Principal U.S. Property Separate Account
Q&A – RIS Participant

Topics

Partial Payments Announced

How was my payment amount determined?

- On January 29, 2010, payments were made available to partially satisfy approximately 13% of the value of transaction requests subject to the withdrawal limitation. This payment was applied to transaction requests made prior to 3:00 p.m. CT on January 28, 2010.
- Payments are being made on a pro-rata basis and will be determined based on unit values at the time of payment.
- Some participants made more than one withdrawal request from the Separate account. If total transactions requested for a participant were valued less than $300 on Thursday, January 28, 2010, they were satisfied in full.
- If a participant's total transactions requested were valued at more than $300, the participant received a pro-rata share of the requests. The pro rata percentage was approximately 13%.
- If a participant's pro rata share totaled less than $300, $300 was pro-rated across all of their requests subject to the withdrawal limitation.
- In the best interest of all Separate Account participants distributions were generally made on a pro rata basis. There is no distribution on a first-in-first-out basis.
- The proportion of the liquidity that the participant will receive is determined using the unit value on Thursday, January 28, 2010. The payments will be made effective on Friday, January 29, 2010. Values may differ due to the one-day change in unit value.

What has changed, that allowed a payment to partially satisfy requests subject to the withdrawal limitation?

The Principal U.S. Property Separate Account had sufficient liquidity to allow partial payments for a variety of reasons. Two important reasons were successful property sales and proceeds from those sales that exceed near-term current and projected obligations. The market for commercial real estate sales began to show signs of improvement during the second half of 2009 and gained additional traction during the fourth quarter, due to the increased availability of financing for buyers and in some cases, increased competition for available assets. Nationwide property sales volume is still below the 2007 peak by approximately 90%. Despite this, the Separate Account closed nearly $630 million in sales during the second half of 2009,

all of which were consistent with the long-term strategic initiatives of the Separate Account.

Prior to the distribution, and since the inception of the withdrawal limitation, all sources of cash, including proceeds from sales of properties, rents from tenants and investor contributions, were first used to satisfy cash requirements at the properties, meet debt maturities, maintain compliance with debt covenants and meet upcoming Separate Account obligations. As such, the Separate Account eliminated debt, significantly reduced 2010 debt maturities and paid down the outstanding balance on the line of credit. The combined result enabled the Separate Account to have liquidity available to pay a portion of requests subject to the withdrawal limitation while maintaining adequate cash and access to debt to continue to manage the Separate Account.

More information is available in the 4th Quarter 2009 Flash Report.

How was the overall payment amount determined?

The amount available for distribution was determined by the oversight committee made up of senior officers from Principal Life. This committee reviewed all available information, including future cash flow projections, upcoming obligations and debt maturities of the Separate Account and determined the dollar amount and timing of this distribution based upon review of that data.

Were small transactions satisfied in full?

Principal Life chose to apply a de minimis amount to the distribution of liquidity. The value of a participant's transactions on Thursday, January 28, 2010, subject to the withdrawal limitation were totaled. If that total was $300 or less, the participant's transactions were satisfied in full.

How was the de minimis amount applied to requests exceeding the de minimis amount?

If the value of all the participant's transactions exceeded $300, the distribution percentage of approximately 13% was applied. If the distribution calculation resulted in a value of less than $300 being paid to the participant, a distribution of $300 was processed. This distribution was pro-rated over the participant's transactions.

If a participant requested multiple distributions, will they receive multiple checks?

Yes, a check will be sent for each distribution request.

If a participant requested multiple investment transfers, will they receive multiple confirmations?

Yes, a confirmation will be produced for each investment transfer per the current confirmation designation.

Why did Principal Life elect to use a de minimis amount and fully satisfy some small transactions?

A de minimis was used to help participants and plans avoid the inconvenience and expense of handling very small amounts. We anticipate multiple distributions of liquidity will be required to satisfy all withdrawal requests subject to the withdrawal limitation. We wished to avoid perpetually declining small amounts being paid.

Can I cancel the remaining portion of my investment transfer request and leave those funds invested in the U.S. Property Separate Account?

Yes, you may cancel your remaining investment transfer request. Plan participants can view the status or any remaining amounts subject to the limitation via our secure plan participant Web site at principal.com. Once the plan participant has logged into the account, he/she would click on the *Account Info* tab at the top of the page.

If your plan has switched to another service provider or your plan fiduciary has removed the Separate Account as an option available to you, you may be unable to cancel the remaining portion of your investment transfer request. In these circumstances, your investment transfer request will be honored when there is sufficient liquidity available.

Can I request a transfer into the U.S. Property Separate Account?

Yes, plan participants may request a transfer into the U.S. Property Separate Account, if this investment option is available for new contributions and transfers under the plan. Transfers may be requested via our secure plan participant Web site at principal.com. Once the plan participant has logged in to the account, he/she would click on the *Make Changes* tab at the top of the page.

A transfer market timing transfer restriction (the "round trip" restriction, has been in place for many separate accounts to help reduce excessive trading and is different from the withdrawal restriction on the Principal U.S. Property Separate Account) may prevent participants from making a transfer into a separate account from which they have transferred out of within the last 30 days. Have any changes been made to the market timing transfer restrictions on the Principal U.S. Property Separate Account?

Yes, the market timing transfer restriction in place for the Principal U.S. Property Separate Account has been changed to allow two transfers out of the Separate Account in a 30-day period before triggering the "round trip" restriction. This will allow participants who receive a payment as part of a liquidity distribution to reevaluate whether they would like to be invested in the Separate Account and if they desire, transfer back into the Separate Account after receiving a payment of liquidity. The withdrawal limitation remains in place for any transfer requests from the Separate Account.

We understand that the original request for a withdrawal from this Separate Account may have been placed some time ago and want to allow participants the opportunity to reevaluate their investment allocation.

This change does not affect any other Separate Account available under the group annuity contracts.

Can I change my on-going contribution amount to the U.S. Property Separate Account?

Yes, you may change your on-going contribution amount directed to the U.S. Property Separate Account, if this investment option is available for new contributions and transfers under your plan. Contribution amounts may be changed via our secure plan participant Web site at principal.com. Once the plan participant has logged in to the account, he/she would click on the *Make Changes* tab at the top of the page.

I had multiple transaction requests subject to the withdrawal limitation. How was this accounted for in the distribution process?

Transactions were handled on a pro-rata basis. All requested transactions for a participant were added together. If total transactions requested for a participant were valued at $300 or less they were satisfied in full. If the total transactions requested were valued at more than $300, the participant received a pro-rata share of the requests. The distribution percentage was approximately 13%.

If a participant's pro-rata share totaled less than $300, $300 was pro-rated across all of their requests subject to the withdrawal limitation. There are no payments on a first-in-first-out basis.

May I submit a withdrawal request from U.S. Property Separate Account?

Yes, plan sponsors and participants may submit withdrawal requests at any time. The withdrawal limitation remains in place for any withdrawal requests from the Separate Account.

Why do investors continue to hold and invest in real estate investments?

We cannot provide investment advice; as always, we urge you to obtain appropriate investment advice to the extent you believe you need it.

Participants and fiduciaries can find additional information about this Separate Account by logging in to the retirement account at principal.com and clicking on the *Investments* tab.

We understand that many plan fiduciaries selected this Separate Account as an investment option for their retirement plan in part because it was determined that the benefits of long-term investment in the real estate asset class, including diversification from stock and bonds, outweighed the possibility of liquidity limitations.

How has the volume of withdrawal requests from the U.S. Property Separate Account changed?

