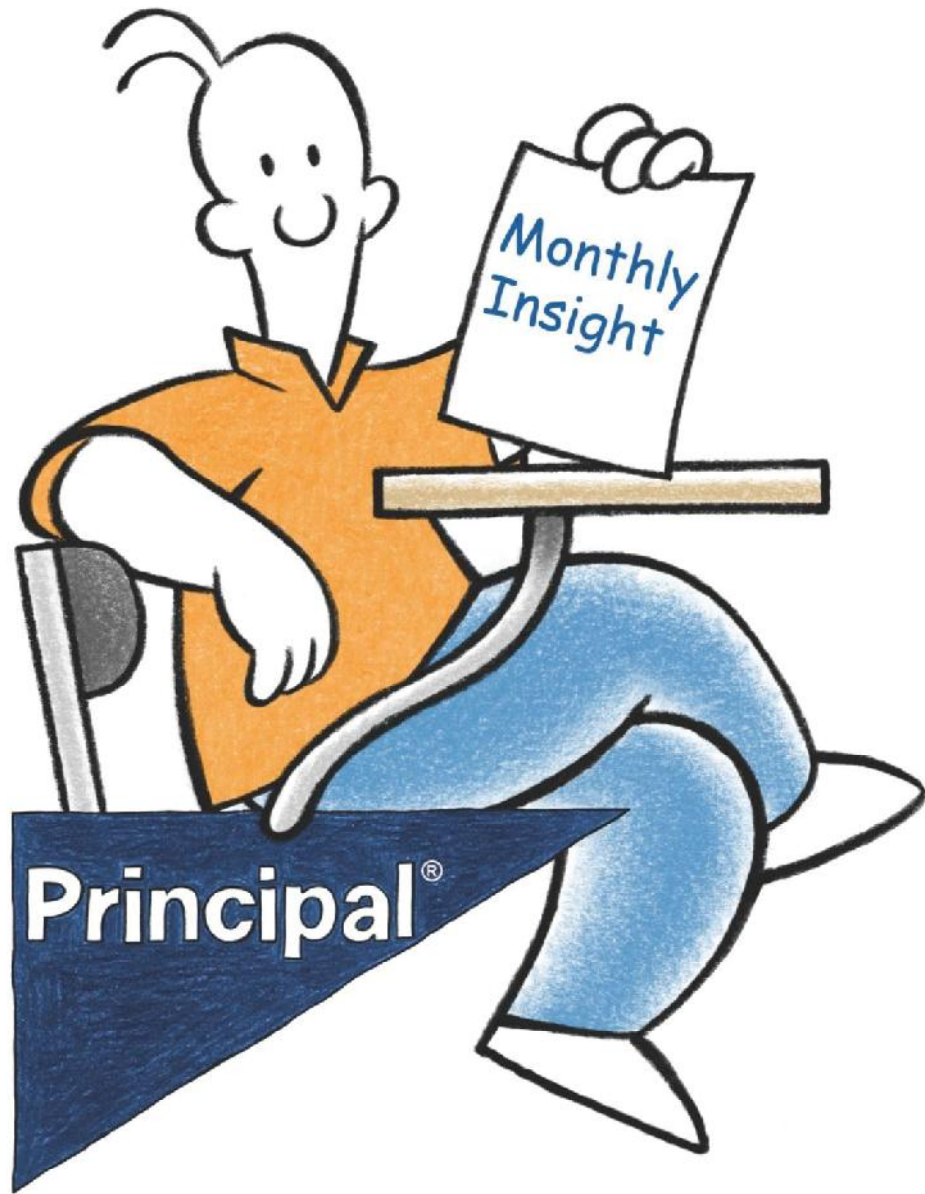


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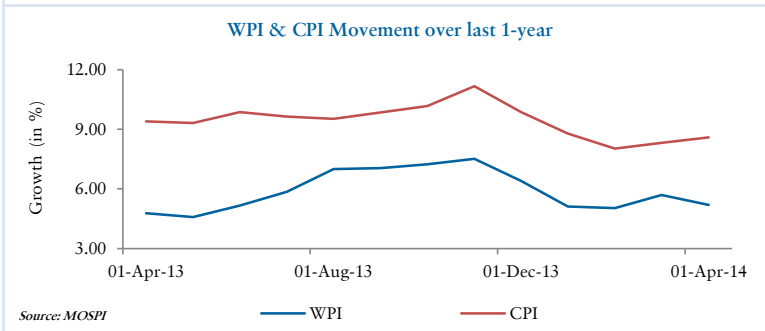
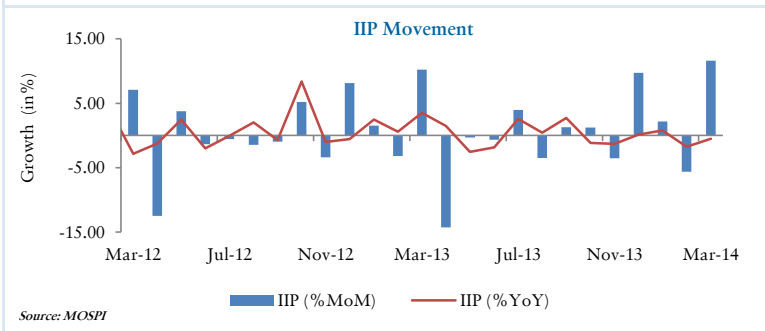
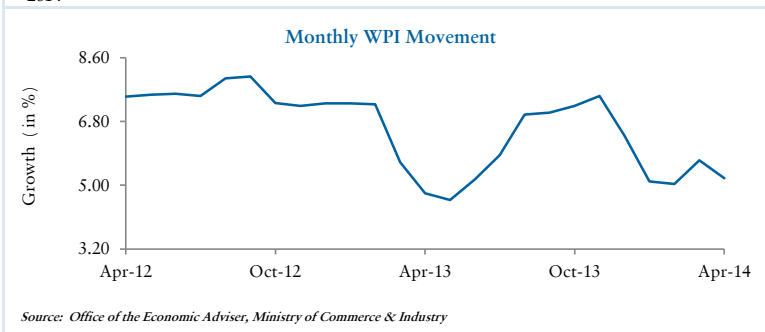
May 2014

