NOTICE

Principal Pnb Asset Management Company Pvt. Ltd.

(CIN : U25000MH1991PTC064092)

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NOTICE-CUM-ADDENDUM TO THE SCHEME INFORMATION DOCUMENT (SID) AND KEY INFORMATION MEMORANDUM (KIM) OF PRINCIPAL DEBT SAVINGS FUND - MONTHLY INCOME PLAN (AN OPEN-ENDED INCOME SCHEME) [19/2016]

NOTICE IS HEREBY GIVEN to the Unitholders of Principal Debt Savings Fund - MIP (An open-ended Income Scheme) of Principal Mutual Fund that the Board of Directors of Principal Pnb Asset Management Company Private Limited ("AMC") and Principal Trustee Company Private Limited ("Trustees") have approved and fully support the restructure/conversion of Principal Debt Savings Fund - MIP [hereinafter referred to as "the Scheme"] into Principal Equity Savings Fund (An open-ended Equity Scheme) as detailed here below:

Particulars	Table A - Existing Features	Table B - Proposed Features
Name of the Scheme	**Principal Debt Savings Fund - Monthly Income Plan** (Monthly income is not assured and subject to availability of distributable surplus)	**Principal Equity Savings Fund**
Type of Scheme	An open-ended Income Scheme	An open-ended Equity Scheme
Investment Objective	To generate regular income through investments in fixed income securities so as to make periodical income distribution to the Unitholders and also to generate long-term capital appreciation by investing a portion of the Scheme's assets in equity and equity related instruments.	The investment objective of the Scheme is to provide capital appreciation and income distribution to the investors by using equity and equity related instruments, arbitrage opportunities, and investments in debt and money market instruments. However, there can be no assurance that the investment objective of the Scheme will be realized or that income will be generated and the scheme does not assure or guarantee any returns.
Investment Strategy	To achieve the investment objective, assets under the Plan will be invested in wide range of fixed income and money market instruments. The Plan may also invest a small part of its assets in equity/equity related instruments including units of equity mutual fund schemes. Further the Plan may also invest in financial derivatives such as options and futures & Interest Rate Swap (IRS) that are permitted or may become permissible under SEBI/ RBI Regulations. The proportion of assets to be so invested would be decided by the AMC at the appropriate time, and would be done in accordance with the relevant guidelines to be issued by SEBI/RBI and other authorities.	The investment strategy is aimed at generating income by investing in arbitrage opportunities in the cash and derivatives segments of the equity markets and in debt securities and at the same time attempting to enhance returns through long exposure in equity and equity related instruments. If suitable arbitrage opportunities are not available in the opinion of the Fund Manager, the Scheme may predominantly invest in debt and money market securities. *(For further details on the strategy Refer Note 1)*

Plans/Options

Table A - Existing Features

Two Plans are available under the Scheme/Plan:

Regular Plan & Direct Plan

Each of the Plans mentioned above offers Growth and Dividend Option.

Dividend Option offers the frequency of Monthly and Quarterly payouts.

The Dividend Option under both the Plans will have the facility of Payout, Reinvestment and Sweep, while Growth Option offers Auto Earning Payout and Accumulation facility.

Table B - Proposed Features

Two Plans will be available under the Scheme/Plan:

Regular Plan & Direct Plan

Each of the Plans mentioned above will offer Growth and Dividend Option.

Dividend Option will offer the frequency of Half-Yearly and Quarterly payouts. The Monthly Dividend Option will be renamed to Half-Yearly. Quarterly Dividend Option will continue to be offered.

The Dividend Option under both the Plans will have the facility of Payout, Reinvestment and Sweep.

Default Option:

Refer table below for understanding the result for various options selected by the investor for applications -

Scenario	Broker Code mentioned by the investor	Plan mentioned by the investor	Default Plan to be captured
1	Not mentioned	Not mentioned	Direct Plan
2	Not mentioned	Direct	Direct Plan
3	Not mentioned	Regular	Direct Plan
4	Mentioned	Direct	Direct Plan
5	Direct	Not Mentioned	Direct Plan
6	Direct	Regular	Direct Plan
7	Mentioned	Regular	Regular Plan
8	Mentioned	Not Mentioned	Regular Plan

As mentioned above Investors should indicate the plan for which the subscription is made by indicating the choice in the appropriate box provided for this purpose in the application form.

In cases of wrong/invalid/incomplete ARN codes mentioned on the application form, the application shall be processed under Regular plan. The AMC shall contact and obtain the correct ARN code within 30 calendar days of the receipt of the application form from the investor/distributor. In case, the correct code is not received within 30 calendar days, the AMC will reprocess the transaction under Direct plan from the date of application without any exit load

Particulars	Table A - Existing Features	Table B - Proposed Features
Benchmark	CRISIL MIP Blended Index	30% Nifty 50 Index + 70% CRISIL Liquid Fund Index

Asset Allocation Pattern

Table A - Existing Features

Under normal circumstances, the asset allocation will be as under:

Type of Instruments	Normal allocation (% of Net Assets)	Risk Profile
Debt & Money Market Instruments (including Securitised Debt upto 50%)	Upto 100%	Low to medium
Equity and Equity Related Instruments (including units of Equity Mutual Fund Schemes)	Upto 15%	Medium to High

Investment in derivatives shall be upto 35% of the net assets of the Scheme. Investment in ADRs / GDRs shall be not exceeding 15% of the Scheme's assets. Investment in Overseas.

Financial Debt Instruments including units of Overseas Mutual Funds shall not be exceeding 25% of the Scheme's assets.

Subject to the SEBI Regulations, the Mutual Fund may deploy upto 50% of its total net assets of the Scheme in Stock Lending.

Table B - Proposed Features

Under normal circumstances, the asset allocation will be as under:

Type of Instruments	Minimum (%)	Maximum (%)	Risk Profile
Equity and equity related instruments	65	90	Medium to High
Of which Net Long Equity Exposure (including units of Equity Mutual Fund Schemes)*	20	30	High
Of which Equity Exposure Equity (only arbitrage opportunity)**	40	70	Low to Medium
Debt securities and money market instruments# (including margin for derivatives) and Fixed Income Derivatives	10	35	Low

* In the scheme, unhedged equity exposure shall be limited to 30% of the portfolio value. Unhedged equity exposure means exposure to equity shares alone without a corresponding equity derivative exposure.

** Equity exposure would be completely hedged with corresponding equity derivatives; the exposure to derivatives shown in the above asset allocation tables is exposure taken against the underlying equity investments and should not be considered for calculating the total asset allocation and / or investment restrictions on the issuer. The margin money requirement for the purposes of derivative exposure may be held in the form of Term Deposits.

