



**City of Hallandale Beach**  
Professional/Management Retirement Plan 4-47771

PQ 4/7/13

WE UNDERSTAND WHAT YOU'RE WORKING FOR<sup>SM</sup>



Principal Financial Advisors, Inc.



# Investment Advisory Report City of Hallandale Beach Professional/Management Plan



Contract No. 4-47771

October 01, 2006 - September 30, 2007

## Contents

Page	
1	Principal Financial Advisors, Inc. Overview
2	Portfolio and Strategic Asset Allocation Review
5	International Holdings
11	Portfolio Performance Review
12	Investment Option Performance

# Principal Financial Advisors, Inc. Overview

Making informed and effective asset allocation decisions may be one of the most important – and challenging – endeavors an employer undertakes for their retirement plan. This decision is key in determining whether the plan will meet its long-term investment goals and objectives. At the Principal Financial Group® (The Principal®), we understand the challenges and pressures employers face as a retirement plan sponsor, including the selection of optimal investment options.

For nearly 20 years, Principal Financial Advisors, Inc., a registered investment advisor, and a member company of the Principal Financial Group® has been providing asset allocation solutions for clients. Today, we manage over \$5.0 billion in assets overall and have over 400 clients using our advisory services for retirement plans.

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

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

- 1) Strategic asset allocation decisions are key determinants of investor success.
- 2) Liability analysis and plan sponsor attributes dictate asset allocation decisions for defined benefit plans.
- 3) Diversification by asset class, style, and manager is the primary tool for limiting investment risk.
- 4) Value is added through manager selection.

Principal Financial Advisors, Inc., provides:

- 1) Benefits of the Principal Due Diligence Program<sup>SM</sup> provided by Principal Life Insurance Company.
- 2) Asset liability analysis for defined benefit plans and scenarios to help meet your plan's goals.
- 3) Assumption of fiduciary responsibility for asset allocation decisions.\*
- 4) Experienced investment personnel.
- 5) Comprehensive reporting and top-tier client service.

**Principal Financial Advisors, Inc., focuses on long-term asset allocation strategies with the goal of providing optimal return and risk scenarios to help meet your defined benefit plan's goals.**

\* The plan sponsor remains the named fiduciary of the plan, but Principal Financial Advisors, Inc., has been selected as the plan's investment advisor.

# Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2006 through 09/30/2007					
Investment Advisor	Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
<b>Large U.S. Equity</b>					
<b>Large Value</b>					
AllianceBernstein LP	Large-Cap Value Separate Account-Stnd <sup>2, 19</sup>	\$429,445	6.54%	\$514,373	6.07%
UBS Global Asset Mgmt (NY)	Large-Cap Value I Separate Account-Stnd <sup>17</sup>	\$420,640	6.40%	\$517,071	6.10%
<b>Large Blend</b>					
Goldman Sachs Asset Mgt	Large-Cap Blend I Separate Account-Stnd <sup>9</sup>	\$1,104,865	16.82%	\$1,080,257	12.74%
<b>Large Growth</b>					
Columbus Circle Investors	Large Company Growth Separate Account-Stnd <sup>13</sup>	\$434,132	6.61%	\$637,311	7.52%
T. Rowe Price Associates, Inc.	Large-Cap Growth I Separate Account-Stnd <sup>2, 11</sup>	\$453,829	6.91%	\$627,234	7.40%
<b>Small/Mid U.S. Equity</b>					
<b>Small Value</b>					
JP Morgan/Mellon Equity	Small-Cap Value I Separate Account-Stnd <sup>1, 2, 18</sup>	\$154,244	2.35%	\$169,358	2.00%
<b>Small Growth</b>					
UBS/Emerald/Essex	Small-Cap Growth II Separate Account-Stnd <sup>1, 2, 7</sup>	\$170,777	2.60%	\$213,955	2.52%
<b>International Equity</b>					
<b>Diversified Emerging Markets</b>					
Principal Global Investors	International Emerging Markets Separate Account-Stnd <sup>3</sup>	\$67,244	1.02%	\$151,268	1.78%
<b>Foreign Large Blend</b>					
Fidelity (Pyramis Global Adv)	International Separate Account-Stnd <sup>3, 16, 17, 21</sup>	\$308,752	4.70%	\$567,840	6.70%
<b>Foreign Large Growth</b>					
Principal Global Investors	International Growth Separate Account-Stnd <sup>2, 3</sup>	\$306,874	4.67%	\$566,473	6.68%
<b>Real Estate</b>					
<b>Owned Real Estate</b>					
Principal Real Estate Inv	U.S. Property Separate Account-Stnd <sup>5</sup>	\$415,749	6.33%	\$539,367	6.36%
<b>Specialty-Real Estate</b>					
Principal Real Estate Inv	Real Estate Securities Separate Account-Stnd <sup>2, 8</sup>	\$155,348	2.36%	\$142,056	1.68%
<b>Fixed Income</b>					
<b>High Yield Bond</b>					
Post/JP Morgan/Lehman Brothers	High Yield Separate Account-Stnd <sup>4, 17, 20, 22</sup>	\$130,783	1.99%	\$165,235	1.95%
<b>Intermediate-Term Bond</b>					
Principal Global Investors	Bond and Mortgage Separate Account-Stnd Rate Lev <sup>20</sup>	\$1,757,640	26.75%	\$2,027,560	23.92%
Spectrum	Preferred Securities Separate Account-Stnd <sup>2, 20</sup>	\$130,611	1.99%	\$134,661	1.59%

