Mutual Fund

Principal

KEY INFORMATION MEMORANDUM

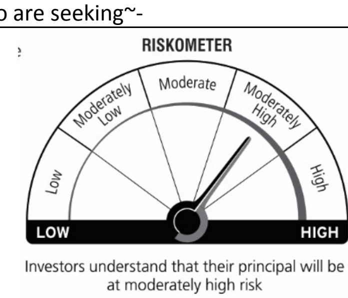
AND

APPLICATION FORM

Principal Equity Savings Fund

An open-ended scheme investing in equity, arbitrage and debt

(Offer of units at applicable NAV based price)

<table>
<tr><td colspan="2">This product is suitable for investors who are seeking~-</td></tr>
<tr><td>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.</td><td>
</td></tr>
<tr><td colspan="2">~ Investors should consult their financial advisors if in doubt about whether the product is suitable for them.</td></tr>
</table>

Principal Asset Management Private Limited
(formerly known as Principal Pnb Asset Management Company Private Limited)

Investment Manager to Principal Mutual Fund

Exchange Plaza, 'B' Wing, Ground Floor, NSE Building, Bandra Kurla Complex, Bandra (East), Mumbai-400 051, India.

Principal Mutual Fund

Exchange Plaza, 'B' Wing, Ground Floor, NSE Building, Bandra Kurla Complex, Bandra (East), Mumbai-400 051.

This Key Information Memorandum (KIM) sets forth the information, which a prospective investor ought to know before investing. **For further details of the scheme/Mutual Fund, due diligence certificate by the AMC, Key Personnel, investors' rights & services, risk factors, penalties & pending litigations etc. investors should, before investment, refer to the Scheme Information Document (SID) and Statement of Additional Information (SAI) available free of cost at any of the Investor Service Centres or distributors or from the website www.principalindia.com The aforesaid SID & SAI are to be read with the addendums, if any issued by the Fund from time to time.**

The Scheme particulars have been prepared in accordance with Securities and Exchange Board of India (Mutual Funds) Regulations 1996, as amended till date, and filed with Securities and Exchange Board of India (SEBI). The units being offered for public subscription have not been approved or disapproved by SEBI, nor has SEBI certified the accuracy or adequacy of this KIM.

Investment Objective	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.
Asset Allocation Pattern of the scheme	Under normal circumstances, the asset allocation would be as follows:

Type of instrument	Normal Allocation (% of Net Assets)		Risk Profile
	Minimum	Maximum	
Equity and equity related instruments	65	90	Medium to High
Of which Net Long Equity Exposure (including units of Equity Mutual Fund Schemes)*	20	35	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 35% 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 instrument	Normal Allocation (% of Net Assets)		Risk Profile
	Minimum	Maximum	
Equity and equity related instruments	20	75	Medium to High

Of which Net Long Equity Exposure (including units of Equity Mutual Fund Schemes)*	20	35	High
Of which Equity Exposure Equity (only arbitrage opportunity)**	0	55	Low to Medium
Debt securities and money market instruments# (including margin for derivatives) and Fixed Income Derivatives	25	80	Low

* In the scheme, unhedged equity exposure shall be limited to 35% 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 20% 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.

Risk Profile of the Scheme

Mutual Fund Units involve investment risks including the possible loss of principal. Please read the Scheme Information Document carefully for details on risk factors before investment. Scheme specific Risk Factors are summarized below:

