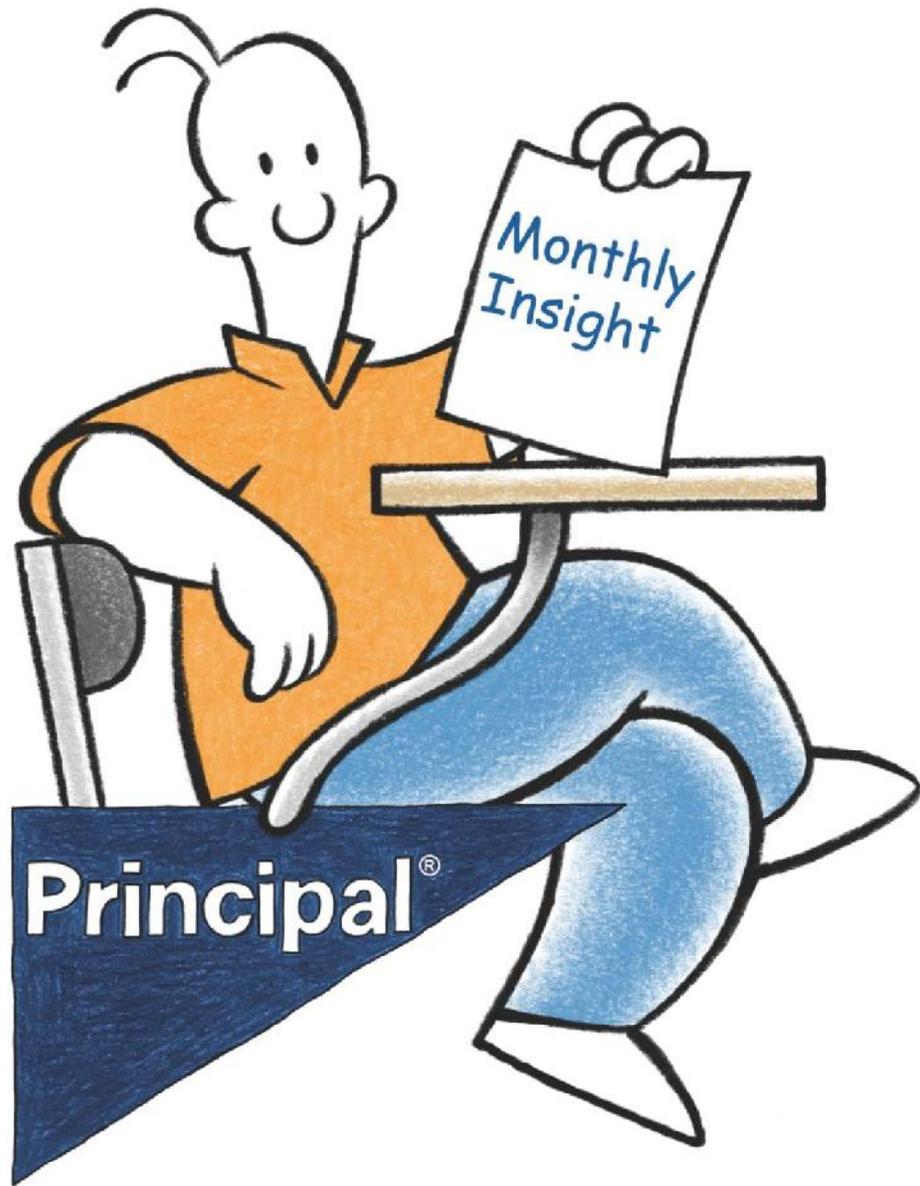


Principal[®]

*Mutual
Funds*



WE'LL GIVE YOU AN EDGE[®]