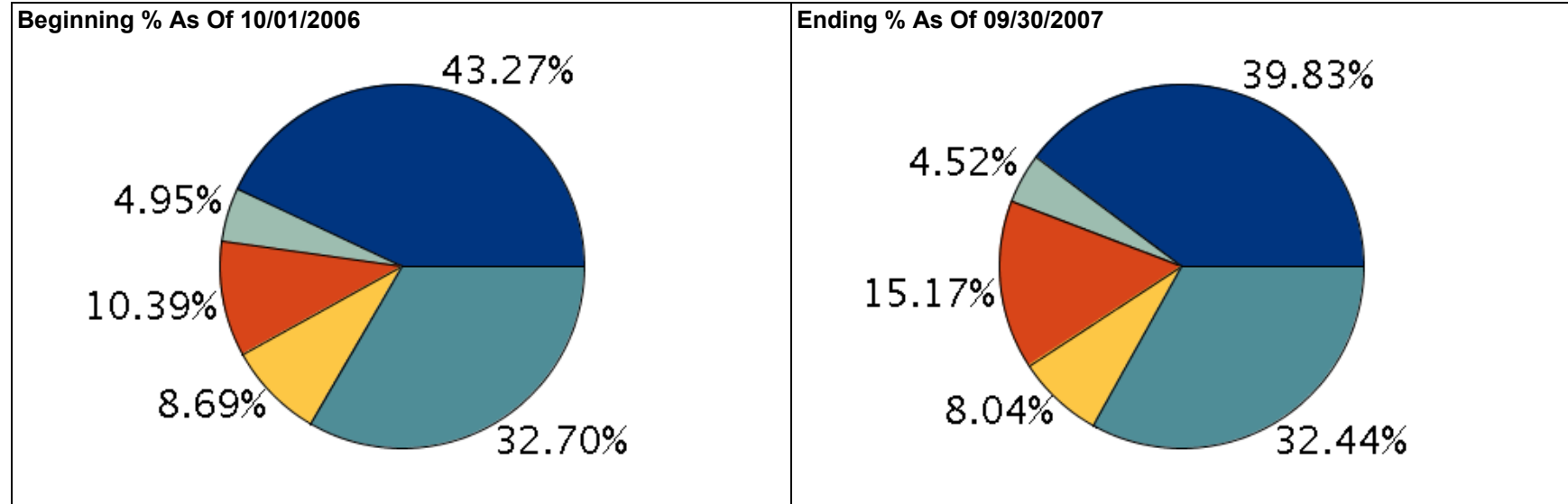
# Portfolio and Strategic Asset Allocation Review

Investment Review - Allocation 10/01/2006 through 09/30/2007					
Investment Advisor	Investment Option	Beginning Balance	Breakdown %	Ending Balance	Breakdown %
<b>Inflation-Protected Bond</b>					
Principal Global Investors	Inflation Protection Separate Account-Stnd <sup>17, 20</sup>	\$129,121	1.97%	\$422,458	4.98%
<b>TOTAL</b>		<b>\$6,570,053</b>	<b>100%</b>	<b>\$8,476,477</b>	<b>100%</b>

*Please see important disclosures at the end of this presentation.*

# Portfolio and Strategic Asset Allocation Review

## Asset Class Breakdown



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

# Holdings of International Separate Accounts by Region as of September 30, 2007

## Asia 7.909%

China	1.863%
India	0.632%
Indonesia	0.289%
Malaysia	0.278%
Pakistan	-
Philippines	0.020%
South Korea	3.389%
Taiwan	1.270%
Thailand	0.167%

## Europe 58.201%

Austria	0.537%
Belgium	0.668%
Denmark	1.008%
Finland	1.758%
France	8.573%
Germany	8.667%
Greece	0.991%
Ireland	0.443%
Italy	2.241%
Luxembourg	0.186%
Netherlands	1.763%
Norway	1.126%
Portugal	-
Spain	3.515%
Sweden	3.156%
Switzerland	6.106%
United Kingdom	17.462%

