

PRINCIPAL MUTUAL FUND

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



PRINCIPAL SMART EQUITY FUND - ABRIDGED ANNUAL REPORT FOR 2016-17

INDEPENDENT AUDITORS' REPORT

TO THE TRUSTEE OF PRINCIPAL MUTUAL FUND

Report on the Financial Statements

We have audited the accompanying financial statements of the 30 Schemes as mentioned in 'Annexure A' (Collectively "the Schemes") of the Principal Mutual Fund, which comprises the Balance Sheets as at March 31, 2017, the Revenue Accounts, the Cash Flow Statements for the year/period then ended and a summary of significant accounting policies and other explanatory information.

Annexure A: • Principal Growth Fund, • Principal Index Fund – Nifty, • Principal Large Cap Fund, • Principal Dividend Yield Fund, • Principal Emerging Bluechip Fund, • Principal Personal Tax Saver Fund, • Principal Smart Equity Fund, • Principal Tax Savings Fund, • Principal Global Opportunities Fund, • Principal Low Duration Fund, • Principal Credit Opportunities Fund, • Principal Government Securities Fund, • Principal Dynamic Bond Fund, • Principal Bank CD Fund, • Principal Short Term Income Fund, • Principal Equity Savings Fund, • Principal Debt Savings Fund - Retail Plan, • Principal Balanced Fund, • Principal Cash Management Fund, • Principal Retail Money Manager Fund, • Principal Pnb Fixed Maturity Plan - Series B10, • Principal Pnb Fixed Maturity Plan - Series B13, • Principal Pnb Fixed Maturity Plan - Series B14, • Principal Pnb Fixed Maturity Plan - Series B16, • Principal Index Fund – Midcap, • Principal Pnb Fixed Maturity Plan - Series B17, • Principal Asset Allocation Fund of Funds - Moderate Plan, • Principal Asset Allocation Fund of Funds - Conservative Plan, • Principal Asset Allocation Fund of Funds - Aggressive Plan, • Principal Arbitrage Fund

Management's Responsibility for the Financial Statement:

The Managements of Principal Trustee Company Private Limited and Principal Pnb Asset Management Company Private Limited (the "Investment Manager") are responsible for the preparation of these financial statements that give a true and fair view of the financial position, financial performance and cash flow of the Scheme in accordance with the accounting principles generally accepted in India, including accounting policies and standards as specified in the Ninth Schedule of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 and amendments thereto ("the Regulations"). This responsibility includes the maintenance of adequate accounting records for safeguarding the assets of the Scheme and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of internal control that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Schemes internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the financial statements.

Opinion

In our opinion and to the best of our information and according to the explanations given to us, the aforesaid financial statements give the information required by the Regulations and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Scheme as at March 31, 2017, its Surplus and its cash flow for the year/period then ended.

Report on Other Legal and Regulatory Requirements

As required under the Regulations, we report that:

- We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- The Balance Sheets, Revenue Accounts and Cash Flow Statements dealt with by this Report are in agreement with the books of account of the respective Schemes;
- In our opinion, the Balance Sheets, Revenue Accounts and Cash Flow Statements dealt with by this report have been prepared in accordance with the accounting policies and standards as specified in the Ninth Schedule of the Regulations.
- The methods used to value non traded securities, as determined by Principal Pnb Asset Management Company Private Limited and as approved by the Trustee of Principal Mutual Fund are in good faith and in accordance with the guidelines for valuation of securities for mutual funds as mentioned in the Eighth Schedule of the Regulations issued by the Securities and Exchange Board of India, and are fair and reasonable.

For Haribhakti & Co. LLP

Chartered Accountants

ICAI Firm Registration No. 103523W/W100048

Sd/-

Siddharth Iyer

Partner

Membership No. 116084

Place : Mumbai

Date : July 14, 2017

TRUSTEE REPORT

To the Unitholders,

Directors of Principal Trustee Company Private Limited have the pleasure in presenting the Twenty Third Annual Report along with the audited financial statements of the Schemes of Principal Mutual Fund for the Financial Year 2016-2017.