The dollar amount and frequency of these requests slowed considerably during the second half of 2009. In addition, multiple investors have canceled their payment requests; the total amount of cancelled requests is $46.7 million through January 26, 2010.

What transactions will receive a distribution?

Transactions must have been requested before 3:00 p.m. CT Thursday, January 28, 2010. All transactions requested at 3:00 p.m. CT Thursday, January 28, 2010, or later will not share in this distribution.

You received my distribution request prior to 3:00 p.m. CT Thursday January 28, 2010, but my transaction did not receive a partial payment, Why?

While your distribution paperwork was received prior to 3:00 p.m.CT Thursday January 28, 2010, there is a 7 day wait period before we can process your original request due to federal tax law. The 7 day wait period began on the date you documented on the paperwork that you received the distribution form. If no date was documented, the wait period began on the date we received your request. This information is outlined under "Section 4 – Participant's Signature" portion of the distribution form. Due to this fact, your transaction must wait 7 days prior to beginning the distribution process and that date was after the 3 pm CT Thursday, January 28, 2010 eligibility date for this partial payment.

My request was in place prior to this liquidity distribution and more transactions are being delayed, will my remaining transaction be satisfied sooner than those requested after January 28, 2010?

No, in the future, transactions will be satisfied on a pro-rata basis. At the time that additional payments are made, all transactions that are then subject to the withdrawal limitation will again share in the distribution on a pro-rated basis.

When will additional liquidity be paid from the Separate Account?

The timing of payments to investors impacted by the withdrawal limitations will depend primarily on the ability to sell properties at prices consistent with the best interest of all Separate Account investors. It remains likely that multiple payments over some period of time will be necessary in order to fully satisfy all requested withdrawals given the current amount of requests subject to the withdrawal limitation and the timing and volume of property sales.

Property sales will continue to be the primary contributor to funds available for distribution. Despite some improvement in the transaction market for commercial real estate, the timing of future property sales remains uncertain and volume is still at very depressed levels. The Separate Account has identified over $900 million in potential property dispositions, some of which has property level debt. The dollar amount and timing of additional distributions will be dependent upon success in executing these sales.

How much will be paid out the next time payments are made?

When there is sufficient liquidity in the Separate Account to make another payment of amounts subject to the withdrawal limitation, the oversight committee will determine the amount and timing of the payment.

Will small dollar transactions be paid in full when additional payments are made? If so, what will the dollar amount limit be?

Principal Life may elect to pay small dollar amount transactions in full at the time of a liquidity distribution. This will depend on things like the available liquidity at the time, the demand on the liquidity, and the commercial real estate markets. Any such determinations will be made at the time the liquidity amount is declared in accordance with the best interest of all of the plans participating in the Separate Account.

What actions are we taking to enable us to make additional payments?

Property sales will continue to be a factor in determining whether funds are available for payment. The Separate Account has identified over $900 million in potential property dispositions, some of which have property level debt. The dollar amount and timing of additional payments will be dependent upon a variety of factors.

Why were withdrawal requests satisfied on a pro-rata manner?

Pro-rata payments are required by the contract that provides the plan access to the Separate Account. Satisfying transactions on a pro-rated basis insures all investors with a transaction subject to the withdrawal limitation receive the same proportion of their requested transaction.

Why is the amount paid sometimes less than what was originally requested?

Available liquidity is less than the requested withdrawal amounts. In most instances, the unit values of the original requests have decreased since the time of the original request.

The 3rd party I used to set up an annuity/CD will not accept additional checks/distributions. Will Principal Life accept the check back and allow for a rollover to a different party/or account?

Yes, plan participants can request that a check be issued to another provider. Participants should contact us via our secure participant Web site at principal.com. Once the participant has logged in to the account, he/she would click on the *Contact Us* button.

It does not matter if the check would need to be issued in a different tax year than the first check.

Even if our group annuity contract has terminated, we can still issue a new check.

The employer plan I initially requested a plan to plan rollover into will not accept it since I am no longer actively employed. Will Principal Life accept the check back and allow the money to be rolled to another party?

Yes, plan participants can request that a check be reissued to another provider. Participants should contact us at 1.800.547.7754.

If withdrawal requests are subject to the limitation, could multiple checks be received by plan participants or financial institutions?

Yes, under certain circumstances participants or financial institutions may receive multiple checks.

What unit value will be used in processing my payment(s)?

The contract requires that payments subject to the withdrawal limitation be made based on the unit value associated with the date of payment rather than the date of the original withdrawal request.

How were plan sponsors notified of these payments?

To ensure accuracy and equal treatment, it was necessary and appropriate to communicate to all audiences on the same day, Friday, January 29, 2010.

All Plan Sponsors with at least one transaction subject to the withdrawal limitation were notified on Friday, January 29, 2010, via The Principal message center.

An E-mail was sent to all plan sponsors for which we have a current e-mail address on file.

We also posted a news article on the Principal Sponsor Service Center^{SM} for all plans sponsors with at lease one transaction via the Principal Message Center^{SM} message.

How were plan participants notified of this distribution?

To ensure accuracy and equal treatment, it was necessary and appropriate to communicate to all audiences on the same day, Friday, January 29, 2010.

Notification of the distribution of assets was provided on Friday, January 29, 2010, beginning at 5 p.m. CT, by e-mail. The e-mail was sent to all plan participants with at least one transaction subject to the withdrawal limitation for which we have a current e-mail address.

This notification was also provided to impacted plan participants via their personalized retirement account information at principal.com.

For plan participants who did not have access to a computer/web/E-mail, templates were provided to plan sponsors for further communication of this distribution to plan participants.

Background

What makes the Principal U.S. Property Separate Account unique from other Separate Accounts established by Principal Life Insurance Company?

- The Principal U.S. Property Separate Account, managed by Principal Real Estate Investors, LLC, is unlike most other retirement plan investment options because it invests primarily in owned real estate rather than securities.
- These holdings generally include developed commercial properties such as warehouses, office buildings, apartments, and retail properties.
- Unlike public securities sold on an exchange, real estate assets are sold in private transactions. Due to the nature of these transactions, the Separate Account may be subject to adverse market conditions, most notably the purchaser's ability to secure financing, which may delay or prevent the sale.

Why was this limitation applied?

- Market turmoil, compounded by an already challenging real estate market has resulted in a marked slowdown in the sale of commercial real estate assets.
- Additionally, cash flows out of the Principal U.S. Property Separate Account outpaced new contributions as investors decided to move assets from real estate to other investment strategies.
- While the Separate Account has historically maintained sufficient cash to satisfy withdrawal requests in the ordinary course of business, the unprecedented combination and duration of these market factors resulted in the Principal Life Insurance Company's determination to implement a withdrawal limitation for the first time in the 27-year history of the Separate Account. The decision to implement a withdrawal limitation was made in the best interest of plan participants.
- This limitation will be in place at least until adequate liquidity exists to meet all requests impacted by the withdrawal limitation.

Was this limitation applied as a result of the current economic environment?

- Yes. In that market turmoil, compounded by an already challenging real estate market, resulted in a marked slowdown in the sale of commercial real estate assets, leaving us unable to raise the liquidity needed for the Separate Account.
- Real Capital Analytics reported fourth quarter 2009 transaction activity in the U.S. of $14 billion, compared to $20 billion in the fourth quarter of 2008 and $122 billion in the fourth quarter of 2007.
- This is the only time in the 27-year history of the Separate Account that a contractual withdrawal limitation has been applied.

The stock market has experienced gains in recent months, does this mean that we can expect liquidity to be available soon?