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.
Risk Mitigation Factors	1. Risk mitigation factors for investments associated with equities: • Focused risk management with an endeavour to ensure adequate safeguards for controlling risks during portfolio construction. • Reducing risks through portfolio diversification, taking care however not to dilute returns of the scheme(s). • Use derivatives and hedging products as permitted as RBI/SEBI to protect the value of portfolio. • Implement exposure limits which may be varied from time to time. In case of Equity funds, restricting the exposure to any industry (as defined in AMFI classification) as a percentage of the portfolio at any point of time. • Portfolio shall be maintained in such a manner so as to provide necessary liquidity (after considering inflows and redemptions). • Due diligence of a company so as to minimize stock specific risks. 2. Risk mitigation factors for investments associated with Debt and/or Money Market Instruments: • Rigorous in-depth credit evaluation of the securities proposed to be invested focussing on analysis of fundamentals of the company, company's financials and the quality of management. • Use derivatives and hedging products to protect the value of portfolio. • To invest over a range of companies, groups as well as industries in accordance with SEBI Regulations with an endeavour to reduce risk using diversification. • Having appropriate portfolio turnover to meet cash flow requirements, adjustments relating to average maturity of the assets held, change or an anticipated change in the credit worthiness of the investee companies. • Control credit risk by investing in rated papers of the companies having strong fundamentals, sound financial strength and superior quality of management. • Reduce Liquidity Risk by investing in CBLO and other such similar short term highly liquid instruments.
Investment Plans & Options	Regular Plan & Direct Plan. Both the Plans offer Growth & Dividend Option. Dividend Option offer the frequency of Half-Yearly and Quarterly payouts. The Dividend Option under both the Plans will have the facility of Payout, Reinvestment and Sweep.
Investment Strategy	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. **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 @ Rs 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 Rs 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 Rs 980 and the futures are bought at Rs 1,010 then there would be negative returns on the trade. If the spot is sold at Rs 1,020 and the futures are bought at Rs 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 Rs 3,000 each and sells an equivalent 1000 futures contract of ABC Ltd. for January expiry at Rs 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 Rs 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 Rs 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.

<table>
<tr><td></td><td>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.</td></tr>
<tr><td>Applicable NAV (after the scheme opens for repurchase and sale)</td><td>For Subscription / Switch –in / Sweep:
(a) In respect of valid applications received upto 3.00 pm with a local cheque or demand draft payable at par at the repurchase and sale) Official Points of Acceptance of Transactions where it is received, the closing NAV of the day of receipt of application shall be applicable;
(b) In respect of valid applications received after 3.00 pm with a local cheque or demand draft payable at par at the Official Points of Acceptance of Transactions where it is received, the closing NAV of the next business day shall be applicable.
In respect of purchase/switch-in in any of the above mentioned Schemes for an amount equal to or more than Rs 2 Lakhs, the closing NAV (Net Asset Value) of the day shall be applicable subject to realisation of the funds upto 3.00 p.m. and receipt of application (duly time stamped).
Further, in case of multiple applications for purchases/switch-ins in any of the Scheme (irrespective of its Plan/Option) for an aggregate investment amount equal to or more than ` 2 Lakh on the same business day, such application shall be consolidated at PAN level irrespective of the number of the total application amount of Rs 2 Lakh and above to determine the NAV applicability.
For Redemptions / Switch–out:
(a) In respect of valid applications received upto 3.00 p.m. at the Official Points of Acceptance of Transactions, the closing NAV of the day of receipt of application shall be applicable; and
(b) In respect of valid applications received after 3.00 p.m. at the Official Points of Acceptance of Transactions, the closing NAV of the next business day shall be applicable.
The above cut-off timings shall also be applicable to investment made through “Sweep” mode available in the Dividend Option.
Cut off time as mentioned above shall be reckoned at the Official Points of Acceptance of transactions as disclosed in the Scheme Information Document, KIM and the web-site, www.principalindia.com</td></tr>
<tr><td>Minimum Application Amount / Number of Units</td><td><table><tr><th>Purchase</th><th>Additional Purchase</th><th>Repurchase</th></tr><tr><td>Rs 5,000 and any amount thereafter under each Plan/Option.</td><td>Rs 1,000 and any amount thereafter under each Plan/Option.</td><td>Rs 500/- or 50 units</td></tr></table></td></tr>
<tr><td>Dispatch of Redemption Proceeds</td><td>Within 10 business days of the receipt of the redemption request at the Official Points of Acceptance of the Principal Mutual Fund</td></tr>
<tr><td>Dividend Policy</td><td>Under Dividend Option, dividend will be declared subject to availability of distributable surplus and at discretion of AMC / Trustee. The undistributed portion of the income will remain in the Option and be reflected in the NAV, on an ongoing basis. The Trustee's decision with regard to availability and adequacy, rate, timing and frequency of distribution of dividend shall be final.</td></tr>
<tr><td>Benchmark Index</td><td>30% Nifty 50 Index + 70% CRISIL Liquid Fund Index</td></tr>
<tr><td>Folio Count & AUM (As on Sep. 30, 2018)</td><td>Folio - 2,976 • AUM - Rs. 75.77Crores</td></tr>
<tr><td>Fund Manager & Managing the Current Fund from</td><td>Mr. P.V.K. Mohan - June 2016 (For Equity portion) (Tenure of the Fund Manager - 2 Year 3 months)
Mr. Pankaj Jain – January 2018 (For Debt Portion) (Tenure of the Fund Manager - 8 months)