1. Scheme Performance, Future Outlook and Operations of the Scheme:

(a) Equity Schemes – Overview during Financial Year 2016-2017

The Indian equity markets did well in FY 2017, per details given in the table below. In contrast to the situation in FY 16, when Emerging Market (EM) funds had witnessed heavy redemptions, there were strong inflows into EM equity funds in FY 17 with total flows amounting to USD 73.6 Billion (Data source : IIF). The MSCI EM index (USD) was up 14.5% during the year. While EMs did well as commodities recovered, improving macroeconomic parameters also helped.

The macroeconomic situation in India remained steady as the current account deficit (0.8 % of GDP), fiscal deficit (3.5% of GDP) and inflation (CPI for March 2017 was 3.9%) remained in control. FII equity flows into Indian markets were positive at about USD 8.38 Billion, though a substantial chunk of these came in the last two months of the fiscal year. Retail inflows into equity mutual funds remained strong in FY17, with net inflows of Rs. 70,367 crores during the year. There were strong inflows particularly in mid cap funds, which index did substantially better than the large cap indices like the NSE Nifty or the BSE Sensex as given in table below. The major economic event of the year was demonetisation of high value currency notes which had substantial impact on the unorganized sector, and also on the construction, trade, hotels and real estate sectors. However, by the end of the year, there was substantial remonetisation in the economy with consumer demand recovering both in the urban and rural areas. The GDP growth for the year came in at 7.1%, while the Q4 GDP decelerated and grew at 5.6%. The investment demand remains a major concern, with private capital expenditure still to pick up in a meaningful way. However, there was considerable progress made in ordering in contracts for road construction. One area of disappointment for the markets has been weak earnings growth numbers for the markets as a whole. For the full year, earnings for the NSE Nifty grew by nearly 8%. Earnings were negatively impacted by the IT and pharmaceuticals sector, where growth moderated. Also, while banks did do better compared to the previous year, provisioning for bad assets continued to impact their results.

In the current year, the key factors to watch for would be the monsoon rains, which would impact agricultural production and rural demand, possible uncertainty in the trade channel consequent to the roll out of the GST which could extend for a quarter or so, signs of recovery in capex cycle and pick up in credit demand, and stability in macroeconomic parameters. Further, the geopolitical environment is quite volatile which can lead to surprises. Fundamentally, the European and Japanese economies are doing better than they were doing previously, while the US economy has been performing steadily. This could have an impact on fund flows into EMs which could also impact the Indian equity markets.

	31-Mar-17				
	Index	1 Mth	3 Mth	6 Mth	1 Yr
Broad Markets					
Nifty 50	9174	3.31	11.94	6.53	18.55
S&P BSE Sensex	29621	3.05	11.12	6.30	16.88
S&P BSE 100	9494	3.30	13.06	7.12	21.17
S&P BSE 200	3992	3.45	13.54	7.32	22.47
S&P BSE 500	12632	3.74	14.30	7.96	24.02
S&P BSE MID CAP	14097	4.02	16.98	7.06	32.75
S&P BSE SMALL CAP	14434	5.43	19.60	12.93	36.92
Sectoral Performance					
S&P BSE AUTO	22013	2.45	8.57	-0.99	22.28
S&P BSE Bankex	24421	4.00	17.50	10.77	32.78
S&P BSE Consumer Goods	15257	10.73	35.38	21.59	32.90
S&P BSE Consumer Durables	16446	7.26	20.13	12.78	27.87
S&P BSE FMCG	9270	5.35	13.86	9.56	20.51
S&P BSE METAL	15312	-0.47	3.93	-5.37	1.08
S&P BSE Oil & Gas	11804	-0.74	16.58	20.90	56.54
S&P BSE PSU	13564	0.22	11.49	19.21	48.05
S&P BSE Teck	8597	1.56	11.64	15.20	40.78
S&P BSE Healthcare	5771	0.11	4.91	2.50	-5.46