- No, the performance of the equities markets and the commercial real estate market are not directly correlated. They tend not to behave in the same manner at the same time.
- Please refer to the most recent Quarterly Performance Report for more information on the performance of the commercial real estate market and the Separate Account.

How does this withdrawal limitation work for participants?

- At this time, death, disability, qualified retirements, and hardship withdrawals are still being paid out.
- Requests to transfer out of the Separate Account, take a loan, or terminate distributions are subject to the limitation.

What does the term liquidity or liquid assets mean?

- Liquidity is the ability or ease with which assets can be converted into cash.
- Liquid assets are assets that are able to be changed into money easily.

When did the limitation take effect?

- Friday, September 26, 2008 at 12:01 a.m. Central Time.

At what point will the withdrawal limitation no longer be in place?

- The timing of any distribution to investors impacted by the withdrawal limitations will depend primarily on the ability to sell properties at prices consistent with the best interests of all Separate Account investors. It remains likely that multiple distributions over some period of time will be necessary in order to fully satisfy all requested withdrawals given the current amount of requests subject to the withdrawal limitation and the timing and volume of property sales.
- Regular processing of all withdrawal transactions will resume once the Principal U.S. Property Separate Account has adequate liquidity and all withdrawal requests subject to the limitation have been satisfied.
- The contract provision permitting the implementation of this withdrawal limitation allows the limitation to be utilized again in the future if conditions warrant.

Does the Separate Account own the properties outright versus having a loan / mortgage on the property?

- There are multiple ownership structures in this Separate Account, but the majority of assets (approximately 65% as of December 31, 2009) are owned without a loan on the property.

Can you use rental income to honor the requests that are subject to the withdrawal limitation?

- All sources of funds in this Separate Account, including rental income, may be used to satisfy obligations.
- However, the Separate Account needs available funds to preserve, operate, and maintain the properties. This includes paying, among other things, insurance coverage, property maintenance, debt service, and property taxes.
- There are currently not sufficient liquid assets, including rental income, to allow for distributions subject to the withdrawal limitation.
- Please refer to the updated letter from the portfolio manager.

Will you use available cash to purchase more buildings while this limitation is in place?

- The potential exists that additional property will be acquired if deemed appropriate and consistent with the Separate Account's strategic objectives.
- The funds derived from property sales proceeds, rents from tenants, and investor contributions are used for ongoing property and portfolio level cash needs, interest payments on debt, acquisition obligations (as of December 31, 2009 the Separate Account had outstanding obligations to purchase approximately $553 million in assets in the next few years, all of which were committed to prior to 2nd quarter 2008), and retirement of debt.
    - During the fourth quarter of 2009, the Separate Account purchased 3 assets, all of which were part of the Separate Account's forward commitment program and were committed to prior to the implementation of the withdrawal limitation.
    - Cicero is a 113,948 square foot recently redeveloped industrial asset located five miles west of downtown Chicago, IL. The Separate Account closed on the transaction in October. As of December 31, 2009, the building is 100% leased.
- Santa Trinita and Lindenhurst Village Green are land parcels acquired by the Account in October at their respective loan maturity dates. Santa Trinita is a 4.6 acre parcel located in the Sunnyvale submarket of San Jose, CA. Lindenhurst Village Green is 55 acre parcel located in Lake County, just north of Chicago, IL.
- Principal Real Estate Investors will continue to manage the Separate Account in accordance with the investment strategy and in the best interest of all investors.

Who can invest in the Principal U.S. Property Separate Account?

- The Principal U.S. Property Separate Account is available to plan sponsors of defined contribution (DC) and defined benefit (DB) plans as an available investment option.
- It is the Plan fiduciaries that determine whether the Principal U.S. Property Separate Account is an available and appropriate investment option under the plan.

Are the retirement plans for the Principal Financial Group® employees subject to the same rules and restrictions as other plans?

- The 401(k) plan and/or pension plan covering employees of Principal Life and its affiliates are subject to the same rules and restrictions as all other plans participating in the Principal U.S. Property Separate Account.

Are the holdings under the Principal U.S. Property Separate Account safe, given the implementation of this withdrawal limitation?

- The application of the withdrawal limitation does not change the quality of the underlying real estate properties held in the Separate Account.
- The Separate Account continues to be managed for the benefit of those who remain invested, as well as for the orderly generation of cash to redeem investor interests subject to the withdrawal limitation. The assets held in the Principal U.S. Property Separate Account are insulated from all of the other businesses and obligations of Principal Life Insurance Company.
- The market value of the underlying real estate holdings, and therefore the unit value of the Separate Account, will continue to fluctuate with market factors. The values have decreased for two primary reasons. First, the required rate of return from investors purchasing commercial real estate has increased substantially. In essence, investors re-priced the risk associated with commercial real estate investments, increasing the risk premium to reflect the lack of financing and broader economic risks.
- Second, widespread economic deterioration has eroded fundamentals at the property level such as: market rental rates, leasing projections, credit loss provisions, etc. As those assumptions are input into the underlying cash flows for each property (as appropriate), asset values have declined. As these changes are recognized in the underwriting of the assets, the values of the properties decline.
- The core, low-risk strategy and high asset quality of the Separate Account can provide investors with attractive risk-adjusted returns over a full market cycle. The management team maintains its dual focus on return generation and risk management, with the interest of all investors at the forefront of the management of the Separate Account.

How does the implementation of the withdrawal limitation affect the overall unit value of the Principal U.S. Property Separate Account?

- The implementation of a withdrawal limitation does not have an impact on the calculation of the unit value of the Separate Account because amounts for which we receive a withdrawal request remain invested until they are distributed.
- The value of the underlying real estate holdings, and therefore the unit value, will continue to fluctuate with market factors.
- It is important to understand that not implementing a withdrawal limitation may have had an adverse affect on the Separate Account by having to dispose of assets at less than desirable prices, given the lack of liquidity within the commercial real estate market.
- The limitation allows those who have submitted a withdrawal request to receive their withdrawal amounts over time in a manner that does not compromise the strategic objectives of the Separate Account.

- It also protects the amounts of cash needed to preserve and operate the real estate investments held in the Separate Account.

Why isn't Principal Life Insurance Company providing liquidity from the general account or the holding company?

- The law restricts our ability to use assets of Principal Life Insurance Company to provide liquidity in a separate account.
- Separate accounts, which are subject to state law, are named as such because they are designed to be separate from the other business of the insurer. The separate account stands on its own gains or losses.
- By design, investors bear the benefits and risks associated with investing in these types of accounts. An investor's interest is a portion of the value of all of the net assets of the separate account.
- The purpose of applying this provision now is to allow the Separate Account to continue to be managed appropriately for the benefit of investors who remain invested in the Separate Account, as well as handle the redemption requests of investors requesting to redeem part/all of their investment.

Doesn't Principal Life Insurance Company own significant amounts of real estate and/or have other more liquid assets? Why can't withdrawal requests be satisfied by those assets?

- Yes. However, cash to satisfy withdrawal requests must come from the assets in this Separate Account. The other properties and assets owned by Principal Life Insurance Company are not part of this Separate Account, which by law, must remain separate from our other business.

Where can I find additional information about the Principal U.S. Property Separate Account?

- You can access the Principal U.S. Property fact sheet at principal.com
- The most recent Quarterly Performance Report, provided by Principal Global Investors (for 4th Quarter, please refer to the Annual Report)
- Principal U.S. Property 2009 Annual Report, provided by Principal Global Investors

What is securities lending? Is there any in the Principal U.S. Property Separate Account?

