

Update – IL&FS Financial Services Ltd.

Sep 25, 2018

We hereby inform our Investors and Distribution Partners that we didn't receive the maturity proceeds for commercial paper (CP) of IL&FS Financial Services that matured on Sep 24, 2018. The summary of our holdings in this instrument is as stated in our last communication dated Sep 18, 2018.

Since the company has defaulted in paying the maturity proceeds and there is no clarity about repayment, it was decided to mark down the value of this CP to zero on September 24, 2018 and accordingly 100% provision was made against the maturity amount receivable.

We continue to remain in dialogue with the company and monitor developments for recovery of dues.

Sept 18, 2018

In continuation to our previous two updates given below we wish to inform investors that on Sept 17th evening, ICRA further downgraded the CPs of IL&FS Financial Services Ltd. (ILFS-FS) to 'D' from 'A4'.

The scheme-wise exposure to this instrument as on Sep 17, 2018 is mentioned in the table below for your reference:

Scheme Name	Face Value (Rs Cr)	Maturity Date
Principal Arbitrage Fund	0.5	Sep 24, 2018
Principal Low Duration Fund	3.0	Sep 24, 2018
Principal Cash Management Fund	56.5	Sep 24, 2018
Principal Ultra Short Term Fund	5.0	Sep 24, 2018
Principal Hybrid Equity Fund	10.0	Sep 24, 2018

As per ICRA, the rating revision was done to take into account the recent irregularities in debt servicing by the company driven by the material weakening of the company's liquidity profile and the lack of funding support from its parent IL&FS Ltd. As per definition given by ICRA for 'D' rating scale : “Instruments with this rating are in default or are expected to be in default soon”.

As per the principles of fair valuation, the valuation of securities has to be true and fair. Therefore, due to the downgrade in the rating on Sep 17, 2018 to 'D', the value of CP (maturing on 24th Sept) has been discounted by further 25% (in total 50% till date) to reflect fair value as the rating of 'D' indicates “default” or “expected to be in default soon”.

We continue to monitor developments around the company and are in constant dialogue with them. We shall provide further updates about material developments, if any, in this regard.

Sep 11, 2018

As an update to our previous note (*pls refer to Annexure I*), we would like to hereby inform that we have received the CP maturity proceeds from IL&FS Financial Services Ltd. in full for the aggregated amount of Rs. 50 Cr (face value) held in two of our schemes Principal Cash Management Fund and Principal Ultra Short Term Fund. We continue to monitor the company and developments surrounding it closely on a daily basis. We also, are in continuous dialogue with the company's management.

Lastly, we would like to state that, currently all other instruments in our portfolios continue with status quo in their respective ratings. Moreover, as a continuous process, our Risk Management remains as the highest priority.

Annexure I

IL&FS Financial Services - Rating Downgrade

IL&FS Financial Services Ltd. (IFIN) is a wholly owned subsidiary of Infrastructure Leasing and Financial Services Limited (IL&FS). IL&FS Ltd which is a holding company is in the area of infrastructure development and financing.

IFIN is a RBI regulated NBFC present in various business lending verticals like asset and structured finance business, syndication business, and corporate and project advisory business.

As on March 31, 2018, Life Insurance Corporation of India (LIC) and ORIX Corporation Japan are the largest shareholders in IL&FS with their stake holding at 25.34% and 23.54% respectively. Other prominent shareholders include Abu Dhabi Investment Authority (ADIA, 12.56% stake), HDFC (9.02% stake), CBI and (7.67% stake) and SBI (6.42% stake)

Strategic importance to overall IL&FS portfolio

IL&FS considers the financial services operations to be crucial for its business and thus considers IFIN as strategically important to the Group. Given the Group's presence in the infrastructure segment, involving long gestation capital intensive projects, IFIN's support to the Group, in its capacity as a lender and advisor, remains critical. Additionally, IFIN remains a major source of dividend income to IL&FS. The presence of key senior executives and directors of IL&FS on the board of IFIN further underscores its relevance to the group.*

On September 8, 2018, ICRA has revised the short term rating for the commercial paper programme of IFIN to ICRA A4 from ICRA A1+. As per ICRA note, the rating revision is driven by the material weakening of the company's liquidity profile in light of the sizeable debt services obligations. Further the rating is placed under rating watch with developing implications.