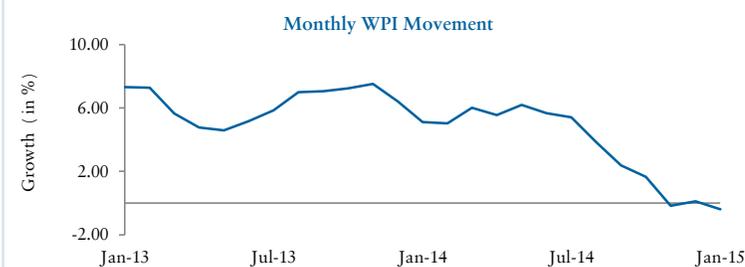
February 2015

Indian Economy

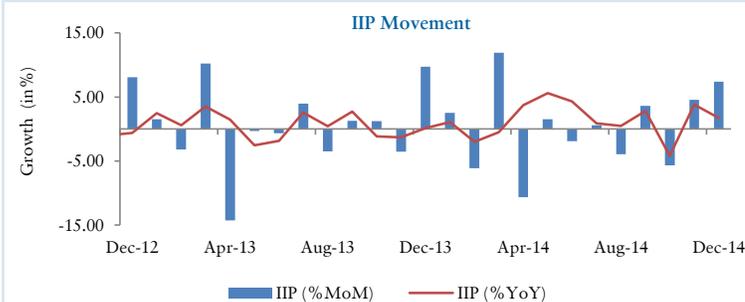
Economic Releases in February-2015

Policy Rates	Period	Actual	Previous
Repo Rate [^]	27-Feb-15	7.75%	7.75%
Reverse Repo [^]	27-Feb-15	6.75%	6.75%
CRR [^]	27-Feb-15	4.00%	4.00%
Key Indicators	Actual	Previous	
Index Of Industrial Production (IIP)	1.70% (Dec-14)	3.90% (Nov-14)	
Wholesale Price Index Inflation (WPI)	-0.39% (Jan-15)	0.11% (Dec-14)	
Export (Y-o-Y)	-11.19% (Jan-15)	-3.75% (Dec-14)	
Import (Y-o-Y)	-11.39% (Jan-15)	-4.78% (Dec-14)	
Current Account Deficit (\$ Billions)	-10.1 (Sep-14)	-7.84 (Jun-14)	
Fiscal Deficit FYTD (INR Trillion)	568.14 (Jan-15)	532.38 (Dec-14)	

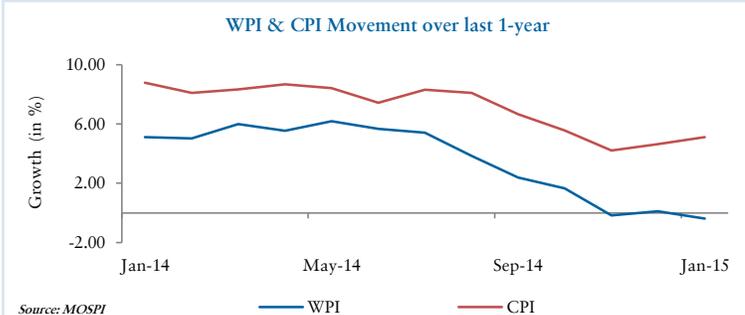
Source: RBI, Reuters; [^]Based on rate cut outside RBI Monetary Policy review released on 15-January-2015



Source: Office of the Economic Adviser, Ministry of Commerce & Industry



Source: MOSPI



Source: MOSPI

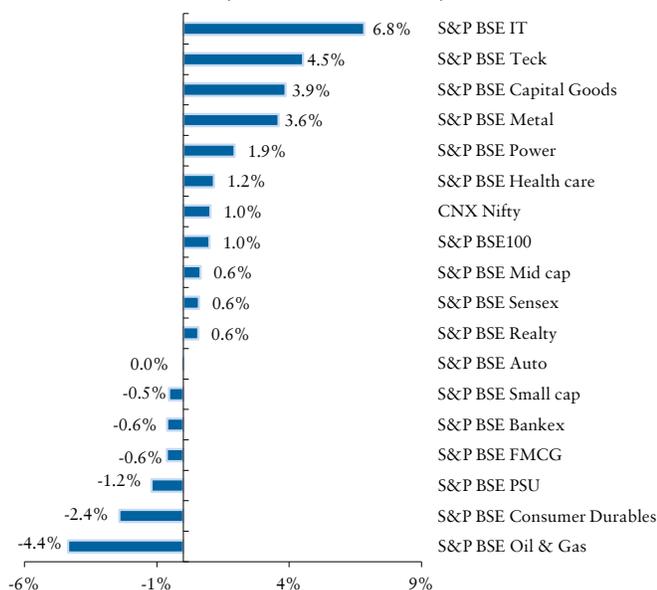
- The Government in its Union Budget for 2015-16 pegged the Indian economic growth at 8-8.5% and hoped that the growth rate would touch double digit in the subsequent years. Moreover, it has pegged fiscal deficit (FD) for 2015-16 at 3.9% of Gross Domestic Product (GDP) and proposed to lower it to 3% by 2017-18, a year later than planned earlier.
- The Government has proposed an increase in investment in infrastructure by Rs. 70,000 crore in 2015-16 over the previous year. The outlay on both roads and the gross budgetary support to the Railways have been increased by Rs. 14,031 crore and Rs. 10,050 crore, respectively. The Government has also introduced tax-free infrastructure bonds for railways and roads.
- It has been proposed in the Union Budget that corporate tax will be reduced from 30% to 25% for the next four years. The Government will rationalise and remove exemptions to eliminate tax disputes. The direct tax collection has been pegged at Rs. 14.49 lakh crore.
- The Central Bank, in its sixth bi-monthly monetary policy review, kept the policy repo rate unchanged at 7.75%. However, it has reduced the Statutory Liquidity Ratio (SLR) by 50 basis points from 22.0% to 21.5% of their Net Demand and Time Liabilities (NDTL) with effect from the fortnight beginning February 7. The Central Bank also replaced the export credit refinance facility with the provision of system-level liquidity with effect from February 7.
- India's GDP grew 7.5% in the third quarter of FY14-15 compared to an upwardly revised 8.2% rise (5.3% earlier) in the September quarter. The sharp upward revision in the previous quarter is due to the new formula where the Government now measures GDP by market prices instead of factor costs to take into account gross value addition in goods and services as well as indirect taxes.
- The Consumer Price Index (CPI)-based inflation accelerated to 5.11% in January from 4.28% in the previous month, considering the new base year of 2012 for calculating prices. Change in the base year has lowered weightage for food and fuel items. The Wholesale Price Index (WPI)-based inflation for January was reported at (-) 0.39% against 0.11% in December. This is the lowest level of inflation since June 2009.
- The Index of Industrial Production grew 1.7% on a yearly basis in December, against 3.9% rise witnessed in November.