- Securities lending within portfolios is when the portfolio lends securities that it owns to short sellers.
- It is designed to generate a return through investment of the cash collateral received from borrowers of securities held.
- Securities lending was mentioned in a *Wall Street Journal* article published in May. The flow of the article made it seem as though securities lending was occurring within this portfolio.
- The Principal U.S. Property Separate Account has no securities on loan and does not participate in any securities lending.

How much has been paid out of the Separate Account since the withdrawal limitation was implemented?

- Since the implementation of the withdrawal limitation and through September 30, 2009, $159.7 million related to contractual death and disability payments, qualified retirement benefits, plan terminations, and hardship withdrawals have been paid out of the Separate Account.

Why is the Principal U.S. Property Separate Account listed with the "fixed income" investment options on the participant Web site?

- Principal Life Insurance Company places investment options into categories primarily to assist participants in diversifying their plan investments and creating allocation strategies that fit their particular needs.
- Principal Life Insurance Company includes this Separate Account in the fixed-income category for purposes of asset allocation due to its low correlation with equities, its historic risk/return ratio, its historical low volatility, and the substantial portion of the Account return based on income stream (rents).
- In short, its returns have historically acted more like fixed-income returns. While the liquidity risk was considered and disclosed to investors, the liquidity risks historically were not such that it was believed this investment needed to be classified with other riskier, more volatile investments.
- While neither bond investments nor this Separate Account have delivered returns experts would have predicted 2 years ago, this Separate Account still has a better 5-year return than many equity investments and has continued to have lower historical volatility characteristics than both stocks and bonds.

Has there been media coverage of the Principal U.S. Property Separate Account and the implementation of the withdrawal limitation?

- Yes. For example, the Principal U.S. Property Separate Account and the implementation of the withdrawal limitation have been mentioned in *The Wall Street Journal*, Mainstreet.com, WGN-TV and WHO-TV (in Des Moines, Iowa, the location of the headquarters of the Principal Financial Group.

How much property is currently up for sale?

- Currently, over $900 million of Separate Account property has been identified for potential sale, some of which has property-level debt.
- Depending on Separate Account cash flow and investor contributions, it will likely be necessary to list additional properties for sale
- Success in executing these sales will determine the ability to make a distribution to investors subject to the withdrawal limitation.
- However, proceeds will first be used to protect the existing investments in the portfolio, maintain compliance with all debt covenants, meet debt maturities, and fund additional Separate Account obligations.
- Completing sales of Separate Account properties currently on the market remains a high priority as well as the constant review for additional sales candidates consistent with both the Separate Account strategy and the market for disposition opportunities.

Compliance / Legal Issues

What is the longest one can be subjected to the Principal U.S. Property Separate Account withdrawal limitation?

The annuity contract allows amounts to be subject to the withdrawal limitation for up to three years, with the additional overarching federal law requirement that the account be operated prudently and in the best interests of account participants.

The first of the partial payments to satisfy requests subject to the withdrawal limitation was made from the Separate Account on January 29, 2010. The timing of future payments to investors impacted by the withdrawal limitations will depend primarily on the ability to sell properties at prices consistent with the best interest of all Separate Account investors. It remains likely that multiple payments over some period of time will be necessary in order to fully satisfy all requested withdrawals given the current amount of requests subject to the withdrawal limitation and the projected timing and volume of property sales.

Proceeds from property sales will continue to be one of the contributors to funds available for distribution. Despite some improvement in the transaction market for commercial real estate, the timing of future property sales remains uncertain and volume is still at very depressed levels. The Separate Account has identified over $900 million in potential dispositions, some of which have property level debt. The dollar amount and timing of additional payments will be partially dependent upon success in executing these sales.

What will happen in three years?

The language in the annuity contract does not require the immediate full liquidation of assets in three years, with the additional overarching federal laws requirement; the Separate Account can continue to be operated prudently and in the best interest of account participants

Any plans regarding distributions will be communicated to all impacted advisors, plan sponsors and participants. We will continue to abide by our legal obligation to operate the Separate Account in the best interest of all investors and in accordance with the contract and applicable law. At this time, we cannot specify in detail what any future actions might entail.

Since property sales are a source for cash for any potential distribution from the Separate Account, the dramatic decline in transaction activity makes it difficult to predict the duration of the withdrawal limitation.

Any attempt to forecast where the real estate markets will be in a year, let alone three, would be speculation. Rather than engaging in speculation, we are actively marketing over $900 million in real estate, some of which has property level debt. In addition, we are currently investigating various other options to provide additional liquidity that can be utilized to reduce the funds subject to the withdrawal limitation.

We will continue to actively monitor market conditions, Separate Account Operations, and consider a broad spectrum of actions beneficial to the Separate Account and investors. To prepare for the chance that the restrictions on withdrawals may still be

in place as we approach 2011, we are considering the possible circumstances that may be in effect at that time and the legal options available.

How does Principal Life Insurance Company disclose the liquidity risk associated with this Separate Account?

- The withdrawal limitation is described in the group annuity contract.
- The standard disclosure on our materials regarding the liquidity risk states:
  - *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. Payment of principal and earnings may be delayed.*
  - This disclosure was included on fact sheets and performance materials.

What gives Principal Life Insurance Company the right to delay processing withdrawal transactions or processing them in a series of payments?

- The group annuity contract that makes the Principal U.S. Property Separate Account available for use by plans and their participants includes a section referring to this special provision and otherwise permitting The Principal® to defer distributions. The language and location of the information may vary depending on the product.

Doesn't the Sarbanes Oxley Act require a 30-day advance notice to participants any time participants' rights are limited? How is this situation handled in light of that requirement?

- It is the Plan sponsor along with its legal advisor who must make the determination of whether the application of this contractual limitation warrants a blackout notice, and if so, whether it is reasonable to conclude that any exceptions to the 30-day rule apply. Generally, 30-day advance notice is required when blackout periods apply.
- However, there are exceptions under the Act (i.e. ERISA regulation section 101(i))that give plan administrators the ability to provide notice to plan participants as soon as reasonably feasible in instances where the events causing the blackout period were unforeseeable or circumstances were beyond the control of the plan administrator.
- A sample notice was provided to plan sponsors should they determine it is required.
- Information regarding the possibility of delayed payment from this Separate Account was available to participants via their online account.
- The Separate Account's Fact Sheet also includes a prior notice to participants stating "This investment is subject to investment and liquidity risk and other risks inherent in real estate such as those associated with general and local economic conditions. Payment of principal and earnings may be delayed."
- A Spanish version is also available that can be provided to plan sponsors and participants.

What legal obligations does Principal Life Insurance Company have regarding the withdrawal limitation for this Separate Account?

- The applicable federal law requires that Principal Life Insurance Company act in the best interest of all investors. Principal Life Insurance Company is required to balance the interests of those who remain invested in the Separate Account (so they are not harmed by a lack of funds to preserve the assets), with those who want to withdraw all or a portion of their investment from the Separate Account.
- The applicable laws require that we consider equally the interest of those requesting to withdraw from the Separate Account, those who wish to maintain their interest, and those who continue to allocate amounts to the Separate Account. Preservation of the assets and the considered payment of withdrawals as cash becomes sufficient reflects that balance.
- Put another way, we are required to balance interests so that neither those who wish to remain invested nor those seeking a withdrawal are harmed by a lack of cash to preserve the assets or by sales at inappropriate prices, while those who request to withdraw from the account are not unduly burdened.
- It is important to understand that not implementing the limitation could have had an adverse affect on the Separate Account, either by causing the disposition of real estate asset at inappropriate prices or by reducing cash reserves to the point where the assets could not be properly maintained.

Are there other Separate Accounts, established by Principal Life Insurance Company, that have withdrawal limitations?

