

Principal Financial Advisors, Inc.



Investment Advisory Report
South Dakota Department of Labor Retirement Plan
Contract No. 4-15193
July 01, 2015 - June 30, 2016

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Principal Financial Advisors, Inc. Overview

As a retirement plan sponsor, you face significant challenges in managing the plan on behalf of participants – fiduciary responsibility, risk management and plan investment decisions, just to name a few. **When you appoint Principal Financial Advisors, Inc. as the plan's ERISA Section 3(38) investment manager, we team with you to address these challenges.**

For 25 years, Principal Financial Advisors (a member company of the Principal Financial Group) has been managing investment strategies. As of December 31, 2015, we manage more than \$7.1 billion in assets and have more than 325 clients using our advisory services for retirement plans.

Our mission is to provide high-quality investment advisory and consulting services to help clients meet their goals and objectives by offering access to premier investment managers and customized investment strategies.

The investment advisory services of Principal Financial Advisors are consistent with the following core beliefs:

- 1) Strategic asset allocation selection and implementation play key roles in a retirement plan's ability to successfully meet its obligations over the long term.
- 2) Careful analysis of a retirement plan's assets, liabilities and unique attributes guides asset allocation decisions.
- 3) Diversifying by asset class, style and investment manager is one of the most effective ways to control investment risk.
- 4) A portfolio's long-term success depends substantially on selecting appropriate managers and carefully monitoring their performance over time.

Principal Financial Advisors provides:

- 1) A customized investment strategy based on the plan's unique situation.
- 2) Assumption of fiduciary responsibility for asset allocation decisions.¹
- 3) Benefits of the due diligence process of Principal Life Insurance Company.²
- 4) Experienced investment personnel, comprehensive reporting and top-tier client service.

¹The plan sponsor remains the plan's named fiduciary, but Principal Financial Advisors, Inc. has been appointed as the plan's ERISA Section 3(38) investment manager.

²Principal Life Insurance Company is responsible for the hiring and monitoring of investment managers made available to you through the due diligence process. Principal Financial Advisors selects from these investment options for retirement portfolios.

Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 07/01/2015 through 06/30/2016				
Inv Manager or Sub-Advisor	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
Investment Option				
Large U.S. Equity				
Large Value				
<i>Edge Asset Management, Inc.</i> Equity Income Separate Account-R6 ^{3, 12}	\$3,787,037	6.24%	\$3,982,292	7.12%
<i>Principal Global Investors</i> LargeCap Value Separate Account-R6	\$3,795,258	6.25%	\$3,864,150	6.91%
Large Blend				
<i>Principal Global Investors</i> LargeCap S&P 500 Index Separate Account-R6 ^{2, 8, 28}	\$3,453,221	5.69%	\$3,331,438	5.95%
Large Growth				
<i>T. Rowe Price/Brown Advisory</i> LargeCap Growth I Separate Account-R6 ^{3, 22}	\$7,992,534	13.17%	\$7,656,521	13.68%
Small/Mid U.S. Equity				
Mid Cap Value				
<i>Principal Global/Barrow Hanley</i> MidCap Value III Separate Account-R6 ¹	\$1,212,242	2.00%	\$1,134,165	2.03%
Mid Cap Growth				
<i>Robert Baird/William Blair</i> MidCap Growth III Separate Account-R6 ^{1, 13, 22, 31}	\$1,238,058	2.04%	\$1,147,428	2.05%
Small Value				
<i>DFA/Vaughan Nelson/LA Capital</i> SmallCap Value II Separate Account-R6 ^{1, 15, 22}	\$1,263,602	2.08%	\$581,254	1.04%
Small Growth				
<i>AB/CCI/Brown/Emerald</i> SmallCap Growth I Separate Account-R6 ^{1, 3, 22, 33}	\$1,331,784	2.19%	\$595,410	1.06%
International Equity				
Diversified Emerging Markets				
<i>Principal Global Investors</i> International Emerging Markets Separate Account-R6 ⁴	\$1,578,901	2.60%	\$909,428	1.63%
Foreign Large Value				
<i>Causeway / Barrow Hanley</i> Overseas Separate Account-R6 ^{4, 15, 22}	\$6,277,857	10.35%	\$6,213,930	11.10%