Indian Economy

Economic Releases in May-2014

Policy Rates	Period	Actual	Previous
Repo Rate [^]	May-14	8.00%	8.00%
Reverse Repo [^]	May-14	7.00%	7.00%
CRR [^]	May-14	4.00%	4.00%
Key Indicators	Actual	Previous	
Index Of Industrial Production (IIP)	-0.51% (Mar-14)	-1.76% (Feb-14)	
Wholesale Price Index Inflation (WPI)	5.20% (Apr-14)	5.70% (Mar-14)	
Export (Y-o-Y)	5.26% (Apr-14)	-3.15% (Mar-14)	
Import (Y-o-Y)	-15.00% (Apr-14)	-2.11% (Mar-14)	
Current Account Deficit (\$ Billions)	-1.20 (Mar-14)	-4.20 (Dec-13)	
Fiscal Deficit FYTD (INR Trillion)	113.45 (Apr-14)	508.15 (Mar-14)	

Source: RBI, Reuters; [^]Based on Bi-monthly RBI Monetary Policy review released on 01-April-2014



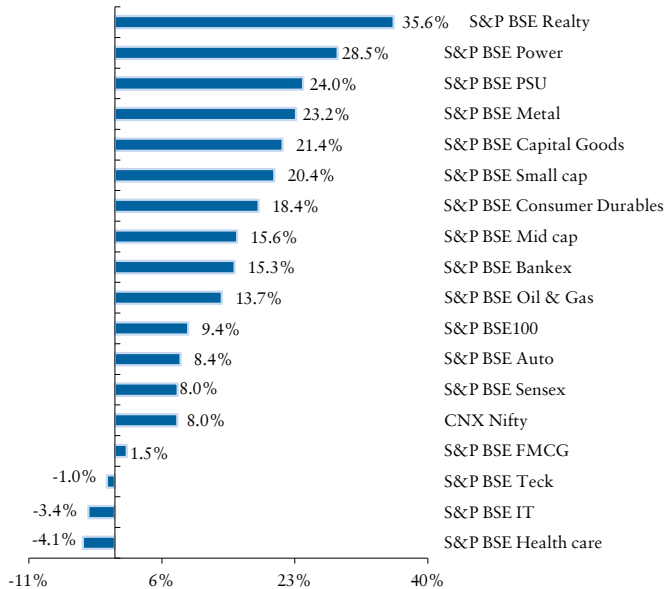
- India's Gross Domestic Product (GDP) for the fourth quarter of 2013-14 grew at 4.60%. GDP for the entire financial year grew 4.70%. While the agricultural sector exhibited a growth rate of 6.30% against 3.60%, the manufacturing sector grew at 1.40% compared to -1.90%, on a quarterly basis.
- India's Current Account Deficit (CAD) narrowed sharply to \$1.20 billion (0.2% of GDP) in the fourth quarter of 2013-14 from \$18.10 billion (3.6% of GDP) in the Q4 of 2012-13. The CAD was also lower than \$4.20 billion (0.9% of GDP) recorded in the third quarter of 2013-14. The lower CAD was because of fall in trade deficit as imports declined more than exports.
- India's fiscal deficit during 2013-14 stood at Rs. 5.08 lakh crore (\$86.08 billion), or 4.50% of GDP. The number is lower than the 4.90% deficit recorded a year earlier and the downwardly revised estimate of 4.60% provided by the previous Government in the Interim Budget
- India's trade deficit narrowed in April due to fall in imports and increase in exports. The trade deficit stood at \$10.09 billion, down from \$10.51 billion recorded in March. Merchandise exports rose 5.26% to \$25.63 billion from a year earlier, after falling 3.15% in March. Imports fell 15% to \$35.72 billion on a yearly basis.
- The HSBC India Manufacturing Purchasing Managers' Index (PMI) stood at 51.30 in April, unchanged from the last month, amid moderate expansion of incoming new business orders. However, HSBC Services Business Activity Index inched up to 48.5 in April from 47.50 in March, but still it remained below the 50-mark. The HSBC India Composite Output Index that takes into consideration both the services and manufacturing sectors, increased to 49.5 in April from 48.9 in March.
- India's factory output contracted 0.50% in March, the sixth time in 2013-14, against a contraction of 1.70% in the previous month as manufacturing and mining production shrank even as electricity generation continued to grow moderately.
- The Wholesale Price Index (WPI)-based inflation fell to 5.20% in April against 5.70% in March, mainly due to drop in prices of food items and fuel. Inflation in food items eased to 8.64% in March against 9.90% in the previous month.
- India's annual Consumer Price Index-based (CPI) inflation accelerated to a three-month high of 8.59% in April.