Source: Internal

(b) Debt Schemes – Overview during Financial Year 2016-2017

During the Financial Year 2016-17, debt market continued to witness further fall in yields across various asset classes like government securities, corporate bonds and money market instruments. RBI maintained its accommodative stance for most part of the fiscal year, turning to "neutral" stance in February 2017 surprising market participants. The key policy rate, the repo rate was lowered to 6.25% by end of March 2017 from 6.75% a year ago. However the corridor between repo and reverse repo was narrowed from 100 bps to 50 bps as banking system liquidity rose in order to ensure overnight rates remained in a tighter band. The year was characterized by few significant events. The shift in the liquidity management framework in April 2016 from allowing liquidity deficit to ensuring the system comes to a neutral mode led to RBI doing a record purchase of government securities through its OMO (Open Market Operations) scheme. This led to rally in gilt and bond prices and fall in yields.

The other major event of the year was demonetization whereby on November 8th government decided to withdraw legal tender status of all Rs 500 and Rs 1000 notes which accounted for more than 85% of all currency in circulation. This action led to large inflow of deposits into the banking system and consequently the banking system liquidity increased into a massive surplus position from the neutral state earlier. RBI conducted MSS auctions worth upto Rs 6 lakh crores and hiked CRR temporarily to suck out the excess liquidity. As controls on cash withdrawals were relaxed the CRR hike was rolled back and securities issued under MSS were allowed to mature. However it still left the banking system with comfortable liquidity in range of 2-4 lakh crores (excluding securities issued under MSS) during Jan to March 2017. Yields across asset classes touched their lowest levels during the month of November 2016 as a result of demonetization with the 10 year benchmark yield touching a low of 6.15% before it started moving up again subsequently.

Among other key changes, in Sept 2016 the Ministry of Finance notified the constitution of the Monetary Policy Committee which would be responsible for containing inflation within a specified target. It consists of six members with decisions being taken by majority vote. During the year, Raghuram Rajan demitted office and a new governor Mr Urjit Patel took charge.

Inflation as measured by CPI and WPI continued to remain benign. CPI inflation ranged between 3.17% - 6.07% during the year. Real GDP growth for the first three quarters of FY 17 ranged between 7 to 7.9% and then fell to 6.1% in the last quarter presumably as a fallout of demonetization.

The new ten year benchmark Gsec ended the year at 6.66%, a fall of 80 bps as compared to the yield prevailing at March 2016. Five yr AAA corporate bonds ended the year 78 bps lower at 7.57% and ten year AAA corporate bonds ended 60 bps lower at 7.81%. Yields on one year CDs came down to 6.6%, a fall of 140 bps as compared to previous year end. One year T bill levels fell sharply to 6.10%, a fall of 94 bps as compared to March 2016.

Crude Oil prices rose from the record lows hit last year though they remained stable in a range of USD 40-USD 55 per barrel for Brent Crude.

For the full financial year government's gross borrowing through dated G secs totaled Rs 5.83 lakh crores, similar to previous year. As stated in the Union Budget presentation held on Feb 1, 2017 government met its target of 3.5% fiscal deficit for the year. For FY 18, government has shown its commitment to stick to the fiscal consolidation path by announcing a fiscal deficit target of 3.2% of GDP. Gross borrowing through dated G secs is pegged at Rs 5.8 lakh crores, which was lower than market estimates and hence taken positively. States gross borrowing in FY 2017 was at Rs 3.7 lakh crores, 23 % higher than previous year. During the fiscal UDAY bonds worth Rs 1.2 lakh crores were further issued bringing the total outstanding to Rs 2.32 lakh crores.