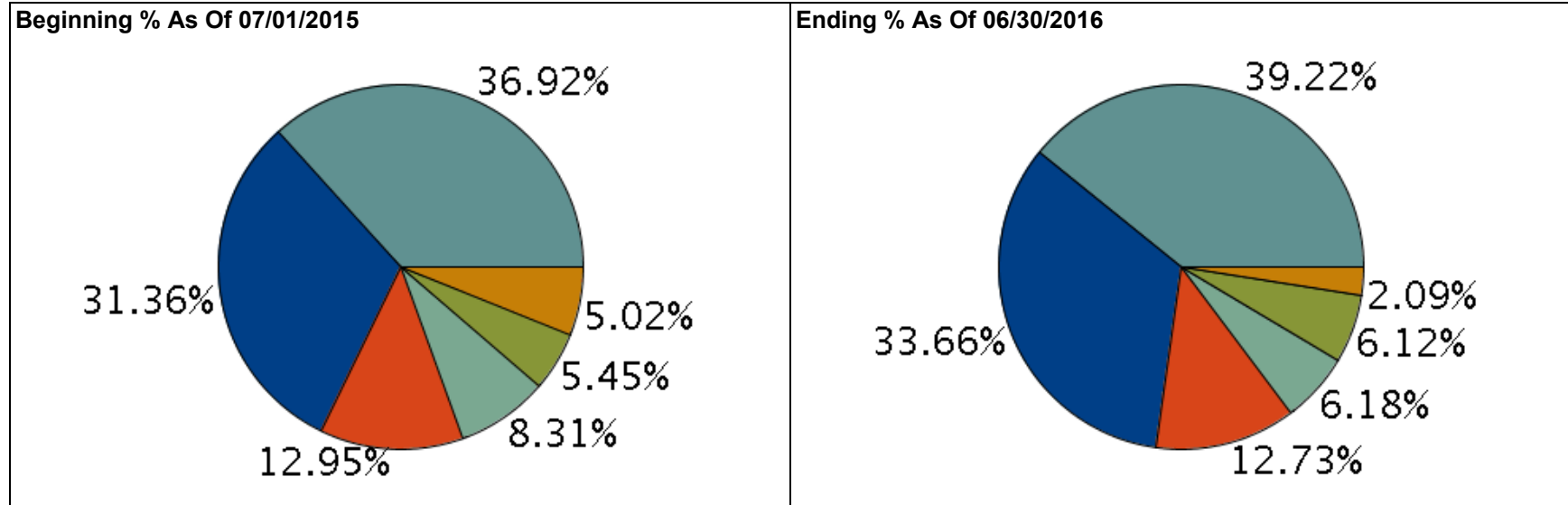
Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 07/01/2015 through 06/30/2016				
<i>Inv Manager or Sub-Advisor</i>	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
Real Estate				
Owned Real Estate				
<i>Principal Real Estate Inv</i> U.S. Property Separate Account-R6 ²⁵	\$3,306,066	5.45%	\$3,426,492	6.12%
Balanced/Asset Allocation				
Allocation--30% to 50% Equity				
<i>Multiple Sub-Advisors</i> Diversified Real Asset Separate Account-R6 ^{3, 12, 24, 28}	\$3,044,954	5.02%	\$1,169,349	2.09%
Fixed Income				
High Yield Bond				
<i>JP Morgan / Neuberger Berman</i> High Yield I Separate Account-R6 ^{5, 15, 18, 19}	\$2,525,099	4.16%	\$2,322,275	4.15%
Intermediate-Term Bond				
<i>Mellon Capital Mgmt</i> Bond Market Index Separate Account-R6 ^{2, 18, 19}	\$4,942,829	8.15%	\$4,886,495	8.73%
<i>Principal Global Investors</i> Core Plus Bond Separate Account-I2 ^{18, 19, 28, 36}	\$14,934,220	24.61%	\$14,740,545	26.34%
TOTAL	\$60,683,662	100%	\$55,961,172	100%

Please see important information at the end of this presentation.

Portfolio and Strategic Asset Allocation Review

Asset Class Breakdown



- Fixed Income
- Large U.S. Equity
- International Equity
- Small/Mid U.S. Equity
- Real Estate
- Balanced/Asset Allocation

Portfolio and Strategic Asset Allocation Review

The table below illustrates the plan's target allocation at the beginning and end of the reporting period.

Your plan's assets and liabilities are reviewed periodically during the year and we make changes as needed. We will continue to monitor your plan and adjust its allocation as necessary.

Target Allocation 07/01/2015 through 06/30/2016			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	Large U.S. Equity	29.90%	33.00%
	Large Value		
Edge Asset Management, Inc.	Equity Income Separate Account-R6 ^{3, 12}	6.10%	6.80%
Principal Global Investors	LargeCap Value Separate Account-R6	6.10%	6.80%
	Large Blend		
Principal Global Investors	LargeCap S&P 500 Index Separate Account-R6 ^{2, 8, 28}	5.50%	5.80%
	Large Growth		
T. Rowe Price/Brown Advisory	LargeCap Growth I Separate Account-R6 ^{3, 22}	12.20%	13.60%
	Small/Mid U.S. Equity	7.60%	6.00%
	Mid Cap Value		
Principal Global/Barrow Hanley	MidCap Value III Separate Account-R6 ¹	1.90%	2.00%
	Mid Cap Growth		
Robert Baird/William Blair	MidCap Growth III Separate Account-R6 ^{1, 13, 22, 31}	1.90%	2.00%
	Small Value		
DFA/Vaughan Nelson/LA Capital	SmallCap Value II Separate Account-R6 ^{1, 15, 22}	1.90%	1.00%
	Small Growth		
AB/CCI/Brown/Emerald	SmallCap Growth I Separate Account-R6 ^{1, 3, 22, 33}	1.90%	1.00%
	International Equity	12.50%	13.00%
	Diversified Emerging Markets		
Principal Global Investors	International Emerging Markets Separate Account-R6 ⁴	2.50%	1.60%
	Foreign Large Value		
Causeway / Barrow Hanley	Overseas Separate Account-R6 ^{4, 15, 22}	10.00%	11.40%
	Real Estate	5.00%	6.00%
	Owned Real Estate		
Principal Real Estate Inv	U.S. Property Separate Account-R6 ²⁵	5.00%	6.00%
	Balanced/Asset Allocation	5.00%	2.00%
	Allocation--30% to 50% Equity		
Multiple Sub-Advisors	Diversified Real Asset Separate Account-R6 ^{3, 12, 24, 28}	5.00%	2.00%

