Principal®

Real Estate Investors

Retirement REdirect

REAL ESTATE
REAL OUTCOMES
REAL CHOICES

AUGUST 2013

Offering institutional real estate asset-management capabilities to investors in a variety of easy-to-incorporate strategies

Principal Real Estate Investors is an active participant in the retirement market, offering diverse commercial real estate investment strategies from direct real estate and real estate investment trusts (REITs), to commercial mortgage-backed securities (CMBS) and private debt investments. For over thirty years*, Principal Real Estate Investors has provided real estate-based retirement investment strategies to defined benefit (DB) and defined contribution (DC) plans. DB plans have historically had investment exposure to the commercial real estate asset class including direct real estate, and the DC market is now expanding its acceptance of alternatives to potentially produce better investment outcomes for the participants **(Exhibit A)**. This allows DC plan participants to potentially benefit from an allocation to the commercial real estate asset class: potential income, diversification, inflation protection, and reduced volatility. According to a survey in Pensions & Investments, 11 of 49 plan sponsors surveyed indicated that they used direct real estate within their target-date investment options ("Target-date fund growth likely to continue." February 4, 2013). Principal Real Estate Investors believes that DC plans (both as target-date and as discreet investment allocations) and DB plans can benefit from a dynamic allocation to the four quadrants of commercial real estate (i.e., public equity, private equity, public debt, and private debt). A dynamic commercial real estate allocation, provided in an easy-to-access fashion, could greatly complement a traditional stock-and-bond portfolio and play an important role in meeting an almost-universal need for attractive risk-adjusted total return investment strategies.

EXHIBIT A: DB VERSUS DC INVESTMENT EXPOSURE

		DB plan (%)	DC plan (%)
TRADITIONAL	Large-Cap Stock	29	33
	Small-Cap Stock	6	8
	Foreign Stock	23	7
	Employer Stock	0	18
	Fixed Income	31	11
	Stable Value/GICS	0	19
	Cash	2	3
ALTERNATIVES	**Real Estate, REITS, and other real assets**	**4**	**0**
	Hedge Funds	2	0
	Private Equity	3	0

Source: "Is it Time to Diversify DC Risk with Alternative Investments?" Defined Contribution Institutional Investment Association, May 2013.

Enhancing diversification by incorporating an investment option based on exposure to direct real estate

Investment themes evolve rapidly and discussions about adding commercial real estate allocations have shifted from purchasing specific properties or securities/REITs towards finding a comprehensive allocation to commercial real estate investment alternatives. When viewing a commercial real estate allocation within the context of a broad portfolio of stocks and bonds, historical asset-allocation models generally suggest the following:

- Direct real estate exhibits relatively low correlation with stocks and bonds **(Exhibit B)**
- Direct real estate offers diversification benefits
- Commercial real estate exposure improves the overall risk/return profile

EXHIBIT B: CORRELATIONS – QUARTERLY RETURNS 2Q 2003 TO 1Q 2013**

	Stock & Bond Indices			Commercial Real Estate Indices			
	US Stock	Global Stock	US Corp Inv Grade Bonds	Global REITS	Private Equity	Inv Grade CMBS	High Yield Private Debt
S&P 500	1.00						
Global Stock	.97	1.00					
US Corp Inv Grade Bonds	.31	.37	1.00				
Global REITS	.86	.89	.48	1.00			
Private Equity NCREIF- ODCE-EW	.19	.17	(.27)	.18	1.00		
Inv Grade CMBS	.68	.67	.62	.74	.04	1.00	
High Yield Private Debt	.27	.23	.29	.37	.10	.71	1.00

*Experience includes investment activities in the Real Estate area of Principal Life Insurance Company and continue through the Firm to present.
**See page 10 for index descriptions.

DIVERSIFICATION POTENTIAL

Diversification is a well-known tool used to help reduce total portfolio risk, and combining assets that have low or negative correlations is a time-tested way of enhancing diversification. In statistics, correlation is a measure of the similarity in movements of the prices of two assets. A correlation of 1.0 means that the two assets move in lock step, while a correlation of 0.0 signifies a completely random relationship. Low correlation means that two assets do not always move with the same magnitude or in the same direction; thus, they help offset each other's variability when combined. By offering low historical correlation with other asset classes, including other commercial real estate sectors, direct real estate can serve as the foundation for a diversified real estate allocation, which can be incorporated into a diverse portfolio of stock and bond investments to offer the potential for diversification and lower total-portfolio risk. This is illustrated in the correlation matrix in **Exhibit B**.