Indian Equity Market

Index PE Ratio & Returns	Closing Values [#]	1 Year	3 Year	5 Year
CNX Nifty*	7,229.95	20.78	9.14	10.18
CNX Nifty PE	13.69	8.13	8.68	8.05
S&P BSE Sensex*	24,217.34	22.56	9.38	10.59
S&P BSE Sensex PE	16.09	10.99	12.72	12.15

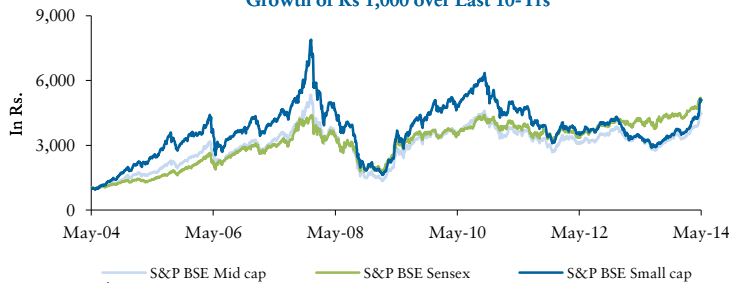
Source: NSE, BSE, * Returns less than 1 year are absolute, greater than 1 year are Compounded Annualized, [#] As on 30-May-2013

