

Principal Management Corporation  
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[www.principal.com](http://www.principal.com)

March 26, 2012

**This brochure provides information about the qualifications and business practices of Principal Management Corporation. If you have any questions about the contents of this brochure, please contact us at 515-246-7372. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.**

Additional information about Principal Management Corporation also is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

**Material changes made to this version of the Form ADV, Part 2 since the last filing on March 9, 2011 include:**

- No Material Changes

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## **Advisory Business**

Principal Management Corporation ("PMC") has been registered with the SEC as an investment adviser under the Investment Advisers Act of 1940 since 1968. Principal Financial Services, Inc., a wholly owned subsidiary of Principal Financial Group, Inc. (a

publically traded company) is a 100% stockowner of PMC. PMC primarily serves as a "manager of managers" on behalf of the Principal mutual funds organized by Principal Life Insurance Company. As such, PMC recommends the hiring and firing of sub-advisory firms, provides ongoing oversight of the sub-advisors' investment advisory services provided to the funds, and provides ongoing compliance oversight of the firms in connection with the services provided to the funds. As of 12/31/2011, the total assets held by the Funds totaled approximately \$ 100,130,000,000.

PMC provides the following program, often referred to as the "core/satellite" arrangement, for some of its mutual fund clients:

PMC invests between 10% and 40% of the fund portfolio's assets in common stocks in an attempt to match or exceed the performance of the portfolio's benchmark index for performance. PMC provides these investment advisory services through a portfolio manager who functions as a co-employee under a standard employee sharing contract with Principal Global Investors, LLC ("PGI"), an affiliate.

The portfolio's benchmark index for performance is identified in the average annual total returns table in the fund's prospectus. PMC's strategy is an active quantitative approach to asset management which it refers to as "structured equity." The strategy focuses on the avoidance or underweighting of companies most susceptible to underperformance. PMC's structured equity strategy applies a risk-controlled investment process and targets 90% benchmark coverage in terms of benchmark weightings, not in terms of issues, included in the benchmark.

As of 12/31/2011, the assets managed in the Core/Satellite arrangement totaled approximately \$3,519,400,000. These assets are reflected in the total assets of the Funds above.

PMC also provides investment advisory services to the LifeTime Fund portfolios (which are Funds of Funds). In this role, PMC furnishes to the Board of Directors of each fund an investment policy statement consistent with each fund's investment objectives and policies. PMC is authorized, within the approved investment program, to determine which mutual funds, all of which are Principal funds, are to be bought or sold, and in what amounts. Shares of the underlying Principal Funds in which the LifeTime portfolios invest are not subject to a sales load. PMC has entered into a sub-advisory agreement with Principal Global Investors, an affiliated investment advisory firm, to provide asset allocation services to the LifeTime portfolios. Principal Global Investors determines the portion of each portfolio's assets that should be allocated to various asset classes. As of 12/31/2011, the assets of the LifeTime portfolios totaled approximately \$17,990,400,000. These assets are also reflected in the total Fund assets above.

PMC also manages a cash buffer account in connection with the advisory services it provides to some of its Principal mutual fund clients. A cash buffer account has been established for each such fund with the funds' custodian. As each cash buffer account increases or decreases due to the daily cash flows, PMC monitors and maintains account balances against pre-set target levels by transferring excess funds to the portfolio managers in a prescribed and orderly fashion and equitizing the remaining cash balance in futures contracts. The amount invested in futures is based on the cash

balance in the accounts on the trade date of the investment. As of 12/31/2011, the assets in the cash buffer account were approximately \$401,900,000. These assets are reflected in the total Fund assets above.

