

Principal LargeCap Growth I Portfolio

Co-sub-advised by T. Rowe Price and Brown Advisory



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, Luxembourg, Singapore, Denmark, Amsterdam, Tokyo and Zurich.

T. Rowe Price's investment management services span the full range of U.S. and non-U.S. equity, fixed-income and multi-asset class investment styles. Their 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.

Investment Philosophy and Process

The Principal LargeCap Growth I portfolio is available as a mutual fund and as a separate account that invests wholly in Institutional class shares of the mutual fund.

Philosophy

T. Rowe Price seeks to provide superior long-term returns relative to the Russell 1000 Growth Index. The firm seeks to identify high-quality large-cap growth companies that it believes can generate real, sustainable double-digit earnings growth.

The investment advisor's investment philosophy and strategy may not perform as intended and could result in a loss or gain.

Process

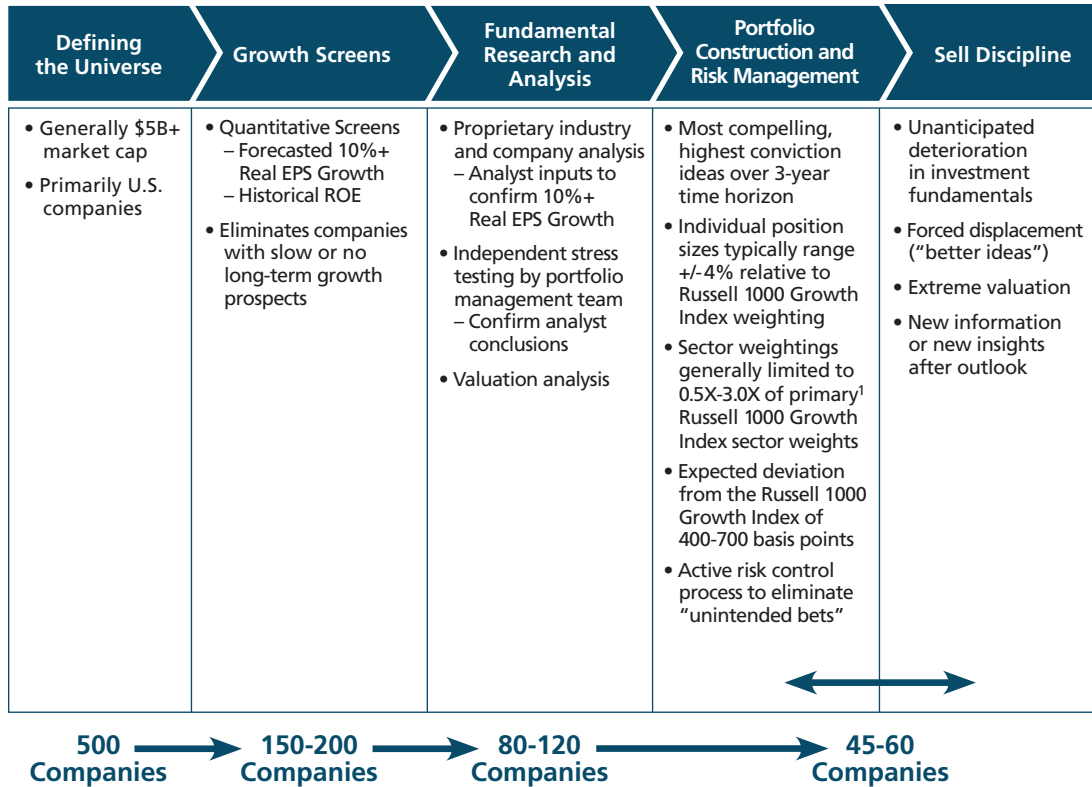
T. Rowe Price follows a clearly-defined investment process (Figure 1 on page 2) emphasizing fundamental research and active, bottom-up stock selection.