On the global front the Federal Reserve Bank in the US effected two rates hike- in Dec 2016 and March 2017. The Fed Funds rate was in the range of 0.75% - 1.00% at the end of March 2017. US treasury yields have risen during the year to 2.38% as compared to 1.77% a year back. Among other important events, the UK government held a referendum on the issue of UK's withdrawal from the European Union and the majority voted out. Known as Brexit it was feared that it would lead to volatility in global markets. However the debt market was largely unaffected by this event. The rupee ended at Rs. 64.85/ USD as compared to 66.24/ USD a year back. During the year it depreciated intermittently on FCNR (B) redemptions and FII outflows as US treasury yields rose. However towards the end of the financial year it appreciated on robust FII purchases in debt and equity market and RBI turning to a neutral stance.

Performance of Scheme as on March 31, 2017:

Period	Start Date	Regular Plan ^A		Direct Plan [#]	
		NAV ^A	Crisil Balanced Fund Index - Aggressive Index	NAV ^A	Crisil Balanced Fund Index - Aggressive Index
Last 1 Year	31-Mar-16	12.05	16.10	13.26	16.10
Last 3 Year	31-Mar-14	11.81	11.36	12.85	11.36
Last 5 Year	30- Mar-12	13.10	11.11	NA	NA
Since Inception	16-Dec-10	10.27	8.09	12.59	10.41

Direct Plan - Since Inception - 02-Jan-13. ^A Growth Option

Past performance may or may not be sustained in the future

The Scheme aims to provide the benefit of automatic asset allocation to investment based on market valuations and to protect the investors from high volatility in the markets and at the same time providing growth. During the Financial Year 2016-17, the average equity exposure for the financial year for the fund was at 39%. This resulted in the fund underperforming its benchmark, which had a higher equity component.

The net assets of the Scheme amounted to Rs. 152.87 Crs as at March 31, 2017 as compared to Rs. 119.96 Crs as at March 31, 2016

Outlook and Operations of the Scheme:

a. Equity Market:

The markets have done well supported by positive macroeconomic parameters viz. lower inflation, low interest rates, the strong external position of the economy, positive fund flows both from the domestic and offshore investors and passage of reforms like the GST. We believe that the macroeconomic fundamentals will remain strong. However, there could be some stress on the fiscal side led by the states. For the central government, there could be some impact on revenue numbers due to lower than expected revenues from the telecom sector and some slippages on account of teething troubles in the initial stages of the GST. However, overall, there should not be a meaningful slippage in the fiscal numbers.

We expect the economic growth to be supported by consumption, central government capex on infrastructure and supportive external demand. The monsoon rainfall is expected to be in line with long term averages which should support rural demand. As said earlier, there could be initial teething issues with GST, but as it settles down, it can lead to higher tax/ GDP ratio which will be positive for the government finances in the medium term. The market valuations are at a premium to long term averages which means that good stock selection key for fund management.

b. Debt Market:

We expect inflation to continue to remain benign with CPI to average 2.5%-3.5% in first half of FY 2017 and 3.0-4.5% in second half of FY 2017 barring any adverse shocks. GDP growth is expected to normalize to pre demonetization levels as currency in circulation resumes to normal levels, however GST implementation is expected to add some uncertainty to inflation and growth outlook as businesses adjust to the new taxation regime. We expect RBI to maintain neutral stance, however there is a possibility of rate cut of 25 bps in August policy if RBI accords primacy to inflation prints over other factors. Globally the US Fed is on a rate tightening path and we expect two rate hikes in FY 2017. The ten yr benchmark gilt yield may trade in a range of 6.25%-6.75% during the year. Banking system liquidity is expected to remain comfortable, however currency withdrawals and curbs on govt spending in second half of the year may turn liquidity to a neutral position by end of FY 2017. Short term rates are expected to remain benign on back of comfortable liquidity and expectation of rate cut. State finances could come under pressure on impact of UDAY bond servicing due to takeover of discom debt by states, reduction in grants from Centre and great reliance on market borrowing. This could keep SDL spreads elevated and as a consequence corporate bond spreads would also remain elevated.