* This scheme was earlier known as Principal Debt Savings Fund - Monthly Income Plan & was managed by Mr. Pankaj Jain till June 22, 2016</td></tr>
<tr><td>Total Investment Experience</td><td>Mr. P.V.K. Mohan - 25 years
Mr. Pankaj Jain – 16 years</td></tr>
<tr><td>Name of the Trustee Company</td><td>Principal Trustee Company Private Limited</td></tr>
</table>

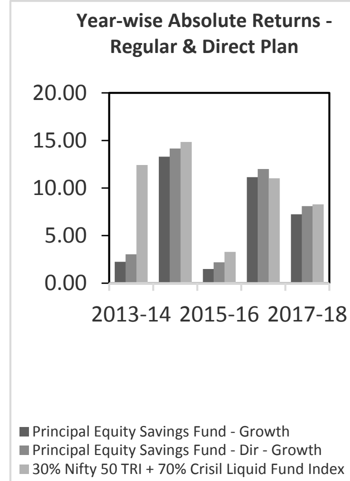
PERFORMANCE OF THE SCHEME:

Returns (%) of Growth Option under Regular Plan and Direct Plan as at Sep.28, 2018

Period	Regular Plan		Direct Plan	
	Scheme	Benchmark	Scheme	Benchmark
Last 1 Year	4.10%	9.02%	5.42%	9.02%
Last 3 Years	6.71%	8.84%	7.66%	8.84%
Last 5 Years	7.96%	10.10%	8.86%	10.10%
Since Inception*	7.95%	9.95%	7.51%	9.40%

* Regular Plan - May 23, 2002 Direct Plan - January 01, 2013
Past performance may or may not be sustained in the future.
Note: Returns more than 1 year are calculated on compounded annualised basis.

Absolute Returns for each financial year for the last 5 years



PORTFOLIO - Top 10 Holdings
(As on Sep.30, 2018)

Issuer Name	% of NAV
Housing Development Finance Corporation Ltd.	5.47
Reliance Capital Ltd.	4.02
Maruti Suzuki India Ltd.	3.40
Aurobindo Pharma Ltd.	3.22
CESC Ltd.	3.04
Suryoday Small Finance Bank Ltd.	2.64
Cox & Kings Ltd.	2.61
Bharti Airtel Ltd.	2.51
Century Textiles & Industries Ltd.	2.39
Piramal Enterprises Ltd.	2.22

SECTOR ALLOCATION - Top 10
(As on Sep.30, 2018)

Sectors	% of NAV
FINANCIAL SERVICES	26.38
AUTOMOBILE	9.34
ENERGY	8.01
PHARMA	7.25
CONSUMER GOODS	7.24
METALS	4.00
CONSTRUCTION	2.70
SERVICES	2.61
TELECOM	2.51
IT	2.49

***PORTFOLIO TURNOVER RATIO** (As on Sep.30, 2018) **6.02**

*The Portfolio Turnover Rate (PTR) means the lower of aggregate sales or purchases made during the 12 month rolling year/period divided by the 12 month rolling year/period Average asset under Management for the relevant year/period.

Note: This scheme was earlier known as Principal Debt Savings Fund - Monthly Income Plan. It was converted into Principal Equity Savings Fund on June23, 2016.

Website link for Monthly Portfolio Holding -www.principalindia.com

Expenses of the Scheme

(i) Load Structure : **Exit Load :** Nil

(ii)Recurring Expenses:

Annual Recurring expenses as a percentage of Daily Net Assets:
The AMC has estimated the below mentioned expenses expressed as a percentage to the daily net assets of the Scheme which will be charged to the Scheme as expenses.
The estimated expenses under the Regular and Direct Plan$ of the Scheme, is as per the table below:

	Principal Equity Savings Fund
Nature of Expense	**% of daily net assets**
Investment Management and Advisory Fees	Upto 2.50%

Trustee fee	
Audit fees	
Custodian fees	
RTA Fees	
Marketing & Selling expense incl. agent commission	
Cost related to investor communications	
Cost of fund transfer from location to location	
Cost of providing account statements and dividend redemption cheques and warrants	
Costs of statutory Advertisements	
Cost towards investor education & awareness (at least 2 bps)	
Brokerage & transaction cost over and above 12 bps and 5 bps for cash and derivative market trades resp.	
Goods and Services Tax on expenses other than investment and advisory fees	
Goods and Services Tax on brokerage* and transaction cost	
Other Expenses	
Maximum total expense ratio (TER) permissible under Regulation 52 (6) (c) (i) and (6) (a)	**Upto 2.50%**
Additional expenses under regulation 52 (6A) (c)^	Upto 0.05%
Additional expenses for gross new inflows from specified cities #	Upto 0.30%

$**Direct Plan** under the aforementioned Scheme 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.