Monthly returns as on May 30, 2014



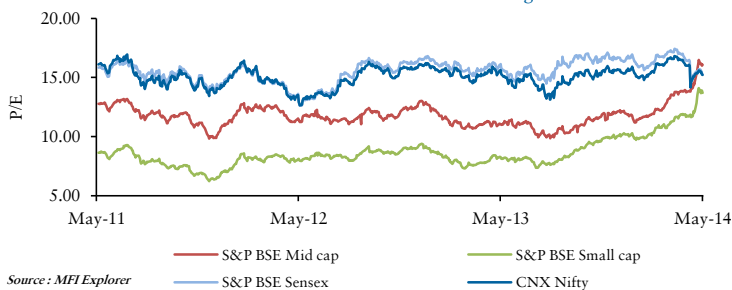
Source: MFI Explorer

Growth of Rs 1,000 over Last 10-Yrs



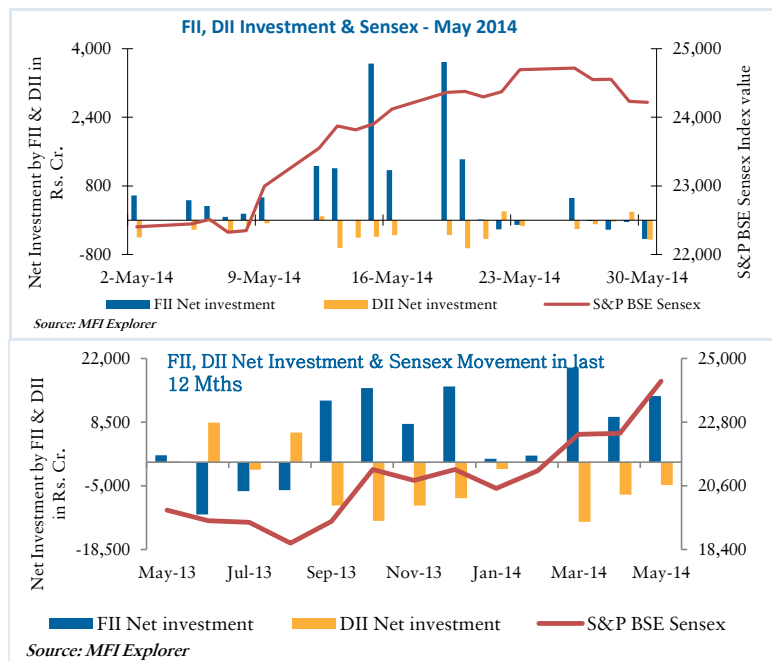
Source: MFI Explorer

Domestic Benchmark Indices Trailing P/E



Source: MFI Explorer

- Indian equity markets surged during the month and touched record-high levels as a stable Government came to power after general elections, which was in line with expectations. Hopes of a series of reforms measures from the new Government supported sentiments. Fund inflows from foreign investors and positive global cues also boosted markets.
- Key benchmark indices, S&P BSE Sensex and CNX Nifty, touched record 25,375.63 and 7,563.50 points, respectively on May 16 (the day election results were announced) on an intra-day basis. Both the indices remained strong during the month with S&P BSE Sensex and CNX Nifty gaining 8.02% and 7.97%. Meanwhile, S&P BSE Mid-Cap and S&P BSE Small-Cap outperformed the frontline indices and jumped 15.62% and 20.37% in May. According to data from the Securities and Exchange Board of India (SEBI), Foreign Institutional Investors (FII) were net buyers of Indian stocks worth Rs. 14,006.10 crore in May compared to Rs. 9,602.40 crore in April.
- Markets initially remained weak as the country's manufacturing activity remained stagnant in April, indicated by HSBC PMI numbers. Persisting tensions in Ukraine also dampened investors' sentiments. However, positive cues from the U.S. following strong services sector data in April provided some support.
- As the month progressed, bourses gained momentum on hopes that a stable Government would come to power. Investors shrugged off retail inflation data, which rose to a three-month high of 8.59% in April. The overall sentiment remained positive after various exit polls indicated that a single party would get absolute majority in elections. The optimism of market participants was finally affirmed after the election results came in line with expectations.
- Markets continued to rally as investors expected that the new Government would bring about major reforms to boost economic growth. This resulted in heavy buying in cyclical, rate-sensitive and PSU stocks. Market participants also took cues from positive preliminary data (private survey) of China's factory sector activity in May. Buying interest found further support after the U.S. Federal Reserve assured in its latest policy meeting that it is unlikely to raise interest rates anytime soon.
- Bourses gave up some of their gains as investors resorted to profit booking following recent rally. Sentiments dampened further as overseas investors continued to reduce holdings in domestic stocks. However, the trend reversed soon as the CAD narrowed sharply in the fourth quarter of 2013-14.



- On the BSE sectoral front, barring S&P BSE IT, S&P BSE TECK and S&P BSE Healthcare, all the indices closed in green. S&P BSE Realty was the top gainer, rising by 35.62% followed by S&P BSE Power and S&P BSE Metal, which rose 28.47% and 23.16%, respectively. Realty stocks rose on hopes that low-cost housing may soon be moved to the infrastructure development sector.
- Power sector stocks rose in May as investors hoped that the new Government may introduce major changes in the country's coal sector. Stocks from the metal sector moved up on growing hopes that Chinese policymakers will announce further steps to boost economic growth. It also got support after Chinese manufacturing activity (preliminary) rose to a five-month high in May.
- S&P BSE Bankex surged 15.28% on hopes that a faster economic growth could lead to higher demand for loans. The Auto sector rose after the industry registered a growth of 10.35% on a yearly basis in April. Meanwhile, IT and Pharma stocks were the only laggards as the rupee edged higher against the dollar.

Regulatory Update

- The Government said only entities like banks, financial institutions, stock exchanges, depositories and commodity bourses that come under the purview of financial market regulators will be allowed to hold up to 15% in a commodity futures exchange. For others, the shareholding will be capped at 5%.
- The Central Bank has relaxed norms to raise money via External Commercial Borrowings. It has allowed firms in manufacturing, hospitals, infrastructure, hotels and software sectors to raise foreign capital from overseas/indirect equity holders without its approval.
- The SEBI came out with a risk management framework for Foreign Portfolio Investors (FPIs) pertaining to various aspects, including margin requirements. The FPI regime, which will come into effect from next month, brings together all foreign investor classes such as Foreign Institutional Investors, their sub-accounts and Qualified Foreign Investors
- The Central Bank has simplified rules for credit to exporters. Exporters can now get long-term loans from banks for up to 10 years, easing previous norms that allowed loans of only up to one-year period. Banks can make such payments to exporters who have a satisfactory three-year track record and adjust these payments against future exports.
- The Central Bank has allowed Limited Liability Partnership firms to carry out financial commitment on behalf of joint ventures or wholly-owned subsidiaries of Indian companies abroad
- The Central Bank has simplified the documentation for Non-Banking Financial Companies (NBFCs). Now, there will be a common application form for NBFCs, NBFC-Micro Finance Institutions (NBFC-MFIs), NBFC-Factors and Infrastructure Debt Fund NBFCs (IDF-NBFCs).
- SEBI has revised the fees for mutual funds, stock exchanges, brokers and also for listed and to-be-listed companies for filing of offer documents, rights issues and takeover. The revised fees structure will help in strengthening investor awareness and education measures.