Operations: Principal Mutual Fund (PMF) as at March 31, 2017 offers Thirty Schemes. These include eleven Equity Schemes (including two Equity Linked Savings Schemes), one Balanced Scheme, one Fund of Fund Scheme (Overseas), one Fund of Fund (Domestic), eight Debt Schemes/Plans including one Liquid Scheme, and five Fixed Maturity Plans. The total assets under management across all these Schemes as on March 31, 2017 was Rs. 5009.70 Crore.

The AMC operates out of 11 branches, including Mumbai. Increased use of technology coupled with optimum allocation and utilization of resources has helped us to enhance operational efficiency at PMF. During the year, SEBI has introduced significant changes to the MF regulations which has impacted the industry as a whole. PMF has continued to modify its processes, wherever required, to remain compliant with the said regulations at all times.

Brief background of Sponsors, Trust, Trustee Co. and AMC Co.

A. Sponsor and Constitution of the Mutual Fund

Principal Mutual Fund is sponsored by Principal Financial Services Inc., USA [acting through its wholly owned subsidiary Principal Financial Group (Mauritius) Ltd.]. The Sponsor is the Settlor of the Mutual Fund Trust with Punjab National Bank as co-settlor. The Sponsor and co-settlor have entrusted a sum of Rs. 25 lakhs to the Trustee as the initial contribution towards the corpus of the Mutual Fund. Principal Financial Services Inc. is a member of the Principal Financial Group - a leading provider of financial products and services globally to businesses and individuals including retirement and investment services, Mutual Funds, life and health insurance, annuities and mortgage banking. Established in 1879, the Principal Financial Group has more than \$619.7 billion in assets under management and serves 21 million customers with offices in 19 countries throughout Asia, Australia, Europe, Latin America and North America (as on December 31, 2016). The business of Principal Financial Group (Mauritius) Limited, is to carry out business activities which are not prohibited under the Laws of Mauritius and the laws of the countries where the Company is transacting business and to do all such things as are incidental or conducive to the attainment of the above objects.

The present share holding pattern of the AMC is as follows:

Name of the Shareholder	% of equity capital
Principal Financial Group (Mauritius) Limited	78.62
Punjab National Bank	21.38

B. Principal Trustee Company Private Limited ("the Trustee"):

The Trustee is the exclusive owner of the Trust Fund and holds the same in trust for the benefit of the Unitholders.

Principal Trustee Company Private Limited (formerly IDBI-PRINCIPAL Trustee Company Limited), a company incorporated under the Companies Act, 1956 is the Trustee to the Fund with effect from October 18, 2002. Prior to October 18, 2002, Board of Trustees discharged the Trusteeship function of the Fund. The Trustee has the exclusive ownership of the Trust Fund and is vested with the general powers of superintendence, direction and management of the affairs of the Trust.

The Trustee has been discharging its duties and carrying out its responsibilities as provided in the SEBI (Mutual Funds) Regulations, 1996 and the Trust Deed. The Trustee seeks to ensure that the Fund and the Schemes floated there under are managed by the AMC in accordance with the Trust Deed, the Regulations, directions and guidelines issued by the SEBI, the Association of Mutual Funds in India and other regulatory agencies.

Principal Financial Group (Mauritius) Limited and Punjab National Bank hold 70% and 30% respectively of the paid up equity capital of the Trustee Company.

C. Asset management Company (AMC):

Principal Pnb Asset Management Company Private Limited (AMC) is a private limited company incorporated under the Companies Act, 1956 on November 20, 1991 having its Registered Office at Exchange Plaza, 'B' Wing, Ground Floor, NSE Building, Bandra Kurla Complex, Bandra (East), Mumbai - 400 051, India. Principal Pnb Asset Management Company Private Limited has been appointed as the Asset Management Company of the Principal Mutual Fund by the Trustee vide Investment Management Agreement (IMA) dated November 25, 1994 executed between Trustee and AMC. The AMC has also been registered as a Portfolio Manager under the provisions of SEBI (Portfolio Manager) Regulations, 1993 vide SEBI Registration no. INP000000951. Further, the AMC has obtained No Objection from SEBI for undertaking activities which are in the nature of advisory services to offshore funds, venture capital funds, financial consultancy and exchange of research pertaining to securities.