Three drivers behind this low correlation:

- Commercial real estate is slightly out of synch with other asset classes that are more closely tied to economic cycles because demand for commercial real estate is very sensitive to employment, and generally employment lags economic cycles.
- Money flows through the commercial real estate sector at a different rate than other asset classes because the long-term leases that are common in commercial real estate may alter or delay the cash-flow rental income receipts.
- The commercial real estate cycle is generally longer than cycles associated with other asset classes because of relatively long construction lead times.

Even if you already have exposure to REITs, direct real estate can enhance your risk/return profile

Historically, REITs have been the entry point for many plans looking to gain exposure to commercial real estate. Though the total returns of global REITs over a ten-year period **(Exhibit C)** were attractive, relative to other indices, the volatility sustained by the global REIT index was nearly 1.5 times that of the S&P 500 index, suggesting the potential for a more efficient solution than an allocation of only global REITs.

EXHIBIT C: TOTAL RETURN INDEX VALUES*

* Indexed to 100 since March 31, 2003
See page 10 for index descriptions.

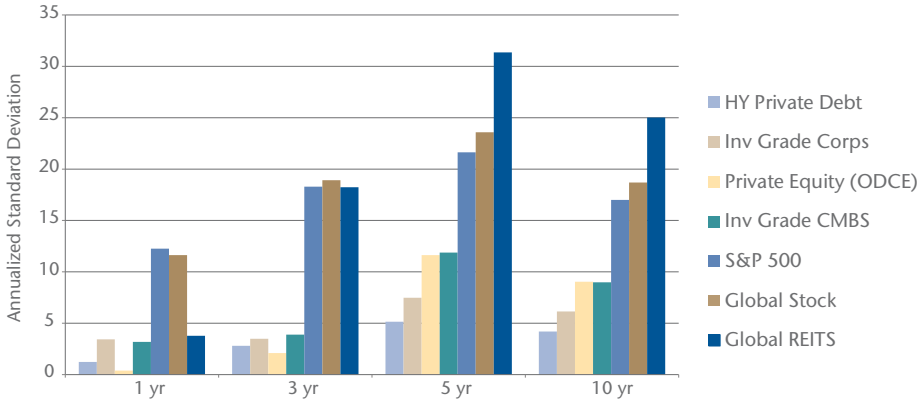
No investment strategy, such as asset allocation or diversification, can guarantee a profit or protect against loss in periods of declining values.

There is a more comprehensive approach that may provide investors with better risk-adjusted outcomes—use the broader commercial real estate sector to complement existing allocations to stocks, bonds, and REITs. The commercial real estate asset class has historically provided favorable risk/return profiles when compared to the stock and bond indices illustrated during the ten- year period ending March 2013 **(Exhibit D)**. Not only does commercial real estate offer its own favorable risk/return profile, but the potential exists to improve the overall risk/return profile of a portfolio by adding the commercial real estate asset class to a traditional stock-and-bond portfolio. The key is incorporating direct real estate to the mix of commercial real estate assets, something not all asset managers can provide with daily NAV and may provide daily liquidity.

EXHIBIT D

TOTAL RETURN 2Q 2003 TO 1Q 2013*	STOCK & BOND INDICES			COMMERCIAL REAL ESTATE INDICES			
	US Stock	Global Stock	Inv Grade Corps	Global REITS	Private Equity	Inv Grade CMBS	HY Private Debt
10 yr Annualized Holding Period Total Return	8.53%	8.88%	6.05%	12.96%	6.41%	5.36%	7.66%

Asset Class Volatility Comparison



STANDARD DEVIATION 2Q 2003 TO 1Q 2013	STOCK & BOND INDICES			COMMERCIAL REAL ESTATE INDICES			
	US Stock	Global Stock	Inv Grade Corps	Global REITS	Private Equity	Inv Grade CMBS	HY Private Debt
10 yr Annualized Holding Period Standard Deviation	17.00%	18.70%	6.15%	25.02%	9.03%	8.98%	4.18%

RETURN PER UNIT OF RISK** 2Q 2003 TO 1Q 2013	STOCK & BOND INDICES			COMMERCIAL REAL ESTATE INDICES			
	S&P 500	Global Stock	Inv Grade Corps	Global REITS	Private Equity (ODCE-EW)	Inv Grade CMBS	HY Private Debt
Risk/Return Profile	.502%	.475%	.984%	.518%	.710%	.597%	1.833%

*See page 10 for index descriptions. Past performance is not a reliable indicator of future performance.
**Annualized 10-year holding period total returns divided by 10-year standard deviation of returns over equivalent period.