\# The Scheme may invest in Treasury Bills, Repos, Reverse Repos, Collateralized Borrowing and Lending Obligations ("CBLO"), cash and cash equivalents and units of Debt/Liquid/ Money Market Mutual Fund Schemes.

When adequate arbitrage opportunities are not available in the Derivative and Equity markets, the anticipated alternate asset allocation on defensive considerations would be in accordance with the allocation given below. However, in case no arbitrage opportunity is available, then 100% of the remaining investible corpus (excluding margin for derivatives and to the extent not deployed in arbitrage opportunities in the asset allocation pattern mentioned above) will be deployed in short term debt and money market instruments with tenure not exceeding 91 days (including investments in securitized debt).

Type of Instruments	Minimum (%)	Maximum (%)	Risk Profile
Equity and equity related instruments	20	75	Medium to High
Of which Net Long Equity Exposure (including units of Equity Mutual Fund Schemes)*	20	30	High
Of which Hedged Equity Exposure (only arbitrage opportunity)**	0	55	Low to Medium
Debt securities and money market instruments# (incl. margin for Derivatives) and Fixed Income Derivatives	25	80	Low

* In the scheme, unhedged equity exposure shall be limited to 30% of the portfolio value. Unhedged equity exposure means exposure to equity shares alone without a corresponding equity derivative exposure

** Equity exposure would be completely hedged with corresponding equity derivatives; the exposure to derivatives shown in the above asset allocation tables is exposure taken against the underlying equity investments and should not be considered for calculating the total asset allocation and / or investment restrictions on the issuer. The margin money requirement for the purposes of derivative exposure may be held in the form of Term Deposits.

\# The Scheme may invest in Treasury Bills, Repos, Reverse Repos, Collateralized Borrowing and Lending Obligations ("CBLO"), cash and cash equivalents and units of Debt/Liquid/ Money Market Mutual Fund Schemes.

Investment in Securitized Debt may be up to 30% of the net assets of the Scheme.

Subject to the SEBI Regulations, the Mutual Fund may deploy upto 50% of its total net assets of the Scheme in Stock Lending.

Further, Unit holders are requested to note that post said changes, the Scheme will be treated as equity oriented scheme as per the extant Income-tax laws. However, at the time of changes in the investment pattern during defensive considerations as stated above, the fund manager may choose to have a lower equity exposure. Accordingly, the Scheme may not be able to meet the criteria for equity oriented scheme as specified under the extant Income-tax laws. Consequently, the Unit holders may not be able to avail tax advantage available to an equity oriented fund in that particular financial year. During the defensive circumstances the Tax benefit available for equity oriented scheme will not be applicable and shall be communicated to unit holders vide letters, addendum published in the newspapers as per regulations.

Particulars	Table A - Existing Features	Table B - Proposed Features
Scheme Specific Risk Factors	When interest rates fall, the price of a debt security rises and when interest rates rise, the price declines. In addition, the value of securities held by the Scheme may be affected by factors such as credit rating of the entity that issues the debt security and effective maturities of the debt securities. Lower quality and longer maturity debt securities will be subject to greater credit risk and price fluctuations than higher quality and shorter maturity debt securities. As with all Mutual Funds, if the units are redeemed when their value is less than the price paid for, money may be lost by the Unitholder. The value of the equity securities owned by the Scheme changes on a daily basis. Equity security prices reflect the activities of individual companies and general market and economic conditions. In the short term, equity security prices can fluctuate dramatically in response to these factors.	Refer Note 2

Where will the Scheme Invest?

Table A - Existing Features

- The corpus of the Plan will be predominantly invested in Debt and Money Market Instruments including securitised debt.
- The Plan will invest part of its corpus in Equity and Equity Related Instruments, including units of Equity Mutual Fund Schemes.
- At present Mutual Funds are not permitted to participate in Inter Bank Calls. The Plan will participate in Inter Bank Calls only when Mutual Funds are permitted to do so. The Plan may participate in securities lending as permitted under the Regulations.
- The Plan may also invest in another schemes managed by the same AMC or by the AMC of any other mutual fund without charging any fees on such investments, within the limits specified under SEBI Regulations.
- The Asset Management Company further reserves the right to invest in derivatives and foreign securities subject to SEBI / RBI or any other Regulatory Authorities permitted from time to time. Investment in foreign securities will only be made in instruments denominated in US Dollar, Singapore Dollar, Japanese Yen, Euro or Sterling Pound or any other liquid currency as may be decided by AMC from time to time.

Foreign securities shall without limitation include:-

- ADRs/ GDRs issued by Indian or foreign companies.
- Foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited/ registered credit rating agencies.
- Money market instruments rated not below investment grade.
- Repos in the form of investment, where the counterparty is rated not below investment grade.
- Government securities where the countries are rated not below investment grade.
- Derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities.
- Short term deposits with banks overseas where the issuer is rated not below investment grade.
- Units/securities issued by overseas mutual funds or unit trusts registered with overseas regulators and investing in (a) aforesaid securities, (b) Real Estate Investment Trusts (REITs) listed in recognized stock exchanges overseas or (c) unlisted overseas securities (not exceeding 10% of their net assets).

And such other Securities as may be prescribed by SEBI/RBI from time to time.

Table B - Proposed Features

i) Equity and equity-related Securities including but not limited to derivatives (stock futures/ index futures and other such permitted derivative instruments including options), equity warrants and convertible instruments.

ii) The securities mentioned above could be listed or unlisted, secured or unsecured, and of varying maturity, as enabled under SEBI (MF) Regulations/circulars/ RBI. The securities may be acquired through Initial Public Offerings (IPOs), secondary market operations, private placement, rights offers or negotiated deals.

iii) The Scheme may also invest in units of equity mutual fund schemes without charging any fees on such investments, within the limits specified under SEBI Regulations;

iv) Securities created and issued by the Central and State Governments and/or repos/reverse repos in such Government Securities as may be permitted by RBI (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).

v) Securities guaranteed by the Central and State Governments (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).

vi) Debt obligations of domestic Government agencies and statutory bodies, which may or may not carry a Central/State Government guarantee.

vii) Corporate debt and Debentures (including repo in corporate bonds) (of both public and private sector undertakings).

viii) Money Market Instruments include commercial papers, commercial bills, treasury bills, Government of India Securities having an unexpired maturity upto one year, call or notice money, certificates of deposit, Repos, Reverse Repos, Bills Re-discounting CBLOs and any other like instruments as specified by Reserve Bank of India from time to time.

ix) Deposits with domestic banks and other corporate bodies as may be permitted by SEBI from time to time.

x) Scheme may also invest a part of its assets in financial derivatives such as options and futures & Interest Rate Swaps (IRS) (comprising of government securities) that are permitted or may become permissible under SEBI/RBI Regulations.

xi) The Scheme may invest a part of its corpus in Debt and Money Market Securities/Units of Liquid/Money Market/Debt Mutual Fund Schemes.

xii) However, due to market conditions, the AMC may invest beyond the range set out above. Such deviations shall normally be for a short term defensive considerations, and the intention being at all times to protect the interests of the Unit Holder.

xiii) Domestic securitized debt, pass through obligations, various types of securitization issuances, including but not limited to asset backed securitization, mortgage backed securitization, and personal loan backed securitization.

xiv) Securities Lending & Borrowing as permitted by SEBI from time to time.