#Expenses charged under this clause shall be utilised for distribution expenses incurred for bringing inflows from such cities.

Provided further that 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.

The AMC may charge investment management and advisory fees and other expenses up to 2.50% of the daily net assets. The AMC reserves the right to change the estimates; both inter se or in total, subject to prevailing SEBI Regulations.

^The nature of expenses can be any permissible expenses including Investment Management & Advisory Fees. The purpose of the above table is to assist in understanding the various costs and expenses that the Unit Holders in the Scheme will bear directly or indirectly.

The above estimates for recurring expenses for the Scheme are based on the corpus size of INR 1,000 million, and may change to the extent assets are lower or higher.

The AMC may incur actual expenses which may be more or less than those estimated above under any head and / or in total. The AMC will charge the Scheme such actual expenses incurred, subject to the statutory limit prescribed in the SEBI Regulations, as given below

Maximum Recurring Expenses:

Daily net assets	**As a % of daily net Assets (per annum)**	**Additional Total Expense Ratio as per SEBI Regulations 52 (6A) (c) #**	**Additional Total Expense Ratio as per SEBI Regulations 52 (6A) (b) #**
First Rs. 100 crores	2.50%	0.05%	0.30%
Next Rs. 300 crores	2.25%	0.05%	0.30%
Next Rs. 300 crores	2.00%	0.05%	0.30%
Balance of assets over and above Rs. 700 crores	1.75%	0.05%	0.30%

#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 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 0.05% of the daily net assets of the scheme or as specified by the Board.

“Provided that such additional expenses shall not be charged to the schemes where the exit load is not levied or applicable.”

AMC may charge Goods and Services 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) Goods and Services Tax on expenses other than investment and advisory fees, if any; (b) *Goods and Services 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 Goods and Services Tax on brokerage and transaction costs which are incurred for the purpose of execution of trade, will be within the limit of prescribed under Regulation 52 of SEBI Regulations. These estimates have been made in good faith by the AMC as per the information available to AMC – the investment manager, based on the past experience and are subject to change inter-se. The expenses may be more than as specified in the table above, but the total recurring expenses that can be charged to the Scheme will be subject to limits prescribed from time to time under the SEBI Regulations. Expenses over and above the permissible limits will be borne by the AMC and/or the Trust and/ or the sponsor. The purpose of the above table is to assist the unitholder in understanding the various costs and expenses that a unitholder in the Scheme will bear directly or indirectly. Expenses over and above the limits prescribed under the SEBI Regulations shall be borne by the AMC. The mutual fund would update the current expense ratios on the website at least three working days prior to the effective date of the change. Additionally, AMCs shall upload the TER details on the website under the below link: *https://www.principalindia.com/downloads-disclosures.aspx* Subject to the SEBI Regulations and this Document, expenses over and above the prescribed ceiling will be borne by the AMC and/or by Sponsor and/or Trust. The Fund shall strive to reduce the level of these expenses so as to keep them well within the maximum limits currently allowed by SEBI and any revision in the said expenses limits by SEBI would be applicable.
(iii)Actual Expenses:# (For the previous Financial Year 2017-2018)	**Direct Plan -** 1.95% • **Regular Plan –** 2.91% #Expense ratio includes Goods and Services Tax on Management Fees over and above TER and Additional B15 Exp ratio.
Waiver of Load for Direct Applications	Pursuant to SEBI circular no. SEBI/IMD/CIR No.4/ 168230/09 dated June 30, 2009 no entry load shall be charged for all Mutual Fund Scheme(s). Therefore, the procedure for waiver of load for direct applications is no longer applicable.
Tax treatment for the Investors (Unitholders)	Investors are advised to refer to the details in the Statement of Additional Information and also independently consult their tax advisor.
Daily Net Asset Value (NAV) Publication	The NAV of the Scheme will be calculated on all Business Days. The same would also be updated on AMFI website by 9.00p.m. on all Business Days. The NAV can also be viewed on the website of the Mutual Fund i.e. www.principalindia.com.
For Investor Grievances Please Contact	**Principal Mutual Fund:** Exchange Plaza, 'B' Wing, Ground Floor, NSE Building, Bandra Kurla Complex, Bandra (East), Mumbai-400 051. TOLL FREE: 1800 425 5600. Fax: +91 22 6772 0512. E-mail: customer@principalindia.com **Registrar: Karvy Computershare Pvt. Ltd. (Unit: Principal Mutual Fund)**, Karvy Selenium Tower B, Plot number 31 & 32, Financial District, Nanakramguda, Serilingampally Mandal, Hyderabad - 500032. • www.karvycomputershare.com
Unitholders' Information:	**Account Statement:** An allotment confirmation specifying the units allotted shall be sent by way of email and/or SMS within 5 Business Days of receipt of valid application to the Unit holders registered e-mail address and/or mobile number. Thereafter, a Consolidated Account Statement (CAS) containing details relating to all the transactions carried out by the investor across all schemes of all mutual funds during the month and holding at the end of the month shall be sent to the Unit holder in whose folio transactions have taken place during that month, on or before 10th of the succeeding month. In case of a specific request received from the Unit holders, the AMC/Fund will provide an account statement (reflecting transactions of the Fund) to the investors within 5 Business Days from the receipt of such request. Further, the CAS detailing holding across all schemes of all mutual funds at the end of every six months (i.e. September/