For the potential of enhanced diversification and improved risk/return profiles, consider the Principal Real Estate Diversified Income Strategy and Principal Real Estate Equity Income Strategy

The Principal Real Estate Diversified Income Strategy offers investors the potential to improve performance and diversification by adding public and private real estate equity, and public and private real estate debt allocations to traditional stock-and-bond portfolios.

IMPROVED PERFORMANCE AND DIVERSIFICATION BY ADDING COMMERCIAL REAL ESTATE EXPOSURE – 10-YEAR HISTORICAL INDEX RISK/RETURN ANALYSIS* (AS OF 3/31/2013)

	STRATEGY	INDEX		RISK[1]	RETURN	RETURN PER UNIT OF RISK[3]
Portfolio A	0% Real Estate Diversified Income Strategy	60% U.S. Stocks	40% Inv Grade Corp Bonds	11.20%	7.88%	**0.704%**
Portfolio B	10% Real Estate Diversified Income Strategy[2]	55% U.S. Stocks	35% Inv Grade Corp Bonds	10.75%	7.93%	**0.738%**
Portfolio C	20% Real Estate Diversified Income Strategy[2]	50% U.S. Stocks	30% Inv Grade Corp Bonds	10.34%	7.97%	**0.771%**

Additionally, the Principal Real Estate Equity Income Strategy can offer the potential for improved performance and diversification through allocations to public and direct real estate.

IMPROVED PERFORMANCE AND DIVERSIFICATION BY ADDING COMMERCIAL REAL ESTATE EXPOSURE – 10-YEAR HISTORICAL INDEX RISK/RETURN ANALYSIS* (AS OF 3/31/2013)

	STRATEGY	INDEX		RISK[1]	RETURN	RETURN PER UNIT OF RISK[3]
Portfolio A	0% Real Estate Equity Income Strategy	60% U.S. Stocks	40% Inv Grade Corp Bonds	11.20%	7.88%	**0.704%**
Portfolio B	10% Real Estate Equity Income Strategy[4]	55% U.S. Stocks	35% Inv Grade Corp Bonds	10.98%	8.05%	**0.733%**
Portfolio C	20% Real Estate Equity Income Strategy[4]	50% U.S. Stocks	30% Inv Grade Corp Bonds	10.83%	8.22%	**0.759%**

For comparison, consider the risk and return profile, based on historical data, associated with adding an allocation of only global REITs to a traditional stock-and-bond portfolio, which delivers less return per unit of risk than either the Principal Real Estate Diversified Income Strategy or the Principal Real Estate Equity Income Strategy, coupled with the same historical stock and bond allocations.

10-YEAR HISTORICAL INDEX RISK/RETURN ANALYSIS* (AS OF 3/31/2013)

	STRATEGY	INDEX		RISK[1]	RETURN	RETURN PER UNIT OF RISK[3]
Portfolio A	0% Global REITs only	60% U.S. Stocks	40% Inv Grade Corp Bonds	11.20%	7.88%	**0.704%**
Portfolio B	10% Global REITs only	55% U.S. Stocks	35% Inv Grade Corp Bonds	12.49%	8.53%	**0.683%**
Portfolio C	20% Global REITs only	50% U.S. Stocks	30% Inv Grade Corp Bonds	13.86%	9.15%	**0.660%**

Past performance is not a reliable indicator of future performance. Hypothetical performance is presented for fictional portfolios and is derived from various combinations of historical index returns. The performance does not represent the actual returns of any single, stand-alone portfolio managed by Principal Global Investors.

*See page 10 for index descriptions.

[1]Percentage of risk shown is the annualized standard deviation of index returns and is a measure of return volatility.

[2]The Real Estate Diversified Income Strategy return is based on historical index returns consistent with the targeted long-term investment allocation range (as referenced on page 8). As of 3/31/2013 (quarterly data available for NFI-ODCE-EW index).

[3]Annualized holding period total returns divided by standard deviation of returns over equivalent period.

[4]The Real Estate Equity Income Strategy return is based on historical index returns consistent with the targeted long-term investment allocation range (as referenced on page 8). As of 3/31/2013 (Quarterly data available for NFI-ODCE-EW index).