Particulars	Table A - Existing Features	Table B - Proposed Features
Investment Restrictions	Refer Note 3	Refer Note 4
Exit Load	If redeemed on or before 1 year from the date of allotment - 1%	If redeemed /switched on or before 365 days from the date of allotment - 1%. After 365 days - NIL.

Taxation

Table A - Existing Features

Applicable tax rates for financial year 2015-16 – Updated with the amendments as per the Finance Act, 2015 for Debt Oriented Funds.

Particulars	Resident Investors	Mutual Funds
Tax on Distributed Income (DDT)	Nil	Distributions to: - Individual & HUF - 25%# - Other than Individual & HUF - 30%# - Non-resident (in case of an infrastructure debt fund) - 5%#
Capital Gain		
Long-term Capital Gains##	20%* (with indexation)	Nil
Short-term Capital Gains##	Individual/HUF/ AOP/BOI - Taxable as per the applicable slab rates* Companies/ Firms - 30%*	Nil

\# Rates are exclusive of surcharge at the rate of 12% and education cess at the rate of 3%. Additional tax on income distributed to unit-holders should be levied on the amount of income to be distributed including such additional tax (i.e. grossing-up), as against levy on only the amount of income to be distributed thereby resulting in a higher effective tax rate.

\#\# Capital gains arising on transfer or redemption of "other than equity oriented units" should be regarded as long-term capital gains if such units are held for a period of more than 36 months, immediately preceding the date of transfer.

* Plus applicable surcharge; and education cess at the rate of 2% on income-tax and surcharge and secondary and higher education cess at the rate of 1% on income-tax and surcharge. For rates of surcharge, please refer to the clause on Taxation in the SAI.

Table B - Proposed Features

Applicable tax rates for financial year 2015-16 – Updated with the amendments as per the Finance Act, 2015 for Equity Oriented Funds.

Particulars	Resident Investors	Mutual Funds
Tax on Distributed Income (DDT)	Nil	Not subject to Dividend Distribution tax
Capital Gain		
Long-term Capital Gain[1]	Nil	Nil
Short-term Capital Gain	15%[2]	Nil

[1] Capital gains arising on the transfer or redemption of equity oriented units should be regarded as long-term capital gains if such units are held for a period of more than 12 months, immediately preceding the date of transfer.

[2] Plus applicable surcharge; and education cess at the rate of 2% on income-tax and surcharge and secondary and higher education cess at the rate of 1% on income-tax and surcharge. For rates of surcharge, please refer to the clause on Taxation in the SAI.

Investors may be subject to Minimum Alternate Tax / Alternate Minimum Tax under section 115JB of the Act / Section 115JC of the Act respectively.

This chart is prepared on assumption that the investment in units of Mutual Fund would be characterised as capital assets in the hands of the unit holder.

Where the Fund receives any income from investments made in overseas jurisdiction, the same may be subject to withholding tax (or any other tax) in the relevant jurisdiction from which the income is received.

As the income of the fund is exempt from tax in India, credit / refund in respect of such foreign taxes may not be available in India.

Upon redemption of the units, securities transaction tax would be payable by the unit holders @ 0.001% of the redemption price.