	March), shall be sent by mail/e-mail on or before 10th of succeeding month, to all such Unit holders in whose folios no transaction has taken place during that period. The half yearly consolidated account statement will be sent by e-mail to the Unit holders whose e-mail address is available, unless a specific request is made to receive in physical form. The holding(s) of the beneficiary account holder for units held in demat mode will be shown in the statement issued by respective Depository Participants (DPs) periodically. Investors having MF investments and holding securities in Demat account shall receive a single Consolidated Account Statement (CAS) from the Depository. 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. For more details, please refer the Scheme Information Document (SID) and Statement of Additional Information (SAI). **Securities Consolidated Account Statement (SCAS):** Investors who have a demat account and opt to hold units in nondemat form, a single SCAS generated based on PAN for each calendar month, shall be sent by mail/email in whose folio(s) transaction(s) has/have taken place during the month on or before 10th of the succeeding month. The SCAS will be sent by e-mail to the investor(s) whose e-mail address is registered with the Depositories. In case an investor does not wish to receive SCAS through e-mail, an option shall be given by the Depository to receive SCAS in physical. Where PAN is not available, the account statement shall be sent to the Unit holder by the AMC. In case there is no transaction in the folio, a half yearly SCAS detailing holding across all schemes of mutual funds and securities held in dematerialized form across demat accounts shall be sent by Depositories to investors at the end of every six months (i.e. September/March), on or before 10th day of succeeding month. The half yearly SCAS will be sent by mail/e-mail as per the mode of receipt opted by the investors to receive monthly SCAS. Investors who are not eligible for receiving SCAS shall continue to receive a monthly account statement from the AMC. The holding(s) of the beneficiary account holder for units held in demat mode will be shown in the statement issued by respective Depository Participants (DPs) periodically. For more details, please refer the SID and SAI. **Portfolio Statement:** The Annual financial results of the Schemes or an abridged summary thereof shall be provided to all unitholders within 4 months from the date of the closure of the relevant accounts i.e. March 31 each year. Half Yearly unaudited financial results shall be hosted on our website - www.principalindia.com within one month from the close of each half year (i.e. 31st March and 30th September). The Fund shall disclose portfolio (along with ISIN) as on the last day of the month/ half-year for the Scheme on its website www.principalindia.com and on the website of AMFI within 10 days from the close of each month/ half-year respectively in a user friendly and downloadable format. Mutual Fund/ AMC shall provide a physical copy of the statement of its scheme portfolio, without charging any cost, on specific request received from a unitholder.
For more details, please refer the Scheme Information Document (SID) and Statement of Additional Information (SAI).	

Key Information Memorandum dated October 08, 2018.