PROGRAM OVERVIEW

DC target-date/asset-allocation investments provide a great example in highlighting the potential benefit to investors of the Retirement REdirect program. According to Pensions & Investments, the majority (55%) of target-date/asset-allocation funds currently rely on REITs as their only source of real estate exposure (Target-date fund growth likely to continue: Pensions & Investments February 4, 2013). Asset-allocation funds, and investors in general, want exposure to alternatives to increase diversification, manage volatility, and provide alpha* to investors; however, given REITs' higher volatility and their high correlation with equities, asset allocators may want a broader set of commercial real estate alternatives to fully accomplish those tasks. In the marketplace, we have seen increasing interest from investors for asset classes and investment options that offer specific traits:

- Efficient access to commercial real estate investment, particularly direct real estate
- Potential for meaningful current income
- Potential for attractive total return (appreciation) over a longer time period
- Some degree of inflation protection

The Retirement REdirect program offers DC and DB plans an opportunity to gain the following attributes:

- Access to an institutional, fully integrated commercial real estate asset management platform with expertise in all quadrants
- Benefits of direct real estate investment through the Principal U.S. Property Separate Account ("PUSPSA")**
- Potential to increase portfolio return per unit of risk, with the strategies' meeting client needs of current income as a significant component of total return, diversification, inflation protection, and enhanced (although not guaranteed) liquidity. For more on the potential liquidity impact to target-date investment options, please see the appendix.

A proven track record in direct real estate serves as the cornerstone of the Retirement REdirect program

Because of its low correlation with other asset classes and with other commercial real estate sectors, we believe that direct real estate should serve as the foundation for a diversified real estate portfolio like the Retirement REdirect program. Since 1982, PUSPSA has been offering clients a diversified real estate equity account consisting primarily of high-quality, well-leased real estate properties in the multifamily, industrial, office, retail, and hotel sectors. PUSPSA is an open-end, commingled real estate insurance-sponsored company separate account offered by Principal Life Insurance Company and managed by Principal Real Estate Investors. PUSPSA is available to qualified retirement plans.

*Alpha is a risk-adjusted measure of the "excess return" on an investment relative to a benchmark index. It is a common measure of assessing the performance of a manager of an actively-managed portfolio.
**The Principal U.S. Property Separate Account is an open-end, commingled real estate account available to retirement plans meeting the requirements for qualification under section 401(a) of the Internal revenue code of 1986 ("code"), as amended, and governmental plans meeting the requirements of section 457 of the code, as amended, since 1982.

REAL ESTATE SEPARATE ACCOUNT PHILOSOPHY

PUSPSA is a core real estate separate account designed to have a low-to-moderate risk profile compared with other investment options that comprise the National Council of Real Estate Investment Fiduciaries (NCREIF) Fund Index – Open-end Diversified Core Equity (NFI-ODCE-EW). This risk profile has two goals:

- A low-to-moderate real estate property risk profile
- A low-to-moderate portfolio-level risk profile

Low-to-moderate real estate property risk is accomplished by investing primarily in well-leased properties without leverage. Low-to-moderate portfolio-level risk is achieved by operating with limited portfolio-level obligations and through a well-diversified portfolio.

REAL ESTATE SEPARATE ACCOUNT OBJECTIVE

- To invest in a well-diversified real estate portfolio that reflects the overall performance of the U.S. commercial real estate market
- To provide clients with private real estate returns that, over a market cycle, meet or exceed the NCREIF Fund Index Open-End Diversified Core Equity (NFI-ODCE) Equal Weight at the portfolio level.

PUSPSA KEY STATISTICS AND HISTORICAL RETURN INFORMATION

1Q2013 KEY STATISTICS	
Inception Date	January, 1982
Gross Asset Value	$5.55 billion
Net Asset Value	$4.23 billion
Number of Investments	114
Number of Markets	39
Portfolio Occupancy*	93%
Cash to Gross Assets	4.5%
Leverage Ratio**	20.4%

*Occupancy excludes value-added assets which are acquired at less than 85% occupancy or are under development. Occupancy for the total portfolio is 90%. **Account's share of total debt (both property and portfolio) divided by Account's share of total gross assets.

HISTORICAL RETURN INFORMATION	1Q2013	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INCEPTION[4]
Income (Gross)[1]	1.45%	5.80%	6.11%	5.90%	5.72%	N/A
Appreciation[1]	1.68%	7.11%	10.03%	-6.51%	0.70%	N/A
TOTAL PORTFOLIO (Gross)[1]	3.14%	13.22%	16.60%	-0.89%	6.45%	7.36%
TOTAL PORTFOLIO (Net)[2]	2.84%	11.93%	15.27%	-2.02%	5.24%	6.21%
Property Level[3]	2.85%	12.15%	14.08%	0.99%	7.39%	7.94%

Returns over one year are annualized. Past performance is not necessarily an indicator of future results. [1]Gross portfolio level returns include leverage. Actual client returns will be reduced by investment management fees and other expenses that may be incurred in the management of the portfolio. The highest standard institutional investment management fee (annualized) for The Principal U.S. Property Separate Account is 1.15% on account values. Actual investment management fees incurred by clients may vary and are collected daily which produces a compounding effect on the total rate of return net of management fees and other expenses. Investment management fees are subject to change. [2]Net portfolio level returns are shown after deduction for portfolio expenses including an investment management fee, which is 1.15% annually from July 1, 2002 through the present. Net portfolio level returns prior to July 1, 2002 are calculated to reflect deduction of blended annualized investment management fees of 1.15% and 1.05% in the periods in which those amounts were charged. [3]Gross property level returns are unlevered, exclude cash, before fees, and are calculated in accordance with NCREIF Property Return Methodology. [4]Principal U.S. Property Separate Account Inception Date: January 30, 1982. See disclaimers on page 11 for important information about the risks of investing in PUSPSA.