Not FDIC or NCUA insured

May lose value • Not a deposit • No bank or credit union guarantee
Not insured by any Federal government agency

Figure 1: T. Rowe Price's Investment Process

Our research-driven, bottom-up approach is the engine for our investment idea generation



Superior information and implementation can produce robust investment results.

¹Sectors representing 10%+ of the Russell 1000 Growth Index.

Screen for growth: The portfolio management team members perform high-level screening on a universe of approximately 500 companies with market capitalizations greater than \$5 billion. They screen on a number of characteristics, including earnings growth and return on invested capital. Their purpose is simply to narrow the investable universe down to about 150-200 companies.

Perform fundamental research: T. Rowe Price's in-house fundamental analysts conduct rigorous, proprietary research on the remaining companies. Their goal is to find companies with the greatest probability of generating real double-digit earnings-per-share growth over a three-year time frame (i.e., 10% plus their forecast for inflation). In researching companies, the analysts focus on the fundamentals of the industry in which the company operates and the fundamental characteristics of the company itself.

- *Industry analysis* seeks to answer the questions, "Does this company compete in an industry that supports profitable growth?" and "Are the industry conditions improving or deteriorating?"
- *Company analysis* seeks to answer the question, "Is this company positioned and managed well enough to capitalize on the growth prospects of its industry?"

Construct the portfolio: Fundamental research yields a list of approximately 100 high-probability investment candidates. From this list, the members of the portfolio management team identify 45-60 companies they think can achieve a 20% price gain relative to a one-year price target.

T. Rowe Price employs a team approach to portfolio management. Investment teams typically include a senior investment professional who is the lead portfolio manager, at least one additional senior portfolio manager, and a varying number of analysts, traders and junior portfolio managers. The expertise of the members of the large-cap growth portfolio management team helps to promote consistency in investment style and performance.

Portfolio management team

Robert W. Sharps has been with T. Rowe Price since 1997. He earned a B.S. in Accounting from Towson University and an M.B.A. in Finance from the Wharton School, University of Pennsylvania. He has earned the right to use the Chartered Financial Analyst designation and the Certified Public Accountant accreditation.

David Rowlett has been with T. Rowe Price since 2008. He holds a B.B.A., cum laude, in Finance from the University of Georgia and an M.B.A. from the University of North Carolina at Chapel Hill. He has earned the right to use the Chartered Financial Analyst designation.



Brown Advisory (Brown) was founded in 1993 as an investment management arm of Alex. Brown & Sons, an investment bank founded in 1800. Brown became independently owned through an employee-led buyout in 1998. The firm has principal offices in Baltimore, with offices in Washington, Boston and London. Approximately 70 percent of Brown is owned by employees and each full-time employee has an equity interest in the firm, aligning employees' interests with growth in client assets and serving as a powerful tool to attract and retain high-caliber professionals.

Brown (and its affiliates) strives to meet its investors' requirements through a broad array of investment styles and asset classes — including domestic equities, international equities, sustainable investing, fixed income, private equity, real estate and other alternative assets.