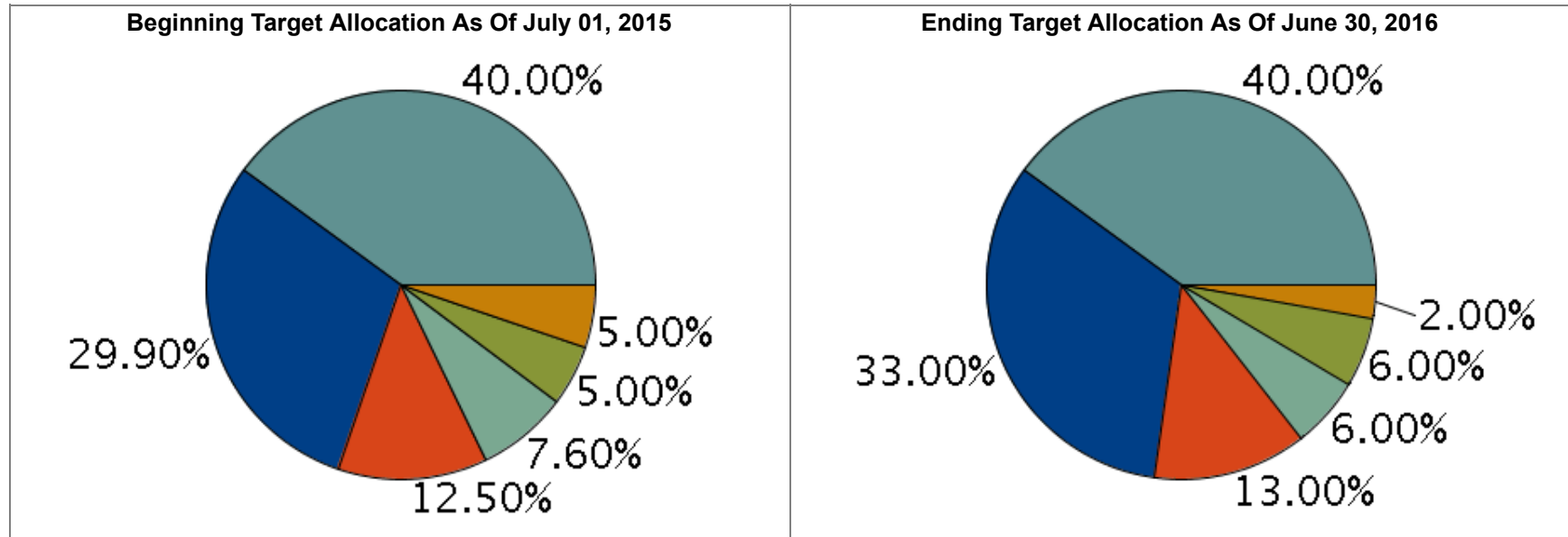
Portfolio and Strategic Asset Allocation Review

Target Allocation 07/01/2015 through 06/30/2016			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	Fixed Income	40.00%	40.00%
	High Yield Bond		
JP Morgan / Neuberger Berman	High Yield I Separate Account-R6 ^{5, 15, 18, 19}	4.00%	4.00%
	Intermediate-Term Bond		
Mellon Capital Mgmt	Bond Market Index Separate Account-R6 ^{2, 18, 19}	9.00%	9.00%
Principal Global Investors	Core Plus Bond Separate Account-I2 ^{18, 19, 28, 36}	27.00%	27.00%

Please see important information at the end of this presentation.

Portfolio and Strategic Asset Allocation Review
















Please note that a slight variance between your plan's target allocation displayed in this report and its weightings is normal. This variance is due to changes in your account values caused by fluctuations in the market. We periodically initiate rebalancing transfers to bring the plan's assets back to its target allocation.



- Large U.S. Equity
- Small/Mid U.S. Equity
- International Equity
- Real Estate
- Balanced/Asset Allocation
- Fixed Income

Portfolio and Strategic Asset Allocation Review

This section of your report includes all investment options with plan assets as of the end of the reporting period.