RETIREMENT REDIRECT
SUMMARY OF KEY TERMS

	PRINCIPAL REAL ESTATE DIVERSIFIED INCOME STRATEGY			PRINCIPAL REAL ESTATE EQUITY INCOME STRATEGY		
Structure	May be available in a commingled, daily valued Collective Investment Trust[1]					
Trustee	If a collective investment trust is offered for the strategy, Union Bond and Trust Company (UBT) may serve as the Trustee. UBT is establish under Oregon banking and trust laws and would delegate day to day sub-advisory services to Principal Real Estate Investors.					
Investment Strategy	Diversified real estate exposure with alpha generation through asset allocation			Private equity real estate exposure with enhanced (although not guaranteed) liquidity		
Investment Objective	Generate attractive risk-adjusted total return and current income			Generate attractive current income and total return		
Performance Objective	The strategy will seek to outperform its custom target neutral allocation benchmarks over a market cycle.			The strategy will seek to outperform its custom target neutral allocation benchmarks over a market cycle.		
Portfolio Allocation/ Underlying Investment Options	ASSET CLASS*	ALLOCATION RANGE	TARGETED LONG-TERM ALLOCATION	ASSET CLASS*	ALLOCATION RANGE[1]	TARGETED LONG-TERM ALLOCATION
	Private Equity via PUSPSA	50%-75%	65%	Private Equity via PUSPSA	65%-75%	70%
	Public Equity via Global REITs	10%-30%	15%	Public Equity via Global REITs	25%-35%	30%
	Public Debt via CMBS	10%-30%	15%	[1]In distressed market environments, the allocation to global REITs may be zero in order to satisfy redemption requests.		
	Private Debt	0%-10%	5%			
Primary Investor Benefits	1. Attractive risk-adjusted total return and current income 2. Enhanced diversification with the potential for lower volatility 3. Partial hedge against unexpected inflation			1. Direct real estate exposure with enhanced (although not guaranteed) liquidity 2. Income and attractive total return 3. Partial hedge against unexpected inflation		
Eligibility	Qualified Retirement Plans and 457 Plans					
Liquidity (not guaranteed)	Derived from underlying investment sleeves			Enhanced (although not guaranteed) liquidity through allocation to Global REITs		
Management Fee:	140 bps			125 bps		

All asset allocation ranges shown above are subject to change.

SELF-DIRECTED REAL ESTATE STRATEGIES			
Objective: Stand-alone real estate strategies will provide a flexible means for sophisticated asset allocators to direct their own commercial real estate asset allocations.			
Single Strategy Options	ASSET CLASS*	ALLOCATION	MANAGEMENT FEE
	Private Equity via PUSPSA	100%	115 bps
	Public Equity via Global REITs	100%	70 bps
	Public Debt via CMBS	100%	45 bps

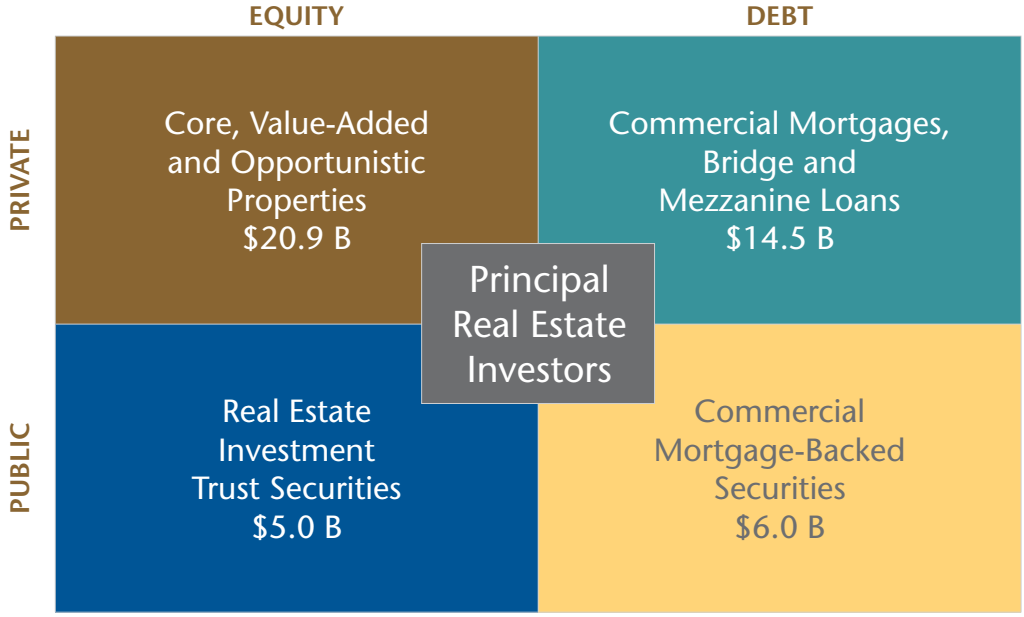
*See page 10 for index descriptions.
See page 11 for important information on the risks inherent in real estate investing.

