

SAM Flexible Income R2 Portfolio as of 06/30/2014

Investment Strategy

The investment seeks to provide a high level of total return (consisting of reinvestment of income with some capital appreciation). The fund operates as a fund of funds. It: (1) Generally invests between 55% and 95% of its assets in fixed-income funds, and less than 40% in any one fixed-income fund; (2) Generally invests between 5% and 45% of its assets in equity funds, and less than 30% in any one equity fund; (3) Generally invests less than 20% of its assets in specialty funds, and less than 20% in any one specialty fund. The fund may temporarily exceed these percentage ranges for short periods.

Multiple Sub-Advisors

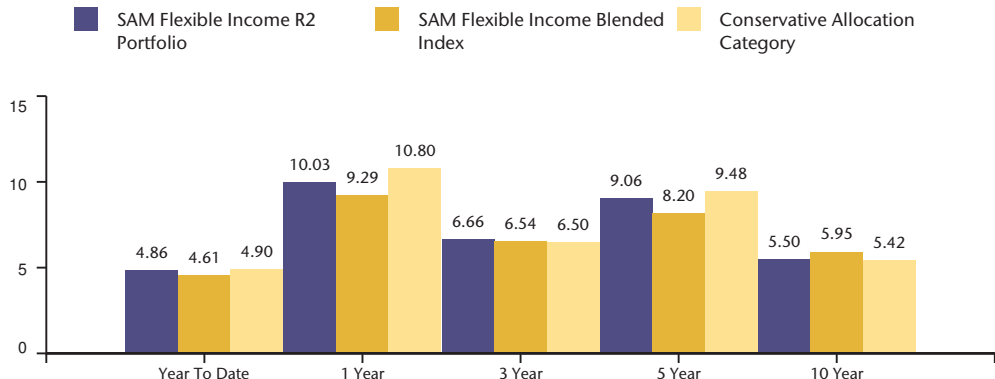
Portfolio managers

Charlie D. Averill, CFA. Since 01/01/2010. M.A., Princeton University

Jill R. Cuniff Since 01/01/2010. B.S., Montana State University

Todd A. Jablonski, CFA. Since 01/01/2010. M.B.A., New York University

Long-term returns % as of 06/30/2014



Performance disclosure

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 the most recent month-end performance, visit principal.com, contact your representative of The Principal, or call our Participant Contact Center at 1-800-547-7754.

In situations where the net and gross total investment expense figures are different or where a contractual cap and/or waiver date is given, the mutual fund or the 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 based on net total investment expense.

Long Term Returns	Year To Date	1 Year	3 Year	5 Year	10 Year
Total Return %	4.86	10.03	6.66	9.06	5.50
SAM Flexible Income Blended Index %	4.61	9.29	6.54	8.20	5.95
Conservative Allocation Category %	4.90	10.80	6.50	9.48	5.42
Morningstar Percentile Rankings	-	63	48	58	49
# of Funds in Category	732	705	561	475	253
Annual Returns	2013	2012	2011	2010	2009
Total Return %	6.66	9.75	2.42	9.58	20.54
SAM Flexible Income Blended Index %	5.56	7.35	5.67	9.07	11.77
Conservative Allocation Category %	7.23	9.40	1.70	10.03	20.77
Morningstar Percentile Rankings	57	49	34	61	51
# of Funds in Category	722	715	618	656	628

Morningstar percentile rankings are based on total returns.

Morningstar category

Conservative Allocation

Risk and Return Statistics

as of 06/30/2014 Relative to SAM Flexible Income Blended Index

	3Yr	5Yr
Alpha	-2.13	-1.56
Beta	1.36	1.31
R-Squared	91.96	91.52
Standard Deviation	4.90	5.11
Mean	6.66	9.06
Sharpe Ratio	1.33	1.71
Excess Return	0.12	0.85
Tracking Error	1.87	1.88
Information Ratio	0.06	0.46

Operations

Total Investment Expense Net	1.65%
Total Investment Expense Gross	1.65%
Inception Date	01/16/2007
Extended Performance	
Inception Date [#]	07/25/1996
Total Net Assets (mil)	\$1,998.25
12b-1 Fees	0.30%
Ticker	PFIVX



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Risk and return statistical data is calculated by Morningstar, Inc. Excess Return is calculated by Principal Life Insurance Company.

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Portfolio information†

Composition as of 05/31/2014

Asset Distribution		Asset Type	Net %	Short %	Long %
		U.S. Bonds	53.70	0.00	53.70
		U.S. Stocks	24.40	0.00	24.40
		Non-U.S. Stocks	7.30	0.00	7.30
		Non-U.S. Bonds	6.88	0.16	7.04
		Cash	4.30	0.51	4.82
		Preferred	2.42	0.00	2.42
		Other	0.50	0.08	0.58
		Convertibles	0.49	0.00	0.49

Top ten holdings

	% of net assets
1. Principal Income Inst	29.02
2. Principal Government & High Qual Bd Inst	15.00
3. Principal Equity Income Inst	8.28
4. Principal Short-Term Income Inst	7.86
5. Principal High Yield Inst	5.16
6. Principal LargeCap Value Inst	5.11
7. Principal Global Div Inc Instl	4.70
8. Principal Small-MidCap Dividend Inc Inst	4.48
9. Principal Large Cap Growth Inst	3.95
10. Principal Bond & Mtg Securities Inst	3.83
% of net assets in top ten holdings*	87.37