PRODUCT DIFFERENTIATION

<table>
<tr><td colspan="3">Comparison of certain features of Principal Equity Savings Fund vis-a-vis other existing open-ended Hybrid Schemes of Principal Mutual fund</td></tr>
<tr><td>Scheme Name</td><td>Principal Balanced Advantage Fund</td><td>Principal Arbitrage Fund</td></tr>
<tr><td>Investment Objective</td><td>The primary objective of the scheme is to seek to generate long term capital appreciation with relatively lower volatility through systematic allocation of funds into equity; and in debt /money market instruments for defensive purposes. The Scheme will decide on allocation of funds into equity assets based on equity market Price Earnings Ratio (PE Ratio) levels. When the markets become expensive in terms of ‘Price to Earnings’ Ratio; the Scheme will reduce its allocation to equities and move assets into cash future arbitrage/ equity derivatives, debt and/or money market instruments and vice versa</td><td>The investment objective of the Scheme is to generate capital appreciation and income by predominantly investing in arbitrage opportunities in the cash and derivative segments of the equity markets and the arbitrage opportunities available within the derivative segment and by investing the balance in debt and money market instruments.

There is no assurance or guarantee that the investment objective of the Scheme will be realized.</td></tr>
<tr><td>Asset Allocation Pattern</td><td>Under normal circumstances, the asset allocation would be as follows:
<table>
<tr><th rowspan="2">Type of instrument</th><th colspan="2">Normal Allocation (% of Net Assets)</th><th rowspan="2">Risk Profile</th></tr>
<tr><th>Minimum</th><th>Maximum</th></tr>
<tr><td>Equity and Equity Related Instruments</td><td>65</td><td>100</td><td>High</td></tr>
<tr><td>Debt or Money Market Securities and/or units of Liquid/ Money Market/ Debt Mutual Fund Scheme(s) of Principal Mutual Fund.</td><td>0</td><td>35</td><td>Low to Medium</td></tr>
</table>
The minimum net equity exposure will be 15% at all points of time.

Investment in derivatives shall be upto 85% of the net assets of the Scheme.

Deployment upto 20% of its total net assets of the Scheme in Stock Lending, subject to the SEBI regulations.

The Scheme has no intention to invest in Securitised Debt.</td><td>The Indicative asset allocation will be as under
<table>
<tr><th>Instruments</th><th>Minimum (%)</th><th>Maximum (%)</th><th>Risk Profile</th></tr>
<tr><td>Equity and equity related instruments</td><td>65</td><td>90</td><td>Medium to High</td></tr>
<tr><td>Equity derivatives</td><td>65</td><td>90</td><td>Medium to High</td></tr>
<tr><td>Debt securities and Money Market Instruments# (including Margin for Derivatives) and Fixed Income Derivatives</td><td>10</td><td>35</td><td>Low</td></tr>
</table>
The Scheme may invest in Treasury Bills, Repos, Reverse Repos & Collateralized Borrowing and Lending Obligations (“CBLO”) and units of Debt/Liquid and Money Market Mutual Fund Schemes.</td></tr>
</table>

<table>
<tr>
<td></td>
<td>Investment in the units of Liquid/ Money Market/ Debt Mutual Fund Scheme(s) shall not exceed 5% of the net asset value of the mutual fund.</td>
<td></td>
</tr>
<tr>
<td>Investment Strategy</td>
<td>
The Scheme will decide on allocation of funds into equity assets based on equity market Price Earning Ratio (PE Ratio) levels. The PE Ratio has traditionally been used as a tool to assess whether the equity markets are cheap or expensively priced. When the markets become expensive in terms of ‘Price to Earnings’ Ratio; the Scheme will reduce its allocation to equities and move assets into debt and/or money market instruments and vice versa. Such a strategy is expected to optimise the risk-return proposition for the long term investor.
Under normal circumstances; the scheme’s asset allocation will follow the table below based on Nifty 50 Trailing PE Ratio Level –
<table>
<tr><th>Weighted Avg PE (Standalone) of Nifty 50 Index</th><th>Net Equity Component (%)</th></tr>
<tr><td>Less than or equal to 18</td><td>80-100</td></tr>
<tr><td>Above 18 – Less than or equal to 20</td><td>60-80</td></tr>
<tr><td>Above 20 – Less than or equal to 22</td><td>40-60</td></tr>
<tr><td>Above 22 – Less than or equal to 24</td><td>30-50</td></tr>
<tr><td>Above 24 – Less than or equal to 26</td><td>20-40</td></tr>
<tr><td>Above 26</td><td>15-25</td></tr>
</table>
For this purpose the month-end Trailing PE Ratio of Nifty 50 Index (NSE Nifty) will be considered.
Such a PE Ratio will be the month-end weighted average PE Ratio of the constituent stocks making up the Nifty 50 Index. The Price considered will be the closing market price on the NSE as at the month end. The undiluted earnings per share will reflect the trailing earnings of the most recent four quarters of each of the companies, for which information is available.
Thus every month end we would observe the above mentioned PE ratio and the resultant PE band. The investment strategy outlines different PE bands and the asset allocation applicable to each band. If there is a change in the PE band as observed on the latest month-end as compared to last month-end (due to Nifty’s PE moving out of one band to another) then it will require rebalancing of portfolio to bring the equity component in line with the new band. This rebalancing would be done latest before the end of the subsequent month.
</td>
<td>
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 @ Rs. 1000 and at the same time sells XYZ Company futures for December 2014 expiry @ Rs. 1020. The Scheme thus enters into a fully hedged transaction by selling the equity position in the futures market for expiry on say December 25, 2014. If the scheme holds this position till expiry of the futures, the scheme earns profit of Rs. 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 Rs. 980 and the futures are bought at Rs. 1010 then there would be negative returns on the trade. If the spot is sold at Rs. 1020 and the futures are bought at Rs. 1015 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. 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 Rs.3000 each and sells an equivalent 1000 futures contract of ABC Ltd. for January expiry at Rs.3030. 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
</td>
</tr>
</table>

