

MidCap Growth II Separate Account-R6

MARKET CONDITIONS

Few could have predicted the capital market turmoil and transformation that occurred during 2008, when what began as a seemingly isolated U.S. subprime mortgage problem ballooned into an all-encompassing crisis affecting nearly all economies and every asset class worldwide.

In terms of 2008 fourth-quarter performance, many had hoped that after a tumultuous September, the worst was behind us. But the fourth quarter picked up where the third had left off. Volatility in domestic equity markets soared, with the Chicago Board Options Exchange Volatility Index reaching an all-time high in November. Uncertainty about the economy and a general lack of confidence in the capital markets worsened.

To combat the turmoil, the Federal Reserve Board used both conventional and innovative measures to provide monetary stimulus. They lowered the fed funds target rate to the lowest point possible, reducing it to a range of 0.0% to 0.25% (from its former 2.0%) and lowered the discount rate to 0.50%, from its former 2.25%. The Fed also initiated a number of other programs - representing hundreds of billions of dollars - and provided critical assistance to stave off possible failure at Citigroup, Chrysler, GM and GMAC, among others. In October Congress took action as well, passing a controversial \$700 billion credit facility in an effort to slow or halt the escalating cycle of deleveraging by investing directly in troubled financial institutions.

Despite these efforts, the economy continued to falter. Faced with job losses, investment losses and tighter credit, consumers sharply cut back on purchases, and businesses followed suit, rapidly adjusting for deteriorating demand by slashing jobs and spending. Official confirmation of a recession came in November 2008, when the National Bureau of Economic Research determined that a peak in economic activity occurred in the U.S. economy in December 2007, marking the beginning of a recession.

In this environment the S&P 500 fell 21.94% for the quarter, one of its worst quarterly returns since its inception. Broad value stocks outpaced growth stocks, while large-cap stocks had a modest advantage over their smaller peers (although returns were decidedly negative for all market segments, as measured by the Russell Indexes). U.S. real estate investment trusts experienced heavy losses, even greater than the major U.S. equity indexes (as measured by the MSCI US REIT Index).

With risk aversion at record levels and increasingly gloomy signals for the health of the global economy, non-U.S. equity markets posted severe losses during the quarter. Negative returns were particularly significant in the emerging markets sector.

As credit risk climbed during the period, investors continued their months-long stampede to the relative safety of U.S. Treasuries. As a result, the broad U.S. fixed-income market significantly lagged Treasuries. Within the investment-grade fixed-income segment, commercial mortgage-backed securities suffered the worst, lagging Treasuries by 20%. Asset-backed securities - which are primarily collateralized by consumer debt - were down 12% relative to Treasuries. Investment-grade corporate bonds (as measured by the Barclay's Aggregate Bond Index) trailed like-duration Treasuries by 6%. High-yield corporate bonds fared even worse, trailing like-duration Treasuries by 25%.

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. For more performance information, including most recent month-end performance, visit the Principal Sponsor Service CentersSM at www.principal.com, contact your representative of the Principal Financial Group®, or call our Client Contact Center at 1-800-547-7754.

The Gross Total Investment Expense (TIE Gross) 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.

	QTD	YTD	1 YEAR	3 YEAR	5 YEAR	10 YEAR	SINCE INC.	T.I.E Gross	INC. DATE
MidCap Growth II Separate Account-R6 ^{1,2,3}	-29.08	-49.27	-49.27	-17.69	-6.82	-	1.34	1.17	07/01/1999
Russell Midcap Growth Index	-27.36	-44.32	-44.32	-11.79	-2.33	-0.19	-	-	-
Morningstar Mid Cap Growth Category Average	-26.47	-43.77	-43.77	-10.92	-2.44	0.79	-	-	-
Morningstar Mid Cap Growth Peer Ranking	-	-	85	95	95	-	-	-	-
Total Funds In Category	964	934	934	821	674	335	-	-	-

Please see important disclosures at the end of this document.