Investment Philosophy and Process

Philosophy

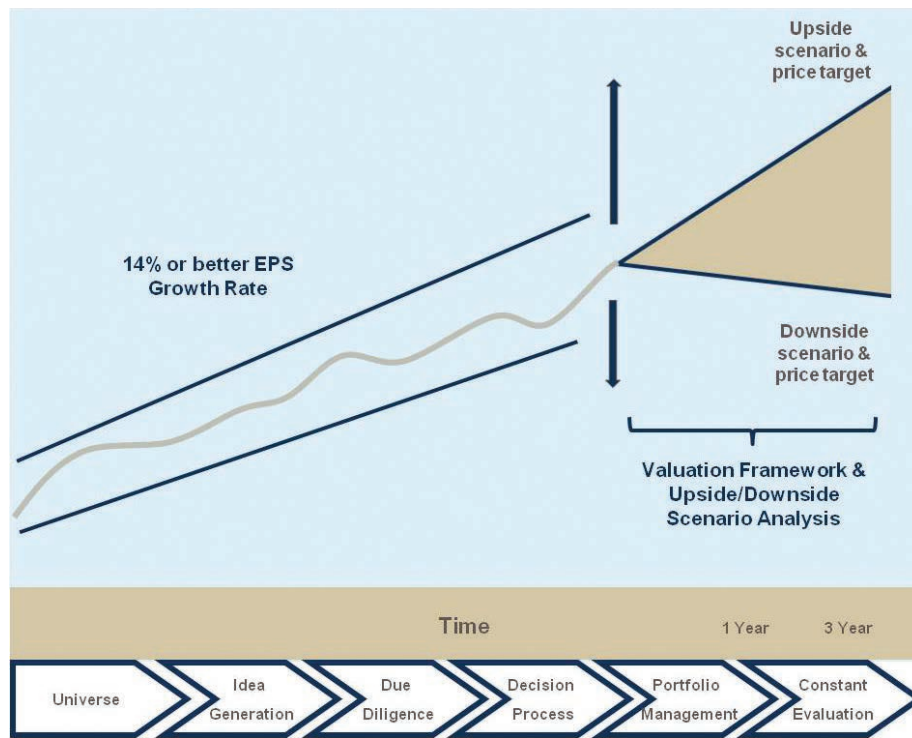
Brown's investment strategy begins with fundamental research. The firm's research analysts search for companies with a minimum \$2 billion market-cap that have an absolute growth rate of at least 14%, core competitive advantages and capable management. The analyst team members take a "private company approach," in that they seek to invest in firms that are industry leaders or hold a proprietary advantage over the competition. Each analyst closely covers approximately 30 stocks.

The investment advisor's investment philosophy and strategy may not perform as intended and could result in a loss or gain.

Process

As a key part of Brown's investment process (Figure 2 on page 5), the analysts develop an upside case and a downside case for each stock under consideration. This approach helps the team focus on stocks having more upside protection and avoid stocks that are "priced for perfection." Each research analyst manages sector portfolios by over- and underweighting stocks that they cover, a process that allows the firm to track analyst performance in recommending stocks.

Figure 2: Brown Advisory's Investment Process



Taking into consideration input from the research analyst team, the portfolio manager makes the final decisions regarding stock selection for the portfolio. The end result is a portfolio of approximately 30 to 45 names, which is continuously monitored. While turnover is low (generally 30% to 50%), stocks are sold for any of three reasons. First, the underlying investment thesis is violated. In this scenario there has been poor execution, a change in strategy or a change in management. Stocks are generally sold quickly in this situation. Second, valuation concerns exist. In this situation there is more downside than upside potential in the stock, most likely because the stock has appreciated. Third, alternative opportunities have been identified. An existing stock may be sold in order to take advantage of a new name that warrants inclusion in the portfolio.

The large-cap growth portfolio manager is supported by the firm's research analysts, who are shared by multiple portfolios at the firm, including large-cap growth.

Brown Advisory continually reinvests in its asset management businesses by hiring and retaining the most qualified professionals in the industry. Providing staff with technology and other resources to improve the research, investment and risk management processes has been critical to the success of the firm's investment approach.

Portfolio manager

Kenneth M. Stuzin has been with Brown since 1996. He earned a B.A. and an M.B.A. from Columbia University. Mr. Stuzin has earned the right to use the Chartered Financial Analyst designation.