[1]A collective investment trust fund (Fund) has not been launched for this strategy as of the date of this publication and is not available for investment. Information provided including investment management structure, strategy, and portfolio characteristics, represent the intended Fund structure but is subject to change without notice. Participation in the Fund will be governed by the terms of the Declaration of Trust, Participation Agreement, and Disclosure documentation (Governing Documents), which will be available prior to the launch of the Fund. The Governing Documents contain important information about investment objectives, risks, fees and expenses associated with the Fund and should be read carefully before investing. The terms specified in Governing Documents shall supersede the information provided in this publication. There is no assurance that the Fund will achieve its stated objective and an investment in the Fund involves risk, including the possible loss of the principal amount invested. Before investing carefully consider the Fund's investment objectives, risks, and charges.

If a Fund is launched Union Bond and Trust Company (UBT) may serve as the trustee, pursuant to the Fund's Declaration of Trust. UBT would retain Principal Real Estate Investors LLC, a registered investment advisor, to serve as the Fund's sub-advisor, subject to the Trust Company's supervision and review. Principal Real Estate Investors and UBT are both indirect wholly owned subsidiary of Principal Financial Group, Inc.

More about Principal Real Estate Investors

With over 60 years of experience*, Principal Real Estate Investors is one of the few institutional asset managers with deep expertise across all four quadrants of the real estate investment landscape, providing clients access to a full suite of investment opportunities. Our substantial business in each quadrant gives us a unique, holistic perspective of the real estate space and of capital markets. These capabilities have allowed Principal Real Estate Investors to become a trusted advisor for some of the largest "blue-chip" investors in the United States and around the world.



As of March 31, 2013.

RETIREMENT REDIRECT SUMMARY

- Principal Real Estate Investors is uniquely positioned as one of the few institutional real estate asset managers that can execute strategies across all quadrants of the commercial real estate asset class.
- Investors continue to seek direct real estate and other uncorrelated assets to complement traditional stock-and-bond portfolios and seeking to achieve better investment outcomes.
- The strategies can help address clients' needs to generate income, manage volatility, and protect purchasing power.
- Retirement REdirect offers DC and DB plans a suite of investment options to enhance the potential for better risk-adjusted returns.

*Experience claims begin with the real estate investment area of Principal Life Insurance Company continuing through the Firm to present.

Appendix

TARGET-DATE OFFERINGS, DIRECT REAL ESTATE, AND THE LIQUIDITY IMPACT

While there is not a liquidity guarantee associated with an investment in direct real estate, target-date offerings, similar to a diversified DB plan, may require less liquidity than an investor buying direct real estate directly. For example, target-date investment options, on average, may allocate 5% of the overall portfolio to direct real estate. This allows the asset-allocator to use the remaining 95% of the fund's more-liquid securities to navigate potential queue events or other illiquidity events that can be associated with direct real estate. Exhibit E illustrates that a target-date fund with $500 million of assets under management (AUM) and a 5% exposure to alternatives/direct real estate can sustain a 35% market decline on the "liquids" (stocks/bonds) in addition to experiencing 20% asset outflows before reaching a 10% hypothetical maximum allocation to alternatives.

This example illustrates that target-date funds can sustain a 52% overall AUM drop while being able to tolerate lower liquidity in their real estate portfolios similar to defined benefit plans. While the strategies are designed to provide liquidity to satisfy daily redemptions and maintain liquidity sufficient to meet investor withdrawal requests, there is no guarantee that the strategies will be able to maintain sufficient liquidity.