Source: Reuters

Indian Fixed Income

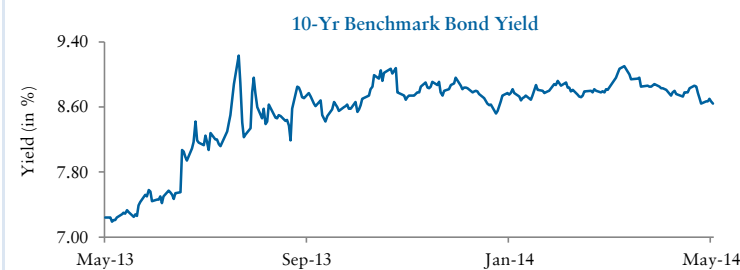
RBI Policy Rates

Key Rates (%)	Current [^]	Previous
Reverse Repo Rate	7.00	7.00
Repo Rate	8.00	8.00
CRR	4.00	4.00
SLR	23.00	23.00
Bank Rate	9.00	9.00

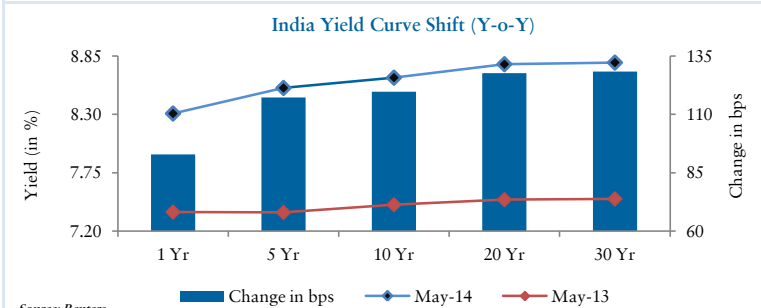
[^]Based on Bi-monthly RBI Monetary Policy review released on 01-April-2014
Source: RBI

Debt Indicators (Yield %)	May-14	Apr-14
Call Rate	7.67%	8.77%
1 Mn NSE Mibor	8.65%	8.98%
10-Yr Benchmark Bond	8.64%	8.83%
91-Day T-Bill [#]	8.74%	8.88%
182-Day T-Bill [#]	8.79%	8.93%
364-Day T-Bill [#]	8.79%	8.96%

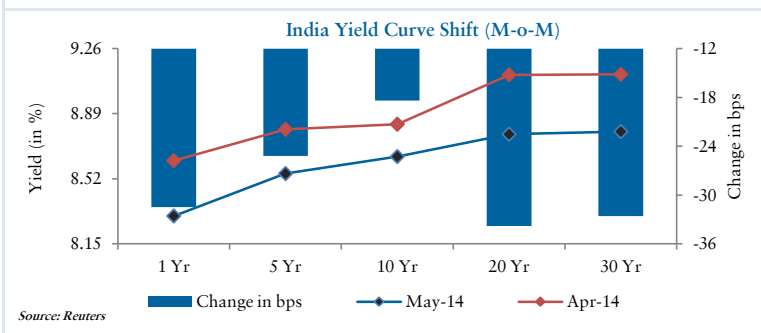
[#] Indicates Monthly Average cut off during Auction
Source: RBI



Source: CCIL

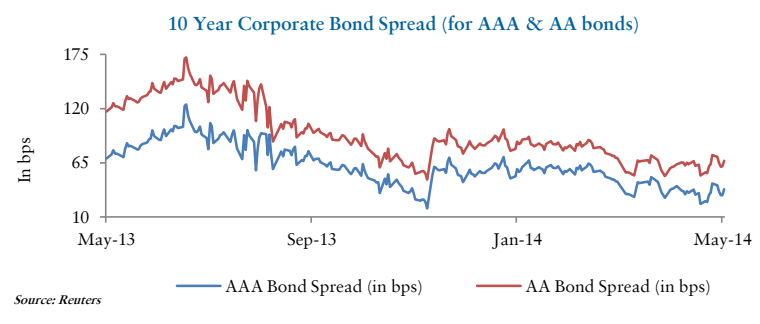
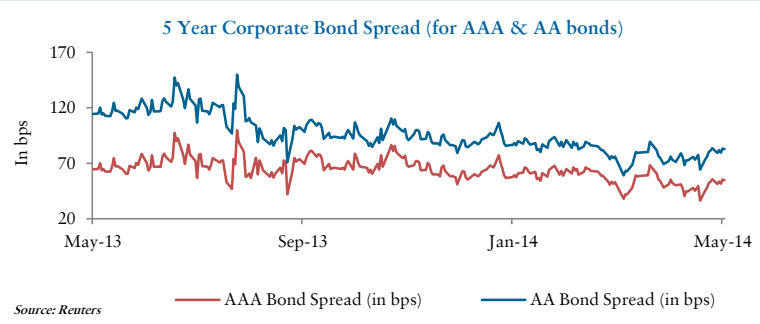
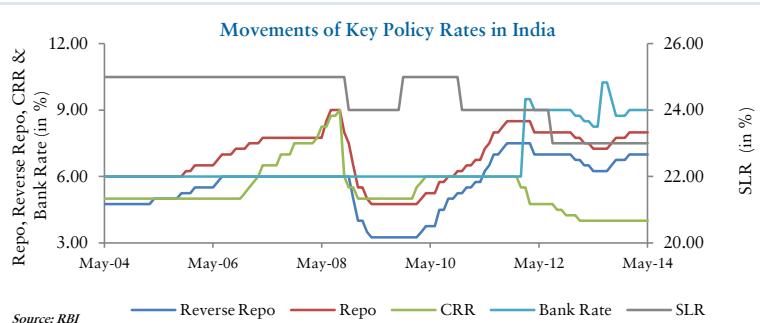
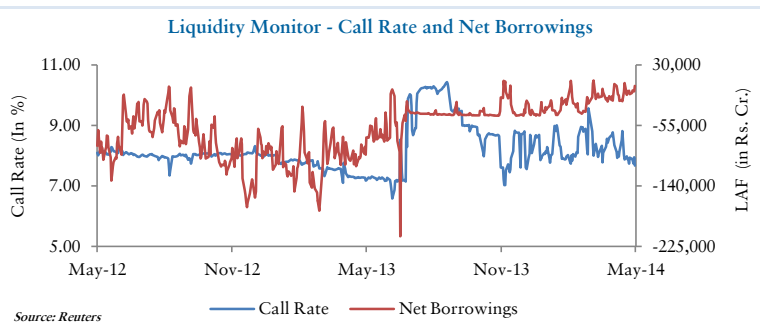