PMC also serves as the nondiscretionary investment advisor to Delaware Charter Guarantee & Trust Company (conducting business as Principal Trust Company). Delaware Charter serves as trustee for a collective investment trust called Principal Trust<sup>SM</sup> Target Date Collective Investment Funds (CIT), a non-registered trust maintained exclusively for the “collective investment” and reinvestment of moneys contributed on behalf of eligible employees’ pension, profit sharing and other employee benefit trusts that are exempt from taxation. The CIT is not available for investment by the general public. The CIT provides access to funds with underlying assets which may consist of Principal Funds, Principal Life Separate Accounts, non-affiliated mutual funds, and non-affiliated collective investment trusts. PMC provides asset allocation and investment manager selection advice to the trustee of the CIT. As of 12/31/2011, the CIT assets totaled approximately \$2,477,300,000.

### **Fees and Compensation**

PMC does not collect a fee for the investment advisory services it provides to Delaware Charter and Guarantee & Trust Company, the trustee of the Principal Trust<sup>SM</sup> Target Date Collective Investment Funds. When PMC recommends an investment in a mutual fund, it recommends the Institutional Class shares, which is a no-load share class

### **Performance-Based Fees and Side-By-Side Management**

PMC does not receive performance-based fees for any client account.

### **Types of Clients**

The information under “Advisory Business” discusses the types of clients PMC has, which includes mutual funds, funds of funds and a collective investment trust.

### **Methods of Analysis, Investment Strategies and Risks of Losses**

#### **Nondiscretionary CIT Investment Advice**

PMC provides target date investment strategy in the form of non-discretionary investment advice to Delaware Charter and Guarantee & Trust Company, as the trustee of Principal Trust Target Date Collective Investment Funds.

The Target Date Collective Investment Funds offer several funds that operate similar to a target date fund of funds. Each target date fund invests in Institutional Class shares of underlying Principal Funds, Inc. domestic and foreign equity, real estate investments, and fixed-income Funds, and/or unregistered separate accounts, other CITs, and shares of unaffiliated mutual funds, according to an asset allocation strategy designed for investors having an investment time horizon comparable to that of the target date fund. The CIT adjusts the target date investment option's asset allocation to become more conservative over time as the target date nears.

PMC recommends asset allocation strategies and investments in Institutional Class shares of Principal Funds, unregistered separate accounts, mutual funds managed by

unaffiliated investment advisers and other collective investment trusts to implement the recommended asset allocation strategies for each target date fund.

PMC employs the following process to implement its target date investment advisory services it provides to the CIT trustee. PMC develops and monitors the strategic or long-term asset class targets and target ranges PMC also recommends the underlying funds, or other investments, for each asset class and the target weights for each underlying fund or other investment. PMC also recommends periodic rebalancing if it identifies asset classes that it believes to appear attractive over the short term. Shifts in asset class targets or underlying funds may occur in response to the normal evaluative processes of PMC, the shortening time horizon of the Fund or changes in market forces or Fund circumstances. PMC may recommend adding, removing, or substituting underlying funds or other investments at any time.

In recommending underlying funds or other investments and target weights, PMC considers both quantitative measures (e.g., past performance, expected levels of risk and returns, expense levels, diversification and style consistency) and qualitative factors (e.g., organizational stability, investment experience, investment and risk management processes, and information, trading, and compliance systems). There are no minimum or maximum percentages of assets that the Fund must invest in a specific asset class or underlying fund. PMC determines whether to use cash flows or asset transfers or both to achieve the target weights established for underlying funds. PMC monitors the performance of the underlying funds relative to their benchmarks and peer groups. It is expected that at the target date the shareholder will begin gradually withdrawing the account's value. There is no guarantee that this investment strategy will provide adequate income indefinitely.

The broad diversification of the strategy is designed to cushion severe losses in any one investment sector and moderate overall price volatility. However, the target date funds are subject to the particular risks of the underlying funds in the proportions in which the Fund invests in them, and its share prices will fluctuate as the prices of underlying fund shares rise or fall with changing market conditions. Investing in shares of mutual funds involves risk of loss that clients should be prepared to bear.

The principal risks of investing in a target date Fund of Funds, other than the risks associated with investing in the securities in which an underlying fund invests, are:

**Asset Allocation Risk.** The selection and weighting of asset classes and/or underlying funds may cause a portfolio to underperform other funds with a similar investment objective.