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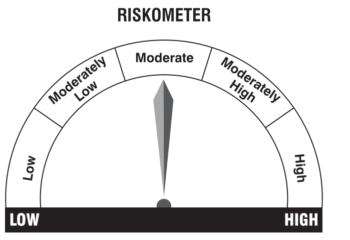
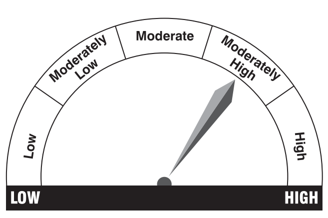
Particulars	Table A - Existing Features	Table B - Proposed Features
	Investors may be subject to Minimum Alternate Tax / Alternate Minimum Tax under section 115JB of the Act / Section 115JC of the Act respectively. This chart is prepared on assumption that the investment in units of Mutual Fund would be characterised as capital assets in the hands of the unit holder. Where the Fund receives any income from investments made in overseas jurisdiction, the same may be subject to withholding tax (or any other tax) in the relevant jurisdiction from which the income is received. As the income of the fund is exempt from tax in India, credit / refund in respect of such foreign taxes may not be available in India. For further details on taxation please refer to the clause on Taxation in the SAI.	Upon conversion of the scheme, no new units would be issued to the investors and it would not be shown as 'switch-in' and 'switch-out' in their account statement. Hence, it should not be regarded as 'transfer' as per section 2(47) of the Income-tax Act, 1961 ('the Act'). Change in the nomenclature of the scheme will not have any impact in determining whether the transaction should be regarded as 'transfer' for the purpose of section 2(47) of the Act. Hence, there should not be any capital gains tax implications in the hands of the investors who would agree for conversion of the scheme. In case of investors who would not agree for conversion and submits redemption request, their units would be redeemed. This should be regarded as 'transfer' as per section 2(47) of the Act. Accordingly, redemption of units should result in capital gains tax implications in the hands of the investors based on the rates given in Table 'A'. As per Explanation to section 10(38) of the Income tax Act, 1961 ('Act'), an equity oriented fund means a fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than 65% of total proceeds of such fund. The percentage of equity shareholding is to be computed with reference to annual average of monthly averages of the opening and closing amounts. As and when the fund would satisfy the 65% test, it should be regarded as an equity oriented fund for the purposes of the Act. Hence from tax standpoint (DDT, STT, Capital Gains etc.) the fund would remain as "Other than Equity Oriented Fund" till it achieves the status of an "Equity Oriented Fund" as explained above. For further details on taxation please refer to the clause on Taxation in the SAI.
Expenses	Refer Note 5	Refer Note 6
Accounts Statements	**Units With Depository** The units of the Scheme(s) are admitted for dematerialization with the Depositories and the unit holders will have the option to convert their existing units into dematerialized mode. Accordingly existing unitholders having an account statement who may wish to seek dematerialization of their Units, would have to submit a request with their Depository Participant by filling up the Dematerialization Request Form (DRF) along with the account statement issued by the Fund. The same number of Units held in the physical mode shall be continued in the demat mode. The expenses incurred by the AMC in dematting of the referred units may be recovered from unitholders or may be charged to the scheme(s) as per annual recurring expenses. Account statement for transactions of demat units of the scheme in the market may be obtained from the depository participants with whom the investor holds DP Account.	**Account Statements for investors holding units of the scheme in demat accounts:** Vide SEBI circular no. CIR/MRD/DP/31/2014 dated November 12, 2014 the following shall be applicable for unitholders having a Demat Account: Investors having Mutual Fund investments and holding securities in demat account shall receive a single CAS from the depository. Consolidation of account statement shall be done on the basis of Permanent Account Number (PAN). Incase of multiple holding, it shall be PAN of the first holder and the pattern of holding. The CAS shall be generated on a monthly basis. If there is any transactions in any of the demat accounts of the investor or in any of his Mutual fund folios, depository shall send the CAS within 10 days from the month end. Incase there is no transaction in any of the mutual fund folios and demat accounts then CAS with the holding details, shall be sent to the investor on half-yearly basis. Incase an investor has multiple accounts across 2 depositories, the depository with whom the account has been opened earlier will be the default depository. However, where an investor doesn't wish to receive CAS through e-mail, option shall be given to the investor to receive the CAS in physical form at the address registered in the depository system. If an investor does not wish to receive single CAS from the depository, an option shall be given to the investor to indicate negative consent and receive the normal CAS only w.r.t mutual fund investments in lieu of this single CAS.
Fund Manager	Mr. Pankaj Jain	Mr. P.V.K. Mohan
Product Label	This product is suitable for investors who are seeking~ • Income and Capital Growth over a medium term investment horizon. • Investment primarily in debt/money market securities with exposure in equity & equity related instruments including equity derivatives.	This product is suitable for investors who are seeking~ • Income generation and capital appreciation over the medium to long term. • Investment in equity and equity related instruments, debt and money market instruments and arbitrage opportunities.
	RISKOMETER  **Investors understand that their principal will be at moderate risk**	**RISKOMETER**  **Investors understand that their principal will be at moderately high risk**
	~ Investors should consult their financial advisers if in doubt about whether the product is suitable for them.	~ Investors should consult their financial advisers if in doubt about whether the product is suitable for them.

NOTES:

Note 1 – Investment Strategy *(Contd.)* for Principal Equity Savings Fund:

Net Long Equity :

The Scheme will invest its assets in a portfolio of equity and equity related instruments including units of Equity mutual Funds Schemes.

The focus of the investment strategy would be to identify stocks which can provide capital appreciation in the long term. Companies selected for the portfolio which in the opinion of the AMC would possess some of the characteristics mentioned below:

- Superior management quality
- Distinct and sustainable competitive advantage
- Good growth prospects; and
- Strong financial strength

Equity Derivatives:

The Scheme will endeavor to invest predominantly in arbitrage opportunities between spot and futures prices of exchange traded equities. In absence of profitable arbitrage opportunities available in the market, the Scheme may predominantly invest in short-term debt and money market securities. The fund manager will evaluate the difference between the price of a stock in the futures market and in the spot market. If the price of a stock in the futures market is higher than in the spot market, after adjusting for costs and taxes the Scheme shall buy the stock in the spot market and sell the same stock in equal quantity in the futures market, simultaneously. For example, on December 4, 2014, the Scheme buys a share of XYZ Company on spot @ ₹ 1,000 and at the same time sells XYZ Company futures for December 2014 expiry @ ₹ 1,020. The Scheme thus enters into a fully hedged transaction by selling the equity position in the futures market for expiry on say December 24, 2014. If the Scheme holds this position till expiry of the futures, the Scheme earns profit of ₹ 20 on the date of expiry before accounting for trading costs and taxes.

In case the Scheme has to unwind the transaction prior to the expiry date on account of redemption pressures or any other reason, the returns would be a function of the spread at which the transaction is unwound. For example, if spot is sold at ₹ 980 and the futures are bought at ₹ 1,010 then there would be negative returns on the trade. If the spot is sold at ₹ 1,020 and the futures are bought at ₹ 1,015 then there would be positive returns from the trade. On the date of expiry, if the price differential between the spot and futures position of the subsequent month maturity still remains attractive, the Scheme may rollover the futures position and hold onto the position in the spot market. In case such an opportunity is not available, the Scheme would liquidate the spot position and settle the futures position simultaneously. Rolling over of the futures transaction means unwinding the short position in the futures of the current month and simultaneously shorting futures of the subsequent month maturity while holding onto the spot position. There could also be occasions when both the spot and the future position is unwound before the expiry of the current-month future to increase the base return or to meet redemption. Return enhancement through the use of arbitrage opportunity would depend primarily on the availability of such opportunities. The Scheme will strive to build similar market neutral positions that offer an arbitrage potential for e.g. buying the basket of index constituents in the cash segment and selling the index futures, Buying ADR/GDR and selling the corresponding stock future etc. The Scheme would also look to avail of opportunities between one futures contract and another. For example on 16 December 2014, the Scheme buys 1000 futures contracts of ABC Ltd. for December expiry at ₹ 3,000 each and sells an equivalent 1000 futures contract of ABC Ltd. for January expiry at ₹ 3,030. Thereby the Scheme enters into a fully hedged transaction. Closer to the expiry date of the December contract, the Scheme has two options. 1) Unwind the transaction by selling the 1000 December contracts and buying 1000 January contracts of ABC. The returns are a function of the spread between the sale price of the January contract and the buy price of the December contract. If this spread is less than ₹ 30, the returns are positive else the returns are negative. 2) On the expiry date i.e. 24 December, 2014, the Scheme would let the December contract expire and square off 1000 contracts that it holds for January maturity. The returns would be a function of the spread between settlement price of the December contract and the price at which January contracts are squared-off. If this spread is lower than ₹ 30 then the returns are positive and if it is higher than ₹ 30 the returns are negative. The Scheme can also initiate the transaction in the opposite direction i.e. by selling the December futures and buying the January futures, if it sees a profit potential. Under all circumstances the Scheme would keep its net exposures neutral to the underlying direction of the market by maintaining completely hedged positions. In addition to stock specific futures, the Scheme can also take offsetting positions in index futures of different calendar month.

