

Principal Financial Advisors, Inc.

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March 2012

This Brochure provides information about the qualifications and business practices of Principal Financial Advisors, Inc. ("PFA"). If you have any questions about the contents of this Brochure, please contact us at 800-322-5447, ext. 2. The information in this Brochure has not been approved or verified by the United States Securities and Exchange Commission ("SEC") or by any state securities authority.

PFA is a registered investment adviser. While registration is required under the law, registration of an investment adviser does not imply any level of skill or training.

Additional information about PFA is available on the SEC's website at www.adviserinfo.sec.gov.

Item 2 – Material Changes

This Item (Material Changes) will discuss only specific material changes that are made to the Brochure and provide clients with a summary of such changes.

Material changes made to this version of the Brochure include:

- This Brochure, dated March 2012, contains no material changes since it was last updated in March 2011.

Pursuant to SEC Rules, we will ensure that you receive a summary of any material changes to this and subsequent Brochures within 120 days of the close of our business' fiscal year. Our fiscal year-end is December 31st. We may provide other ongoing disclosure information about material changes as necessary throughout the year.

We will provide you with a new Brochure as necessary based on changes or new information, at any time, without charge.

Our Brochure may be requested free of charge by contacting your advisory associate at 800-322-5447, ext. 2.

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Item 4 – Advisory Business

I. Introduction

PFA is federally registered with the SEC as an investment adviser. PFA began its operation in May 1987, and is headquartered in Des Moines, Iowa. PFA is a member company of the Principal Financial Group, a family of financial services companies offering businesses, individuals and institutional clients a wide range of financial products and services, including retirement and investment services, life and health insurance, and banking through its diverse family of financial services companies.

PFA is a wholly owned subsidiary of Principal Management Corporation which is a wholly owned subsidiary of Principal Financial Services, Inc.

1) Asset Allocation Service

PFA provides asset allocation advice and other investment advisory services to qualified retirement plans funded with group annuity contracts purchased from Principal Life Insurance Company (“Principal Life”). PFA clients are all contract holders of group variable annuity contracts issued by Principal Life. PFA’s clients, as annuity contract holders, have the option to invest in various separate accounts established by Principal Life. To assist PFA in determining an appropriate asset allocation for a retirement plan client, the plan sponsor completes the Defined Benefit Goal Assessment Questionnaire. The questionnaire is used to identify the goals of the plan sponsor and assess the level of risk they are comfortable with. Clients are responsible for informing PFA of any legal, regulatory, or contractual investment restrictions that apply to the plan. PFA’s analysis leads to an allocation which is then combined with the plan sponsors’ goals and risk level from the questionnaire to determine the most appropriate allocation for the plan. The analysis and questionnaire are then discussed with the plan sponsor prior to implementing the final allocation.

2) Management of Separate Account

PFA manages a separate account established and maintained by Principal Life. The account is an index separate account, the Principal Total Market Stock Index Separate Account.

The portfolio of the separate account consists primarily of units in other separate accounts established and maintained by Principal Life for use in connection with group annuity contracts sold to qualified retirement plans or plans treated as such. Advice is limited only to Principal Life group annuity investments.

3) Fixed Fee Asset Allocation Strategy Service

PFA provides a point-in-time asset allocation strategy for clients. The asset allocation strategy incorporates the risk and goals of the client based on a questionnaire and some plan information around the emerging liabilities. PFA is not responsible for the implementation or on-going monitoring of the strategy. The client may choose to implement or not implement the asset allocation recommendation provided.

As of 12/31/2011, discretionary assets under management are \$5,771,809,000

Item 5 – Fees and Compensation

1) Asset Allocation Service

The standard quarterly investment advisory fee is calculated by multiplying the Ending Balance by the Annual Basis Point Fee divided by four. Ending Balance means the total funds invested in Principal Life separate accounts under the group annuity contract at the end of each calendar year quarter. The Basis Point Fee for a calendar year quarter is determined using total funds invested in Principal Life separate accounts under the group annuity contract as of the last day of the quarter. If these total funds are:

Total Funds	Basis Point Fee
\$ 0 - \$5,000,000	10.0 bps. (min \$5,000)
Next \$5,000,000	7.0 bps
Next \$15,000,000	4.0 bps.
Next \$25,000,000	3.5 bps.
Next \$50,000,000	2.5 bps.
Next \$100 million and over	2.0 bps.