**Conflict of Interest Risk.** PMC and its affiliates earn different fees from different underlying funds and unregistered separate accounts and may have an incentive to allocate more fund-of-fund assets to underlying funds or separate accounts from which they receive higher fees.

**Payment-in-Kind Liquidity Risk.** A target date Fund of Funds can be subject to payment-in-kind liquidity risk. This is the risk that an underlying fund pays a redemption request by the Fund of Fund wholly, or in part, by a distribution-in-kind of portfolio securities rather than in cash, which would result in the Fund of Funds holding such securities until it determines that it is appropriate to dispose of them.

**Unregistered Security or CIT Risk.** An investment in an unregistered separate account or other CIT includes the risks associated with the underlying securities in which the unregistered separate account or CIT invests, and also includes additional liquidity risk since units of unregistered separate accounts and CITs are not publicly traded.

Investing in securities, including other mutual funds, unregistered separate accounts, and collective investment trusts, involves the risk of loss of investment that clients should be prepared to bear.

### **Disciplinary Information**

PMC is not aware of any legal or disciplinary events that are material to a client's or prospective client's evaluation of PMC's advisory business or the integrity of PMC's management.

### **Other Financial Industry Activities and Affiliations**

All of PMC's management persons (the chief executive officer, chief financial officer, chief operations officer, chief compliance officer, directors and the group that determines general investment advice given to clients), with the exception of PMC's chief legal officer and one director, are registered representatives of Princor Financial Services Corporation.

### **Broker-Dealer Affiliations**

Principal Funds Distributor, Inc. ("PFD") is a wholly-owned subsidiary of PMC. PFD is a limited services broker-dealer registered with the SEC and a FINRA member firm that serves as principal underwriter for Principal Funds and Principal Variable Contracts Funds.

Princor Financial Services Corporation ("Princor") is an affiliated retail broker dealer that sells proprietary and non-proprietary mutual funds, variable annuities, variable life insurance and general securities. Princor is registered with the SEC as a retail investment adviser and is a FINRA member firm.

### **Investment Company Affiliations**

PMC is the investment manager of Principal Investors Fund, Inc. ("PFI") and Principal Variable Contracts Fund ("PVC"). PFI and PVC are affiliated mutual funds, sponsored by Principal Life Insurance Company, an affiliated insurance company, and distributed by Principal Funds Distributor, Inc., an affiliated broker dealer. PMC has hired affiliated investment advisers to provide investment advice to some of the Principal Funds.

PMC provides portfolio accounting services to the Principal Funds and corporate administrative services, which includes providing office space, facilities and business equipment and the cost of keeping the books of the funds. PMC compensates all personnel, officers and directors, if such officers and directors are also affiliated with PMC. In addition, PMC provides and pays for fees for auditors and legal counsel and preparing and printing client prospectuses for Principal Variable Contracts Fund.

PMC provides certain administrative services in connection with the Class R shares of Principal Fund. PMC has entered into agreements with Principal Life Insurance Company and other entities to provide these services to the Class R shares.

### **Investment Advisor Affiliations**

PMC has entered into sub-advisory agreements with the following registered investment advisers, each of which is an indirect wholly-owned subsidiary of Principal Life Insurance Company, a related person of PMC:

- Principal Global Investors, LLC (“PGI”),
- Principal Real Estate Investors, LLC (“Principal – REI”)
- Spectrum Asset Management, Inc. (“Spectrum”)
- Columbus Circle Investors (“CCI”)
- Edge Asset Management, Inc. (“Edge”)

PGI is a “Participating Affiliate” of PMC (as that term has been defined by the Staff of the Securities and Exchange Commission in various no-action letters) in that certain employees of PGI are shared with PMC and may provide, on behalf of PMC, investment advice to the mutual funds organized by Principal Life Insurance Company. Mariateresa Monaco and Yiwei Jiangare employed by the Participating Affiliate and may render investment advice through PMC to the mutual funds organized by Principal Life Insurance Company. PMC supervises these employees and at times other administrative personnel, including management, trading and compliance staff of the Participating Affiliate with respect to their work on behalf of PMC for the mutual funds organized by Principal Life Insurance Company.