## Latin America 2.311%

Argentina	0.036%
Brazil	1.650%
Chile	-
Colombia	0.052%
Mexico	0.574%
Peru	-

## North America 1.750%

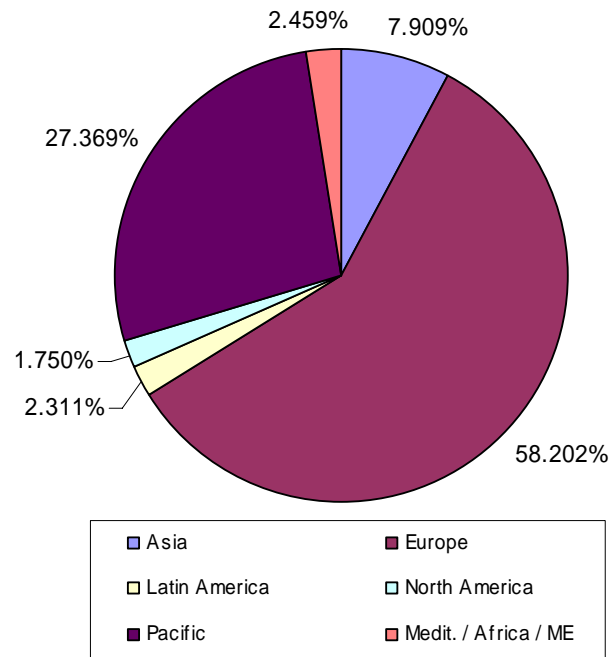
Canada	1.392%
United States	0.358%

## Pacific 27.369%

Australia	6.242%
Hong Kong	2.248%
Japan	17.297%
New Zealand	-
Singapore	1.582%

## Medit. / Africa / ME 2.459%

Cyprus	-
Czech Republic	0.097%
Egypt	0.054%
Hungary	-
Iceland	-
Israel	0.208%
Jordan	-
Morocco	-
Nigeria	-
Poland	0.091%
Russia	0.865%
Slovenia	-
South Africa	0.919%
Turkey	0.224%



# Portfolio and Strategic Asset Allocation Review

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

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

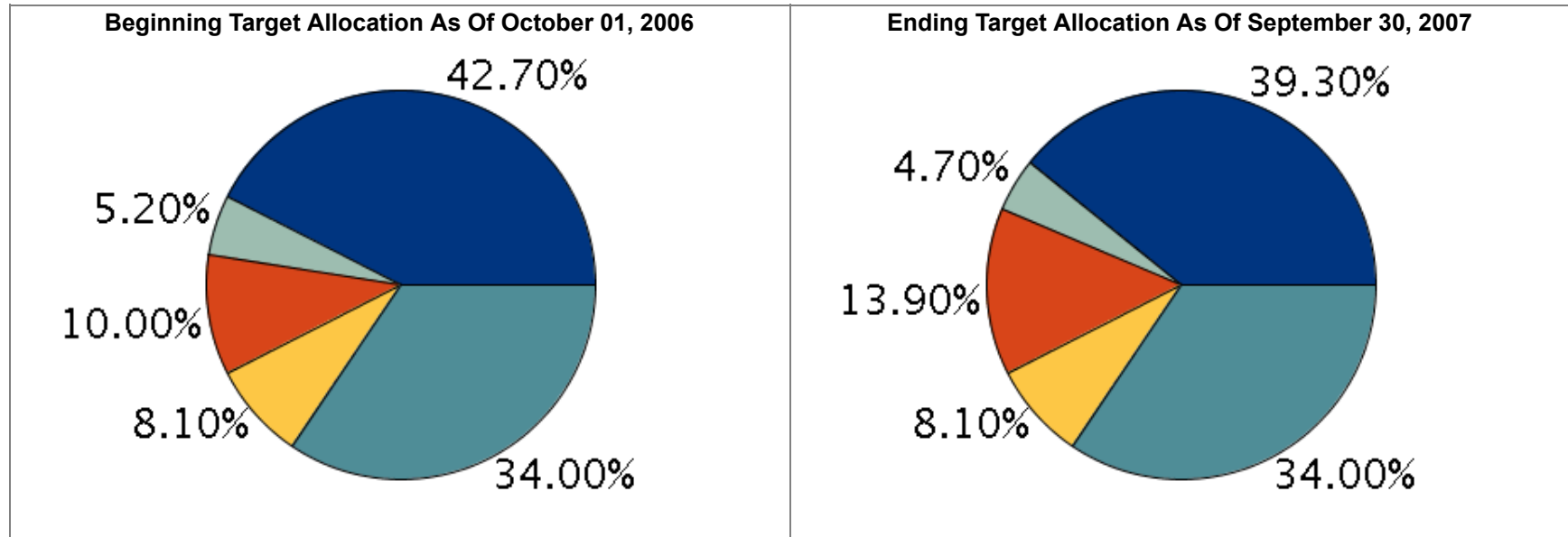
Target Allocation 10/01/2006 through 09/30/2007			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	<b>Large U.S. Equity</b>	<b>42.70%</b>	<b>39.30%</b>
	<b>Large Value</b>		
AllianceBernstein LP	Large-Cap Value Separate Account-Stnd <sup>2, 19</sup>	6.20%	6.20%
UBS Global Asset Mgmt (NY)	Large-Cap Value I Separate Account-Stnd <sup>17</sup>	6.20%	6.20%
	<b>Large Blend</b>		
Goldman Sachs Asset Mgt	Large-Cap Blend I Separate Account-Stnd <sup>9</sup>	16.40%	13.00%
	<b>Large Growth</b>		
Columbus Circle Investors	Large Company Growth Separate Account-Stnd <sup>13</sup>	6.70%	6.80%
T. Rowe Price Associates, Inc.	Large-Cap Growth I Separate Account-Stnd <sup>2, 11</sup>	7.20%	7.10%
	<b>Small/Mid U.S. Equity</b>	<b>5.20%</b>	<b>4.70%</b>
	<b>Small Value</b>		
JP Morgan/Mellon Equity	Small-Cap Value I Separate Account-Stnd <sup>1, 2, 18</sup>	2.40%	2.20%
	<b>Small Growth</b>		
UBS/Emerald/Essex	Small-Cap Growth II Separate Account-Stnd <sup>1, 2, 7</sup>	2.80%	2.50%
	<b>International Equity</b>	<b>10.00%</b>	<b>13.90%</b>
	<b>Diversified Emerging Markets</b>		
Principal Global Investors	International Emerging Markets Separate Account-Stnd <sup>3</sup>	1.00%	1.40%
	<b>Foreign Large Blend</b>		
Fidelity (Pyramis Global Adv)	International Separate Account-Stnd <sup>3, 16, 17, 21</sup>	4.50%	6.30%
	<b>Foreign Large Growth</b>		
Principal Global Investors	International Growth Separate Account-Stnd <sup>2, 3</sup>	4.50%	6.20%
	<b>Real Estate</b>	<b>8.10%</b>	<b>8.10%</b>
	<b>Owned Real Estate</b>		
Principal Real Estate Inv	U.S. Property Separate Account-Stnd <sup>5</sup>	6.00%	6.00%
	<b>Specialty-Real Estate</b>		
Principal Real Estate Inv	Real Estate Securities Separate Account-Stnd <sup>2, 8</sup>	2.10%	2.10%