Indian Equity Market

Index PE Ratio & Returns	Closing Values [#]	1 Year	3 Year	5 Year
CNX Nifty*	8,901.85	41.82	18.29	12.56
CNX Nifty PE	16.76	15.55	15.76	18.41
S&P BSE Sensex*	29,361.50	39.02	18.29	12.29
S&P BSE Sensex PE	16.31	16.28	15.72	18.56

Source: NSE, BSE, * Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized, # As on 28-Feb-2015

Monthly returns as on February 28, 2015



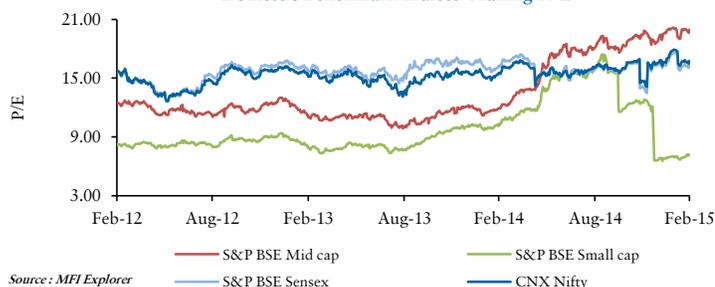
Source: MFI Explorer

Growth of Rs 1,000 over Last 10-Yrs



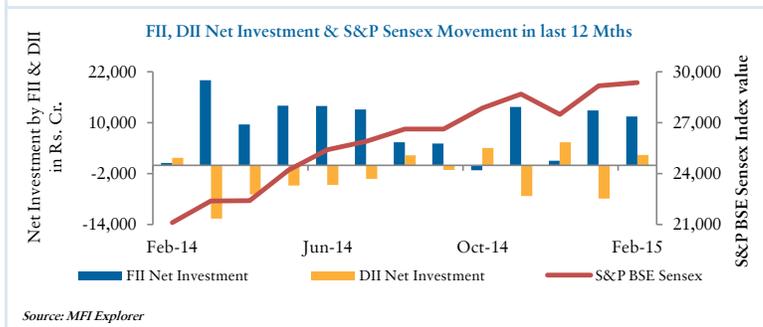
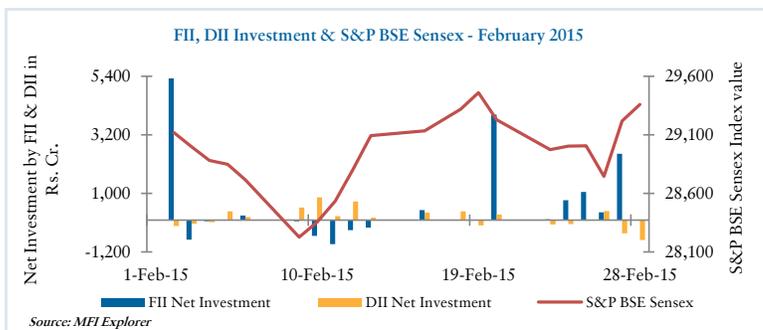
Source: MFI Explorer