- Due to the nature of the underlying assets of the Principal U.S. Property Separate Account, it is the only separate account that allows for this specific type of limitation. Other separate account investments available through a group annuity contract allow Principal Life Insurance Company to defer transfers and payments for a specified number of days in order to protect the interest of all investors from events such as hazardous market conditions or when disorderly market conditions arise. This type of separate account provision is common in the industry.
- The contract allows withdrawals from separate accounts other than the Principal U.S. Property Separate Account to be delayed for a period of up to 270 days, although a few have shorter delays.
- Please refer to the specific contract for details.

What other withdrawal limitations exist in the group annuity contract?

- Our contracts allow us to make certain delays in payments from any separate account. We also have the right to delay withdrawals other than death, disability and retirement benefit payments for a period of up to the length of time described in the contract.
- The longest period for any separate account other than Principal U.S. Property Separate Account is 270 days. (A few are shorter: Government & High Quality Bond – 90 days, Money Market – 90 days). Depending on the contract and Separate Account, delay periods range from 90 days to 3 years.
- These provisions are designed to be implemented if it is necessary to protect the interest of all who participate in the Separate Account against

difficult circumstances such as times when markets are frozen, and have never been implemented for any other Separate Account.
- The relevant contract will describe specifics. Participants should refer to their plan administrator for contract specifics.
- The CSA or CSM can provide copies of these documents if the client requests. If there are any questions, CSAs and CSMs should refer to their trainer or management. If additional questions arise, please contact Bret Taber.

Under what circumstances are those other withdrawal contractual limitations applied?

- These limitation provisions exist to protect the interest of all who participate in the Separate Accounts. This can include circumstances such as times when markets are too chaotic to allow for responsible sales of assets. We have never implemented those limitations for any other Separate Account.

Has the DOL received complaints from Plans and/or Participants about the Principal U.S. Property Separate Account withdrawal limitation?

- Yes. The Department of Labor (DOL) has investigated inquiries from various plans regarding the limitation of withdrawals from the Principal U.S. Property Separate Account.
- Principal Life Insurance Company has responded to these inquiries by explaining the nature of the Separate Account and the reasons why immediate distributions are not available.
- The Department of Labor has also contacted some Plan Sponsors about the withdrawal limitation and we have prepared information to assist these plan sponsors in responding to DOL inquiries.

How was the decision made to implement the withdrawal limitation?

- While the Principal U.S. Property Separate Account has been in existence since 1982 without having to implement a withdrawal limitation, the possibility that real estate could prove to be illiquid over a period of time was contemplated from the inception, as is reflected by the presence of the contractual provisions allowing the implementation of the withdrawal limitation.
- The ability to implement a withdrawal limitation and structure of the withdrawal limitation are contained in the group annuity contract authorizing the investment.
- Principal Life Insurance Company is a fiduciary with regard to the management of the Separate Account; it has a responsibility to establish procedures, including the withdrawal limitation, to mitigate situations that could cause harm to the Separate Account or the participants in the account.
- The decisions surrounding how to implement and conduct the withdrawal limitation are made by a committee. This committee is made of certain officers of PLIC. While the possibility of a withdrawal limitation has been discussed over the years, there has never been the need to actually implement one to protect the Separate Account's participants.

- During 2008, distribution requests increased and the credit markets froze, causing property sales to become increasingly more difficult. As a result, the Separate Account was in a position whereby continued distributions would deplete remaining cash necessary to maintain the properties within the account as well as satisfy upcoming obligations.
- Officers of Principal Life Insurance Company considered available options, short of queuing distributions, over a several week time period.
- These considerations included consultations with appropriate technical people and Counsel. The officers made the decision that the withdrawal limitation was the best choice to protect the assets of the account and the interests of participants.
- At the same time, other actions were taken to increase liquidity within the Separate Account, such as marketing additional properties for sale.

One of the reasons given to apply the withdrawal limitation to the Principal U.S. Property Separate Account been "protecting" shareholders. But now that it has over a billion dollars in delayed distributions, how can The Principal® justify forcing clients to remain in a separate account where contributions are decreasing and short term projected returns are bleak? At some point is it not more protective of the shareholders to allow the choice of taking a loss vs. being forced to accept further potential losses in this unique scenario? Certainly mutual funds have closed and/or been merged into others when similar circumstances have applied.

- This unique situation is being caused by, among other things, the difficulty and expense of obtaining credit for buyers of real estate. Because of this, property is very difficult to sell and the timeframe necessary to complete a transaction at acceptable pricing has increased dramatically. Forcing the sale of assets in a very short-term period may necessitate sales at a deep discount to market value.
- If the Separate Account is closed and liquidated on an expedited basis, one could assume that the price received for the property would be significantly lower than market value, and therefore the value of the units that you hold would also be significantly lowered.
- As the Separate Account is structured such that each unit shares in the value of all property, any deep discount selling will impact those investors who wish to stay invested in the Separate Account as well as investors who request a distribution, yet we are legally required to balance the interest of both.
- We are looking at possibilities to create liquidity to aid distributions. All of these possibilities, however, have some downside and most will require regulatory approval.
- Please note that mutual funds can not hold owned real estate. Other owned real estate funds, such as this Separate Account, have similar distribution restrictions in place to protect against forced sales below market value. The assets are currently valued by a third party consultant based on the ability to sell the property over the standard period of time for commercial real estate.

A participant has a transaction subject to the withdrawal limitation and has since reached Normal Retirement Age (as outlined by the plan) and terminated employment. Given this scenario, can this participant access their funds from the U. S. Property Separate Account?

The participant should contact the Client Contact Center at 1-800-547-7754 to discuss their options.

I have a transaction subject to the withdrawal limitation and recently reached age 59 ½ which has affected how I should be taxed. Whom should I contact to make these changes?

Please contact the Client Contact Center at 1-800-547-7754 to discuss any changes you feel need to be made.

Markets / Performance / Competitors

Is the Separate Account still part of the "diversification story?"

- We continue to believe the Principal U.S. Property Separate Account has the potential to provide attractive returns over a full market cycle.
- This Separate Account provides diversification by asset class because it has very different features than stocks or bonds.
- This Separate Account's returns over nearly 30 years have generally been more stable than stocks and bonds.
- Participants should consult their investment advisor as to these issues and the appropriateness of any allocation of asset to the Separate Account. We do not give investment advice on that point.

Are there any other real estate products that have applied this kind of limitation?

- Yes. Investor withdrawal limitations are not uncommon, and nearly all U.S. Core open-end private equity real estate funds currently have a client withdrawal limitation.

Does the portfolio management team for the U.S. Property Separate Account plan to attempt to make new acquisitions, even before we have satisfied all redemption requests subject to the withdrawal limitation?

The Separate Account is not prohibited from acquiring new assets while there are withdrawal requests subject to the withdrawal limitation. The potential does exist that additional property will be acquired if deemed appropriate and consistent with the Separate Account's strategic objectives and in the best interest of those participating in the Separate Account.

During 2009, the Separate Account acquired four assets for a total amount of approximately $140 million. All four acquisitions were part of the Separate Account's forward commitment program and were committed to prior to the implementation of the withdrawal limitation.

The Separate Account anticipates closing on additional forward commitment obligations during 2010. Acquisition activity aside from the forward commitments to which the Separate Account is contractually obligated, are unknown at this time. In all instances, the Separate Account will be managed for the best interest of all investors, including those who have requested withdrawals from the Separate Account and those who wish to remain invested.

What is the current outlook for the commercial real estate market?