# Portfolio and Strategic Asset Allocation Review

Target Allocation 10/01/2006 through 09/30/2007			
Investment Advisor	Investment Option	Beginning Allocation	Ending Allocation
	<b>Fixed Income</b>	<b>34.00%</b>	<b>34.00%</b>
	<b>High Yield Bond</b>		
Post/JP Morgan/Lehman Brothers	High Yield Separate Account-Stnd <sup>4, 17, 20, 22</sup>	2.00%	2.00%
	<b>Intermediate-Term Bond</b>		
Principal Global Investors	Bond and Mortgage Separate Account-Stnd Rate Lev <sup>20</sup>	28.00%	25.20%
Spectrum	Preferred Securities Separate Account-Stnd <sup>2, 20</sup>	2.00%	1.70%
	<b>Inflation-Protected Bond</b>		
Principal Global Investors	Inflation Protection Separate Account-Stnd <sup>17, 20</sup>	2.00%	5.10%

# Portfolio and Strategic Asset Allocation Review











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



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

# Portfolio and Strategic Asset Allocation Review

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

Large U.S. Equity		
Large Value	Large Blend	Large Growth
<p>Large-Cap Value Separate Account-Stnd <sup>19</sup></p>  <p>Large-Cap Value I Separate Account-Stnd <sup>17</sup></p> 	<p>Large-Cap Blend I Separate Account-Stnd <sup>9</sup></p> 	<p>Large Company Growth Separate Account-Stnd <sup>13</sup></p>  <p>Large-Cap Growth I Separate Account-Stnd <sup>2, 11</sup></p> 
Small/Mid U.S. Equity		
Mid Cap Value	Mid Cap Blend	Mid Cap Growth
Small Value	Small Blend	Small Growth
<p>Small-Cap Value I Separate Account-Stnd <sup>1, 2, 18</sup></p>  		<p>Small-Cap Growth II Separate Account-Stnd <sup>1, 2, 7</sup></p>   

# Portfolio and Strategic Asset Allocation Review

International Equity	Real Estate	Balanced/Asset Allocation
<p>International Separate Account-Stnd <sup>3, 16, 17, 21</sup></p>  <p>International Emerging Markets Separate Account-Stnd <sup>3</sup></p> <p>International Growth Separate Account-Stnd <sup>2, 3</sup></p> 	<p>Real Estate Securities Separate Account-Stnd <sup>2, 8</sup></p> <p>U.S. Property Separate Account-Stnd <sup>5</sup></p> <p>Principal Real Estate Investors</p>	
Short-Term Fixed Income	Fixed Income	
	<p>High Yield Separate Account-Stnd <sup>4, 17, 20, 22</sup></p>   <p>LEHMAN BROTHERS ASSET MANAGEMENT</p> <p>Bond and Mortgage Separate Account-Stnd Rate Lev <sup>20</sup></p> <p>Inflation Protection Separate Account-Stnd <sup>17, 20</sup></p>  <p>Preferred Securities Separate Account-Stnd <sup>2, 20</sup></p> 	