The advisory fee in the inception quarter, and upon termination, is charged on a prorated basis to reflect the number of days in the quarter the funds are invested.

Expenses may be negotiated based on the size of the plan, the amount of services needed or if the customer has more than one contract with Principal Life. Certain contracts and the service agreements related thereto may use average balance over a period rather than assets at the end of the period as long as such agreements remain in effect and are not superseded. PFA has the right to revise the future charge for investment advisory services

upon 60 days written notice. PFA shall not at any time be compensated on the basis of a share of capital gains upon or capital appreciation of the funds of the client.

PFA allocates client assets among separate accounts available within group annuity contracts its clients purchase from Principal Life. PFA clients pay fees in connection with PFA's investment advisory services in addition to the investment advisory fees for the management of the Principal Life separate accounts. PFA's fees may be deducted from the value of the group annuity contract or paid directly by the client. If a client chooses to have PFA's investment advisory fees deducted from the value of their group annuity contract, the tax deferral benefits of the group annuity contract may be diminished.

2) Management of Separate Account

Principal Life is not charged a fee for this service, since the two entities are related. However, a fee may be charged at some future date.

3) Fixed Fee Asset Allocation Strategy Service

The standard asset allocation strategy service fee is \$8,000; however, expenses may be negotiated based on the size of the plan, the amount of services needed or if the customer has more than one contract with Principal Life. If the client wants PFA to provide the fixed fee asset allocation strategy service at a future point in time, the client will sign a new agreement with PFA and pay another service fee.

Item 6 – Performance-Based Fees and Side-By-Side Management

PFA does not charge any performance-based fees (fees based on a share of capital gains on or capital appreciation of the assets of a client).

Item 7 – Types of Clients

PFA provides asset allocation advice and other investment advisory services to qualified retirement plans funded with group annuity contracts purchased from Principal Life. PFA also manages the Principal Total Market Stock Index Separate Account established and maintained by Principal Life for qualified retirement plan funding or plans treated as such. The portfolio of the separate account consists primarily of units in other separate accounts established and maintained by Principal Life. PFA generally provides advice to Principal Life concerning the asset allocation decisions made within the separate account.

Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss

Advisory services offered or recommended by PFA are subject to risks associated with investing in securities and will not always be profitable. PFA does not guarantee the results of any advice or recommendations, nor does it guarantee that the investment objectives of Advisory Clients will be met in any service it provides or offers. Investing in securities involves risk of loss that clients should be prepared to bear.

The primary focus is on analyzing future long-term return potential of major investment classes using fundamental analysis. PFA utilizes a long-term strategic outlook when examining asset classes, investment options and their expected performance. When providing investment advisory services, PFA uses historical performance, forward looking forecasting tools, and analysis of current trends in the investment industry. It also utilizes portfolio optimization models that evaluate investment portfolio risks, returns and how they correlate with each other.

1) Asset Allocation Service

PFA offers asset allocation services that utilize a long-term, strategic outlook toward investment markets and builds efficient, well-diversified portfolios for clients. The investment market outlook utilizes both historical-based and forward-looking return forecasts to establish future return expectations for various asset classes. These various asset classes are then combined and optimized into an array of efficient portfolios with distinct risk and return characteristics. PFA's asset allocation committee regularly reviews the process used to develop its investment market outlook and the portfolios developed for its asset allocation strategies.

PFA implements the core asset allocation strategy based on information provided by a client's actuary and a questionnaire covering the goals and objectives of the client. Based upon that information, PFA selects specific investment portfolios offered under Principal Life's qualified retirement plan products and optimizes a multiple manager investment strategy in order to maximize a client's return with an appropriate amount of risk. Other investment advisory services provided may include: reviewing or helping draft a client's investment policy statement, reviewing and monitoring the on-going performance of the portfolios, developing customized rebalancing strategies, and allocating deposits and transfers. It is anticipated that the average number of clients assigned per investment analyst would range between 40 and 100.