Spectrum is also registered with the SEC as a broker dealer and is a FINRA member firm. Spectrum effects securities transactions as a broker for Principal Fund portfolios for which it serves as sub-adviser. Spectrum completes these transactions in accordance with procedures each fund has adopted pursuant to Rule 17e-1 of the Investment Company Act of 1940. Each fund’s board of directors reviews all transactions completed pursuant to these procedures on a quarterly basis to determine whether the compensation each fund pays to Spectrum Asset Management is reasonable and fair compared to compensation other brokers received for transactions in similar securities traded on an exchange during a comparable time period.

Conflicts may arise in connection with the services PMC provides to the Principal CIT Trustee with respect to the recommendation of underlying investment options (open-end investment companies, unregistered insurance company separate accounts and unaffiliated collective trust funds) for each asset class identified by the Principal CIT Trustee, and target weights for each underlying investment option. Conflicts may arise in connection with the services PMC provides to the Principal CIT Trustee for the following reasons:

- PMC serves as the investment adviser to the underlying open-end investment companies in which the Principal CIT may invest, and an affiliated investment adviser may serve as sub-adviser to the open-end investment companies or adviser to the insurance company separate accounts in which the Principal CIT may invest; and

- PMC's, or an affiliated company's, profit margin may vary depending upon the underlying fund or separate account in which the Principal CIT invests.

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

1. Maintains a documented, systematic methodology for determining which open-end investment companies or Principal Life separate accounts to recommend to the Principal CIT Trustee that does not give undue consideration to the impact to PMC or its affiliates;
2. Reminds its investment personnel who provide services to the Principal CIT Trustee of PMC's inherent conflicts of interest, and PMC's and such investment personnel's duties of loyalty and care as a fiduciary;
3. The Investment Oversight and Risk Committee monitors the services provided by PMC to the Principal CIT Trustee to ensure such services conform to the applicable investment methodology, that undue consideration is not given to the impact on PMC or its affiliates, and that such services reflect PMC's duties of loyalty and care as a fiduciary; and
4. Discloses to clients and prospective clients PMC's inherent conflicts of interest, and its duties of loyalty and care as a fiduciary to clients.

### **Insurance Company Affiliations**

PMC is a related person of Principal Life Insurance Company, an Iowa Corporation, which is licensed as an insurance company in all 50 states and the District of Columbia. Principal Life makes available its personnel and its other resources to PMC to enable PMC to provide its services to the funds.

### **Code of Ethics, Participation or Interest in Client Transactions and Personal Trading**

PMC has adopted a Code of Ethics that is compliant with Rule 204A-1. Related persons of PMC who are officers, directors and employees of PMC may buy or sell for themselves securities that PMC also recommends to its client, so long as PMC's officers, directors and employees undertake those purchases and sales in accordance with PMC's code of ethics.

Transaction data for access persons to the Code are reviewed quarterly for indications of excessive or short-term trading and excessive profit and compared against Principal Fund portfolio trading when indicated.

The Code of Ethics sets out PMC's standards of conduct expected of advisory personnel, including compliance with applicable federal securities laws, prompt reporting of any violation of the Code of Ethics to the Chief Compliance Officer, confidential treatment of non-public client investment information, acknowledging the receipt of the Code of Ethics and any amendments and personal security investment reporting by supervised persons of PMC with access to material non-public client investment

information. A copy of PMC's Code of Ethics will be provided to clients or prospective clients upon request.

PMC serves as investment adviser to the Principal Funds in which PMC recommends the Funds of Funds it advises invest. The conflicts that may arise out of this arrangement and the procedures used to address the conflicts are described in the Investment Adviser Affiliations section.

PMC and Principal Global Investors may advise the Principal Funds over which they have investment discretion to purchase securities which at the time the fund purchases, one of more related persons of PMC may also (1) be purchasing or selling and/or (2) holding. Such situations will be subject to procedures designed to assure fair allocation of available transactions.