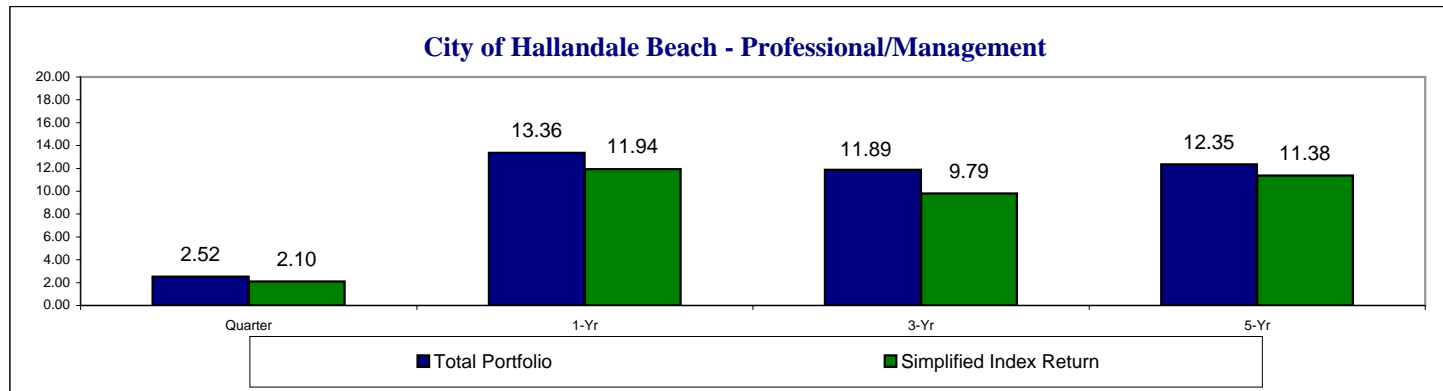
Please see important disclosures at the end of this presentation.

# Portfolio Performance Review

Return Information as of 09/30/2007

Time and Dollar Weighted Returns				
(returns achieved by your plan)	Quarter	1-Yr	3-Yr	5-Yr
<b>Total Portfolio</b>	<b>2.52</b>	<b>13.36</b>	<b>11.89</b>	<b>12.35</b>
<b>Simplified Index Return</b>	<b>2.10</b>	<b>11.94</b>	<b>9.79</b>	<b>11.38</b>
<b>Difference - Simplified Index</b>	<b>0.42</b>	<b>1.42</b>	<b>2.10</b>	<b>0.97</b>

<b>Portfolio's Fixed Income Return</b>	<b>1.65</b>	<b>3.63</b>	<b>3.72</b>	<b>4.03</b>
<b>Lehman Bros Aggregate Bond Index</b>	<b>2.85</b>	<b>5.13</b>	<b>3.86</b>	<b>4.13</b>
<b>Portfolio's Domestic Equity Return</b>	<b>1.90</b>	<b>15.87</b>	<b>13.19</b>	<b>14.48</b>
<b>Russell 3000 Index</b>	<b>1.56</b>	<b>16.53</b>	<b>13.75</b>	<b>16.19</b>
<b>Portfolio's Foreign Equity Return</b>	<b>5.30</b>	<b>32.10</b>	<b>27.75</b>	<b>25.81</b>
<b>MSCI EAFE Index</b>	<b>2.18</b>	<b>24.87</b>	<b>23.25</b>	<b>23.56</b>
<b>Portfolio's Real Estate Return</b>	<b>4.38</b>	<b>12.96</b>	<b>17.68</b>	<b>14.63</b>
<b>Custom Real Estate Benchmark (75% NCREIF Open, 25% MSCI US REIT)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>



# Investment Option Performance

Investment results shown represent historical performance and do not guarantee future results. Investment returns and principal values fluctuate with changes in interest rates and other market conditions so the value, when redeemed may be worth more or less than original costs. Current performance may be lower or higher than the performance data shown.

The gross total investment expense figure does not reflect any waivers or caps on the mutual fund or underlying mutual fund in which a Separate Account invests. Returns displayed are always based on net total investment expense.

For more performance information, including most recent month-end performance, visit the Principal Sponsor Service Center<sup>SM</sup> at [www.principal.com](http://www.principal.com), contact your representative of the Principal Financial Group® (The Principal®), or call our Client Contact Center at 1-800-547-7754.