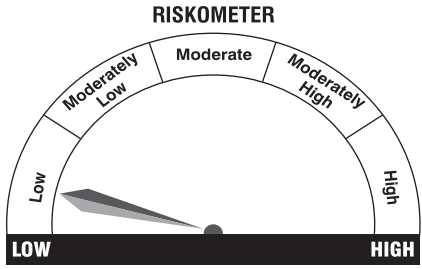
Principal Mutual Fund has investments in the Commercial Papers (CP) issued by IFIN across different schemes.

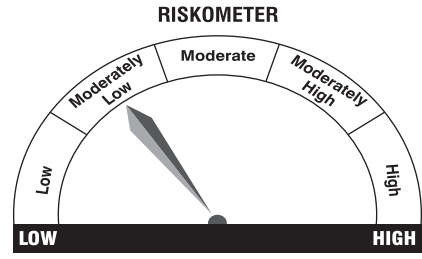
Scheme Name	Face Value (in Rs cr)	Maturity Date
Principal Cash Management Fund	46	10 Sept 2018 (Maturity Received)
Principal Ultra Short Term Fund	4	10 Sept 2018 (Maturity Received)
Principal Arbitrage Fund	0.5	24 Sept 2018
Principal Low Duration Fund	3	24 Sept 2018
Principal Cash Management Fund	56.5	24 Sept 2018
Principal Ultra Short Term Fund	5	24 Sept 2018
Principal Hybrid Equity Fund	10	24 Sept 2018

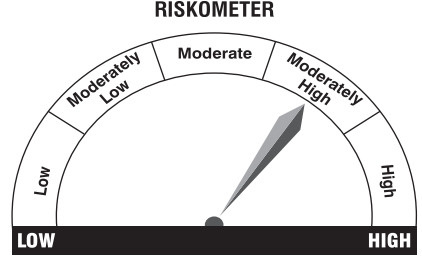
As per the principles of fair valuation, the valuation of securities has to be true and fair. Therefore, due to the steep downgrade in the rating on Saturday, the value of CP exposure has been discounted by 25% to reflect fair value as the rating of A4 is non-investment grade rating.

We continue to monitor the company closely. The company and group is undertaking the following actions:

- The IL&FS group is in ongoing discussions with LIC,SBI and other promoters to accelerate the liquidity infusion on immediate basis to meet their upcoming obligations. Meeting for the same is scheduled by this weekend.
- Earlier, the parent company's board has approved on 29th Aug 2018 equity infusion via Rights issue of approx. Rs. 4500 Cr. This is expected to close by October 31 to shore up its capital post approval by shareholders. The Board also approved debt infusion for purpose of recapitalisation of group companies to the extent of Rs. 5,000 Crore in IL&FS Financial Services, IL&FS Transportation, IL&FS Energy, IL&FS Environment, and IL&FS Education.
- The ILFS group is also looking to divest assets in its various companies in effort to generate liquidity for its other businesses as well hoping to receive claims pending with government agencies.

<p>Principal Cash Management Fund (An Open-ended Liquid Scheme)</p>	 <p>Investors understand that their principal will be at low risk</p>
<p>~ Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</p>	

<p>Principal Ultra Short Term Fund (An open ended ultra-short term debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 3 months and 6 months)</p>	 <p>Investors understand that their principal will be at moderately low risk</p>
<p>This Product Is Suitable For Investors Who Are Seeking ~ -</p> <ul style="list-style-type: none"> Income over a short term investment horizon. Investment in Debt & Money Market instruments. 	
<p>Principal Arbitrage Fund (An open ended scheme investing in arbitrage opportunities)</p> <p>This Product Is Suitable For Investors Who Are Seeking ~ -</p> <ul style="list-style-type: none"> Income over short-term. Income through arbitrage opportunities between cash and derivative market and arbitrage opportunities within the derivative segment. 	
<p>Principal Low Duration Fund (An open ended low duration debt scheme investing in instruments such that the Macaulay duration of the portfolio is between 6 months and 12 months)</p> <p>This Product Is Suitable For Investors Who Are Seeking ~ -</p> <ul style="list-style-type: none"> Income over a short term investment horizon. Investment in Debt & Money Market Instruments. 	
<p>~ Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</p>	

<p>Principal Hybrid Equity Fund (An open ended hybrid scheme investing predominantly in equity and equity related instruments)</p>	 <p>Investors understand that their principal will be at moderately high risk</p>
<p>This Product Is Suitable For Investors Who Are Seeking ~ -</p> <ul style="list-style-type: none"> Income and Long term Capital Growth. Investment in equity & equity related securities, debt/money market securities as well as derivatives. 	
<p>~ Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</p>	

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*Source: ICRA Ratings Letter and Internal Research