PERFORMANCE ANALYSIS

Primary Contributors and Detractors to Fund Performance during the last quarter:

Although stock selection was weak overall, strong stock selection in the financial sector added to performance. An overweight to the health care sector also helped returns, as health care held up well compared to other sectors in the index. Having a lower price-to-earnings ratio than the index over the period benefited returns, as this valuation metric was rewarded during the period. On the negative side: Overall weak stock selection, led by negative stock selection in the consumer discretionary and information technology sectors, detracted from performance. Sector positioning relative to the index also detracted from returns overall; an underweight to utilities detracted the most, as this sector was the best-performing sector in the index during the period. Additionally, the portfolio had a lower price-to-book ratio than did the index, which detracted from returns because stocks with lower price-to-book ratios generally were not rewarded.

Primary Contributors and Detractors to Fund Performance during the last 12 months:

Sector-positioning of the portfolio relative to the index added value. Leading the way was an overweight to the health care sector, which held up well over the period. A lower price-to-earnings ratio than the index also benefited returns, as this valuation metric was favored in the market. Finally, holding stocks that in aggregate exhibited lower volatility than those held within the index contributed to positive returns as well. On the negative side: Weak stock selection, led by poor stock selection in the energy sector, hurt returns during the period. The three worst individual detractors all were overweights to underperforming energy companies: National-Oilwell, Weatherford International and Atwood Oceanics. Although overall sector selection helped performance, an overweight to energy detracted from returns, as this was the worst-performing sector in the index for the period. The portfolio had a bias to stocks with a lower price-to-book ratio than the index during the period, which detracted from results because this valuation factor was not rewarded.

EFFECT OF INVESTMENT STRATEGIES AND TECHNIQUES ON PORTFOLIO PERFORMANCE

Jacobs Levy is responsible for approximately 60% of the overall portfolio assets. This firm believes the market is permeated with inefficiencies that are substantial enough in number and effect to offer opportunities for profitable active investment. They use intensive statistical modeling of a wide range of stocks and a variety of proprietary factors to detect and exploit these opportunities. Jacobs Levy uses a quantitative approach to build a diversified portfolio of mid-cap stocks. MacKay Shields is responsible for approximately 40% of the overall portfolio assets. They believe that styles and factors will cycle in and out of favor, but superior security selection will constantly add value over time. This is implemented by using a team of highly experienced investment professionals that are committed to exhaustive fundamental analysis.

CHANGES TO THE INVESTMENT OPTION'S STRUCTURE OR PORTFOLIO

In May 2009 this portfolio will merge into the Principal MidCap Growth III portfolio (pending approval), which is currently co-sub-advised by Turner Investment Partners (Turner) and Mellon Capital (Mellon). Following the merger, Jacobs Levy will co-sub-advise the MidCap Growth III portfolio with Turner and Mellon.

TOP TEN HOLDINGS

Top 10 Holdings (% of Assets) as of 11/30/2008			
St. Jude Medical, Inc.	1.60	Becton, Dickinson and Company	1.13
Chattem, Inc.	1.33	Medco Health Solutions, Inc.	1.13
Alliant Techsystems, Inc.	1.32	L-3 Communications Holdings, Inc.	1.06
Cephalon, Inc.	1.26	Fluor Corporation	1.05
Church & Dwight Company, Inc.	1.22	Roper Industries, Inc.	1.01

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 investment options may not be available in all states or U.S. commonwealths.

Since inception returns are only shown for funds/accounts in existence for less than 10 years. Returns shown for periods of less than one year are not annualized. All returns displayed here are after Total Investment Expense of the investment option.

Performance of indexes reflects the unmanaged result for the market segment the selected index represents. The index is not available for direct investments.

Percentile rankings are based on total returns.

Portfolio holdings are subject to change and companies referenced in this report may not currently be held. Information is current as of the creation of this piece. Keep in mind that portfolio holdings are subject to risk. For a complete list of the most recent publicly available holdings visit www.principal.com.

- 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 Funds. 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. Effective January 2, 2008, this portfolio is co-sub-advised by Jacobs Levy and MacKay Shields. Prior to January 2, 2008, the portfolio was sub-advised by Fidelity (Pyramis Global Adv). Performance results displayed reflect all sub-advisors managing this portfolio during the time periods displayed.*

Benchmark Description

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