	To determine the net equity allocation within the asset allocation bands specified above, the Fund Manager may also take into account parameters such as those listed below : 1. Yield Gap (defined as the ratio of the prevailing 10 years G-Sec bond yield and the inverse of the Index level trailing PE) 2. Index level Price to Book Value in relation to the Index RoE, 3. Market Volatility Indicator (India VIX) 4. Other valuation parameters namely, Enterprise Value to EBITDA Ratio, Index level PE to Growth Ratio (PEG), Index level Price to Cash EPS, Index Level Dividend Yield etc. The Trustee reserves the right; to change the above said PE Ratio bands or to apply any other criteria for determining the allocation of funds to equity instruments, if the NSE Nifty Index is either suspended or becomes irrelevant for any reasons whatsoever.	spread is less than Rs. 30, the returns are positive else the returns are negative. 2) On the expiry date i.e. 30 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 Rs. 30 then the returns are positive and if it is higher than Rs. 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. 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.
AUM in Rs. Cr. (Sep 30, 2018)	168.99	9.44
No. of Folios (Sep 30, 2018)	6388	257
Differentiation	The scheme is an equity scheme, seek to generate long term capital appreciation with relatively lower volatility through systematic allocation of funds into equity; and in debt /money market instruments for defensive purposes.	The scheme is positioned to generate capital appreciation and income by investing in arbitrage opportunities in the cash and derivative segments of equity markets and in debt and money market securities.
Scheme Name	**Principal Equity Savings Fund**	
Investment Objective	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

Asset Allocation Pattern

Under normal circumstances, the asset allocation would be as follows:

Type of instrument	Normal Allocation (% of Net Assets)		Risk Profile
	Minimum	Maximum	
Equity and equity related instruments	65	90	Medium to High
Of which Net Long Equity Exposure (including units of Equity Mutual Fund Schemes)*	20	35	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 35% 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 instrument	Normal Allocation (% of Net Assets)		Risk Profile
	Minimum	Maximum	
Equity and equity related instruments	20	75	Medium to High
Of which Net Long Equity Exposure (including units of Equity Mutual Fund Schemes)*	20	35	High
Of which Equity Exposure Equity (only arbitrage opportunity)**	0	55	Low to Medium
Debt securities and money market instruments# (including margin for derivatives) and Fixed Income Derivatives	25	80	Low