Source: Reuters



Source: Reuters

- Bond yields fell 19 bps in May on expectations that a stable Government would come to power and work towards controlling fiscal deficit.
- Initially yields fell after a Government bond auction worth Rs. 16,000 crore was fully subscribed. Fall in U.S. treasury yields also boosted sentiments to some extent. Bond markets also got support as institutional buyers continued with their buying activities in the fixed income space. Strength in domestic equity markets also boosted overall sentiments.
- Yields fell further as the results of general elections came along expected lines. It fell by 22 bps between May 20 and May 23 following reports that the Finance Ministry was working on a proposal for the new Government to control the fiscal deficit in its first Budget.
- The Central Bank Governor's comments regarding the new Government's plan to curb food inflation also went in favour of the bond markets. The Governor said that both the Central Bank and the Government have highlighted the need to bring down inflation.
- However, gains were capped after CPI inflation rose to a three-month high in April, which dampened sentiments to some extent. Bond markets witnessed more pressure due to profit booking and announcement of a new 14-year bond, which resulted in lower demand for instruments of similar tenure.
- After moving in the range of 8.62% to 8.88%, the 10-year benchmark bond yield closed down 19 bps at 8.64% compared to the last month's close of 8.83%. Bond yields even fell to 8.62% in intra-day trading on May 23.
- The interbank call money rates moved in the range of 7.67% to 8.81% in May against 7.78% to 8.80% recorded in April. Liquidity conditions remained comfortable following a series of measures announced by the Central Bank at its first bi-monthly monetary policy meeting on April 1. However, liquidity condition may remain tight in June due to advance tax outflows.



- Banks' borrowings under the Liquidity Adjustment Facility (LAF) and Marginal Standing Facility (MSF) rose along with the call rates during the first half of the month, probably due to election-related spending. However, borrowing eased along with the call rates during the second half. There was no borrowing by banks under the MSF window for four days towards the end of the month, reflecting improved liquidity scenario. Moreover, the Central Bank's move to purchase dollar to prevent the rupee from strengthening increased the supply of cash in the financial system. Call rates rose to a maximum of 8.81% on May 13, but retreated thereafter by 14 bps to close the month at 7.67%
- Banks' net average borrowings through the LAF window fell considerably to Rs. 8,063.55 crore compared to last month's average borrowings of Rs. 12,346.53 crore. Under the Central Bank's MSF window, the average borrowings stood at Rs. 2,004.40 crore, much lower than April's average of Rs. 2,979.41 crore.
- The Central Bank conducted auctions of 91-days, 182-days and 364-days T-bills worth Rs. 36,000 crore, Rs. 12,000 crore and Rs. 12,000 crore, respectively during the month. The cut-off yield stood in the range of 8.65% to 8.89% against the range of 8.86% to 9.02% seen in the last month. The Central Bank conducted term repo auctions for a notified amount of Rs. 1,96,000 crore, for which the cut-off stood in the range of 8.01% to 8.43%. The cut-off yield stood at 8.43% for the auction conducted on May 2 whereas it improved and stood near the repo rate in the auction conducted on May 30.
- Yields on Gilt Securities fell across most of the maturities in the range of 11 bps to 36 bps. Corporate Bond yields also declined on the entire segment in the range of 17 bps to 39 bps, with the highest change seen on 1-year maturity and the least on 15-year maturity. The spread between AAA Corporate Bond and Gilt contracted across 1-year to 4-year and 10-year papers by up to 19 bps and expanded across 5-year to 9-year and 15-year papers by up to 19 bps.