### **Brokerage Practices**

PMC does not trade portfolio securities in connection with the non-discretionary investment advice provided to the Principal CIT Trustee.

### **Review of Accounts**

The Investment Oversight and Risk Committee is responsible for overseeing the investment advisory services provided to the Principal CIT Trustee to:

- ensure appropriate implementation of Principal's portfolio management process; and
- ensure investment recommendations are consistent with the client's investment objective and strategy, investment policies, restrictions and guidelines.

PMC's Investment Oversight and Risk Committee includes PMC's Chief Investment Officer, Chief Compliance Officer, Compliance Officer, Executive Vice President, members of PMC's Investment Research Team, and other PMC staff. The Committee meets at least quarterly, and its reviews are designed to be comprehensive and to include both qualitative and quantitative information that may affect portfolio management activities.

### **Client Referrals and Other Compensation**

As previously noted, Principal Life Insurance Company makes available its personnel and its other resources to PMC to enable PMC to provide its services to PMC's clients. PMC does not compensate any person who is not a supervised person for client referrals.

### **Custody**

PMC does not have custody of client funds or securities.

### **Investment Discretion**

PMC does not have investment discretion in connection with the services provided to the Principal CIT Trustee.

### **Voting Client Securities**



PMC does not vote proxies in connection with the services provided to the Principal CIT Trustee.

### **Financial Information**

PMC does not take custody of client funds or securities, nor does it require pre-payment of fees. PMC is not currently under any conditions for which it feels that it would be unable to meet its contractual commitments to clients.

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March 23, 2012

**This brochure supplement provides information about Principal Management Corporation's Supervised Persons and supplements the Principal Management Corporation brochure. You should have received a copy of that brochure. Please contact Ernest Gillum at 515-246-7372 if you did not receive Principal Management Corporation's brochure or if you have any questions about the contents of this supplement. Additional information about these Supervised Persons is available on the SEC's website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).**

**James W. Fennessey, Head of Investment Manager Research:**

Year of Birth: 1977

Formal Education after High School; BS, Truman State University;

Business Background for preceding 5 years: Head of Investment Management Research, Principal Life Insurance Company since August 2007; Senior Research Analyst, July 2007; Research Assistant prior to July 2007.

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision: Supervision for Mr. Fennessey is provided by Michael Finnegan, Chief Investment Officer, 515-247-5199. Supervision is provided by:

- Reviewing and approving all recommendations related to material changes in sub-advisor investment strategies, sub-advisor investment guidelines, benchmarks, transition strategies and portfolio objectives;
- Reviewing and approving all recommendations related to hiring and terminations of sub-advisors prior to presentation to PMC management and the Fund Board, which provides final approval;
- Reviewing all changes in asset class weightings and fund weightings within LifeTime, and CIT portfolios; and
- Reviewing portfolio management activities at the quarterly Investment Oversight Committee meetings.

**Randy L. Welch, Portfolio Manager:**

Year of Birth: 1962

Formal Education after High School: BA, Grandview College; MBA, Drake University.

Business Background for preceding 5 years: Vice President, PMC.

Disciplinary Information: None

Other Business Activities: None

Additional Compensation: None

Supervision: Supervision for Mr. Welch is provided by Michael Finnegan, Chief Investment Officer, 515-247-5199. Supervision is provided by:

- Setting annual goals for investment performance, and business and financial objectives. Goals are reviewed throughout the year and adjusted as necessary;
- Reviewing and approving all recommendations related to material changes in sub-advisor investment strategies, sub-advisor investment guidelines, benchmarks, transition strategies and portfolio objectives;
- Reviewing and approving all recommendations related to hiring and terminations of sub-advisors prior to presentation to PMC management and the Fund Board, which provides final approval;
- Reviewing all changes in asset class weightings and fund weightings within LifeTime, and CIT portfolios;
- Reviewing portfolio management activities at the quarterly Investment Oversight Committee meetings; and
- Portfolios to which investment advice is provided are subject to PMC's ongoing due diligence oversight process.