Large U.S. Equity		
Large Value	Large Blend	Large Growth
Equity Income Separate Account-R6 ^{3, 12}  LargeCap Value Separate Account-R6 	LargeCap S&P 500 Index Separate Account-R6 ^{2, 8, 28 ++}	LargeCap Growth I Separate Account-R6 ^{3, 22}  
Small/Mid U.S. Equity		
Mid Cap Value	Mid Cap Blend	Mid Cap Growth
MidCap Value III Separate Account-R6 ¹  		MidCap Growth III Separate Account-R6 ^{1, 13, 22, 31}  
Small Value	Small Blend	Small Growth
SmallCap Value II Separate Account-R6 ^{1, 15, 22}   		SmallCap Growth I Separate Account-R6 ^{1, 3, 22, 33}    

Portfolio and Strategic Asset Allocation Review

International Equity	Real Estate	Balanced/Asset Allocation
<p>Overseas Separate Account-R6 ^{4, 15, 22}</p>  <p>BARROW, HANLEY, MEWHINNEY & STRAUSS, LLC</p> <p>International Emerging Markets Separate Account-R6 ⁴</p> 	<p>U.S. Property Separate Account-R6 ²⁵</p> 	<p>Diversified Real Asset Separate Account-R6 ^{3, 12, 24, 28}</p> 
Short-Term Fixed Income	Fixed Income	
	<p>High Yield I Separate Account-R6 ^{5, 15, 18, 19}</p>   <p>Bond Market Index Separate Account-R6 ^{2, 18, 19}</p>  <p>Core Plus Bond Separate Account-I2 ^{18, 19, 28, 36}</p> 	

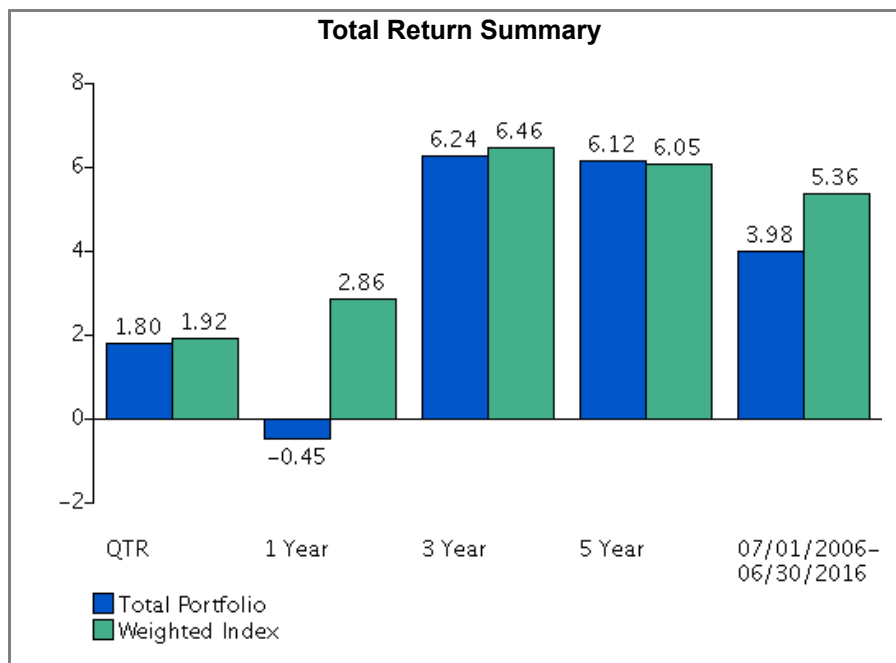
Please see important information at the end of this presentation.

Portfolio Performance Review

Time & Dollar Weighted Rates of Return June 30, 2016

Time & Dollar Weighted Returns	QTR	1 Year	3 Year	5 Year	10 Year
Total Portfolio Return	1.80	-0.45	6.24	6.12	3.98
Weighted Index	1.92	2.86	6.46	6.05	5.36
Excess Return	-0.12	-3.31	-0.22	0.07	-1.38

Asset Class Return Information	QTR	1 Year	3 Year	5 Year	10 Year
Your Plan's U.S. Equity Return	1.85	-0.76	11.21	10.37	5.13
Standard & Poor's 1500 Total Market Stock Index	2.60	3.64	11.52	11.94	7.53
Your Plan's International Equity Return	-1.86	-13.56	-0.03	-0.56	1.13
MSCI ACWI Ex USA Index	-0.64	-10.24	1.16	0.10	1.87
Your Plan's Real Asset Return	2.79	0.83	5.67	6.60	3.58
Blended Real Asset Index	1.18	2.12	2.35	2.21	1.59
Your Plan's Fixed Income Return	2.77	4.37	3.68	3.95	3.56
Barclays Aggregate Bond Index	2.21	6.00	4.06	3.76	5.13



We calculated performance of your plan assets with information provided to us by Principal Life Insurance Company from your June 30, 2016 Contractholder Fund Statement.

Your Plan's Real Asset Return includes the weighted investment performance from the following Separate Accounts for any reporting periods during which they were applicable to your plan's allocation: US Property Separate Account, sub-advised by Principal Real Estate Investors; Real Estate Securities Separate Account, sub-advised by Principal Real Estate Investors and Diversified Real Asset Separate Account, sub-advised by multi sub-advisors.

Please see important information at the end of this presentation.