Domestic Benchmark Indices Trailing P/E



Source: MFI Explorer

- Indian equity markets recorded moderate gains with the key benchmark indices, S&P BSE Sensex and CNX Nifty, rising by 0.61% and 1.06%, respectively. Proposals made in Union Budget for 2015-16, outcome of Delhi elections and recovery in global crude oil prices mainly impacted the movement of markets over the month.
- According to data from the Central Depository Services (India) Ltd, Foreign Portfolio Investors remained net buyers of Indian stocks worth Rs. 11,475.53 crore in February against Rs. 12,918.97 crore in the previous month. Domestic mutual funds also remained net buyers in the equity segment to the tune of Rs. 4,309.20 crore in February.
- Markets remained under pressure initially after the HSBC Manufacturing Purchasing Managers' Index (PMI) showed that growth in India's factory activity slipped in January from a two-year high touched in December. *The Central Bank's decision to keep the repo rate unchanged at its bi-monthly policy review and rising bad loans also hit sentiments.* Besides, the outcome of the Delhi Assembly elections raised concerns over the ruling coalition's control in the Upper House of Parliament.
- The trend reversed later after the Government estimated India's economic growth in the current financial year at 7.4%, against 6.9% in 2013-14 under the new methodology.* Meanwhile, the country's GDP grew 7.5% in the third quarter of FY14-15 compared to an upwardly revised 8.2% rise (5.3% earlier) in the September quarter. This sharp upward revision in the previous quarter is due to the new formula whereby the Government now measures GDP by market prices instead of factor costs. Also, the base year has been shifted to FY11-12 from FY04-05 earlier.
- Markets found more support after *the country's retail inflation for January remained well below the Central Bank's target.* Meanwhile, the Wholesale Price Index (WPI)-based inflation for January was reported at (-) 0.39% against 0.11% in December. This was the lowest level of inflation since June 2009. *The country's industrial production growth came in at 1.7% for December against 3.9% rise witnessed in November.*



- Towards the end of the month, bourses gained as investors welcomed the proposals made in the Union Budget. The Government stated that the country's economic growth could accelerate to 8.5% in the coming fiscal and hoped that the growth rate would touch double digit in the subsequent years. *In addition, it has pegged the fiscal deficit for 2015-16 at 3.9% of GDP and proposed to lower it to 3% by 2017-18. Deferment of the General Anti-Avoidance Rule (GAAR), cut in corporate tax from 30% to 25% over the next four years, simplifying procedures for Indian companies to attract foreign investments by making no distinction between Foreign Portfolio Investments and Foreign Direct Investments helped improve sentiments.*
- On the BSE sectoral front, majority of the indices closed in green. *S&P BSE IT was the top gainer, up 6.8%, followed by S&P BSE TECK and S&P BSE Capital Goods, which rose 4.5% and 3.9%, respectively. However, S&P BSE Oil & Gas was the major laggard, down 4.4%.*

Regulatory Update

- It has been proposed in the Union Budget 2015-16 that commodities market regulator Forward Markets Commission (FMC) will be merged with the capital market regulator Securities and Exchange Board of India (SEBI) to reduce speculation in the commodities markets.
- The Central Bank eased the rules for loan restructuring to bring in new promoters for stalled projects. The Central Bank, in its sixth bi-monthly monetary policy review, said that lenders will have more flexibility to extend the date of commencement of commercial operation to facilitate a change in ownership and revive the stalled projects.
- The Central Bank has asked banks to tighten monitoring of export finance in the wake of the over-invoicing scam recently detected by the Enforcement Directorate. It has also directed banks to ensure that exports are carried out within the stipulated timeframe for which loans have been given.
- Banks would be allowed to import gold on a consignment basis, under which they act as intermediaries and don't pay for the stock until a buyer has been found, the Central Bank said. Trading houses will also be allowed to bring in gold with no conditions attached.
- The Central Bank said that asset reconstruction companies will have to take its approval for the change in shareholding pattern beyond 10% to safeguard the interest of investors.
- The Union Budget has proposed to bring mutual fund distributors and financial advisors under the ambit of service tax. The move comes soon after the Association of Mutual Funds in India's proposal to fund houses to cap upfront commissions at 100 basis points.
- The latest regulation by the Telecom Regulatory Authority of India (TRAI) will allow mobile users to use the same number pan India. The facility will commence from May 3. This is the sixth amendment to the Telecommunication Mobile Number Portability Regulation, 2009. As of now, a number can be retained without change in terms and conditions, only when used in the same circle or within a state.

Source: Reuters

Indian Fixed Income

RBI Policy Rates

Key Rates (%)	Current [^]	Previous
Reverse Repo Rate	6.75	6.75
Repo Rate	7.75	7.75
CRR	4.00	4.00
SLR	21.50	22.00
Bank Rate	8.75	8.75

[^]Based on rate cut outside RBI Monetary Policy review released on 15-January-2015