Investment Advisor	Investment Option	Rates of Return through 09/30/2007							Percentile Rankings as of 09/30/2007					Total Inv. Expense Gross	
		YTD	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception**	Inception Date	YTD	1 yr.	3 yr.	5 yr.	10 yr.		
<b>Large U.S. Equity</b>															
<b>Large Value</b>															
AllianceBernstein LP	Large-Cap Value Separate Account-Stnd <sup>2, 19</sup>	4.49	12.85	13.40	16.40	-	8.73	12/29/2000	-	67	51	39	-	0.93	
UBS Global Asset Mgmt (NY)	Large-Cap Value I Separate Account-Stnd <sup>17</sup>	5.56	13.56	14.10	-	-	13.53	06/01/2004	-	59	35	-	-	0.97	
	Russell 1000 Value Index	5.97	14.45	15.25	18.07	8.80	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Large Value	6.80	14.44	13.52	16.13	7.30	Total Funds in Category	1422	1373	1117	869	400			
<b>Large Blend</b>															
Goldman Sachs Asset Mgt	Large-Cap Blend I Separate Account-Stnd <sup>9</sup>	5.84	12.24	12.10	15.02	3.49	-	06/01/1995	-	88	67	43	94	0.76	
	Standard & Poor's 500 Index	9.13	16.44	13.14	15.45	6.57	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Large Blend	9.15	16.48	13.10	14.72	6.29	Total Funds in Category	2157	2090	1646	1284	566			
<b>Large Growth</b>															
Columbus Circle Investors	Large Company Growth Separate Account-Stnd <sup>13</sup>	18.48	25.84	17.18	15.52	4.82	-	06/01/1995	-	16	9	26	55	0.71	
T. Rowe Price Associates, Inc.	Large-Cap Growth I Separate Account-Stnd <sup>2, 11</sup>	12.55	19.80	12.63	12.88	-	1.04	12/29/2000	-	52	50	62	-	0.91	
	Russell 1000 Growth Index	12.68	19.35	12.20	13.84	4.06	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Large Growth	14.08	20.57	12.93	14.08	5.03	Total Funds in Category	1763	1708	1443	1206	507			
<b>Small/Mid U.S. Equity</b>															
<b>Small Value</b>															
JP Morgan/Mellon Equity	Small-Cap Value I Separate Account-Stnd <sup>1, 2, 18</sup>	-1.63	6.92	11.94	-	-	18.99	12/31/2002	-	71	48	-	-	1.18	
	Russell 2000 Value Index	-2.70	6.09	12.51	18.70	10.07	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Small Value	0.65	9.12	11.72	17.44	9.38	Total Funds in Category	440	417	316	246	84			
<b>Small Growth</b>															
UBS/Emerald/Essex	Small-Cap Growth II Separate Account-Stnd <sup>1, 2, 7</sup>	11.52	17.76	14.18	16.93	-	3.39	12/29/2000	-	62	49	61	-	1.17	
	Russell 2000 Growth Index	9.35	18.94	14.10	18.70	3.65	-	-	-	-	-	-	-	-	
	Morningstar Category Average - Small Growth	11.50	20.32	14.19	17.60	6.84	Total Funds in Category	842	816	656	548	246			

# Investment Option Performance

Investment Advisor	Investment Option	Rates of Return through 09/30/2007							Percentile Rankings as of 09/30/2007					Total Inv. Expense Gross
		YTD	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception**	Inception Date	YTD	1 yr.	3 yr.	5 yr.	10 yr.	
	<b>International Equity</b>													
	<b>Diversified Emerging Markets</b>													
Principal Global Investors	International Emerging Markets Separate Account-Stnd <sup>3</sup>	36.67	60.97	44.36	39.92	13.25	-	01/01/1995	-	18	10	16	22	1.51
	MSCI - Emerging Markets NDTR D Index	34.50	58.17	40.82	38.65	-	-	-	-	-	-	-	-	-
	Morningstar Category Average - Diversified Emerging Markets	31.67	55.48	38.59	36.33	11.40	Total Funds in Category		278	273	207	184	94	
	<b>Foreign Large Blend</b>													
Fidelity (Pyramis Global Adv)	International Separate Account-Stnd <sup>3, 16, 17, 21</sup>	15.30	28.46	23.70	23.90	-	8.24	07/01/1999	-	27	33	18	-	1.29
	MSCI - EAFE Index NDTR D	13.15	24.87	23.24	23.55	7.97	-	-	-	-	-	-	-	-
	Morningstar Category Average - Foreign Large Blend	14.26	26.18	23.06	22.08	7.29	Total Funds in Category		760	715	564	454	218	
	<b>Foreign Large Growth</b>													
Principal Global Investors	International Growth Separate Account-Stnd <sup>2, 3</sup>	16.63	28.95	26.15	26.17	-	10.76	12/29/2000	-	57	17	10	-	1.18
	Citigroup BMI World ex-US Growth Index	14.88	25.97	23.83	24.08	7.94	-	-	-	-	-	-	-	-
	Morningstar Category Average - Foreign Large Growth	16.39	29.18	23.58	22.22	7.27	Total Funds in Category		231	222	183	159	61	
	<b>Real Estate</b>													
	<b>Owned Real Estate</b>													
Principal Real Estate Inv	U.S. Property Separate Account-Stnd <sup>5</sup>	11.96	16.07	16.86	13.36	11.21	-	01/01/1982	-	-	-	-	-	1.15
	NCREIF Open End Benchmark	-	-	-	-	-	-	-	-	-	-	-	-	-
	<b>Specialty-Real Estate</b>													
Principal Real Estate Inv	Real Estate Securities Separate Account-Stnd <sup>2, 8</sup>	-6.85	1.97	19.71	-	-	23.16	12/31/2002	-	79	35	-	-	1.15
	MSCI US REIT Index	-4.20	4.67	18.97	21.34	12.04	-	-	-	-	-	-	-	-
	Morningstar Category Average - Specialty-Real Estate	-2.93	6.74	18.05	21.24	11.90	Total Funds in Category		369	340	257	176	68	
	<b>Short-Term Fixed Income</b>													
	<b>Money Market</b>													
Principal Global Investors	Money Market Separate Account-Stnd <sup>6</sup>	3.66	4.90	3.76	2.57	3.56	-	12/10/1980	-	-	-	-	-	0.56
	Lehman Brothers Treasury Bellwethers 3 Month Index	3.98	5.29	4.13	2.95	3.82	-	-	-	-	-	-	-	-