Market & Performance Commentary

Please note:

Principal Financial Advisors delivers quarterly Market & Performance Commentary directly to the email address(es) you have provided via our *Asset Allocation Edge* newsletter. In an effort to simplify your Investment Advisory Report, improve delivery timing and streamline the report review process, the commentary section has been removed from the report.

If you are not currently receiving the quarterly commentary electronically, please notify your dedicated Advisory Associate immediately.

Investment Option 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.

In situations where the net and gross total investment expense figures are different, the mutual fund or underlying fund in which a Separate Account invests has waived/capped a portion of its management fees through the date displayed in the Waiver Expiration Date or Contractual Cap Expiration Date column. Differences may also be shown due to the fund family choosing to pay certain expenses that would normally be payable by the fund. Returns displayed are always based on net total investment expense.

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

Inv Manager or Sub-Advisor Investment Option	Average Annual Total Returns through 06/30/2016							Percentile Rankings as of 06/30/2016					Total Inv. Exp. Net / Gross	Contractual Cap/Waiver Expiration Date
	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.		
Large U.S. Equity														
Large Value														
Edge Asset Management, Inc. Equity Income Separate Account-R6 ^{3, 12}	4.72	3.50	9.46	10.45	6.58	8.49	06/30/2009	-	24	22	29	25	0.68 / 0.68	-
Russell 1000 Value Index	4.58	2.86	9.87	11.35	6.13	-	-	-	-	-	-	-	-	-
Principal Global Investors LargeCap Value Separate Account-R6	2.07	-0.09	8.72	9.78	5.20	7.29	06/01/1995	-	47	38	43	58	0.61 / 0.61	-
Russell 1000 Value Index	4.58	2.86	9.87	11.35	6.13	-	-	-	-	-	-	-	-	-
Morningstar Category Average - Large Value	2.68	-0.09	7.97	9.37	5.52	Total Funds in Category	1430	1368	1169	1030	756	-	-	-
Large Blend														
Principal Global Investors LargeCap S&P 500 Index Separate Account-R6 ^{2, 8, 28}	2.37	3.69	11.27	11.72	7.09	8.90	01/01/1990	-	19	17	15	29	0.31 / 0.31	-
Standard & Poor's 500 Index	2.46	3.99	11.66	12.10	7.42	-	-	-	-	-	-	-	-	-
Morningstar Category Average - Large Blend	1.76	-0.02	9.43	10.10	6.41	Total Funds in Category	1603	1523	1392	1206	895	-	-	-
Large Growth														
T. Rowe Price/Brown Advisory LargeCap Growth I Separate Account-R6 ^{3, 22}	-0.04	-0.95	11.31	10.98	8.64	4.53	12/29/2000	-	36	42	29	16	0.77 / 0.79	02/28/2017 02/28/2017
Russell 1000 Growth Index	0.61	3.02	13.07	12.35	8.78	-	-	-	-	-	-	-	-	-
Morningstar Category Average - Large Growth	0.54	-2.33	10.58	9.98	7.20	Total Funds in Category	1693	1627	1483	1289	931	-	-	-
Small/Mid U.S. Equity														
Mid Cap Value														
Principal Global/Barrow Hanley MidCap Value III Separate Account-R6 ¹	1.08	-4.46	8.60	10.17	7.09	10.30	01/01/1991	-	69	40	24	33	0.81 / 0.81	-
Russell Midcap Value Index	4.77	3.25	11.00	11.70	7.79	-	-	-	-	-	-	-	-	-
Morningstar Category Average - Mid Cap Value	2.37	-2.16	7.85	8.77	6.52	Total Funds in Category	484	470	408	348	240	-	-	-