Source: RBI

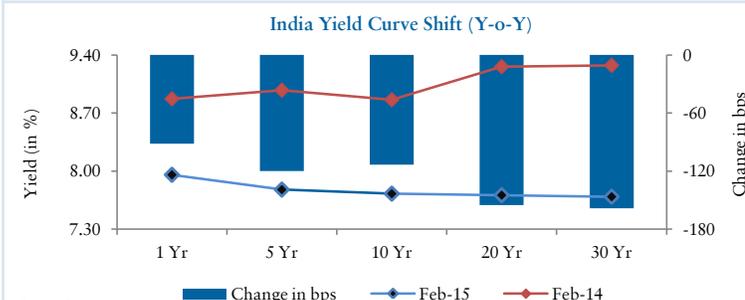
Debt Indicators (Yield %)	Feb-15	Jan-15
Call Rate	7.55%	7.72%
1 Mn NSE Mibor	8.38%	8.35%
10-Yr Benchmark Bond	7.72%	7.69%
91-Day T-Bill [#]	8.32%	8.30%
182-Day T-Bill [#]	8.29%	8.19%
364-Day T-Bill [#]	8.04%	8.04%

[#]Indicates Monthly Average cut off during Auction

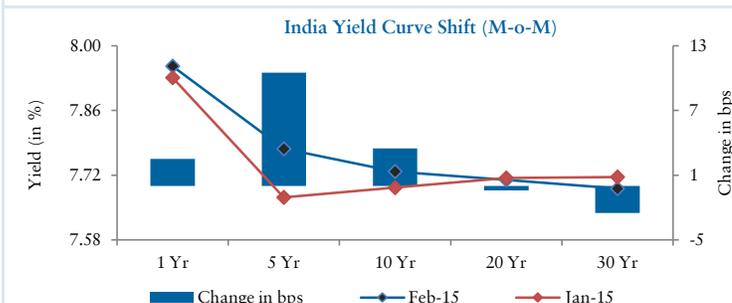
Source: RBI



Source: CCIL

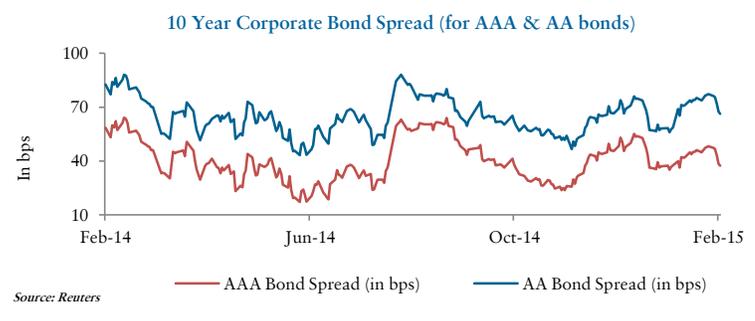
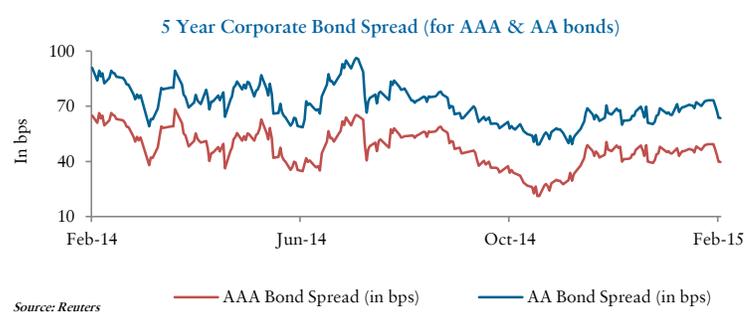
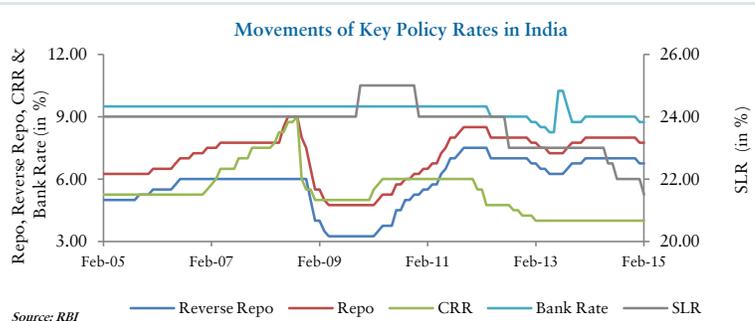
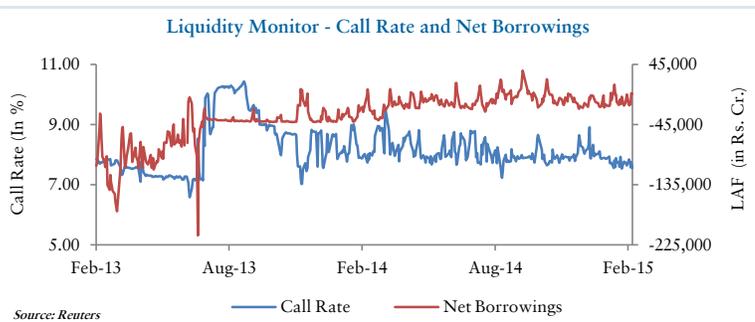


