

## UPDATE

### RETIREMENT PROGRAM PARTICIPANT UPDATE & NOTICE U.S. REAL ESTATE FUND PRINCIPAL WITHDRAWAL LIMITATION

#### Principal U.S. Property Account

The value of the Account exceeded \$5 billion as of December 31, 2009. 15,000 retirement plans invest in the Account. Of the plans offering the Account as an investment option, 55% are Defined Contribution Plans (e.g., profit sharing plan); 45% are Defined Benefit Plans (e.g., pension plan). Seventy-nine of the plans have \$5 million or more invested in the Account. UPAL participants currently hold a \$1.7-million interest in the Account. A separate investment arm of Principal manages the Account portfolio. The Account is invested in high-quality commercial real estate – office (41%), apartments (20%), retail (20%), industrial (16%) and other (3%) – in major U.S. cities such as New York City, San Francisco, Seattle, Phoenix, Chicago and Los Angeles. In 2009, 23% of the portfolio was leveraged (subject to debt). The managers extinguished \$1 billion in debt during 2009, selling \$800 million in properties to buyers willing to pay market price. The Account was carrying little debt entering 2010 -- \$325 million of which \$200 million is a single property leased for 3 years under 3 one-year leases and \$100 million which is sold and in the final stages of closing. There is now only \$25 million to pay-off or re-finance.

#### Update – Withdrawal Limitation

UPAL and its investment advisor, Sovereign Investment Advisors, have had several conversations with Principal about the current status of the Fund.

As a Fund investor, you will recall from prior communications that, due to compelling market conditions, Principal instituted a redemption “queue” on September 26, 2008. The queue effectively froze redemptions from the UPAL U.S. Real Estate Pooled Fund (“Fund”), with the exception of satisfying certain individual participant redemption criteria including death, disability, reaching normal retirement age (as defined in the plan) and Required Minimum Distributions.

Where possible, UPAL exercised the exception criteria on behalf of its participants. In addition, UPAL filed to redeem all fund holdings which will be satisfied in a series of payments from Principal to the Fund. Principal has advised Sovereign and UPAL that it has sold a property which will result in a partial distribution to UPAL Fund participants of approximately \$237,000.

UPAL is accepting this partial redemption on behalf of its Fund participants. The partial distribution will be paid first to participants with distributions preceding or in process at the time the queue was instituted and participants no longer affiliated with participating plans. The remaining distribution, if any, will then be applied prorata to satisfy all investors, unless one elects to remain invested in the U.S. Real Estate Fund by returning the attached election. Most Fund investors will continue to hold units in the Fund that will include a small amount of cash, which will be invested per their current investment election form on file.

The management contract between Principal and its participating plans permits the investment manager to institute a redemption queue for a time period up to three years, of which about 19 months remains in the event the manager elects to maintain the queue for its maximum period.

No decisions have been made by Principal about what occurs at the end of the queue time period and the contract does not specify what occurs. Principal attorneys have advised the Principal account managers not to speculate. Fifty percent of the institutional investors are in the queue to redeem their Account interest either in whole or in part. The redemption queue equates to \$1.7 billion or 1/3 of the Net Asset Value of the Account.

### The Account

The Fund is currently maintaining a cash flow yield of about 7%. There has been a decrease in cash flows. Capture of rental rates will result in dividends which will continue to be re-invested. Account managers are fiduciaries and have been advised by their attorneys that they have to manage the Account in the best interest of all investors – those in the queue and those not in the queue. Thus, the managers cannot ignore attractive “buy” opportunities. The Account is still receiving new investments and still receiving Requests for Proposals. Account property values have been written down 35% from their peak.

It is important to note that Principal managers are starting to see liquidation/withdrawal rescission requests from investors, equating to \$23.5 million in value. Managers believe decrease in value has run its course. In their opinions, this is the bottom and they won't see large decreases going forward. Forecasts indicate 1-2 years flat with demand increasing in 3 years. Account performance:

4Q09 - 4.76%      2009 -32.75%

Past performance is not a guarantee of future results.

### Commercial Real Estate Market

This investment is an actual “bricks and mortar” investment, not an ownership of units in REIT funds. It does not own units of other real estate investment trusts. It actually owns the properties and manages them for a profit. The property portfolio is of high quality commercial real estate such as office buildings and shopping centers.

Rents are down due to supply-demand imbalance. Most Account leases are 3-7 years. Account managers believe this is the low point of the rental rate market. Account managers recently negotiated a 10-year 400,000 sf industrial lease with the Government Services Administration (GSA) on behalf of Federal Emergency Management Agency (FEMA) at above market rates. There has been reduced demand and an increase in office vacancies, more especially in cities with large financial markets such as San Francisco and Phoenix. There is pressure on space market fundamentals. There was more leasing in 3Q09 and 4Q09 – positive net absorption of 500,000 sf in 3Q09 and 1 million sf in 4Q09. Account occupancy at the end of 3Q09 was 89% in core portfolio; 90+% in 4Q09 (estimate).