Investment Option Performance

Inv Manager or Sub-Advisor Investment Option	Average Annual Total Returns through 06/30/2016							Percentile Rankings as of 06/30/2016							Total Inv. Exp. Net / Gross	Contractual Cap/Waiver / Expire Date
	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.				
Mid Cap Growth																
Robert Baird/William Blair MidCap Growth III Separate Account-R6 ^{1, 13, 22, 31}	1.61	-4.36	8.32	6.50	6.15	5.04	10/28/1999	-	33	52	74	67	1.11 / 1.14	02/28/2017 02/28/2017		
Russell Midcap Growth Index	1.56	-2.14	10.52	9.98	8.12	-	-	-	-	-	-	-	-	-		
Morningstar Category Average - Mid Cap Growth	1.98	-6.43	8.21	7.93	6.79	Total Funds in Category		737	724	650	573	429	-	-		
Small Value																
DFA/Vaughan Nelson/LA Capital SmallCap Value II Separate Account-R6 ^{1, 15, 22}	2.73	-5.00	7.99	9.07	5.53	7.30	06/01/2004	-	58	23	22	56	1.17 / 1.19	02/28/2017 02/28/2017		
Russell 2000 Value Index	4.31	-2.58	6.36	8.15	5.15	-	-	-	-	-	-	-	-	-		
Morningstar Category Average - Small Value	2.27	-4.30	5.92	7.67	5.69	Total Funds in Category		469	438	372	335	213	-	-		
Small Growth																
AB/CCI/Brown/Emerald SmallCap Growth I Separate Account-R6 ^{1, 3, 22, 33}	4.79	-10.00	7.42	8.25	7.72	4.58	12/29/2000	-	54	35	29	20	1.19 / 1.26	02/28/2017 02/28/2017		
Russell 2000 Growth Index	3.24	-10.75	7.74	8.51	7.14	-	-	-	-	-	-	-	-	-		
Morningstar Category Average - Small Growth	3.79	-9.86	6.46	7.26	6.55	Total Funds in Category		755	729	655	591	431	-	-		
International Equity																
Diversified Emerging Markets																
Principal Global Investors International Emerging Markets Separate Account-R6 ⁴	0.70	-13.29	-2.25	-4.11	2.66	7.53	01/01/1995	-	81	68	68	60	1.51 / 1.51	- -		
MSCI - Emerging Markets NDTR D Index	0.66	-12.06	-1.56	-3.78	3.54	-	-	-	-	-	-	-	-	-		
Morningstar Category Average - Diversified Emerging Markets	2.28	-9.89	-1.30	-3.19	3.21	Total Funds in Category		917	856	590	416	186	-	-		
Foreign Large Value																
Causeway / Barrow Hanley Overseas Separate Account-R6 ^{4, 15, 22}	-2.23	-13.57	0.48	0.65	-	3.78	09/30/2008	-	70	56	38	-	1.23 / 1.26	02/28/2017 02/28/2017		
MSCI EAFE Value Index	-2.79	-15.43	-0.10	0.05	0.21	-	-	-	-	-	-	-	-	-		
Morningstar Category Average - Foreign Large Value	-1.47	-11.39	0.74	0.35	0.47	Total Funds in Category		374	363	281	235	137	-	-		
Real Estate																
Owned Real Estate																
Principal Real Estate Inv U.S. Property Separate Account-R6 ²⁵	2.25	11.13	12.00	12.18	4.90	6.78	01/01/1982	-	-	-	-	-	1.15 / 1.15	- -		
NFI-ODCE Equal-Weight	-	-	-	-	-	-	-	-	-	-	-	-	-	-		

Investment Option Performance

Inv Manager or Sub-Advisor Investment Option	Average Annual Total Returns through 06/30/2016							Percentile Rankings as of 06/30/2016					Total Inv. Exp. Net / Gross	Contractual Cap/Waiver / Expire Date
	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception	Inception Date	Last 3 mos	1 yr.	3 yr.	5 yr.	10 yr.		
Balanced/Asset Allocation														
Allocation--30% to 50% Equity														
<i>Multiple Sub-Advisors</i>														
Diversified Real Asset Separate Account-R6 ^{3, 12, 24, 28}	4.42	-6.95	-0.35	0.67	-	3.44	12/31/2010	-	99	98	99	-	1.04 / 1.04	12/30/2016 12/30/2016
Diversified Real Asset Blended Index	5.20	-0.37	1.07	0.01	-	-	-	-	-	-	-	-	-	-
Morningstar Category Average - Allocation--30% to 50% Equity	2.65	0.94	4.28	4.68	4.56	Total Funds in Category		625	568	480	409	271	-	-
Fixed Income														
High Yield Bond														
<i>JP Morgan / Neuberger Berman</i>														
High Yield I Separate Account-R6 ^{5, 15, 18, 19}	4.50	0.00	3.30	4.82	7.24	6.83	12/31/2004	-	48	44	43	7	0.81 / 0.81	- -
Barclays US Corp High Yld 2% Issuer Capped Index	5.52	1.65	4.20	5.84	7.61	-	-	-	-	-	-	-	-	-
Morningstar Category Average - High Yield Bond	4.23	-0.46	2.92	4.58	5.97	Total Funds in Category		822	775	653	529	371	-	-
Intermediate-Term Bond														
<i>Mellon Capital Mgmt</i>														
Bond Market Index Separate Account-R6 ^{2, 18, 19}	2.09	5.40	3.56	3.24	-	3.73	12/30/2009	-	29	57	74	-	0.41 / 0.41	- -
Barclays Aggregate Bond Index	2.21	6.00	4.06	3.76	5.13	-	-	-	-	-	-	-	-	-
<i>Principal Global Investors</i>														
Core Plus Bond Separate Account-I2 ^{18, 19, 28, 36}	2.75	4.83	3.87	4.05	5.06	7.83	02/01/1983	-	49	37	29	44	0.55 / 0.55	- -
Barclays Aggregate Bond Index	2.21	6.00	4.06	3.76	5.13	-	-	-	-	-	-	-	-	-
Morningstar Category Average - Intermediate-Term Bond	2.35	4.63	3.59	3.64	4.79	Total Funds in Category		1100	1061	953	836	603	-	-

This section of your report includes all investment options with plan assets as of the end of the reporting period.

Please see important information at the end of this presentation.

Important Information

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

+ This is not a sub-advised investment option. Guarantees are backed by all the assets in the Principal Life general account.