Source: Reuters



Source: Reuters

- After falling in the last five months, bond yields rose marginally in February. The Central Bank's Monetary Policy, domestic inflation numbers and international oil prices mainly dictated the movement in the bond market over the month. Later during the month, market participants did not take large positions ahead of the first full Budget of the Government, which limited the movement of bond yields.
- The yield on the 10-year benchmark bond increased 3 bps to close at 7.72% against the previous month's close of 7.69%, after moving in the broad range of 7.65% to 7.74% over the month.
- Bond yields rose initially as the Central Bank did not give any indication as to when further interest rate easing may take place. After cutting the policy repo rate by 25 bps to 7.75% on January 15, the Central Bank left the rates unchanged at its policy review meeting on February 3. Though the Cash Reserve Ratio (CRR) remained unchanged at 4% but the Statutory Liquidity Ratio was lowered by 50 bps to 21.5%.
- Sharp rise in international crude oil prices raised domestic inflationary concerns and hit the bond markets. Moreover, positive U.S. economic data lowered investors' appetite for emerging market assets. Yields rose further on reports that the Government will complete its bond buyback/switch program by March 31 for which Rs. 50,000 crore was provided in the Union Budget 2014-15. The Government has bought back securities worth Rs. 18,800 crore during the current financial year.
- Buying by Foreign Portfolio Investors (FPI) on hopes of monetary policy easing and growing optimism over a reforms-oriented Budget provided some support to the bond market. FPI remained net buyers in the debt segment, but the amount of bond they purchased was much lower than what was seen in the previous month. Bond yields fell more after better-than-expected consumer inflation data for January created room for further monetary easing by the Central Bank.



- Government bond yields increased across the maturities by up to 20 bps. *The rise was more prominent towards the shorter and medium end of the yield curve except the 30-year paper that eased by 3 bps. Similarly, corporate bond yields also rose in the range of 2 to 8 bps except the 1-year paper, which rose by a sharp 51 bps.* Spread between AAA Corporate bond and Gilt witnessed marginal contraction towards the medium end of the curve, while the 1-year paper expanded by 31 bps.
- During the month, interbank call money rates remained in the range of 7.53% to 7.93%. In the first half, rates rose but the trend reversed later and declined compared to the previous month. Banks' net average borrowings through the Liquidity Adjustment Facility (LAF) window stood at Rs. 6,115.61 crore against the previous month's average borrowing of Rs. 12,458.05 crore. Banks' average borrowings under the Marginal Standing Facility (MSF) window stood at Rs. 490.33 crore, much lower than the previous month's average borrowing of Rs. 1,249.39 crore.
- The Central Bank also conducted the auction of State Development Loans for the notified amount of Rs. 28,226 crore, for which the cut-off stood in the range of 8.00% to 8.08%. The Central Bank also conducted auctions of 91-days, 182-days and 364-days Treasury bills for an aggregate amount of Rs. 59,583 crore during the month. The cut-off yield stood in the range of 7.91% to 8.35%.
- The unutilised limit of Rs. 617 crore on foreign investments in Government bonds was conducted successfully and the cut-off was set at 150 basis points. The auction saw bids worth Rs. 1,995 crore and the highest bid was set at 161 basis points. The outstanding investment by foreign funds in Government bonds stood at Rs. 1.24 lakh crore on February 20, about 99.48% of a \$25-billion limit, data from the National Securities Depository Ltd. showed.

Currency

Movement of Major Currencies (Denominated in Indian Rupee)

Currency	Value(as of 28-Feb-2015)	1 Mth Ago	3 Mths Ago	1 Year Ago
INR/1 USD	61.79	61.76	61.97	62.07
INR/1 EURO	69.29	70.03	77.16	85.03
INR/1 GBP	95.42	93.13	97.37	103.61
INR/ 100 YEN	52.00	52.00	52.00	61.00

Source: RBI

Rupee Versus Dollar during the quarter



Source: RBI

Commodity

Performance of various Commodities

Commodities	Value(as of 28-Feb-2015)	Returns (in %)			
		1 Wk Ago	1 Mth Ago	6 Mths Ago	1 Year Ago
Crude Brent (\$/Barrel)	62.54	2.54	33.29	-37.84	-43.03
Gold (\$/Oz)	1212.55	0.89	-5.48	-5.98	-8.54
Gold (Rs./10 gm)	26309.00	-1.30	-4.78	-5.78	-13.70
Silver (\$/Oz)	16.60	2.28	-3.60	-15.09	-21.66
Silver (Rs./Kg)	36565.00	-0.01	-2.48	-14.31	-21.51

Source: Reuters, MCX

Movement of Commodity Prices Over 1 Year (Rebased to 100)



Source: Reuters

INR

- The rupee gained marginally during the month. *The domestic currency rose initially on expectations that the Central Bank would ease key policy rates after the Union Budget to boost economic growth.* Moreover, key retail inflation data in January came along market expectations. Indication by the Fed that it is not in a hurry to raise interest rates also strengthened the currency. *However, concerns over Greece's debt situation and dollar demand from importers wiped out most of the gains.*

Euro

- The euro fell on concerns over Greece's debt situation. *Upbeat U.S. economic data for January hit the currency further.* Investors remained concerned over Greece's future in the Euro Zone even after the European Union and German Parliament approved Greece's bailout extension by four months. However, losses were restricted after the Fed Chief comments in her testimony before the Senate Banking Committee.