Analysis

# of Stock Hldgs	0
# of Bond Hldgs	0
# of Other Hldgs	17
AvgMktCap (mil)	\$24,187.17
Turnover Ratio	11%
P/C Ratio	7.05
P/B Ratio	2.02
P/E Ratio	16.19

Stock Sector Breakdown

	% of net assets		% of net assets		% of net assets
Cyclical	41.35	Defensive	22.40	Sensitive	36.25
Consumer Cyclical	10.13	Healthcare	11.80	Technology	11.65
Basic Materials	3.97	Consumer Defensive	5.81	Industrials	10.18
Financial Svcs	19.04	Utilities	4.79	Energy	12.11
Real Estate	8.21			Comm Svcs	2.31

Returns shown for periods of less than one year are not annualized. Annualized total returns measure net investment income and capital gain or loss from portfolio investments as an annualized average, assuming the reinvestment of dividends, and without adjusting for loads.

Insurance products and plan administrative services, if applicable, are provided by Principal Life Insurance Company. Principal mutual funds are part of the Principal Funds, Inc. series. Principal Funds, Inc. is distributed by Principal Funds Distributor, Inc. Securities are offered through Prncor Financial Services Corporation, 800-547-7754, member SIPC, and/or independent broker/dealers. Securities sold by a Prncor® Registered Representative are offered through Prncor. Principal Funds Distributor, Prncor and Principal Life are members of the Principal Financial Group®, Des Moines, IA 50392. Certain investment options may not be available in all states or U.S. commonwealths.

The full name of this investment option is Principal SAM Flexible Income R2 Portfolio.

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 by calling 800-547-7754. Read the prospectus carefully before investing.

SAM Flexible Income Blended Index is composed of 5% MSCI EAFE Index, 20% Russell 3000 Index and 75% Barclays Aggregate Bond Index.

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.

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. **Mean** - Represents the annualized total return for a fund over 3 and 5 years. **Sharpe Ratio** - Measures how an investment balances risks and rewards. The higher the Sharpe ratio, the better the investment's historical risk-adjusted performance. **Excess Return** - The difference between a manager's return and the return of an external standard such as a passive index. **Tracking Error** - The standard deviation or volatility of excess returns. **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.

Average Market Cap - The overall "size" of a stock investment option's portfolio. It is the geometric mean of the market capitalization for all of the stocks it owns and is calculated by raising the market capitalization of each stock to a power equal to that stock's stake in the portfolio. The resulting numbers are multiplied together to produce the geometric mean of the market caps of the stocks in the portfolio, which is reported as average market capitalization.

Price/Cash Flow (projected) Ratio - The ratio of the company's most recent month-end share price to the company's estimated cash flow per share (CPS) for the current fiscal year. Cash flow measures the ability of a business to generate cash and it acts as a gauge of liquidity and solvency. Morningstar calculates internal estimates for the current year CPS based on the most recently reported CPS and average historical cash flow growth rates. Price/cash flow (projected) is one of the five value factors used to calculate the Morningstar Style Box. For portfolios, this data point is calculated by taking an asset-weighted average of the cash flow yields (C/P) of all the stocks in the portfolio and then taking the reciprocal of the result.

Price/Projected Earnings Ratio - The ratio of the company's most recent month-end share price to the company's estimated earnings per share (EPS) for the current fiscal year. If a third-party estimate for the current year EPS is not available, Morningstar will calculate an internal estimate based on the most recently reported EPS and average historical earnings growth rates. Price/projected earnings is one of the five value factors used to calculate the Morningstar Style Box. For portfolios, this data point is calculated by taking an asset-weighted average of the earnings yields (E/P) of all the stocks in the portfolio and then taking the reciprocal of the result.

Price/Book (projected) Ratio - The ratio of the company's most recent month-end share price to the company's estimated book value per share (BPS) for the current fiscal year. Book value is the total assets of a company, less total liabilities. Morningstar calculates internal estimates for the current year BPS based on the most recently reported BPS and average historical book value growth rates.

† The Portfolio Composition depicts a breakdown of the investment option's portfolio holdings, as of the date listed, into general investment classes. The x-axis represents the percentage each investment group holds, with the y-axis representing a zero value. Values to the right of the y-axis represent long security positions, while values to the left of the y-axis represent short security positions. The table to the right of the bar chart sums these two values to present the net emphasis of each investment group. Due to rounding, the total net position may not equal 100%. Long positions involve buying a security and selling it later, with the hope that the security price rises over time. In contrast, short positions are taken to benefit from anticipated price declines. Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit principal.com.

#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.

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.

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

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

The Investment Advisor will display "Multiple Sub-Advisors" for certain target-date, target-risk and specialty investment options where the assets are directed by the Investment Manager to multiple underlying investment options. These underlying investment options may use multiple sub-advisors who are responsible for the day-to-day management responsibilities.

This Principal Strategic Asset Management Portfolio (SAM) indirectly bears its pro rata share of the management fees incurred by the underlying Principal Funds in which this portfolio invests. Based on the asset allocation of the SAM Portfolio outlined in the prospectus dated March 1, 2014, the weighted average operating expenses of the underlying funds are: Flexible Income, 0.58%; Conservative Balanced, 0.63%; Balanced, 0.68%; Conservative Growth, 0.72%; Strategic Growth, 0.70%. While the operating expenses of the underlying mutual funds are not part of the SAM Portfolio operating expenses they are included in the Total Investment Expense. Performance results shown for the SAM Portfolios reflect the application of these expenses.

* Values may exceed 100% if both long and short positions are included in the portfolio.