++ Investment options sub-advised by Principal Global Investors.

Investment Advisory Services are provided by Principal Financial Advisors, Inc., a registered investment advisor and wholly owned subsidiary of the Principal Financial Group®.

No investment strategy, such as diversification or asset allocation, can guarantee a profit or protect against loss in periods of declining value.

Asset allocation strategies are developed using Separate Accounts available through a group annuity contract of Principal Life Insurance Company.

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. This does not apply, however, to the guaranteed portions of group annuity contracts issued by Principal Life that constitute guaranteed benefit policies as defined in ERISA §401(b)(2)(B).

This report includes investment options that contain information from a variety of sources. A primary source is Morningstar which provides holdings information, operations data, and rankings or statistics proprietary to Morningstar. Morningstar is generally the source of information on mutual funds unaffiliated with the Principal.

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Compliance number: t14092601zk

1. 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.

2. Each index based investment option is invested in the stocks or bonds of the index it tracks. Performance of indexes reflects the unmanaged results for the market segment the selected stocks or bonds represent. **There is no assurance an index based investment option will match the performance of the index tracked.**

3. *This Separate Account invests solely in the Institutional class shares of the Principal Funds. 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.*
4. *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.*
5. *High yield investment options are subject to greater credit risk and volatility that is associated with high yield bonds.*
6. *This investment option is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency. Although this investment option seeks to preserve the value of an investment, it is possible to lose money by investing in this portfolio.*
8. *S&P 500 is a trademark of The McGraw-Hill Companies, Inc., and has been licensed for use by Principal Life Insurance Company and Principal Management Corporation. The product is not sponsored, endorsed, sold or promoted by Standard & Poor's and Standard & Poor's makes no representation regarding the advisability of investing in the product.*
12. *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.*
13. *This Separate Account invests solely in the Institutional class shares of the Principal Funds. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holder investing in the Separate Account. For further information on the underlying mutual fund see the prospectus of the fund.*
15. *This Separate Account invests solely in the Institutional class shares of the Principal Funds. 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.*
16. *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.*
17. *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.*
18. *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.*
19. *Fixed-income and asset allocation investment options that invest in mortgage securities are subject to increased risk due to real estate exposure.*
22. *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.*

24. 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. or any other government entity. Concentrating investments in natural resources industries can be affected significantly by events relating to those industries, such as variations in the commodities markets, weather, disease, embargoes, international, political and economic developments, the success of exploration projects, tax and other government regulations and other factors. Investment in derivatives entails specific risks relating to liquidity, leverage and credit that may reduce returns and/or increase volatility. REIT securities are subject to risk factors associated with the real estate industry and tax factors of REIT registration. An MLP that invests in a particular industry (e.g., oil and gas) may be harmed by detrimental economic events within that industry. As partnerships, MLPs may be subject to less regulation (and less protection for investors) under state laws than corporations. In addition, MLPs may be subject to state taxation in certain jurisdictions, which may reduce the amount of income paid by an MLP to its investors.

25. This investment option is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. If you elect to contribute funds into the U.S. Property Separate Account, withdrawals may be delayed for up to 3 years.

27. The net return experienced may be negative if the costs to maintain and operate the Money Market Separate Account exceed returns. Participants may also see negative returns if plan expenses, if applicable, are netted or deducted from their accounts.

28. 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.

31. Effective January 13, 2014, this portfolio is sub-advised by Baird and William Baird and William Blair. Prior to January 13, 2014, this portfolio was sub-advised by Turner and Jacobs Levy. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

33. Effective April 25, 2014, Emerald was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

36. Formerly known as Bond and Mortgage Separate Account.

Benchmark Descriptions

Balanced Strategy Composite Index is composed of 30% Russell 1000 Index, 4% Russell 2500 Index, 14% MSCI EAFE Index, 3% MSCI Emerging Markets Index, 4% MSCI World Index, 5% NAREIT Equity Index, and 40% Barclays Capital Aggregate Bond Index.

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.

Barclays Treasury Bellwethers 3 Month Index is composed of public obligations of the U. S. Treasury with a maturity of three months.

Barclays U.S. Corporate High Yield Index is an unmanaged index constructed to mirror the characteristics of the high yield bond market.

Barclays US Corp High Yld 2% Issuer Capped Index is an unmanaged index comprised of fixed rate, non-investment grade debt securities that are dollar denominated. The index limits the maximum exposure to any one issuer to 2%.

Blended Real Asset Index through September 30, 2011, is as follows: 75% NFI-ODCE Equal-Weight and 25% MSCI US REIT Index. The NFI-ODCE Equal-Weight is the NCREIF Fund Index-Open End Diversified Core Equity. It is a fund-level equal-weighted, time-weighted return index and includes property investments at ownership share, cash balances and Leverage. The return series is net of the average fee charged by accounts that make up the index. The MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance. Effective October 1, 2011, the Blended Real Asset Index is comprised of 100% Consumer Price Index (CPI) plus 1.5%. Consumer Price Index is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. The CPI is calculated by taking price changes for each item in the predetermined basket of goods and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

Conservative Strategy Composite Index is composed of 11% Russell 1000 Index, 4% MSCI EAFE Index, 2% MSCI World Index, 3% NAREIT Equity Index, 60% Barclays Capital Aggregate Bond Index, and 20% Merrill Lynch US Treasury 1-3 year Index.