Crude

- Brent crude prices rose sharply in February after witnessing a downtrend in recent months. *Oil prices moved up after data showed that the number of U.S. drilling rigs had fallen the most in nearly 30 years in the last week of January.* Moreover, rising conflicts in Libya increased supply concerns and supported prices. Meanwhile, the Organization of the Petroleum Exporting Countries (OPEC) lowered its 2015 estimate for non-OPEC supply growth and raised the demand forecast for its own oil.

Gold

- Gold prices witnessed a range-bound movement during the month to finally close in red. *The safe-haven appeal of the bullion was hit as investors preferred riskier assets after Greece managed to secure a four-month extension of its bailout program.* Lower demand from China ahead of the Lunar New Year holiday also hit the bullion. *However, gold prices got some support after the Fed suggested that it is in no hurry to raise interest rates.*

Global Equity Market

Performance of Major International Markets (as on February 28, 2015)

Indices	Country	1 Mth
United States		
Nasdaq 100	U.S.	7.04
S&P 500	U.S.	5.49
DJ Industrial Average	U.S.	5.64
Asia Pacific		
SET IDX	Thailand	0.36
JSX Composite	Indonesia	3.04
FTSE Straits Times	Singapore	0.34
KOSPI	S. Korea	1.87
Hang Seng	Hong Kong	1.29
NIKKEI 225	Japan	6.36
Shanghai SE Composite	China	3.11
S&P BSE Sensex	India	0.13
S&P/ASX 200	Australia	6.09
Europe		
FTSE 100	U.K.	2.92
CAC 40	France	7.54
FSE DAX	Germany	6.61

Source: MFI Explorer & Reuters

United States

- The U.S. markets rose during the month mainly on the back of recovery in global crude oil prices. *Dovish comments from the U.S. Federal Reserve Chief on the interest rate hike helped the bourses move up further. Positive cues from the Euro zone following extension of Greece's bail-out program also contributed to the rally.*

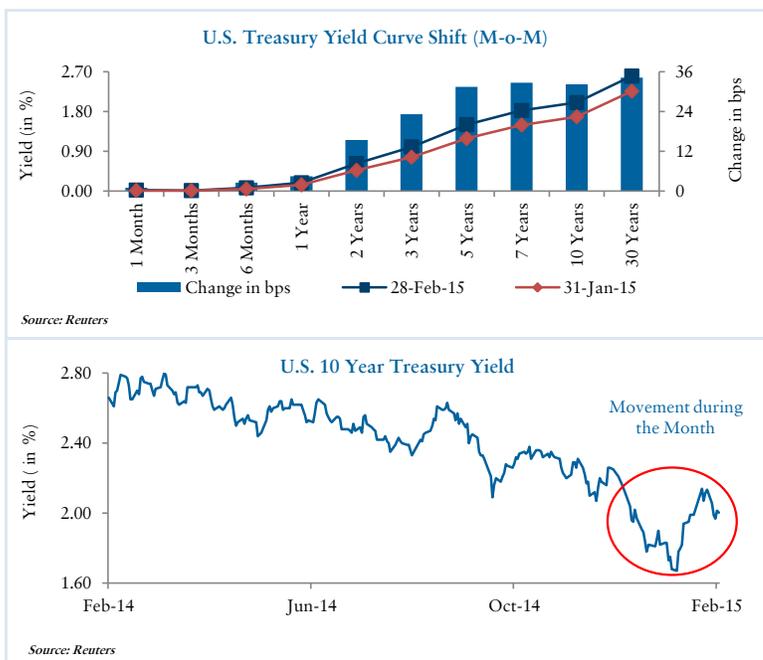
Europe

- The European markets surged during the month as investor sentiments improved after Greece had reached an agreement with Euro zone creditors to extend its bailout agreement for four months. *Besides, positive Euro zone manufacturing activity in January and recovery of German factory order in December data boosted investor sentiments.*

Asia

- Asian markets rose in tune with other global peers. Bourses fell initially on weak Chinese data but managed to gain momentum after the country's *Central Bank allowed both financial and non-financial firms operating within the Shanghai free trade zone to borrow funds overseas without prior consent from concerned authorities.*

Global Fixed Income - U.S.