EXHIBIT E:

Hypothetical Portfolio:	$500mm
Market Decline:	35%
Portfolio Outflows:	20%

IMPACT ON PORTFOLIO

Allocation	Beginning (%)	Beginning (AUM)	End (%)	End (AUM)
Liquids	95	475	90	214
Alternatives	5	25	**10**	**25**
Total AUM	100%	**500**	**100%**	239

INDEX DEFINITIONS

US Stock: S&P 500 Total Return. The S&P 500 Index includes 500 leading companies in industries of the U.S. economy, capturing 75% coverage of U.S. equities. It was first published in 1957.

Global Stock: MSCI World (Global) Index. The MSCI World GTR Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. This index consists of developed market country indices.

Investment Grade Corporate Bonds: Barclays Capital U.S. Corporate Index. Barclays Capital U.S. Corporate Index includes publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered. The corporate sectors are industrial, utility and finance, which include both U.S. and non-U.S. corporations.

Global REITS: EPRA/NAREIT DEVELEOPED TOTAL RETURN. FTSE EPRA/NAREIT Developed Real Estate Index covers both the FTSE EPRA/NAREIT Equity REITs Index and the FTSE EPRA/NAREIT Developed ex-U.S. Index. Designed to track the performance of listed real estate companies and REITs worldwide, the series acts as a performance measure of the overall market. The index changed names on March 23, 2009, and was formerly known as the FTSE EPRA/NAREIT Global Real Estate Index.

Private Equity: NFI – ODCE EQUAL WEIGHT (NCREIF). The NFI-ODCE Equal-Weighted Index is an index of quarterly time weighted total returns of diversified core equity style open-end funds.

Investment Grade CMBS: Barclays Capital U.S. CMBS (ERISA Only) Index. The index measures the performance of investment-grade commercial mortgage-backed securities, which are classes of securities that represent interests in pools of commercial mortgages. The index includes only CMBS that are Employee Retirement Income Security Act of 1974, which will deem ERISA eligible the certificates with the first priority of principal repayment, as long as certain conditions are met, including the requirement that the certificates be rated in one of the three highest rating categories by Fitch, Inc., Moody's Investors Services or Standard & Poor's.

High Yield Private Debt: Gilberto-Levy+ (HY Proxy). Giliberto-Levy Commercial Mortgage Performance Index +200bps based on Principal Real Estate Investors' research when comparing the historical average spread relationship between investment grade and below investment grade corporate bonds.

Index performance information reflects no deduction for fees, expenses, or taxes. Indices are unmanaged and individuals cannot invest directly in an index.

DISCLOSURES

General Risks Associated with Investment in Real Estate

Potential investors should be aware of the many risks inherent to owning and investing in real estate, including: adverse general and local economic conditions that can depress the value of the real estate, capital market pricing volatility, declining rental and occupancy rates, value fluctuations, lack of liquidity or illiquidity, leverage, development and lease-up risk, tenant credit issues, circumstances that can interfere with cash flows from particular commercial properties such as extended vacancies, increases in property taxes and operating expenses and casualty or condemnation losses to the real estate, and changes in zoning laws and other governmental rules, physical and environmental conditions, local, state or national regulatory requirements, and increasing property expenses, all of which can lead to a decline in the value of the real estate, a decline in the income produced by the real estate, and declines in the value or total loss in value of securities derived from investments in real estate.

Direct investments in real estate are highly illiquid and subject to industry or economic cycles resulting in downturns in demand. Accordingly, there can be no assurance that investments in real estate will be able to be sold in a timely manner and/or on favorable terms.

A decline in the value of real estate or the decline in the level of net income realized through leases on the real estate owned will increase the risk of loss to the investor, whether the real estate serves as collateral in connection with mortgage lending in a private real estate debt strategy, is directly owned in connection with private real estate equity strategies, is the source of income for public real estate debt securities such a commercial mortgage backed securities (CMBS), or is an income producing asset for companies issuing public equity securities (Real Estate Investment Trusts).

In addition to the general risks associated with investments in real estate, there are further risks specific to certain real estate strategies.

Specific Risks associated with Private Real Estate Equity (including investments in PUSPSA)

Besides the risks inherent in direct ownership of real estate, PUSPSA's daily net asset value is subject to change, both up and down, an investor is subject to the risk of loss of income and capital invested, and there is no guarantee of its value, performance, or any particular rate of return.

PUSPSA invests primarily in directly owned real estate rather than securities. Unlike public securities sold on an exchange, real estate assets are sold in private transactions and are not liquid. In adverse market conditions, buyers may not be available at appropriate prices, which may delay or prevent a sale. Therefore, there may be times when money invested in the investment may not be able to be immediately withdrawn. PUSPSA does utilize leverage. Leveraged transactions may increase volatility in the daily net asset value and will magnify the extent of gains or losses.