The debt and money market instruments include any margin money that has to be maintained for the derivative position. The margin money could also be maintained partly as Fixed deposits with Scheduled commercial banks.

Debt Instruments:

The Scheme would invest in a range of fixed income and money market instruments including units of Debt/Liquid/Money Market Mutual Fund Schemes. Further the Scheme may also invest in financial derivatives such as options and futures & Interest Rate Swap (IRS) that are permitted or may become permissible under SEBI/RBI Regulations. The proportion of assets to be so invested would be decided by the AMC at the appropriate time, and would be done in accordance with the relevant guidelines to be issued by SEBI/RBI and other authorities.

Note 2 – Scheme Specific Risk Factors for Principal Equity Savings Fund:

a) Risks associated with investing in Equity and Equity related Securities

The value of Scheme's investments may be affected by factors affecting the Securities markets and price and volume volatility in the capital markets, interest rates, changes in law/policies of the Government, taxation laws and political, economic or other developments which may have an adverse bearing on individual securities, a specific sector or all sectors. Consequently, the NAV of the units of the Scheme(s) may be affected.

Equity & Equity related securities are volatile and prone to price fluctuations on a daily basis. The liquidity of investments made in the Scheme(s) may be restricted by trading volumes and settlement periods. Settlement periods may be extended significantly by unforeseen circumstances. The inability of the Scheme(s) to make intended securities purchases due to settlement problems could cause the Scheme(s) to miss certain investment opportunities. Similarly, the inability to sell securities held in the Scheme's portfolio may result, at times, in potential losses to the Scheme(s), should there be a subsequent decline in the value of securities held in the Scheme's portfolio.

The liquidity and valuation of the Scheme's investments due to the holdings of unlisted securities may be affected if they have to be sold prior to the target date of disinvestment.

Securities which are not quoted on the stock exchanges are inherently illiquid in nature and carry a larger liquidity risk in comparison with securities that are listed on the exchanges or offer other exit options to the investors, including put options.

The liquidity of the scheme(s) is inherently restricted by trading volumes in securities in which it invests.

Investment decisions made by the Investment Manager may not always be profitable.

To the extent the underlying Mutual Fund Scheme(s) invest in Equity and Equity related Instruments, the Schemes(s) which shall invest in Equity Mutual Fund Schemes (where the asset allocation pattern of the Scheme(s) provides such investment) shall be affected by the afore mentioned risk factors. The Net Asset Value (NAV) of the units of the Scheme is likely to get effected on accounts of such risk factors. Any change in the investment policies or fundamental attributes of any underlying scheme is likely to affect the performance of the Scheme. Further, the liquidity of the Scheme's investments may be inherently restricted by the liquidity of the underlying schemes in which it has invested.

b) Risk Associated with Investing in Debt and/or Money Market Instruments

i) ***Price-Risk or Interest-Rate Risk:*** Fixed income securities such as bonds, debentures and money market instruments run price-risk or interest-rate risk. Generally, when interest rates rise, prices of existing fixed income securities fall and when interest rates drop, such prices increase. The extent of fall or rise in the prices is a function of the existing coupon, days to maturity and the increase or decrease in the level of interest rates.

ii) ***Credit Risk:*** In simple terms this risk means that the issuer of a debenture/ bond or a money market instrument may default on interest payment or even in paying back the principal amount on maturity. Even where no default occurs, the price of a security may go down because the credit rating of an issuer goes down. It must, however, be noted that where the Scheme(s) has invested in Government Securities, there is no credit risk to that extent.

iii) ***Re-investment Risk:*** Investments in fixed income securities may carry re-investment risk as interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the bond. Consequently, the proceeds may get invested at a lower rate.

iv) ***Interest Rate Movement (Basis Risk):*** The changes in the prevailing rates of interest will likely affect the value of the Schemes' holdings until the next reset date and thus the value of the Schemes' Units will be affected. Increased rates of interest, which frequently accompany inflation and/ or a growing economy, are likely to have a negative effect on the value of the Units. The value of securities held by the Scheme(s) generally will vary inversely with changes in prevailing interest rates. The fund could be exposed to the interest rate risk (i) to the extent of time gap in resetting of the benchmark rates, and (ii) to the extent the benchmark index fails to capture the interest rate movement.

v) ***Prepayments and Charge Offs Risk:*** In the event of prepayments, investors may be exposed to changes in tenor and yield. Also, any Charge Offs would result in the reduction in the tenor of the Pass through Certificates (PTCs).

vi) ***Spread Risk:*** In a floating rate security the coupon is expressed in terms of a spread or mark up over the benchmark rate. However depending upon the market conditions the spreads may move adversely or favorably leading to fluctuation in NAV.

To the extent the underlying Mutual Fund Scheme(s) invest in Debt and Money Market Instruments, the Schemes(s) which shall invest in Liquid/Debt Mutual Fund Schemes (where the asset allocation pattern of the Scheme(s) provides such investment) shall be affected by the afore mentioned risk factors. The Net Asset Value (NAV) of the units of the Scheme is likely to get effected on accounts of such risk factors.

c) Risks Associated with Investing in Derivatives

The primary objective of the Fund Manager is to identify investment opportunities and to exploit price discrepancies in various markets. Identification and exploitation of the strategies to be pursued by the Fund Manager involve uncertainty. No assurance can be given that Fund Manager will be able to locate investment opportunities or to correctly exploit price discrepancies in the capital markets. Reduction in mis-pricing opportunities between the cash market and Future and Options market may lead to lower level of activity.

As the Scheme proposes to execute arbitrage transactions in various markets simultaneously, this may result in high portfolio turnover and, consequently, high transaction cost. There may be instances, where the price spread between cash and derivative market is insufficient to meet the cost of carry. In such situations, the fund manager due to lack of opportunities in the derivative market may not be able to outperform liquid / money market funds.

Though the constituent stocks of most indices are typically liquid, liquidity differs across stock. Due to heterogeneity in liquidity in the capital market segment, trades on this segment do not get implemented instantly. This often makes arbitrage expensive, risky and difficult to implement.

Other risks in using derivatives include but are not limited to:

(a) **Credit Risk -** this occurs when a counterparty defaults on a transaction before settlement and therefore, the Scheme is compelled to negotiate with another counter party, at the then prevailing (possibly unfavorable) market price, in order to maintain the validity of the hedge. For exchange traded derivatives, the risk is mitigated as the exchange provides a guaranteed settlement but one takes the performance risk on the exchange.