Diversified Real Asset Blended Index is composed of 35% Barclays U.S. Treasury TIPS Index, 20% S&P Global Infrastructure Index, 20% S&P Global Natural Resources Index, 15% Bloomberg Commodity Index, and 10% FTSE EPRA/NAREIT Developed Markets Index.

FTSE EPRA/NAREIT Developed Index is designed to represent general trends in eligible real estate equities worldwide.

FTSE EPRA/NAREIT Developed Index NR is designed to represent general trends in eligible real estate equities worldwide.

Growth Strategy Composite Index is composed of 41% Russell 1000 Index, 6% Russell 2500 Index, 17% MSCI EAFE Index, 4% MSCI Emerging Markets Index, 6% MSCI World Index, 6% NAREIT Equity Index, and 20% Barclays Capital Aggregate Bond Index.

Moderate Strategy Composite Index is composed of 20% Russell 1000 Index, 3% Russell 2500 Index, 9% MSCI EAFE Index, 2% MSCI Emerging Markets Index, 3% MSCI World Index, 3% NAREIT Equity Index, and 60% Barclays Capital Aggregate Bond Index.

MSCI - EAFE Index NDTR D is listed for foreign stock funds (EAFE refers to Europe, Australia, and Far East). Widely accepted as a benchmark for international stock performance, the EAFE Index is an aggregate of 21 individual country indexes.

MSCI - Emerging Markets NDTR D Index measures equity market performance in the global emerging markets. It consists of 26 emerging market countries in Europe, Latin America and the Pacific Basin.

MSCI EAFE Value Index is a subset of the MSCI EAFE Index, which is an unmanaged index that measures the stock returns of companies in developed economies outside of North America. The MSCI EAFE Value Index consists of securities classified by MSCI as most representing the value style.

MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.

NFI-ODCE Equal-Weight is the NCREIF Fund Index - Open End Diversified Core Equity. It is a fund-level equal-weighted, time-weighted return index and includes property investments at ownership share, cash balances and leverage. The return series is net of the average fee charged by accounts that make up the index.

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 growth values.

Russell 1000 Index consists of the 1000 largest companies within the Russell 3000 index. Also known as the Market-Oriented Index, because it represents the group of stocks from which most active money managers choose.

Russell 1000 Value Index is a market-capitalization weighted index of those firms in the Russell 1000 with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having higher price-to-book ratio and higher forecasted growth values.

Russell 2000 Index consists of the smallest 2000 companies in the Russell 3000 Index, representing approximately 10% of the Russell 3000 total market capitalization.

Russell 2000 Value Index is a market-weighted total return index that measures the performance of companies within the Russell 2000 Index having lower price-to-book ratios and lower forecasted growth values.

Russell Midcap Growth Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap Index having higher price-to-book ratios and higher forecasted growth values.

Russell Midcap Index includes firms 201 through 1000, based on market capitalization, from the Russell 3000 Index.

Russell Midcap Value Index is a market-weighted total return index that measures the performance of companies within the Russell Midcap index having lower price-to-book ratios and lower forecasted growth values.

Standard & Poor's 1500 Total Market Stock Index is an index of small, medium and large stocks. It is comprised of stocks from the Standard & Poor's 500, 400 and 600 stock indices.

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.

The Russell 3000 Index is constructed to provide a comprehensive barometer of the broad market and accounts for nearly 98% of the total value of all equity traded on the U.S. exchanges. It measures the stocks that are also members of either the Russell 1000 or the Russell 2000 indexes.

Weighted Index is composed of:

07/01/2006 - 02/28/2007: 34% Barclays Aggregate Bond Index, 47.90% S&P 1500 Index, 10% MSCI ACWI Ex USA Index, 6% NFI-ODCE Equal Weight Index and 2.10% MSCI US REIT Index.

03/01/2007 - 12/31/2010: 34% Barclays Aggregate Bond Index, 44% S&P 1500 Index, 13.90% MSCI ACWI Ex USA Index, 6% NFI-ODCE Equal Weight Index and 2.10% MSCI US REIT Index.

01/01/2011 - 09/30/2011: 34% Barclays Aggregate Bond Index, 43.40% S&P 1500 Index, 14.50% MSCI ACWI Ex USA Index, 6% NFI-ODCE Equal Weight Index and 2.10% MSCI US REIT Index.

10/01/2011 - 03/31/2016: 40% Barclays Aggregate Bond Index, 37.50% S&P 1500 Index, 12.50% MSCI ACWI Ex USA Index and 10% Blended Real Asset Index.

04/01/2016 - 06/30/2016: 40% Barclays Aggregate Bond Index, 39% S&P 1500 Index, 13% MSCI ACWI Ex USA Index and 8% Blended Real Asset Index.