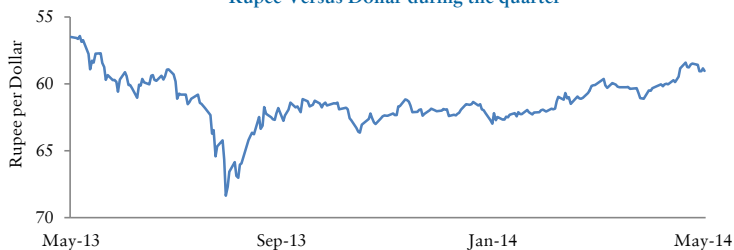
Currency

Movement of Major Currencies (Denominated in Indian Rupee)

Currency	Value (as of 31-May-2014)	1 Mth Ago	3 Mths Ago	1 Year Ago
INR/1 USD	59.03	60.34	62.07	56.50
INR/1 EURO	80.33	83.31	85.03	73.68
INR/1 GBP	98.91	101.45	103.61	86.01
INR/ 100 YEN	58.00	59.00	61.00	56.00

Source: RBI

Rupee Versus Dollar during the quarter



Source: RBI

Commodity

Performance of various Commodities

Commodities	Value (as of 31-May-2014)	Returns (in %)			
		1 Wk Ago	1 Mth Ago	6 Mths Ago	1 Year Ago
Crude Brent (\$/Barrel)	110.00	-0.88	0.95	-1.57	9.11
Gold (\$/Oz)	1250.69	-3.24	-3.14	-0.10	-9.79
Gold (Rs./10 gm)	26893.00	-2.84	-9.67	-11.82	-1.12
Silver (\$/Oz)	18.68	-3.71	-2.25	-6.37	-15.89
Silver (Rs./Kg)	40092.00	-1.21	-4.30	-9.66	-9.21

Source: Reuters, MCX

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



Source: Reuters

INR

- The Indian rupee rose 2.01% to an 11-month high in May after results of general elections came along expected lines. Initially, it moved up on hopes of a stable Government in the Centre and dollar selling by state-run banks. Strength in domestic equity markets and continued dollar selling by corporates also supported the rupee. However, demand of the greenback from oil and gas importers and a possible intervention by the Central Bank to prevent the rupee from strengthening further capped the gains.

Euro

- The euro strengthened in the beginning of the month following better-than-expected Euro zone unemployment and manufacturing data. It found more support after Euro zone retail sales rose 0.30% in March, defying anticipation of a 0.20% contraction. However, the euro came under pressure later as the Euro zone's GDP recorded lower-than-expected growth rate of 0.20% in the first quarter. It weakened further on mounting expectations that the European Central Bank (ECB) will implement policy easing measures at its June meeting.

Crude

- Brent crude prices rose 0.95% during the month. Initially, oil prices remained subdued due to contraction in Chinese manufacturing activity and recovery in Libya's oil output. However, the trend reversed due to rising geo-political tensions in Ukraine and concerns over supply disruption. Oil prices moved up further after U.S. crude inventories fell in the week ended May 16. However, gains were capped after the Russian President said he was hopeful of resolving the Ukraine crisis.

Gold

- Gold prices closed down 3.14% in May. Initially, gold prices rose as renewed concerns over Ukraine and contraction in Chinese manufacturing activity in April boosted the safe-haven appeal of the metal. However, the trend reversed due to lower physical demand and outflow from the world's largest gold ETF, SPDR Gold Trust. A series of positive economic data from the U.S. also hit the metal. Moreover, minutes of the Fed's latest policy meeting did not provide any indication of an imminent interest rate hike. Gold prices declined further in the last week of the month as the dollar strengthened against other major currencies.

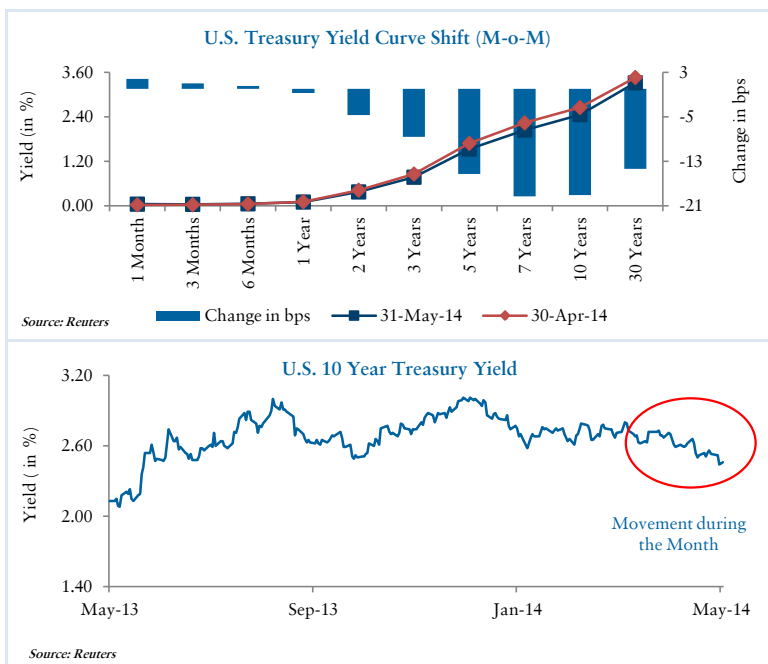
Global Equity Market

Performance of Major International Markets (as on May 31, 2014)

Indices	Country	1 Mth
United States		
Nasdaq 100	U.S.	4.32
S&P 500	U.S.	2.10
DJ Industrial Average	U.S.	0.82
Asia Pacific		
SET IDX	Thailand	0.06
JSX Composite	Indonesia	1.11
FTSE Straits Times	Singapore	0.95
KOSPI	S. Korea	1.69
Hang Seng	Hong Kong	4.28
NIKKEI 225	Japan	2.29
Shanghai SE Composite	China	0.63
S&P BSE Sensex	India	8.03
S&P/ASX 200	Australia	0.06
Europe		
FTSE 100	U.K.	0.95
CAC 40	France	0.72
FSE DAX	Germany	3.54

Source: MFI Explorer & Reuters

Global Fixed Income - U.S.



