relative performance to that of U.S. Treasuries with a similar duration profile.

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

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