2) Management of Separate Account

The portfolio of the Principal Total Market Stock Index Separate Account consists primarily of units in other separate accounts established and maintained by Principal Life for use in connection with group annuity contracts sold to qualified retirement plans or plans treated as such. For this separate account, PFA attempts to mirror the investment performance of the S&P Composite 1500 Index by allocating assets in the appropriate weightings in the S&P 500, 600, and 400 indices.

3) Fixed Fee Asset Allocation Strategy Service

The asset allocation strategy incorporates the risk and goals of the client based on a questionnaire and information concerning the plan's emerging liabilities. PFA is not responsible for the implementation or on-going monitoring of the strategy. The client may choose to implement or not implement the asset allocation recommendation provided.

Item 9 – Disciplinary Information

No information is applicable to this Item.

Item 10 – Other Financial Industry Activities and Affiliations

PFA investment adviser representatives are registered with Princor Financial Services Corporation ("Princor"). These individuals are also registered representatives with Princor. Princor is federally registered with the SEC as an investment adviser and is a member broker-dealer with the Financial Industry Regulatory Authority (FINRA). Princor is an affiliate of PFA.

The principal business of PFA is that of an investment adviser. The executive officers of PFA are also employees of Principal Life. They spend approximately 5 – 15% of their time on PFA business and 85 - 95% of their time on Principal Life business.

PFA has a material arrangement with Principal Life. In addition to managing the Principal Total Market Stock Index Separate Account of Principal Life, all of PFA's clients are contract holders of one or more Principal Life group annuity contracts.

PFA may at any time control a significant share of the funds invested in one or more of the separate accounts available as an investment option under a Principal Life group annuity contract. If PFA controls a significant share of the funds invested in one separate account, a change in PFA's asset allocation strategy could reduce the liquidity of that account. Under the group annuity contracts, Principal Life has the ability to delay transfers and withdrawals from the separate accounts. Therefore, a reduction in liquidity could limit the

ability of both PFA's clients and non-clients to transfer or withdraw funds from particular separate accounts.

PFA's asset allocation decisions can have a financial impact on Principal Life and affiliated investment advisers. Depending upon the decision, the financial impact may be positive or negative. Because PFA acts as a fiduciary with respect to the plans covered by the annuity contracts, it endeavors not to give undue consideration to the impact that its decisions might have on Principal Life, affiliated investment advisers, and Principal Life customers that are not PFA clients.

In order to limit the appearance of conflicts of interest and the opportunity for events that could trigger an actual conflict of interest, PFA will do the following:

- 1) Continue to maintain a documented, systematic methodology that does not consider impact to affiliates to determine which Principal Life separate accounts to recommend to its clients;
- 2) Remind its asset allocation committee before each quarterly meeting of its inherent conflicts of interest, and its duties of loyalty and care as a fiduciary;
- 3) Provide training that reminds its board of directors and asset allocation committee of PFA's inherent conflicts of interest, and its duties of loyalty and care as a fiduciary;
- 4) Disclose on Form ADV Part 2A PFA's inherent conflicts of interest, and its duties of loyalty and care as a fiduciary; and
- 5) Make documented recusal procedures available to its officers and directors when faced with a potential conflict of interest regarding an issue.

Principal Life's, or an affiliated company's, profits may vary depending upon the underlying separate accounts in which PFA invests.

1) Asset Allocation Service

PFA's investment advisory services are designed for use primarily with the group annuity contracts offered by Principal Life to qualified retirement plans. The relationship between PFA and Principal Life will be fully disclosed.

2) Management of Separate Account

Principal Life is aware of its relationship with PFA. PFA understands that disclosure of PFA's role in the asset allocation decisions for the Principal Total Market Stock Index Separate Account will be included in Principal Life materials and brochures.

3) Fixed Fee Asset Allocation Strategy Service

PFA provides a one-time asset allocation recommendation for clients interested in a point-in-time strategy. PFA does not have on-going advisory responsibility for the client's asset allocation strategy. Any implementation is the responsibility of the client.