(b) **Market Liquidity risk -** this occurs where the derivatives cannot be sold (unwound) at prices that reflect the underlying assets, rates and indices.

(c) **Model Risk -** the risk of mis-pricing or improper valuation of derivatives.

(d) **Basis Risk -** this risk arises when the instrument used as a hedge does not match the movement in the instrument/ underlying asset being hedged. The risks may be inter-related also; for e.g. interest rate movements can affect equity prices, which could influence specific issuer/industry assets.

Trading in derivatives carry a high degree of risk although they are traded at a relatively small amount of margin which provides the possibility of great profit or loss in comparison with the principal investment amount. The Scheme(s) may find it difficult or impossible to execute derivative transactions in certain circumstances. For example, when there are insufficient bids or suspension of trading due to price limit or circuit breakers, the Scheme may face a liquidity issue.

Interest Rate Swaps (IRS) are highly specialized instruments that require investment technique and risk analysis different from those associated with equity shares and other traditional securities. The use of a IRS requires not only an understanding of the referenced asset, reference rate, or index but also of the swap itself, without the benefit of observing the performance of the swap under all possible market conditions. Swap agreements are also subject to liquidity risk, which exists when a particular swap is difficult to purchase or sell. Swap agreements may be subject to pricing risk, which exists when a particular swap becomes extraordinarily expensive (or cheap) relative to historical prices or the prices of corresponding cash market instruments. IRS agreements are also subject to counterparty risk on account of insolvency or bankruptcy or failure of the counterparty to make required payments or otherwise comply with the terms of the agreement.

Note 3 – Investment Restrictions for Principal Debt Savings Fund - MIP

Following are the Investment limitations/restrictions :-

- Pursuant to the SEBI circular dated January 19, 2009 the Scheme(s)/Plan(s) shall make investment in / purchase Debt and Money Market Instruments with the residual maturity of up to 91 days only (PCMF).

  Explanation:

  a. *In case of securities where the principal is to be repaid in a single payout the maturity of the securities shall mean residual maturity. In case the principal is to be repaid in more than one payout then the maturity of the securities shall be calculated on the basis of weighted average maturity of security.*

  b. *In case of securities with put and call options (daily or otherwise) the residual maturity of the securities shall not be greater than 91 days.*

  c. *In case the maturity of the security falls on a non-business day then settlement of securities will take place on the next business day.*

- A mutual fund scheme shall not invest more than 10% of its NAV in debt instruments comprising money market instruments and non-money market instruments issued by a single issuer which are rated not below investment grade by a credit rating agency authorised to carry out such activity under the Act. Such investment limit may be extended to 12% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of directors of the asset management company.

  Provided that such limit shall not be applicable for investments in Government Securities, treasury bills and collateralized borrowing and lending obligations.

  Provided further that investment within such limit can be made in mortgaged backed securitised debt which are rated not below investment grade by a credit rating agency registered with the Board.

- The scheme(s) shall not invest more than 10% of its NAV in unrated debt instruments (of any residual maturity period) issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of the AMC.

- Transfers of investments from one scheme to another scheme of Principal Mutual Fund shall be allowed only if:
  – Such transfers are done at the prevailing market price for quoted instruments on spot basis.

    [Explanation - "Spot basis" shall have same meaning as specified by stock exchange for spot transactions.]

  – The securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.

- A scheme may invest in another scheme under the same asset management company or any other mutual fund without charging any fees, provided that aggregate inter scheme investment made by all schemes under the same management or in schemes under the management of any other asset management company shall not exceed 5% of the net asset value of the mutual fund.

- The Scheme shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities.

  Provided that the Scheme may engage in short selling of securities in accordance with the framework relating to short selling and securities lending and borrowing specified by SEBI.

  Provided further that sale of Government securities already contracted for purchase shall be permitted in accordance with the Guidelines issued by RBI in this regard;

  Provided further the Scheme may also enter into derivatives transactions in a recognised stock exchange, subject to the framework specified by the Board.

- The Mutual Fund shall get the securities purchased or transferred in the name of the Mutual Fund on account of the concerned scheme, wherever investments are intended to be of long-term nature

- Pending deployment of Funds of the scheme in terms of investment objective, Mutual Fund may invest them in short term deposits of scheduled commercial banks, subject to the following:
  – The scheme shall not park more than 15% of the net assets in Short term deposit(s) of all the scheduled commercial banks put together. However, it may be raised to 20% with prior approval of the trustees. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the mutual fund in short term deposits.
  – The scheme shall not park more than 10% of the net assets in short term deposit(s), with any one scheduled commercial bank including its subsidiaries.
  – No funds of the scheme may be parked in short term deposit of a bank which has invested in that scheme.
  – Short Term for such parking of fund by Mutual Fund shall be treated as a period not exceeding 91 days read with the provisions of SEBI Circular dated December 11, 2008 bearing reference SEBI/IMD/CIR No. 12/147132/08.

- The scheme shall not make any investment in:
  – any unlisted security of an associate or group company of the sponsor; or
  – any security issued by way of private placement by an associate or group company of the sponsor; or
  – the listed securities of group companies of the sponsor which is in excess of 25% of the net assets

- The Scheme shall not invest in any Fund of Funds Scheme.
- The Scheme shall not invest more than 10% of its NAV in the equity shares or equity related instruments of any Company.
- The Scheme shall not invest more than 5% of its net assets in the unlisted equity shares or equity related instruments.
- Aggregate value of "Illiquid Securities" of the Scheme, which are defined as non-traded, thinly traded and unlisted equity share, shall not exceed 15% of the total assets of the Scheme.
- The Fund under all its Schemes should not own more than 10% of any company's paid up capital carrying voting rights.

(Contd. on next page)

Principal
pnb
Asset Management

Principal Pnb Asset Management Company Pvt. Ltd.

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- Pursuant to SEBI Circular No. CIR/IMD/DF/21/2012 dated September 13, 2012 and SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/35 dated February 15, 2016, the Scheme shall ensure that the total exposure in a particular sector (determined as per AMFI classification) (Excluding investments in Bank CDs, CBLO, Government Securities, T-Bills and AAA rated securities issued by Public Financial Institution and Public Sector Banks) shall not exceed 25% of the net assets of the Scheme.

