Sub-advised by:

Jacobs Levy
EQUITY MANAGEMENT

4Q - 2008
Commentary

as of 12/31/2008

MidCap Value 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 CenterSM 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 Value II Separate Account-R6 [1, 2, 3, 4]	-27.39	-42.36	-42.36	-13.87	-2.78	-	0.55	1.16	12/29/2000
Russell Midcap Value Index	-27.19	-38.44	-38.44	-9.98	0.33	4.44	-	-	-
Morningstar Mid Cap Value Category Average	-24.01	-36.77	-36.77	-9.93	-1.07	5.23	-	-	-
Morningstar Mid Cap Value Peer Ranking	-	-	85	90	74	-	-	-	-
Total Funds In Category	464	442	442	338	234	81	-	-	-

Please see important disclosures at the end of this document.

PERFORMANCE ANALYSIS

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

Though stock selection overall was not positive, strong stock selection in the financial sector helped to offset negative stock selection in other sectors; the biggest positive contributor was a lack of exposure to Lincoln Natl Corp. Sector weights relative to the Russell Midcap Value Index also benefited returns - led by an overweight to the utilities sector, which was the strongest-performing sector in the index. Finally, having a lower price-to-earnings ratio than the index over the past quarter helped returns, as this valuation metric was rewarded. On the negative side: Stock selection detracted from overall performance, led by poor stock selection in the consumer discretionary and materials sectors. Also, the portfolio had a lower price-to-book ratio over the past quarter than the index, which detracted from returns because stocks with relatively lower price-to-book ratios were not rewarded. Finally, holding stocks that in aggregate exhibited higher volatility than the stocks held in the index hurt returns.

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

Similar to the quarter, stock selection was strong in the financial sector over the 12-month period, partially offsetting weak stock selection in other sectors. Sector weights relative to the Russell Midcap Value Index helped returns - led by an overweight to the utilities sector, which was the strongest-performing sector in the index. Also similar to the quarter, having a lower price-to-earnings ratio than the index contributed to performance, as this valuation metric was rewarded over the period. On the negative side: Overall stock selection was weak, especially in the consumer discretionary, industrial and materials sectors. The worst individual detractor was an overweight to a consumer discretionary stock, Lear Corp. Although sector weights relative to the index were favorable overall, an overweight to the information technology sector hurt returns. Also, over the period the portfolio had an overweight to stocks that exhibited higher volatility on average than those within the index, which detracted from returns.

EFFECT OF INVESTMENT STRATEGIES AND TECHNIQUES ON PORTFOLIO PERFORMANCE

Jacobs Levy 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.

CHANGES TO THE INVESTMENT OPTION'S STRUCTURE OR PORTFOLIO

In October 2008 Neuberger Berman was terminated as a sub-advisor for this investment option due to poor performance. Jacobs Levy took over management of the Neuberger Berman assets and now manages 100% of the portfolio. In May 2009 this portfolio will merge (pending approval) into the Principal MidCap Value I option, co-sub-advised by Goldman Sachs and LA Capital. (Jacobs Levy will not be retained as a co-sub-advisor for the merged portfolio.)

TOP TEN HOLDINGS

Top 10 Holdings (% of Assets) as of 11/30/2008			
S&P Mini Index (Fut)	2.29	Bunge, Ltd.	1.27
PartnerRe, Ltd.	1.48	Atmos Energy Corporation	1.27
Forest Laboratories, Inc.	1.41	First Horizon National Corporation	1.22
Arch Capital Group, Ltd.	1.33	AutoNation, Inc.	1.14
Discover Financial Services	1.32	Tellabs, Inc.	1.14

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. Formerly known as Mid-Cap Value Separate Account.

4. Effective October 31, 2008, this portfolio is sub-advised by Jacobs Levy. From June 30, 2006, to October 30, 2008, the portfolio was sub-advised by Neuberger Berman and Jacobs Levy. 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.

Benchmark Description

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