

Disciplined LargeCap Blend Fund (A)

Second Quarter 2011

Quarterly Commentary

Ticker	Investment Advisor	Benchmark	Morningstar Category	Investment Objective
PRMGX	Principal Global Investors	Standard & Poor's 500 Index	Large Blend	Growth and Income

Economy & Market Overview

The global economy hit a "soft patch" in the second quarter, with growth moderating throughout the European Union, Asia and the U.S. Key reasons for the slowdown included the sudden drop in Japan's production following March's earthquake and tsunami, ongoing sovereign debt concerns in Europe driven by troubles in Greece and a slower rate of growth in the U.S.

In Japan, supply chain disruptions caused by the earthquake and tsunami slowed the global economy as critical components and products that Japan exports to the rest of the world suddenly became unavailable in March. However, Japan already appears to be rebounding from these disasters. From April to May, the country's export volume soared almost 5%, reversing about a third of the plunge following the earthquake, and industrial output shot up 5.7%, its fastest pace since 1953.¹

In Europe, with the debt situation in Greece worsening in recent months, investors became increasingly concerned. Greece faced potential bankruptcy in mid-July without passage of additional austerity measures required in order to obtain the country's next tranche of bailout money. At the end of June, Greece finally passed a \$40 billion austerity package amid massive protests by its citizens. This move calmed jittery markets that had worried about a potential default.²

However, the ongoing situation in Greece brought increasing attention to the financial state of European banks in general. Of the approximately 330 billion euros of outstanding Greek debt at the end of June, European banks held about 17.2 billion euros of Greek debt maturing by the end of 2013. German and French banks began drawing the greatest investor scrutiny, as their large holdings of Greek debt could potentially cause material damage to these banks should Greece default.³

Meanwhile, in the U.S., data released during the second quarter showed deceleration in the pace of economic growth: GDP growth slowed to an annualized rate of 1.9% in the first quarter, down from 3.1% the prior quarter. The slowdown reflected an increase in imports, a reduction in household purchases and a larger decrease in federal government spending relative to the prior quarter,⁴ higher prices for food and energy held back consumer spending, which dropped back to an annualized growth rate of 2.2% in the first quarter (from 4.0% the quarter before). By the end of March, oil prices had risen to \$106.72/barrel (compared to \$91.38 on December 31, 2010). Fortunately, oil retreated in early May, and gasoline prices fell substantially;^{4, 5, 6} and, housing remained weak overall, with May's housing starts and sales of existing homes coming in below May 2010 levels. On a positive note, May's new single-family-home sales, though down from April, were 13.5% higher than in May 2010.^{7, 8, 9}

Unemployment also continued to drag on the U.S. economy, ticking up to 9.1% (from 8.8%) over the course of the second quarter. Most of the job losses occurred in the public/government sector, as the private sector added jobs in professional and business services, health care and mining during the period.¹⁰

With the overall slowdown in economic growth, fixed income generally outperformed stocks during the quarter. Mortgage-backed securities and corporate bonds (which both returned 2.28%) were top performers for investment-grade income. The corporate sector benefited from strong investor demand for yield and continued fundamental improvement for many corporate issuers. Meanwhile, high-yield bonds also delivered positive results, up 1.05% for the period.¹¹ The yield curve steepened modestly over the quarter, as the 10-year Treasury yield fell from 3.47% to 3.16% while the 2-year Treasury yield fell from 0.83% to 0.46%.¹² Overall, interest rates declined throughout much of the period as investors digested the reality of a slowing economy as well as the fact that the Federal Reserve Board appeared likely to keep interest rates on hold for the time being.

Stock markets generated mixed results during the quarter. Stocks in developed international markets fared the best, returning 1.6%, outpacing both emerging-market stocks (-1.2%) and U.S. stocks (0.0%).¹³

In the U.S., large-cap stocks returned 0.1% for the quarter, outperforming small-caps (-1.6%). Meanwhile, growth stocks beat value stocks during the period. Stocks in the health care, consumer staples and utilities sectors benefited U.S. stock performance the most, while energy and financial stocks were the key detractors.¹⁴

Not FDIC or NCUA insured

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

Performance Contributors

Positive Contributors

During last quarter:

The health care, utilities and consumer staples sectors added the most value during the period, and stock selections in the health care, consumer discretionary and financial sectors were the most effective. Stocks positively affecting relative returns included overweights to UnitedHealth Group and Aetna and an underweight position in Bank of America.

During last 12 months:

All sectors posted positive returns, with the energy, materials and consumer discretionary sectors adding the most value. Stock selections in the health care, industrial and energy sectors were the most effective. Stocks positively affecting relative returns included overweights in National Oilwell Varco and UnitedHealth Group and an underweight position in Bank of America.

Negative Contributors

During last quarter:

The financial, energy and information technology sectors lagged, and stock selection in the industrial, consumer staples and information technology sectors held back performance. Stocks that negatively contributed to the portfolio's relative performance included Johnson & Johnson, JPMorgan Chase and Micron Technology. The portfolio's investment strategy struggled during the period as investors bid up deep-value early cyclicals.