  Provided that an additional exposure to financial services sector (over and above the limit of 25%) not exceeding 5% of the net assets of the Scheme shall be allowed by way of increase in exposure to Housing Finance Companies(HFCs) only. Provided further that the additional exposure to such securities issued by HFCs are rated AA and above and these HFCs are registered with National Housing Bank (NHB) and the total investment/exposure in HFCs shall not exceed 25% of the net assets of the Scheme.
- Pursuant to SEBI Circular No. SEBI/HO/IMD/DF2/CIR/P/2016/35 dated February 15, 2016, the Scheme shall ensure that the total exposure of debt schemes of a Mutual Fund in a group (excluding investments in securities issued by Public Sector Units, Public Financial Institutions and Public Sector Banks) shall not exceed 20% of the net assets of the scheme. Such investment limit may be extended to 25% of the net assets of the scheme with the prior approval of the Board of Trustees.

Investment in Foreign Securities:-

- In accordance with RBI Circular A.P. (DIR) Series Circular No. 3 dated July 26, 2006 read with SEBI Circular SEBI/IMD/CIR No.7/104753/07 dated September 26, 2007, the Fund is permitted to invest only up to US$ 300 million in identified overseas securities. Such limit and/or identified securities may be revised at the discretion of the Fund in alignment with the provision that may be prescribed in this regard by SEBI/RBI from time to time.

  These investment limitations/parameters (as expressed/linked to the net asset/NAV/capital) shall in the ordinary course apply as of the date of the most recent transaction or commitment to invest, and changes do not have to be effected merely because, owing to appreciation or depreciation in value, or by reason of the receipt of any rights, bonuses or benefits in the nature of capital, or of any scheme of arrangement, or for amalgamation, reconstruction or exchange, or at any repayment or repurchase or other reason outside the control of the Fund, any such limits would thereby be breached. If these limits are exceeded for reasons beyond its control, the AMC shall adopt as a priority objective the remedying of that situation, taking due account of the interests of the unitholders.

  In addition, certain investment parameters (like limits on exposure to sectors, industries, issuers, etc.) may be adopted internally by the AMC, as amended from time to time, to ensure appropriate diversification/security for the Fund. The AMC may alter these above stated limitations from time to time, and also to the extent the SEBI Regulations change, so as to permit the Fund to make its investments in the full spectrum of permitted investments for Mutual Funds to achieve its investment objective. As such all investments of the Fund will be made in accordance with SEBI Regulations including Schedule VII thereof.

Note 4 – Investment Restrictions for Principal Equity Savings Fund

- The Fund under all its Schemes should not own more than 10% of any company's paid up capital carrying voting rights.
- Transfers of investments from one scheme to another scheme of Principal Mutual Fund shall be allowed only if:
  (a) Such transfers are done at the prevailing market price for quoted instruments on spot basis.
  [Explanation - “Spot basis” shall have same meaning as specified by stock exchange for spot transactions.]
  (b) The securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.
- A scheme may invest in another scheme under the same asset management company or any other mutual fund without charging any fees, provided that aggregate interscheme investment made by all schemes under the same management or in schemes under the management of any other asset management company shall not exceed 5% of the net asset value of the mutual fund.
- The Mutual Fund shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities. Provided that the Scheme may engage in short selling of securities in accordance with the framework relating to short selling and securities lending and borrowing specified by SEBI. Provided further that the Scheme may also enter into derivatives transactions in a recognized stock exchange, subject to the framework specified by the Board. Provided further that sale of government security already contracted for purchase shall be permitted in accordance with the guidelines issued by the Reserve Bank of India in this regard.
- The cumulative gross exposure to equity, debt and derivatives positions shall not exceed 100% of the net assets of the scheme.
- The Mutual Fund shall get the securities purchased or transferred in the name of the Mutual Fund on account of the concerned scheme, wherever investments are intended to be of long-term nature.
- Pending deployment of Funds of the scheme in terms of investment objective, Mutual Fund may invest them in short term deposits of scheduled commercial banks, subject to the following:
  - The scheme shall not park more than 15% of the net assets in Short term deposit(s) of all the scheduled commercial banks put together. However, it may be raised to 20% with prior approval of the trustees. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the mutual fund in short term deposits.
  - The scheme shall not park more than 10% of the net assets in short term deposit(s), with any one scheduled commercial bank including its subsidiaries.
  - No funds of the scheme may be parked in short term deposit of a bank which has invested in that scheme.
  - Short Term for such parking of fund by Mutual Fund shall be treated as a period not exceeding 91 days.
- The scheme(s) shall not make any investment in:
  - any unlisted security of an associate or group company of the sponsor; or
  - any security issued by way of private placement by an associate or group company of the sponsor; or
  - the listed securities of group companies of the sponsor which is in excess of 25% of the net assets
- The Scheme(s) shall not invest in any Fund of Funds Scheme
- The Scheme(s) shall not invest more than 10% of its NAV in the equity shares or equity related instruments of any Company.
- The Scheme(s) shall not invest more than 5% of its net assets in the unlisted equity shares or equity related instruments.
- Aggregate value of “Illiquid Securities” of the Scheme, which are defined as non-traded, thinly traded and unlisted equity share, shall not exceed 15% of the total assets of the Scheme.
- Investment in foreign Securities:-

  In accordance with RBI Circular A.P. (DIR) Series Circular No. 3 dated July 26, 2006 read with SEBI Circular SEBI/IMD/CIR No.7/104753/07 dated September 26, 2007, the Fund is permitted to invest only up to US$ 300 million in identified overseas securities. Such limit and/or identified securities may be revised at the discretion of the Fund in alignment with the provision that may be prescribed in this regard by SEBI/RBI from time to time.
- A mutual fund scheme shall not invest more than 10% of its NAV in debt instruments comprising money market instruments and non-money market instruments issued by a single issuer which are rated not below investment grade by a credit rating agency authorised to carry out such activity under the Act. Such investment limit may be extended to 12% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of directors of the asset management company.

  Provided that such limit shall not be applicable for investments in Government Securities, treasury bills and collateralized borrowing and lending obligations:

  Provided further that investment within such limit can be made in mortgaged backed securitised debt which are rated not below investment grade by a credit rating agency registered with the Board.

  Provided further that the debentures irrespective of any residual maturity period (above or below one year), shall attract restriction as applicable under clause 1 and 1A of Seventh Schedule to the SEBI (Mutual Funds) Regulations, 1996.

  Provided further that the restrictions for investments made in securitised debt (mortgage backed securities/asset backed securities) would be applicable as mentioned in Seventh Schedule and per the clarification made by SEBI vide circular no. SEBI/IMD/CIR No.6/63715/06, dated March 29, 2006.
- The scheme(s) shall not invest more than 10% of its NAV in unrated debt instruments issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of AMC.