The U.S. economy seems to be entering a period of recovery after a severe recession. Increasing unemployment resulting from continued, albeit slowing, payroll employment losses, a weakened consumer segment and swelling budget deficits will likely hamper growth and lead to a slower recovery than would otherwise occur given the severity of the recession.

The impact of these factors on the commercial real estate market is evidenced throughout all property sectors. Principal Real Estate Investors is forecasting vacancies in all property sectors to top previous record highs and rental rates to decrease due to landlord competition to attract new tenants and retain the existing tenant base. While these factors have effectively been priced into asset valuations, downside risk remains regarding further weakening in property fundamentals beyond what has been underwritten. Despite deteriorating property level fundamentals, the transaction market improved during the latter half of 2009 as increased debt capital sparked a marginal increase in competition for high-quality, well-leased assets. According to Real Capital Analytics, total transaction volume in 2009 was $48 billion, well below 2008 volume of $146 billion and significantly depressed from the 2007 record high of $506 billion.

As always, we urge you to obtain appropriate investment advice to the extent you believe you need it.

More information is available in the 4th Quarter 2009 Flash Report.

Are commercial real estate values at the bottom of market value?

It is difficult to predict with certainty the exact bottom of the commercial real estate market, although there are several metrics that suggest the market may be at or near its cyclical bottom. First, the rate of depreciation in asset values slowed considerably throughout the course of 2009 as more clarity emerged surrounding the depth and breadth of the recession. Additionally, as of December 31, 2009, the National Council of Real Estate Investment Fiduciaries (NCREIF) reported that property values had fallen approximately 30% from the indexes peak, which occurred during 1st quarter of 2008. Importantly, the values reported today generally reflect the headwinds facing real estate and recognize what will likely be a slow recovery in payroll employment and consumer spending.

As always, we urge you to obtain appropriate investment advice to the extent you believe you need it.

More information is available in the 4th Quarter 2009 Flash Report.

Why isn't commercial real estate rebounding as quickly as the equity market?

Performance in the equity markets and commercial real estate market is usually not correlated. It is likely recovery in the commercial real estate market will lag that of the broader economy for several reasons. First, despite positive GDP growth, the economy is still losing jobs as evidenced by continued payroll employment losses. Continued job losses and rising unemployment result in a lack of demand for commercial real estate. In the market for office space, employers are not fully utilizing their current space and as such, demand for office space will not likely see marked improvement until there is sustained growth in employment, particularly office-using employment.

Job losses also significantly impact consumer behavior and spending patterns, resulting in reduced demand for goods and services that typically drive retail space needs. The industrial market is dependent upon import/export activity in addition to consumer spending as goods are transported and stored throughout the country. Although increased exports may help support the market, significant improvement is unlikely to occur until there is a more measurable increase in consumer spending. Finally, tenant demand for multifamily units has decreased due to limited household formation as younger renters move home or double up. Landlords face competition for renters with more stable income from enhanced home affordability and increased supply.

As always, we urge you to obtain appropriate investment advice to the extent you believe you need it.

More information is available in the 4th Quarter 2009 Flash Report.

Has a cash flow analysis been prepared which will help with the forecast of when payments may be made?

A cash flow analysis has been prepared to help forecast on-going operations for the Separate Account. However, the current unpredictable market for commercial real estate sales makes forecasting a distribution unreliable. ***Note:*** This forecast is shared regularly with the oversight committee for this Separate Account and is considered confidential and proprietary information.

Are there other owned real estate products with holdings similar to the Principal U.S. Property Separate Account?

- Yes, owned property investment vehicles are available with the following firms:
    - Prudential
    - JPMorgan
    - ING
    - Cornerstone
    - Kennedy Associates
    - RREEF
    - American Realty Advisors
    - Blackrock

- Invesco
- UBS

Many of these firms offer their open-ended real estate products to institutional-sized defined benefit plans. The types of clients, plans, and assets amounts eligible to invest in this investment options will vary.

What differentiates the Principal U.S. Property Separate Account from the owned real estate products offered by our competitors?

- The Principal U.S. Property Separate Account is priced daily versus less frequent pricing for our competitors.
- The Principal U.S. Property Separate Account allows for daily purchases and redemptions. Currently, daily withdrawals may still be requested, but many are delayed due to the implementation of the withdrawal limitation.
- The Principal U.S. Property Separate Account is available to defined contribution plan participants, allowing for participant directed investments. The competition generally offers their fund to large institutional clients only.

How has the Separate Account performed recently?

- Please refer to the most recent letter from Principal Real Estate Investors, LLC.

What is our current position regarding the recovery of the non-residential market?

- Please refer to the most recent letter from Principal Real Estate Investors, LLC.

What is the occupancy rate on the properties and has this decreased?

- The average occupancy of properties held within the Principal U.S. Property Separate Account as of December 31, 2009, was 85% (92% excluding value-added assets, which include those that are acquired at less than 85% occupancy, are under development, or include the sale of individual condominium units).
- Occupancy increased during the third quarter by approximately 3% to 85%. Occupancy excluding value-added assets increased approximately 3% to 92%. The increase in occupancy is the result of over 1 million square feet positive net absorption, or a net gain in leased square footage.

Are tenants renegotiating lease agreements?

- There are tenants interested in lease renegotiations. When considering a renegotiation, the asset management teams consider multiple factors including:

  1. The viability of the business concept going forward
  2. Current and historical financial performance
  3. Remaining lease duration

- However, the primary consideration is making a decision that is in the long-term best interest of the Separate Account and maximizes value. At this time, the frequency of renegotiations is minimal and while the Separate Account will consider requests for renegotiation based on the considerations outlined above, they are under no obligation to renegotiate.
- Please refer to the most recent letter from Principal Real Estate Investors, LLC.

Have certain locations of the properties or types of properties been more resilient to current economic conditions?

- Asset value declines are evidenced throughout all regions and sectors of the portfolio. Assets in the East region registered the largest value declines over the one year time period while declines in the Midwest, West and South varied minimally.
- During the fourth quarter of 2009, the South region experienced the largest decreases in value followed by decreases in value in the East, West, and Midwest, respectively.
- Among the four major property sectors, industrial assets registered the largest declines in value, during the third quarter of 2009, followed by assets in the office, multi-family and retail sectors.

Is Principal Life Insurance Company actively trying to sell properties to raise funds to meet withdrawal needs? If yes, how soon will a deal be finalized?

- Currently, over $900 million of Separate Account property has been identified for potential sale, some of which has property-level debt.
- Depending on Account cash flow and investor contributions, it will likely be necessary to list additional properties for sale.
- Success in executing these sales will determine the ability to make a distribution to investors subject to the withdrawal limitation.
- However, proceeds will first be used to protect the existing investments in the portfolio, maintain compliance with all debt covenants, meet debt maturities, and fund additional Separate Account obligations.
- Completing sales of account properties currently on the market remains a high priority as well as the constant review for additional sales candidates consistent with both the Account strategy and the market for disposition opportunities.
- One of the biggest challenges facing commercial real estate today is the lack of available, affordable financing with which to complete transactions.
- U.S. Transaction volume during the fourth quarter of 2009 totaled only $14 billion, compared to $20 billion during the fourth quarter of 2008 and $122 billion during the fourth quarter of 2007.

Why has the value of my account value in the Principal U.S. Property Separate Account changed?