During last 12 months:

Stock selections in the consumer staples, consumer discretionary and materials sectors were less effective. Stocks that negatively contributed to the portfolio's relative performance included American Express, ConocoPhillips and Wal-Mart Stores.

Changes to the investment option's structure or portfolio:

No material changes occurred in the portfolio structure.

Disciplined LargeCap Blend Fund (A)

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 06/30/2011	QTR	YTD	1 Year	3 Year	5 Year	10 Year	Since Inception	Inception Date	06/28/2005
Disciplined LargeCap Blend Fund (A) (excl. sales charge)	-0.39	6.82	31.11	0.79	1.34	-	6.13	Ext. Perf. Inc. Date	12/30/2002
Disciplined LargeCap Blend Fund (A) (incl. sales charge)	-5.86	0.95	23.92	-1.08	0.19	-	5.43	Total Inv. Exp Gross	1.18
Standard & Poor's 500 Index	0.10	6.02	30.69	3.34	2.94	2.72	-	Total Inv Exp Net	1.18
Large Blend Category	-0.19	5.45	29.68	2.60	2.49	2.68	-	Waiver Date	-
Morningstar Percentile Ranking	-	-	31	82	78	-	-	Contractual Cap Date	-
Total Funds in Category	1990	1974	1893	1675	1434	813	-	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. 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.

Disciplined LargeCap Blend Fund (A)

Statistics Summary as of 06/30/2011

	Risk and Return Statistics Summary						Upside/Downside Capture Ratio					
	Alpha	Beta	R2	Sharpe Ratio	Info Ratio	Std Dev	# of Months	Avg Returns %	Benchmark %			
	3 Year						3 Year					
Disciplined LargeCap Blend Fund (A)	-2.44	0.97	99.18	0.13	-1.28	20.64	21	15	3.87	-6.16	93.23	101.69
Standard & Poor's 500 Index	N/A	N/A	N/A	N/A	N/A	N/A	23	13	4.15	-6.06	100.00	100.00
	5 Year						5 Year					
Disciplined LargeCap Blend Fund (A)	-1.56	0.98	98.83	0.06	-0.82	17.54	37	23	3.28	-5.01	95.06	101.50
Standard & Poor's 500 Index	N/A	N/A	N/A	N/A	N/A	N/A	38	22	3.45	-4.93	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 05/31/2011

Security	Net Assets (%)
Apple, Inc.	4.10
General Electric Co	3.42
JPMorgan Chase & Co	3.22
Oracle Corporation	3.15
Chevron Corporation	2.95
ExxonMobil Corporation	2.94
UnitedHealth Group Inc	2.59
Wal-Mart Stores, Inc.	2.40
Verizon Communications Inc	2.25
Pfizer Inc	2.20
Total % in Top 10	29.21

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

Disciplined LargeCap Blend Fund (A)

Manager(s)	Start Date	Degree	Alma Mater
Jeffrey A. Schwarte	12/30/2002	B.A.	University of Northern Iowa

Fund Strategy

The investment seeks long-term growth of capital. The fund normally invests at least 80% of net assets in common stocks of companies with large market capitalizations similar to companies in Standard & Poor's 500 Index at the time of purchase. In selecting securities, management looks at stocks with value and/or growth characteristics and constructs an investment portfolio that has a "blend" of stocks with these characteristics.

About Principal Global Investors

Principal Global Investors managed \$47.8 billion in global equity assets as of December 31, 2010. The firm's capabilities encompass large-cap, mid-cap and small-cap stocks in developed and emerging equity markets worldwide. Principal Global Investors draws on a unified investment philosophy focused on independent fundamental research and superior stock selection. Principal Global Investors is a member of the Principal Financial Group®.

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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.

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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. 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.

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.

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 *On the Other Hand: Economic Insights*, May 2011 and Second Quarter 2011 editions, by Bob Baur and the Principal Global Investors Economic Committee

² "Greece to Vote on Austerity Details," June 30, 2011; wsj.com

³ "European Creditors Move Closer to Greek Debt Rollover Plan," June 27, 2011; Bloomberg.com

⁴ Bureau of Economic Analysis GDP Press Release, Third Estimate, June 24, 2011; www.bea.gov/newsreleases/national/gdp/gdpnewsrelease.htm

⁵ U.S Energy Information Administration, Cushing, OK Crude Oil Future Contract 1; www.eia.gov

⁶ *On the Other Hand: Economic Insights*, Second Quarter 2011 edition, by Bob Baur and the Principal Global Investors Economic Committee

⁷ U.S Census Bureau: "New Residential Construction in May 2011"; www.census.gov

⁸ National Association of Realtors: "Existing Home Sales Decline in May"; www.realtor.org

⁹ U.S Census Bureau: "New Residential Sales in May 2011"; www.census.gov

¹⁰ U.S. Bureau of Labor Statistics: "The Employment Situation May 2011"; www.bls.gov

¹¹ Components of Barclays Capital Aggregate Bond Index; Russell 3000 Index; BarCap US Corporate High Yield Index

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Important Notes

¹² FactSet US Benchmark Bond

¹³ Developed international stocks: MSCI EAFE Index; Emerging international stocks: MSCI Emerging Markets Index; U.S. stocks: Russell 3000 Index

¹⁴ Russell family of indexes

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

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