These investment limitations/parameters (as expressed/linked to the net asset/NAV/capital) shall in the ordinary course apply as of the date of the most recent transaction or commitment to invest, and changes do not have to be effected merely because, owing to appreciation or depreciation in value, or by reason of the receipt of any rights, bonuses or benefits in the nature of capital, or of any scheme of arrangement, or for amalgamation, reconstruction or exchange, or at any repayment or repurchase or other reason outside the control of the Fund, any such limits would thereby be breached. If these limits are exceeded for reasons beyond its control, the AMC shall adopt as a priority objective the remedying of that situation, taking due account of the interests of the unit holders.

In addition, certain investment parameters (like limits on exposure to sectors, industries, issuers, etc.) may be adopted internally by the AMC, as amended from time to time, to ensure appropriate diversification/security for the Fund. The AMC may alter these above stated limitations from time to time, and also to the extent the SEBI Regulations change, so as to permit the Fund to make its investments in the full spectrum of permitted investments for Mutual Funds to achieve its investment objective. As such all investments of the Fund will be made in accordance with SEBI Regulations including Schedule VII thereof.

Note 5 – Expenses - Principal Debt Savings Fund - MIP

The Annual Recurring Expenses for the Scheme shall be within the overall limit of 2.25 percent of the daily net assets.

Direct Plan under the aforementioned Schemes shall have a lower expense ratio excluding distribution expenses, commission, etc. and no commission for distribution of Units will be paid / charged under the Direct Plan.

Further, in addition to the limits on total expenses specified in Regulation 52(6) of SEBI (Mutual Funds) Regulations, 1996 (the Regulation) the following expenses may be charged to the Scheme(s) under Regulation 52 (6A) -

(a) Brokerage and transaction costs incurred for the purpose of execution of trades and included in the cost of investment, not exceeding 0.12% of the value of trades in case of cash market transactions and 0.05% of the value of trades in case of derivative transactions;

(b) Expenses not exceeding 0.30% of daily net assets, if the new inflows from such cities as specified by SEBI from time to time are atleast (i) 30% of gross inflows in the Scheme OR (ii) 15% of the average assets under management (year to date) of the Scheme - whichever is higher.

However if inflows from such cities is less than the higher of (i) & (ii) as mentioned above, such expenses on daily net assets of the Scheme may be charged on proportionate basis. Further, the expenses charged under this clause shall be utilized for distribution expenses incurred for bringing inflows from such cities. The amount incurred as expense on account of inflows from such cities shall be credited back to the scheme in case the said inflows are redeemed within a period of one year from the date of investment.

(c) Additional expenses incurred towards different heads mentioned under sub-regulation 52(2) & 52(4) of the Regulation not exceeding 0.20% of the daily net assets of the scheme.

AMC may charge service tax on investment and advisory fees of the scheme in addition to the maximum limit of Total Expense Ratio as per the Regulation 52(6)and (6A).

Further, the following may be charged to the Schemes within the maximum limit of Total Expense Ratio as per Regulation 52 of the SEBI (Mutual Funds) Regulations, as amended from time to time -

(a) Service tax on expenses other than investment and advisory fees, if any;

(b) Service Tax on brokerage and transaction costs on execution of trades, if any; and

(c) Investor Education and awareness fees of at least 2 basis point on daily net assets of respective schemes.

Note 6 – Expenses - Principal Equity Savings Fund

The Annual Recurring Expenses for the Scheme shall be within the overall limit of 2.50 percent of the daily net assets.

Direct Plan under the aforementioned Schemes shall have a lower expense ratio excluding distribution expenses, commission, etc. and no commission for distribution of Units will be paid / charged under the Direct Plan.

Further, in addition to the limits on total expenses specified in Regulation 52(6) of SEBI (Mutual Funds) Regulations, 1996 (the Regulation) the following expenses may be charged to the Scheme(s) under Regulation 52 (6A) -

(a) Brokerage and transaction costs incurred for the purpose of execution of trades and included in the cost of investment, not exceeding 0.12% of the value of trades in case of cash market transactions and 0.05% of the value of trades in case of derivative transactions;

(b) Expenses not exceeding 0.30% of daily net assets, if the new inflows from such cities as specified by SEBI from time to time are atleast (i) 30% of gross inflows in the Scheme OR (ii) 15% of the average assets under management (year to date) of the Scheme - whichever is higher.

However if inflows from such cities is less than the higher of (i) & (ii) as mentioned above, such expenses on daily net assets of the Scheme may be charged on proportionate basis. Further, the expenses charged under this clause shall be utilized for distribution expenses incurred for bringing inflows from such cities. The amount incurred as expense on account of inflows from such cities shall be credited back to the scheme in case the said inflows are redeemed within a period of one year from the date of investment.

(c) Additional expenses incurred towards different heads mentioned under sub-regulation 52(2) & 52(4) of the Regulation not exceeding 0.20% of the daily net assets of the scheme.

AMC may charge service tax on investment and advisory fees of the scheme in addition to the maximum limit of TER as per the Regulation 52(6) and (6A).

Further, the following may be charged to the Schemes within the maximum limit of Total Expense Ratio as per Regulation 52 of the SEBI (Mutual Funds) Regulations, as amended from time to time -

(a) Service tax on expenses other than investment and advisory fees, if any;

(b) Service Tax on brokerage and transaction costs on execution of trades, if any; and

(c) Investor Education and awareness fees of at least 2 basis point on daily net assets of respective schemes.

The above modifications include changes in the fundamental attributes of the Scheme. In this regard, individual communication has been dispatched to Unitholders of the Scheme, existing in the Register of Unitholders of our Registrar & Transfer Agents, M/s. Karvy Computershare Pvt. Ltd., as on May 20, 2016. Such of those Unitholders who do not receive the communication can contact the Registrar - M/s. Karvy Computershare Private Limited. The existing Unitholders under the Scheme who do not consent to the above, are entitled to exit the Scheme between May 24, 2016 to June 22, 2016 (both days inclusive) upto 3.00 p.m. at applicable NAV without any exit load, if any.

Such change to the features of the Scheme, as detailed herein shall be effective the business day immediately following June 22, 2016 (effective date). Proposed revisions as indicated above shall be carried out throughout the SID and KIM of the Scheme, appropriately. Other than as set forth herein, the remaining features, terms and conditions of the Scheme shall continue to remain unchanged.

This addendum forms an integral part of SID & KIM of the Scheme as amended from time to time and all other features, terms and conditions as mentioned therein remains unchanged.

For further information/assistance do visit us at www.principalindia.com or e-mail us at customer@principalindia.com or call on our Toll Free no. 1800 425 5600.

For Principal Pnb Asset Management Company Pvt. Ltd.

Place : Mumbai

Date : May 23, 2016

Sd/-

Authorised Signatory