- Assets within the Principal U.S Property Separate Account are marked to market on a daily basis and as such, unit values will fluctuate daily. The Principal U.S. Property Separate Account was designed to be, and remains, an investment option that provides for a pass through of market gains and losses on the assets held in it. As a result, the value of any particular interest in the Separate Account has fluctuated over time and will continue to do so. The contracts specifically state that payments, when made, are to be at the value of the interests in the Separate Account at the time of payment. Below is a description of the valuation process:
- Properties within the Principal U.S. Property Separate Account are annually appraised through external valuations that are obtained from appraisers of nationally recognized firms that hold the MAI designation. (At one time, MAI was the acronym for Member of the Appraisal Institute. This is no longer the case and MAI is a designation itself and not an acronym for anything).
- Selection criteria include appraiser credentials, experience, reputation and service fees. Competitive bidding is utilized, but is not the sole basis for awarding assignments. The reports must comply with the Uniform Standards of Professional Appraisal Practice. (USPAP). The USPAP standards are government mandated standards specifying the qualifications of appraisers, ethics rules to be applied by appraisers, the structure in which the appraisals are written and reported and the contents that must be included in each appraisal.
- Appraisals determine the market value of the leased fee interest on an "as is" basis, as defined by USPAP, and should utilize the cost, sales comparison, and income approaches to value.
- On July 1, 2003, we contracted with PricewaterhouseCoopers (PwC) to perform Valuation Advisory Services for the account. PwC obtains an independent (external) third-party appraisal (meeting the above criteria) for each property in the Principal U.S. Property Separate Account at least once every 12 months.
- At the end of each month, PwC provides a list of values to the Principal U.S. Property Separate Account based on a portfolio overview, updated discounted cash flow models, and/or limited scope restricted appraisals.
- Each day, the facts regarding any event (i.e. a lease is signed at a property or information regarding a market comparable sale becomes available) that occurs that could impact property value are submitted to PwC.
- PwC will subsequently quantify the impact of the events and provide value recommendations to the portfolio manager for the Principal U.S. Property Separate Account to be immediately incorporated in the net asset value of the Account.
- Each asset in the Separate Account is externally appraised at least one time per year. The assumptions utilized in that appraisal are a snapshot at one point in time of multiple inputs including, among other items, the local market supply and demand fundamentals, market rent, tenancy, expenses, etc. The daily valuation of the Account involves monitoring the assumptions utilized in determining value and assessing the impact of any changes. When one of those underlying criteria changes due to an event (for example, a new lease is signed and a tenant moves in), the event is analyzed to determine whether

or not it impacts the value of the assets and if necessary, the dollar amount of the impact.

What properties have been sold in 2009?

- Please refer to the Quarterly Performance Report. (For 4th. Quarter refer to the Annual Report)

Communication Materials

How were plan sponsors notified of the implementation of the withdrawal limitation?

- Impacted Plan Sponsors were notified on Friday, September 26, 2008 at 12:01 a.m. Central Time, through an article posted on the Principal Sponsor Service Center℠ via a Principal Message Center℠ message.
- Additionally, plan sponsors initiating withdrawal transactions subject to the limitation after the effective date will receive a notification message before impacted withdrawal transactions will be confirmed on the Web site or via TeleTouch®. At that time, the system will allow the option to discontinue with the transaction if desired.

How were plan participants notified of the implementation of the withdrawal limitation?

- Notification of the application of the limitation was provided on Friday, September 26, 2008 at 12:01 a.m. Central Time, to both plan sponsors and plan participants.
- This notification was provided to impacted plan participants via their personalized retirement account information at www.principal.com.
- For plan participants who did not have access to a computer/web/E-mail, templates were provided to plan sponsors for further communication of this limitation to plan participants.
- In addition to the initial communication, plan participants will receive a notification message before impacted withdrawal transactions or changes to investment direction will be confirmed on the Web site or Teletouch®. At that time, it will allow the option to discontinue with the transaction if desired.

Why did employees, financial professionals, plan sponsors, and participants all find out about of the implementation of the withdrawal limitation? at the same time?

- To ensure accuracy and equal treatment, it was necessary and appropriate to communicate to all audiences at once. This limitation was triggered by levels of liquidity – the available cash – in the Separate Account.
- The limitation is imposed under the contract to protect the assets of the Separate Account and to assure that there will be enough cash for ongoing property and portfolio needs including property taxes and insurance, property maintenance, maturing debt obligations and future acquisition obligations.
- This is a common feature for investment options that hold commercial real estate. Advance notice that liquidity levels were approaching the point where limitations would begin would, in all probability, lead at least some investors

in the Separate Account to try to withdraw their interest ahead of the start of the restriction.

- This would increase demand on limited cash resources at a time when estimated demands was already high, potentially causing a more immediate limitation on withdrawals from the Separate Account and perhaps giving some investors an unfair advantage.
- The notice was designed to protect all investors in the Separate Account equally and to not give unfair advantage to any investor or class of investors. The timing of the notice was not detrimental: it did not accelerate implementation of the withdrawal limitation and since the withdrawal limitation is satisfied on a pro-rata basis, there is no advantage to being the first one.
- **No advance notice was given to anyone.**

Questions about the future

How long will it be before all withdrawals requested by plan fiduciaries or participants can be made?

- There are many factors that will determine how long it will take for the Principal U.S. Property Separate Account to meet all withdrawal transaction requests. Specific timing cannot be established as so much depends on commercial real estate markets.
  - Unlike other types of investments, real estate assets are sold in private transactions. Due to the nature of these transactions, the Separate Account may be subject to adverse market conditions, most notably the purchaser's ability to secure financing, which may delay or prevent the sale.
  - The Separate Account will continue to be managed according to all pre-set portfolio diversification and leverage ranges, in compliance with relevant legal and financing obligations, and in a manner consistent with the strategic objectives of a core ongoing commercial real estate portfolio. All investors need to be taken into consideration.
  - The Separate Account is a large pool of assets which includes buildings and development projects. Real estate requires cash for operations, maintenance, and preservation of value.
  - Additional withdrawal requests may impact the time that the withdrawal limitation continues to be in effect.
- The timing of any distribution to investors impacted by the withdrawal limitations will depend primarily on the ability to sell properties at prices consistent with the best interests of all Separate Account investors. It remains likely that multiple distributions over some period of time will be necessary in order to fully satisfy all requested withdrawals given the current amount of requests subject to the withdrawal limitation and the timing and volume of property sales.
  - We will continue to manage the Separate Account for the benefit of all investors, including the orderly generation of cash to redeem investor interests in the withdrawal limitation.

Is there a likelihood the Separate Account could run out of assets before all requests are met?

- No. While the value of the Separate Account will continue to fluctuate based on the value of the underlying real estate held in the account, because of the nature of the Separate Account, all participants will always be entitled to their proportionate share of the investment held in the Separate Account.

Are the portfolio managers going to sell properties at market value based on the current market conditions or are they holding the properties until they are able to sell at a profit?

- Dispositions are sold at market value, some of which result in a profit and some of which result in a loss. The value of commercial property is based, at least in part, on the cash flow from the property and assumptions regarding future cash flow.
- The portfolio management team evaluates property level, portfolio level, and Separate Account level considerations when formulating a recommendation for disposition of an asset.
- The portfolio management team reviews and recommends transactions for the Principal U.S. Property Separate Account to the Investment Committee of Principal Real Estate Investors.
- All transaction related decisions are voted on by the Investment Committee, which is chaired by the President and Chief Investment Officer of Principal Real Estate Investors and is comprised of the most senior members of the real estate staff, including the heads of acquisition/disposition, asset management, portfolio management, and research.
- The Committee reviews all major decisions and transactions over $1 million for all of the real estate portfolios to ensure adherence to portfolio guidelines and client objectives. The Committee meets weekly and decision is made by majority vote, subject to a quorum. The Committee has final responsibility for discretionary client accounts, including the Principal U.S. Property Separate Account.
- Additionally, all Separate Account transactions over $30 million are voted on by the Investment Committee of Principal Life Insurance Company.