- After touching a high of 2.14%, the yield on the 10-year U.S. Treasury bond closed at 2.00%, up 32 bps compared to the previous month's close of 1.67%. During the month, the yield increased at the fastest pace in more than one and half years.
- The U.S. Treasury prices started falling from the beginning of the month on hopes that Greece would strike a new debt deal and after euro zone negotiators agreed to extend Greece's bailout. The trend continued due to recovery in global crude oil prices. Investors lowered their exposure in the safe-haven U.S. bonds on improving U.S. economic data and on hopes that the Federal Reserve may raise interest rates this year.*
- However, prices retreated to some extent later after the Fed stated that changing the language of its forward guidance does not mean that a rate hike is imminent. In essence, the Fed will hike interest rates only when they are "reasonably confident" that annual inflation is moving back towards their 2% target.*

Mark- to- Market

Mark-to-market is the practice of showing assets at the current market price. Through this process, the real market value of an asset is reflected rather than the price at which the asset was purchased.

In a company's balance sheet, assets are usually recorded at their historical prices. Similarly, in case of an individual's portfolio of assets, the market value is not updated frequently in some holdings like- jewellery, fixed deposits, real estate, household goods etc.

Mark-to-market in mutual funds

In case of stocks and bonds, prices are available on a regular basis and thus the daily return on a portfolio can be calculated. Thus for stocks and bonds, held in a portfolio either individually or through a mutual fund, marking to market can be done on a daily basis.

Debt mutual funds

Debt holdings such as Government securities, non-convertible debentures, corporate fixed deposits and the likes are traded infrequently in the secondary bond market. This often makes the holdings illiquid and the investors hesitate before investing in such instruments. Open-ended debt mutual funds provide the benefit of liquidity as asset management companies (AMC) buy and sell mutual fund units on all working days. In order to provide such ready liquidity, the AMCs have to make the securities, held by them, mark-to-market on a daily basis. The logical question is: how do asset management companies provide a daily value to securities which are not traded on a daily basis? For this purpose, there are some guidelines and mechanisms in place which allow the AMCs to make the securities mark-to-market on a daily basis.

SEBI's norms on mark-to-market

The Securities and Exchange Board of India (SEBI) has reduced the threshold limit for mark-to-market requirement on debt and money-market securities from 91 days to 60 days. Debt securities having a maturity period below 60 days will follow the amortization (reducing the value as time passes) method while securities maturing above 60 days will be valued at their market prices.

Significance of Mark-to-market

In case mark-to-market is avoided, the investment will reflect the cost at which the security was purchased. Suppose a bond was bought at Rs. 1000. One year later, it is trading at Rs. 1050. Now, if the mutual fund scheme decides to sell the bond, it would do so at Rs. 1050 and not at Rs. 1000. In a mutual fund scheme, which is marked-to-market, the NAV will capture this difference. Here lies the importance of mark-to-market, which helps investors buy or sell units of a mutual fund scheme at a fair price.

For investors who want to evaluate their net worth, the process of mark-to-market is important to determine an accurate value of their net worth. Mutual fund holdings, stocks, fixed deposits, gold ETFs (exchange traded funds) and similar financial instruments can be marked-to-market accurately. However, there are challenges in assessing the market value of insurance plans, real estate, jewellery, holiday packages, cars and other personal goods. There are different techniques used to make the value of such non-financial assets marked-to-market. Investors should ideally review some basic guidelines before assessing the market value of such non-financial assets, as this would improve the accuracy of their net worth value.

Source for data, graphs and analysis, unless otherwise specified: ICRA Online Research

Disclaimer: This newsletter contains general information about the market and economic updates which has been drawn by ICRA Online Limited from sources which it believes to be accurate and reliable. Principal Pnb Asset Management Company Pvt. Ltd (PPAMC)/ ICRA Online Ltd. does not guarantee the accuracy, adequacy or completeness of the contents of the newsletter and is not liable/responsible for any consequential loss, errors or omissions or results generated from the use of information contained in this newsletter. The example provided in this newsletter is for illustrative purpose only and are not intended to imply or guarantee any specific investment return.

This newsletter is drawn for informative purpose only and under no circumstances should be construed as an investment advice. Please consult your legal/tax/investment advisor for further information/details. PPAMC/ICRA Online Ltd. accepts no financial liability whatsoever for any direct/consequential/ punitive damages to the subscribers/ users/ transmitters/ distributors of this newsletter.

Mutual Fund Investments are subject to market risks, read all scheme related documents carefully.

Copy of SID/SAI & KIM can be obtained at the investor service centres of AMC and website: www.principalindia.com

Alternately investors can call our Toll Free No: 1800 425 5600 to obtain a copy of the same.