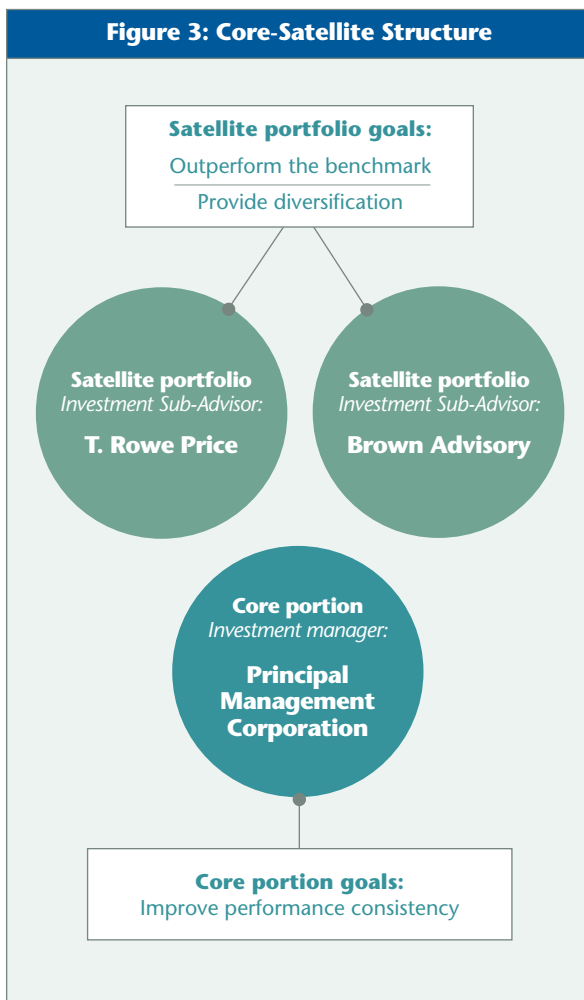
LargeCap Growth I

Core-Satellite Structure

T. Rowe Price and Brown Advisory employ unique investment philosophies which we believe are complementary to one another. Historically, these sub-advisors have exhibited strong performance in different market environments. For LargeCap Growth I, we combined these investment managers with the goal of improving the consistency of the overall portfolio.

Core-satellite structure overview

A core-satellite investment option is comprised of a “core” portfolio plus two or more “satellite” portfolios. As seen in Figure 3, T. Rowe Price and Brown Advisory are the satellite sub-advisors for Principal LargeCap Growth I, and the core portfolio manager is Principal Management Corporation.¹



The core portfolio serves as the foundation, or “home base,” for the investment option. It is actively managed within narrow risk constraints. A key focus for the core portfolio is to help reduce volatility within the investment option. Principal Management Corporation does this by maintaining a core composition that tilts LargeCap Growth I away from stocks having certain return-generating characteristics that may bring greater volatility to the portfolio. The core is actively managed within narrow risk constraints.

On the other hand, the satellite portfolios — also actively managed — strive to deliver excess return relative to the benchmark. Due to their mandate to strive for higher returns than the core, the satellite portfolios have correspondingly wider risk constraints.

The core portfolio’s goal is to improve performance consistency by reducing volatility (risk), while the goal of each satellite portfolio is to provide investment diversification and generate outperformance relative to the benchmark.

¹Principal Management Corporation is the advisor to Principal Funds, Inc.

Potential Benefits Provided By the Core-Satellite Structure

Our goal is to provide for a more consistent return pattern, by striving to hit first and second quartile Morningstar peer group performance more consistently. The essence of this strategy is to minimize the probability that the option falls into the fourth quartile within peer groups.

Besides offering the potential for improved performance consistency, this structure provides additional benefits:

A truly active product. While the primary goal is to provide competitive performance with a more consistent return pattern, our portfolio advisors are very conscious of maintaining characteristics within the fund that are reflective of a truly active strategy. Often, a misperception exists that combining multiple managers can result in a strategy that closely resembles the market at large. Our portfolio advisors are focused on helping to ensure that each fund maintains an Active Share that keeps it distinct from market indexes. Active Share is simply the percentage of the portfolio that is not held in common with a corresponding index. It is a measure of how “active” an active strategy truly is.