Item 11 – Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

PFA has adopted a Code of Ethics ("Code") to prevent conflicts of interest which may exist, or appear to exist, and to prevent any violations of applicable laws, when officers, directors and employees of PFA own or engage in transactions involving securities. First, the Code describes the various fiduciary principles under which PFA operates such as the duty to always place the interests of its customers first. Second, the Code defines Access Persons (such as officers, directors, and any employee with access to non-public information) and requires these persons to disclose their securities holdings annually and their securities transactions quarterly so that they can be monitored by PFA's compliance personnel. Third, the Code specifies that each Access Person must be provided with a copy of the Code along with any amendments and certify that they have read, understood and agreed to abide by the Code. Fourth, the Code specifies a policy concerning the receipt and disclosure of gifts. Finally, the Code requires that all violations of the Code must be promptly reported to the Chief Compliance Officer who may impose such sanctions as deemed necessary. PFA will provide a copy of the Code to any client or prospective client upon request.

Item 12 – Brokerage Practices

This Item is not applicable to PFA.

Item 13 – Review of Accounts

Review of Accounts:

1) Asset Allocation Service

PFA provides asset allocation strategies and other investment advisory services to qualified retirement plans funded with group annuity contracts purchased from Principal Life. On a quarterly basis, PFA's asset allocation committee reviews the process used to develop its investment market outlook and the portfolios developed for its asset allocation strategies. A routine review of the appropriateness of the investment mix occurs at least annually. Asset allocation strategies are customized for each client based on their specific goals and objectives for their retirement plan. On average, an investment analyst will provide

investment advisory services to 40-100 clients. Investment analysts carry out their duties at various levels of autonomy according to job level, the amount of assets per plan, and the size of transactions.

2) Management of Separate Account

PFA regularly reviews the portfolio of the Principal Total Market Stock Index Separate Account to assure that the percentage of the value of each account portfolio that is invested in other Principal Life separate accounts reflects the target mix established. PFA's asset allocation committee meets quarterly or more often to review its portfolio.

3) Fixed Fee Asset Allocation Strategy Service

PFA provides a point-in-time asset allocation strategy for clients. There are no on-going reviews of the accounts.

Reports to Clients:

1) Asset Allocation Service

PFA will prepare at least an annual report for each client which is in addition to the regular financial reports the customer receives from Principal Life. The asset allocation report explains how and why the asset allocation strategy was selected, factors that affected it, and rates of return. PFA may generate additional reports at the request of the client.

2) Management of Separate Account

PFA will report current allocation of assets among the other separate accounts to Principal Life on a regular basis at intervals agreed to by the two entities.

3) Fixed Fee Asset Allocation Strategy Service

PFA provides a point-in-time asset allocation strategy for clients. There are no regular reports given to clients.

Item 14 – Client Referrals and Other Compensation

This Item is not applicable to PFA.

Item 15 – Custody

PFA's clients are all contract holders of group variable annuity contracts issued by Principal Life Insurance Company. These assets are held in separate accounts established by Principal Life. Pursuant to Iowa state insurance law, separate account assets are assets of the insurance company. See Iowa Code Section 508A.1(5). These insurance company separate accounts do not constitute "customer funds" or "securities". Therefore, PFA does not have custody or possession of the funds or securities of their clients. However, Principal Life does send to customers quarterly account statements and PFA sends out an annual report. These communications may be through a website (with a customer log-in) or through the mail, based upon the customer's preference.

Item 16 – Investment Discretion

PFA retains limited discretion to invest plan assets within the group variable annuity contract issued by Principal Life. Clients are responsible to inform PFA of any legal, regulatory, or contractual investment restrictions that apply to their plan.

Item 17 – Voting Client Securities

As a matter of firm policy and practice, PFA does not have any authority to and does not vote proxies on behalf of advisory clients. Clients retain the responsibility for receiving and voting proxies for any and all securities maintained in client portfolios.

Item 18 – Financial Information

PFA has no financial issues that would be reasonably likely to impair its ability to meet contractual commitments to clients. PFA has not been the subject of a bankruptcy proceeding.