# Investment Option Performance

Investment Advisor	Investment Option	Rates of Return through 09/30/2007							Percentile Rankings as of 09/30/2007					Total Inv. Expense Gross
		YTD	1 yr.	3 yr.	5 yr.	10 yr.	Since Inception**	Inception Date	YTD	1 yr.	3 yr.	5 yr.	10 yr.	
	<b>Fixed Income</b>													
	<b>High Yield Bond</b>													
Post/JP Morgan/Lehman Brothers	High Yield Separate Account-Stnd <sup>4, 17, 20, 22</sup>	3.51	7.08	-	-	-	5.85	12/31/2004	-	55	-	-	-	0.83
	<i>Post High Yield Traditional Composite §</i>	-	-	6.68	9.71	7.67	-		-	-	49	77	2	
	<i>JP Morgan High Yield Broad Net Composite §</i>	-	-	8.41	12.77	-	-		-	-	8	19	-	
	<i>Lehman Brothers Full Market High Yield Composite §</i>	-	-	7.44	12.41	-	-		-	-	25	24	-	
	Lehman Brothers U.S. Corporate High Yield Index	3.21	7.54	7.44	12.65	5.85	-	-	-	-	-	-	-	-
	<b>Morningstar Category Average - High Yield Bond</b>	<b>2.88</b>	<b>7.08</b>	<b>6.71</b>	<b>11.24</b>	<b>4.30</b>	<b>Total Funds in Category</b>		<b>543</b>	<b>531</b>	<b>454</b>	<b>386</b>	<b>184</b>	
	<b>Intermediate-Term Bond</b>													
Principal Global Investors	Bond and Mortgage Separate Account-Stnd Rate Lev <sup>20</sup>	2.61	4.14	3.73	4.30	5.93	-	02/01/1983	-	60	28	33	13	0.55
Spectrum	Preferred Securities Separate Account-Stnd <sup>2, 20</sup>	-2.26	0.10	2.76	4.10	-	4.58	05/31/2002	-	98	80	42	-	0.92
	Lehman Brothers Aggregate Bd Index	3.85	5.14	3.86	4.13	5.97	-	-	-	-	-	-	-	-
	Merrill Lynch Hybrid Preferred Securites Index	-2.52	0.09	2.59	4.32	5.72	-	-	-	-	-	-	-	-
	<b>Morningstar Category Average - Intermediate-Term Bond</b>	<b>2.88</b>	<b>4.24</b>	<b>3.35</b>	<b>4.08</b>	<b>5.19</b>	<b>Total Funds in Category</b>		<b>1128</b>	<b>1094</b>	<b>968</b>	<b>819</b>	<b>407</b>	
	<b>Inflation-Protected Bond</b>													
Principal Global Investors	Inflation Protection Separate Account-Stnd <sup>17, 20</sup>	3.61	2.35	-	-	-	2.23	12/31/2004	-	93	-	-	-	0.58
	Lehman Brothers US Treas TIPS Index	6.35	4.98	4.03	5.36	7.06	-	-	-	-	-	-	-	-
	<b>Morningstar Category Average - Inflation-Protected Bond</b>	<b>5.34</b>	<b>3.99</b>	<b>3.22</b>	<b>4.28</b>	<b>6.11</b>	<b>Total Funds in Category</b>		<b>159</b>	<b>151</b>	<b>94</b>	<b>21</b>	<b>11</b>	

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

Please see important disclosures at the end of this presentation.