Helps to maintain availability of certain investment options in typically capacity-constrained asset classes. The multi-manager aspect of the core-satellite structure offers increased capacity so that investment options in asset classes prone to capacity issues – for example small- and mid-cap equities - will be less likely to experience closures. As a result, these asset classes are more likely to remain available, providing additional diversification for use by investors.

Broader range of satellite managers. The structure makes it easier to leverage talented investment managers who maintain concentrated or wide-constraint portfolios that may experience greater volatility than more diverse or risk-controlled portfolios. The structure helps make it easier to utilize these managers without having to worry about investor reactions to extreme performance characteristics over short time periods.

Mitigates impact of adverse manager events. The core-satellite structure can potentially limit risk should a qualitative event negatively impact one of the sub-advisors (i.e. portfolio manager lift out, firm sale, etc.) and facilitate a smooth transition process should a manager need to be replaced.

Portfolio management team

Randy L. Welch is a Senior Vice President and Portfolio Manager of Principal Management Corporation. He joined the Principal Financial Group in 1989 and oversees the functions of the Investment Services group, which includes investment manager research, investment consulting, performance analysis, and investment communication. He is also responsible for the due diligence program that monitors investment managers used by Principal Funds, Inc. Randy has FINRA Series 7, 24, 63 and 66 registrations and is also an affiliate member of the Chartered Financial Analysts (CFA) Institute. He earned his undergraduate degree from Grand View College and an M.B.A. from Drake University.

James Fennessey is a Vice President and Portfolio Manager of Principal Management Corporation. He joined the Principal Financial Group in 2000. He is the Head of the Manager Research Team that is responsible for analyzing, interpreting and coordinating investment performance data and evaluation of the investment managers under the due diligence program that monitors investment managers used by Principal Funds, Inc. James graduated from Truman State University with a B.S. in Business Administration, with an emphasis in Finance, and a minor in Economics. He has earned the right to use the Chartered Financial Analyst designation.

About Principal Management Corporation

In addition to serving as the advisor to Principal Funds, Principal Management Corporation has responsibility for portfolio management of the core portion for all of the core-satellite investment options. In managing the core portion, Principal Management Corporation utilizes a team approach overseen by a portfolio manager. Principal Management Corporation has been registered with the SEC as an investment adviser under the Investment Advisers Act of 1940 since 1968. As advisor to Principal Funds, Principal Management Corporation oversees our proprietary due diligence process for identifying, selecting and monitoring investment managers. Principal Funds offers a full range of investment options covering all core style boxes and several niche options. The Funds are sub-advised by a variety of investment managers representing some of the nation's leading asset managers and investment boutiques.

Additional Information

Investors should carefully consider a mutual fund's investment objectives, risks, charges, and expenses prior to investing. A prospectus, or summary prospectus if available, containing this and other information can be obtained by contacting a financial professional, visiting principal.com, or calling 1-800-547-7754. Read the prospectus carefully before investing.

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.

Investment options are subject to investment risk. Shares or unit values will fluctuate and investments, when redeemed, may be worth more or less than their original cost.

Russell 1000 Growth Index is a market-capitalization weighted index of those firms in the Russell 1000 with higher price-to-book ratios and higher forecasted.

Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.

This investment option is available through a separate account or Principal Funds, Inc. mutual fund. Separate accounts are made available through a group annuity contract with the Principal Life Insurance Company, Des Moines, IA 50392.



WE'LL GIVE YOU AN EDGE®

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Insurance products and plan administrative services are provided by Principal Life Insurance Company. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Princor Financial Services Corporation, 800-547-7754, Member SIPC and/or independent broker/dealers. Securities sold by a Princor Registered Representative are offered through Princor®. Principal Funds Distributor, Princor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Investment options may not be available in all states or U.S. commonwealths. Separate accounts are available through a group annuity contract with Principal Life Insurance Company. See the group annuity contract for the full name of the separate account. Principal Life Insurance Company reserves the right to defer payments or transfers from Principal Life separate accounts as permitted by 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 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.