What is management's plan to begin making distributions to those participants impacted by the withdrawal limitation?

- The Separate Account is actively marketing over $900 million in real estate assets, some of which have property level debt, in order to both pay down existing debt, plan for upcoming debt maturities, and increase liquidity available to help pay distributions to those subject to the withdrawal limitation.
- In addition, we are currently investigating various other options to provide additional liquidity that can be utilized to reduce funds subject to the withdrawal limitation.
- Applicable laws require that we consider equally the interests of investors who want to withdraw funds from the Separate Account, those opting to maintain their interest, and those who continue to allocate amounts to the Separate Account.

- Preservation of the assets and the considered payment of withdrawals as cash becomes sufficient reflect that balance.
- We will continue to abide by our legal obligation to operate the Separate Account in the best interests of all investors and in accordance with the contract and applicable law.

Will the strategy for managing the Separate Account change if the dollar amount of the transactions subject to the withdrawal limitation continues to grow?

- We will continue to operate the Separate Account in the best interest of all participants, including those who wish to remain invested as well as those who request a distribution.
- This legally required standard will not change. We are planning for the possibility that the real estate transaction market will remain illiquid for an extended period of time, and evaluating all available options.
- Any strategic changes to the management of the Separate Account will be evaluated based upon the commercial real estate market and all available alternative options.

How the Withdrawal Limitation Works

What are the specifics of the limitation applied to the Principal U.S. Property Separate Account?

- List of common transactions and how they are currently impacted by the limitation.

	Event
Not Subject to Withdrawal Limitation	Benefit Payments: • Death, Disability**, Retirement*
	ADP/ACP Refunds
	Minimum Required Distributions
	Life Insurance Premiums
	Plan Termination (Full only, partial plan terminations are subject to the withdrawal limitation)
	Hardship Withdrawals (for both active and terminated participants, depending on plan provisions)
Subject to Withdrawal Limitation	Transfers out • Participant • Plan Sponsor • Advisor
	Participant Terminations Early Retirements under defined contribution plans
	Voluntary Withdrawals
	Rebalances (scheduled & one-time requests)
	Loans - See below

*The determination of whether a distribution is a retirement benefit is subject to several factors.

**Please refer to the plan document for specific disability definitions and requirements.

How will participant loans be affected by the limitation?

- Participants will not be allowed to borrow from amounts in the Principal U.S. Property Separate Account. However, the participant's interest in the Principal U.S. Property Separate Account will be used for purposes of calculating the maximum allowable loan amount.
  - If the loan amount requested can be paid from funds in the participant's *other* plan investments, the loan will be processed as normal.
  - A loan amount requested may be larger than the amount available from the participant's *other* investments.
  - In this situation, the participant will need to reduce the requested loan amount or wait for a transfer out of the Principal U.S. Property Separate Account before the full loan request can be satisfied.
  - ***Please know:*** The investment transfer request to move amounts out of the Principal U.S. Property Separate Account would be subject to the withdrawal limitation and will be processed in a series of payments until all withdrawal transaction requests have been met.

How are fees impacted by this limitation?

- Participant records will reflect the full amount of any recordkeeping fees taken from the Separate Account.
- The payment of recordkeeping fees to Principal Life Insurance Company that would normally be taken from the Separate Account will also be subject to the delay

Is there any advantage to placing the distribution request as soon as possible?

- No. When a determination is made by Principal Life Insurance Company to distribute cash to investors, distributions will be made on a pro-rata basis to all investors subject to the withdrawal limitation, regardless of when the withdrawal requests were submitted.
- For example, if there are $10 million subject to the withdrawal limitation and there is $1 million of cash to distribute, each investor subject to the withdrawal limitation will receive one-tenth of their requested amount with that distribution (without regard to the timing of the withdrawal request).
- Principal Life Insurance Company reserves the right to pay small amounts in full.

If the participant has all of their money in the Principal U.S. Property Separate Account, they are not able to take a loan, even if the plan allows for loans. Does this inability to get a loan qualify the participant for a hardship withdrawal?

- Not necessarily. Hardship withdrawals, if allowed by the plan, have a set of specific criteria that the participant would need to meet. Just having all of your account value in this one investment option (Principal U.S. Property Separate Account) when it is illiquid is not one of them.

- Not being able to get a loan does not mean that a participant does not have a hardship – the reason that the loan was sought may be a hardship.
- One option for a participant who is denied a loan is to transfer money into another investment option (an investment option from which payments are not delayed) and once the transfer takes place, they can request a loan.

What if the participant has a hardship and was only trying to meet it with a loan?

- Hardship withdrawals, if allowed by the plan, have a set of specific criteria that the participant would need to meet.
- Just because a participant tries to deal with a hardship through a loan does not disqualify the participant from getting a hardship withdrawal, **as long as the plan requirements are met.**
- Once a participant has been denied a loan, the participant may request a hardship withdrawal which will have to be determined on its merits.
- Again, the mere inability to get a loan is not a hardship.

Are hardship withdrawals from plans only available to active participants, i.e. can a terminated employee request a hardship withdrawal?

- Normally, we do not receive requests for hardship withdrawals from terminated (or inactive) participants, because they can already receive the account value through a termination benefit.
- However, because of the withdrawal limitations on this Separate Account, we may have terminated (or inactive) participants request a hardship withdrawal, depending on the provisions in the applicable retirement plan document.

Considerations for the participant:

- Participants must qualify for the hardship withdrawal under their employer's retirement plan provisions and receive approval from an appropriate plan fiduciary.
- Participants are required to take 100% of all other investment options prior to taking a hardship withdrawal from this Separate Account.
- Taxes on a hardship withdrawal for a terminated participant will still be 10% federal, state when applicable, and 10% IRS penalty tax to those participants under age 59½.
- As with cash distributions, participants that terminate employment after the age of 55 will not be subject to the 10% IRS penalty tax if they qualify for a hardship withdrawal.

The third party I used to set up an annuity/CD will not accept additional checks/distributions. Will Principal Life Insurance Company accept the check back and allow for a rollover to a different party/account?

- Yes. Please have the participant return the check and a letter of instruction and have the distribution reprocessed.
- This should occur regardless of whether the check would need to be reissued in a different tax year, the plan has terminated, or the contract has terminated.

A participant has a transaction subject to the withdrawal limitation and has since reached Normal Retirement Age (as outlined by the plan) and terminated employment. Given this scenario, can this participant access their funds from the U. S. Property Separate Account?

The participant should contact the Client Contact Center at 1-800-547-7754 to discuss their options.

The employer plan I initially requested a plan to plan rollover to will no longer accept rollovers since I am no longer actively employed. Will Principal Life Insurance Company accept the check back and allow the retirement funds to be distributed to another party?

Yes. Please have the participant return the check and a letter of instruction and have the distribution reprocessed.

Who is responsible for lost earnings from the time the check was distributed and then returned to Principal Life Insurance Company? Will Principal Life Insurance Company cover potential lost earnings?

No. As with any distribution, it is the responsibility of participants to contact Principal Life Insurance Company when such changes occur to help ensure accurate processing of requests.

The Principal U.S. Property Separate Account is available through a group annuity contract with Principal Life Insurance Company, member of the Principal Financial Group® (The Principal®), Des Moines, IA 50392.

Principal Real Estate Investors is the sub-advisor of the Principal U.S. Property Separate Account and is an affiliate of Principal Global Investors.

Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392.

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