United States

- U.S. markets rose sharply with S&P 500 Index touching a record-high level in May. A series of positive U.S. economic data helped bourses move up. Minutes from the Fed's meeting indicating that the bank is unlikely to raise interest rates soon also supported the markets. Besides, possibility of improvement in the geo-political situation in Ukraine also helped improve sentiments.

Europe

- European markets rose amid possibility that the ECB may announce stimulus measures to support growth. Comments from the ECB President further raised hopes of regulatory action to counter low inflation. A series of upbeat economic data from the Euro zone also supported the bourses. However, gains were capped after first quarter Euro zone GDP data missed forecasts.

Asia

- Positive vibes from the U.S. markets were felt in Asian bourses as well. Markets remained weak initially due to significant fall in Chinese export orders. Meanwhile, China's consumer inflation fell to an 18-month low in April, increasing the risk of deflation and Japan's current account surplus narrowed to a 30-year low. Markets recovered later following upbeat Japanese first quarter GDP data and rise in Chinese manufacturing activity.

- U.S. treasury yields fell for the second consecutive month and touched 11-month lows on expectations that the ECB will cut interest rates and introduce further stimulus measures to boost the economy. The 10-year U.S. treasury yields fell 19 bps to close at 2.46% compared to the last month's close of 2.65%.
- Bond yields fell initially as the continuing tensions in Ukraine improved the safe-haven appeal of bonds. However, yields rose later following better-than-expected U.S. employment and service sector data
- The yields started falling after Fed Chairperson said in a congressional committee that though the U.S. economy remained on the mend but still required substantial monetary accommodation. Lower-than-expected U.S. retail sales led to further decline in U.S. treasury yields.
- Yields further fell towards the end of the month tracking decline in German bond yields emanating from weak data and month-end buying from institutional investors.

Mutual Funds Are Also Getting Pie of Household Savings

It is well known that Indians have traditionally been savers and not investors. Security and safety of the capital topped their priority list instead of creating wealth by taking some risks. So it is quite natural that they preferred to park their surplus money in bank fixed deposits or post office savings schemes. However, the trend and preference of savings and investments are changing now. Though more than half of households' total financial savings are still parked in commercial banks, but mutual funds are steadily and surely making inroads into the retail investors' investment horizon.

Retail investors' preference for mutual funds as an investment avenue is evident from the latest preliminary estimates of the Central Bank, which showed that as much as Rs. 274 billion or about 2.50% of the households' total financial savings was invested in mutual funds in 2012-13. Though this amount is not big enough to have any serious impact on the Mutual Fund industry, but the silver lining for the sector is that the share of the households' contribution towards mutual funds has witnessed growth. This is all the more relevant because the Central Bank's estimates show that the share of life insurance in household savings (Indians often use insurance schemes as savings products rather than considering them for the purpose of covering risk only) fell from 19.80% in 2011-12 to 16.40% in 2012-13. Small savings schemes, which accounted for more than a tenth of the total household financial savings early last decade, have been net payer now. In absolute terms, net outflow from different small savings schemes stood at Rs. 94 billion in 2012-13.

Retail investors account for a significant portion of the total Assets Under Management (AUM) under equity-oriented mutual funds. According to data from the Association of Mutual Funds in India (AMFI), share of retail investors stood at 59.76% of the total AUM in equity-oriented schemes in 2013-14. Similarly, retail investors accounted for 45.44% of the total AUM under Balanced category and 35.35% under Gold ETF. These data reflect the importance of retail participation in the mutual fund industry.

Mutual funds are gaining popularity among retail investors because of growing awareness about the products. The Securities and Exchange Board of India (SEBI) has directed Asset Management Companies (AMC) to annually set apart at least 2 basis points of daily net assets within the maximum limit of total expense ratio for investor education and awareness. Such initiatives have enabled investors to know about mutual funds in detail and use the instrument to achieve various financial goals in life.

Professional fund management, low expense ratio, transparent operating procedure, strict regulations and ease of transaction procedures have attracted retail investors towards mutual funds. Moreover, the possibility of higher and tax-efficient returns (by taking some risks) than traditional fixed deposits and small savings schemes have also boosted retail participation in mutual funds. The varieties of schemes, which cater to investors having higher to lower risk appetite and help achieve both long-term and short-term financial goals, increase the appeal of mutual funds. Investors also get an opportunity to diversify their investments across geographies and various asset classes like equities, fixed income and commodities by investing in mutual funds.

Since investors are now equipped with lots of information, they are in a better position to judge the merits and demerits of various investment instruments. Thus it is no wonder that mutual funds are getting a prominent place in the investment portfolio of many retail investors.

Source: RBI Annual Report

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

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