* In the scheme, unhedged equity exposure shall be limited to 35% 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 20% 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.
Investment Strategy	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. **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 @ Rs. 1000 and at the same time sells XYZ Company futures for December 2014 expiry @ Rs. 1020. 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 Rs. 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 Rs. 980 and the futures are bought at Rs. 1010 then there would be negative returns on the trade. If the spot is sold at Rs. 1020 and the futures are bought at Rs. 1015 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 Rs.3000 each and sells an equivalent 1000 futures contract of ABC Ltd. for January expiry at Rs.3030. 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 Rs. 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 Rs. 30 then the returns are positive and if it is higher than Rs. 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.
AUM in Rs. Cr. (Sep 30, 2018)	75.77
No. of Folios (Sep 30, 2018)	2976
Differentiation	Principal Equity Savings Fund is the only scheme offered by AMC that invests predominantly in arbitrage opportunities in the cash & derivatives segment of the equity market and has a moderate exposure to long positions in equity & equity related instruments. The only other arbitrage scheme offered by AMC is Principal Arbitrage Fund, which is a market neutral fund and does not take long only equity exposure. The entire market risk of Principal Arbitrage Fund is completely hedged using derivatives. On the other hand, Principal Equity Savings Fund will take market risk by investing between 20% - 30% of its assets into long only un-hedged equity.
Scheme Name	**Principal Hybrid Equity Fund**
Investment Objective	The Investment objective of the Scheme is to provide long-term appreciation and current income by investing in a portfolio of equity, equity related securities and fixed income securities.
Asset Alloca	Under normal circumstances, the asset allocation would be as follows:

<table>
<tr>
<td>Patter</td>
<td>
<table>
<tr><th rowspan="2">Type of instrument</th><th colspan="2">Normal Allocation (% of Net Assets)</th><th rowspan="2">Risk Profile</th></tr>
<tr><th>Minimum</th><th>Maximum</th></tr>
<tr><td>Equity & Equity Related Instruments</td><td>65</td><td>80</td><td>Medium to High</td></tr>
<tr><td>Debt and Money Market Instruments including Cash and Cash Equivalents and units of Liquid/ Money Market/ Debt Mutual Fund Schemes and Securitised Debt*</td><td>20</td><td>35</td><td>Low to Medium</td></tr>
</table>
Investment in the units of Liquid/ Money Market/ Debt Mutual Fund Scheme(s) shall not exceed 5% of the net asset value of the mutual fund.
* Investment in Securitised Debt may be upto 20% of the net assets of the Scheme.
The cumulative gross exposure to equity, equity related instruments, debt, money market instruments and derivatives shall not exceed 100% of the net assets of the scheme.
Note: The Asset Management Company (AMC) reserves the right to invest in derivatives not exceeding 50 % of the Net Assets, subject to limits specified by SEBI from time to time. The AMC further reserves the right to invest in foreign securities and derivatives subject to SEBI/RBI or any other Regulatory Authorities permitted from time to time.
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. Subject to the SEBI Regulations, the Mutual Fund may deploy upto 20% of its total net assets of the Scheme in Stock Lending.
The Scheme may invest upto 15% in ETFs#
The Scheme may invest upto 25% in stocks listed on SME platform of BSE and NSE.
The scheme may invest upto 30% in foreign securities, ADR's and GDRs, subject to SEBI / RBI or any other Regulatory Authorities permitted from time to time.
The Scheme may also participate in repo/reverse repo in corporate debt securities.
The Scheme does not seek to participate in credit default swaps.
<u>ETFs Risk Disclosure -</u> To the extent that the Scheme is invested in ETFs, the Scheme will be subject to all risks associated with such ETFs and the underlying assets that it is tracking. The Scheme can purchase/redeem units of ETFs only through stock exchanges on which such ETFs are listed and not directly through a mutual fund. Thus there could be a liquidity issue. The units of ETF may trade above (at a premium) or below (at a discount) the scheme's net asset value (NAV). The price of the units of an ETF's is influenced by the forces of supply and demand. Thus the Scheme may not be able to purchase/redeem units of an ETF at the applicable NAVs.
</td>
</tr>
<tr>
<td>Investment Strategy</td>
<td>The Scheme will invest in equity and equity related instruments. The Scheme will also invest in fixed income instruments rated investment grade or higher or otherwise comparable including units of Liquid / Money Market / Debt Mutual Fund Schemes. The Scheme shall not take high risks in managing equity portion of the portfolio. For the equity portion of the portfolio, companies would be selected after research covering areas such as quality of management, competitive position and financial analysis.</td>
</tr>
<tr>
<td>AUM in Rs. Cr. (Sep 30, 2018)</td>
<td>1601.27</td>
</tr>
<tr>
<td>No. of Folios (Sep</td>
<td>47407</td>
</tr>
</table>

30, 2018)	
Differentiation	The scheme is having an asset allocation with a ceiling on exposure to equity/ equity related instruments. The investment mandate allows a maximum of 80% exposure to equity with an investment of at least 20% in debt instruments. Thus the scheme offers growth potential with equity investments and also seeks to generate interest income by investing in debt securities. This is the only scheme that is the Balanced Fund that PMF has.