Specific Risks associated with investing in Public Equity – Global REIT Securities

Principal Real Estate Investor's Global REIT securities strategies entail securities market risk. Historically, the equity markets have moved in cycles, and the value of equity securities may fluctuate significantly from day to day. Individual companies may report poor operating results and the prices of these companies' securities may decline in response. This strategy is concentrated in real estate securities and may experience risks associated with non-diversification.

These factors contribute to price volatility, which is a principal risk of equity investing. Investors are subject to the risk of loss of income and capital invested.

The Global REIT strategy utilizes securities issued by Real Estate Investment Trusts in the US as well as by companies that have similar tax status in jurisdictions outside the United States. REITS and similar real estate companies are subject to the risks that these companies could fail to qualify for tax-favored status under applicable governing law.

The Global REIT security strategy utilizes foreign investments. Foreign investments are subject to special risks not typically associated with domestic U. S. stocks. Investing in issuers headquartered or otherwise located in foreign countries poses additional risks since political and

economic events unique to a country or region will affect those markets and their issuers. In addition, investments in foreign countries are generally denominated in a foreign currency. As a result, changes in the value of those currencies compared to the U.S. dollar may affect (positively or negatively) the value of the investment.

Specific Risks Associated with Investment in Private Real Estate Debt

The basic risk of lending and direct ownership of commercial real estate mortgages is borrower default on the loan and declines in the value of the real estate collateral. In addition to the risk of declines in value and/or income produced by the real estate collateral due to the general risks outlined above, dependency on the operational and management skills of the borrower, and heavy cash flow dependency of the borrower are additional risks.

Specific Risks Associated with Investment in Public Real Estate Debt Securities (CMBS)

Securities backed by commercial real estate debt are subject to securities market risks as well as risks similar to those of direct ownership of commercial real estate mortgages because those securities derive their cash flows and value from the performance of the commercial real estate underlying such investments and/or the owners of such real estate. These risks include borrower default on the loan and declines in the value of the real estate collateral.

CMBS and other types of public commercial real estate debt securities are structured securities. Structured securities are securities that entitle the holders thereof to receive payments that depend primarily on the cash flow from, or sale proceeds of, a specified pool of assets together with rights designed to assure the servicing or timely distribution of proceeds to holders of the securities. The risks typically experienced by structured securities are credit risks, liquidity risks, interest rate risks, market risks, operational risks, structural risks and legal risks. They are subject to the significant credit risks inherent in the underlying collateral and to the risk that the servicer fails to perform. The performance of these types of securities is also dependent on the allocation of principal and interest payments as well as losses among the classes of such securities of any issue.

There is also limited liquidity in the CMBS market. This makes the sale of these securities more difficult and lack of liquidity adversely affects the value of the investment.

CMBS and other asset backed securities are affected by the quality of the credit extended in the underlying loans. As a result, their quality is dependent upon the selection of the commercial mortgage portfolio and the cash flow generated by the he commercial real estate assets. Risk factors related to the foregoing include lack of diversification in the commercial mortgage portfolio, dependence on the skills, decision-making and experience of the various issuers in selecting the commercial mortgage portfolio and borrower default. Defaults or losses on the loans will negatively impact the value of the CMBS and other asset backed securities. The occurrence of defaults and losses on the loans may result in downgrades of the CMBS by the rating agencies and consequently have an adverse affect on the price of the CMBS bonds.

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A collective investment trust fund (Fund) has not been launched for this strategy as of the date of this publication and is not available for investment. Information provided including investment management structure, strategy, and portfolio characteristics, represent the intended Fund structure but is subject to change without notice. Participation in the Fund will be governed by the terms of the Declaration of Trust, Participation Agreement, and Disclosure documentation (Governing Documents), which will be available prior to the launch of the Fund. The Governing Documents contain important information about investment objectives, risks, fees and expenses associated with the Fund and should be read carefully before investing. The terms specified in Governing Documents shall supersede the information provided in this publication. There is no assurance that the Fund will achieve its stated objective and an investment in the Fund involves risk, including the possible loss of the principal amount invested. Before investing carefully consider the Fund's investment objectives, risks, and charges.

If a Fund is launched Union Bond and Trust Company (UBT) may serve as the trustee, pursuant to the Fund's Declaration of Trust. UBT would retain Principal Real Estate Investors LLC, a registered investment advisor, to serve as the Fund's sub-advisor, subject to the Trust Company's supervision and review. Principal Real Estate Investors and UBT are both indirect wholly owned subsidiary of Principal Financial Group, Inc.

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