# Disclosures

*Separate Accounts are available through a group annuity contract with the Principal Life Insurance Company. Insurance products and plan administrative services are provided by Principal Life Insurance Company a member of the Principal Financial Group, Des Moines, IA 50392. See the group annuity contract for the full name of the Separate Account. Certain Separate Accounts may not be available in all states.*

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

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- 1. Small-cap and mid-cap investment options are subject to more fluctuation in value and may have additional risks than other investment options with stocks of larger, more stable companies.*
- 2. This Separate Account invests solely in the Institutional class shares of the Principal Investors Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.*
- 3. International and global investment options are subject to additional risk due to fluctuating exchange rates, foreign accounting and financial policies, and other economic and political environments.*
- 4. High yield investment options are subject to greater credit risk associated with high yield bonds.*
- 5. 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.*
- 6. This investment option is not guaranteed by the Federal Deposit Insurance Corporation (FDIC), or any other government agency.*
- 7. Effective May 1, 2002, this portfolio was sub-advised solely by UBS Global Asset Management. Effective September 1, 2004, Emerald Advisers was added as an additional sub-advisor. Effective June 30, 2006, Essex was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
- 8. Real estate investment options are subject to some risks inherent in real estate and Real Estate Investment Trusts, such as risks associated with general and local economic conditions.*
- 9. Effective November 13, 2006, this portfolio is sub-advised by Goldman Sachs Asset Management. From November 18, 2002, to November 16, 2006, the portfolio was sub-advised by Goldman Sachs Asset Management and Wellington Management Company, LLP. The portfolio has had various sub-advisors since its inception. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*
- 11. Effective August 24, 2004, this portfolio is sub-advised by T. Rowe Price Associates, Inc. Prior to August 24, 2004, the portfolio was sub-advised by Morgan Stanley Investment Management Inc.*

13. Effective January 5, 2005, this portfolio is sub-advised by Columbus Circle Investors. Prior to January 5, 2005, the portfolio was sub-advised by Principal Global Investors.
16. Effective May 1, 2004, the name of this Separate Account changed from the Fidelity Advisor Overseas (T) Separate Account to the Principal Partners International Separate Account. Effective May 1, 2004, the portfolio is sub-advised by Fidelity Management & Research. Prior to May 1, 2004, the Separate Account invested solely in the Fidelity Advisor Overseas (T) mutual fund.
17. This Separate Account invests solely in the Institutional class shares of the Principal Investors Fund. All voting rights associated with ownership of shares in the mutual fund are the rights of the Separate Account, not of contract holders investing in the Separate Account. For further information on the underlying mutual fund, see the prospectus of the fund.
18. Effective August 8, 2005, Mellon Equity was added as an additional sub-advisor. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.
19. Effective March 1, 2006, Bank of New York is listed as a sub-advisor for managing the cash portion of this investment option.
20. Fixed-income investment options are subject to interest rate risk, and their value will decline as interest rates rise. Neither the principal of bond investment options nor their yields are guaranteed by the U.S. government.
21. Effective March 31, 2007, references to Fidelity Management & Research as investment advisor will be replaced with Fidelity (Pyramis Global Adv). This is a name change only and does not affect the management, objective, or strategy of this investment option.
22. Effective July 18, 2007, JP Morgan and Lehman Brothers were added as additional sub-advisors. Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.

## **Benchmark Descriptions**

*Blended Real Estate Index is composed of 75% NCREIF Open End Index and 25% MSCI US REIT Index. The NCREIF Open-end Benchmark is the open-end fund component of the NCREIF Property Index that consists of U.S. commercial real estate properties that have been acquired, at least in part, on behalf of tax-exempt institutions and are held in a fiduciary environment. The universe of properties includes wholly owned and joint venture investments, operating properties only (no development projects) and investment grade (no-agricultural) income-producing properties in the Multi-family, Industrial, Office and Retail sectors. The MSCI US REIT Index is a capitalization-weighted benchmark index of most actively traded Real Estate Investment Trusts (REITs), designed to measure real estate performance.*

*Citigroup BMI World ex-US Growth Index consists of 100% of each country's available capitalization that have a growth style within developed market countries. This excludes the United States capitalization.*

*Lehman Brothers Aggregate Bd Index represents securities that are U. S., domestic, taxable, and dollar denominated. The index covers the U. S. investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.*

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

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

*Lehman Brothers US Treas TIPS Index consists of Inflation-Protections securities issued by the U.S. Treasury.*

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

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

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

*NCREIF Open End Benchmark is the open-end fund component of the NCREIF Property Index that consists of U.S. commercial real estate properties that have been acquired, at least in part, on behalf of tax-exempt institutions and are held in a fiduciary environment. The universe of properties includes wholly owned and joint venture investments, operating properties only (no development projects) and investment grade (no-agricultural) income-producing properties in the Multi-family, Industrial, Office and Retail sectors.*

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

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

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

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

*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.*

*Simplified Index is composed of 60% Russell 3000 Index and 40% Lehman Brothers Aggregate Bond Index.*