2. Liabilities and Responsibilities of Trustee and Settlor

The key responsibility of the Trustee is to safeguard the interest of the Unit holders and inter-alia ensure that Principal Pnb Asset Management Company Private Limited functions in the interest of investors and as laid down under the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, the provisions of the Investment Management Agreement, Statement of Additional

Information and Scheme Information Document of the respective Schemes. From the information provided to the Trustees and the reviews the Trustee has undertaken, the Trustee believes Principal AMC has operated in the interests of the Unit holders.

The Sponsor and any of its associates including co-settlers is not responsible or liable for any loss resulting from the operations of the Mutual Fund beyond the initial contribution of an amount of R25 lakhs towards setting up of Principal Mutual Fund.

3. Investment Objectives and Policy of Investment of the Current Scheme(s)

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 Earning 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 debt and/or money market instruments and vice versa.

The Scheme will decide on allocation of funds into equity assets based on equity market Price Earnings 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 optimize the risk-return proposition for the long term investor.

4. Significant Accounting Policies

The Significant Accounting Policies form part of the Notes to the Accounts annexed to the Balance Sheet of the Scheme. Accounting policies are in accordance with Securities Exchange Board of India (Mutual Fund) Regulations, 1996.

5. Unclaimed Dividends & Redemptions for the financial year 2016-2017

Scheme(s)	Unclaimed Dividends		Unclaimed Redemptions	
	Amount (₹)	No. of Investors	Amount (₹)	No. of Investors
Principal Smart Equity Fund	217,344.86	175	610,299.95	17

6. Investor Grievances

The data on Investor Grievance as per the SEBI prescribed is enclosed herewith as Annexure I.

7. General Policies & Procedures for exercising the voting rights & Exercise of Proxy Votes

(a) As per the requirements of the SEBI Circular No. SEBI/IMD/CIR No. 18/198647/2010 dated March 15, 2010 and SEBI Circular No. CIR/IMD/DF/05/2014 dated March 24, 2014 the General policies and procedures for exercising voting rights (along with the relevant disclosures) in respect of the shares held by the Schemes of Principal Mutual Fund has been hosted on our website www.principalindia.com

(b) During the FY 2016-17, the proxy voting was exercised by Principal Pnb Asset Management Company Private Limited for and on behalf of Principal Mutual Fund ("the Fund"). The summary of proxy votes cast by Principal Mutual Fund/AMC across all the investee companies is as follows:

Summary of Votes cast during the F.Y. 2016-2017					
F.Y.	Quarter	Total No. of Resolutions	Break - up of vote decisions		
			For	Against	Abstained
2016-2017	April-June	200	164	13	23
2016-2017	July-September	1756	1553	201	2
2016-2017	October - December	94	86	5	3
2016-2017	January- March	96	90	6	0

For complete voting details for the period of 2016-17, unit holders can log on to the website (www.principalindia.com) of the Fund. Further the said Details are also available in the Annual Report for the period 2016-17. A copy thereof is available on the said website of the fund and shall be sent / emailed to the unit holders free of cost on demand.

8. Statutory Information

- The Sponsors/Co- Settlers are not responsible or liable for any loss resulting from the operations of the Schemes of Principal Mutual Fund beyond their initial contribution of an amount of R25 lakhs towards setting up Principal Mutual Fund, and such other accretions/ additions to the same;
- The price and redemption value of the units, and income from them, can go up as well down with fluctuations in the market value of its underlying investment;
- Full Annual Report shall be disclosed on the website www.principalindia.com and shall also be available for inspection at the Head Office of Principal Mutual Fund. Present and prospective unitholder can inspect copy of the trust deed, the full Annual Report of the Fund / AMC at a price.

Acknowledgement:

The Trustee wish to thank Securities and Exchange Board of India, Reserve Bank of India and Association of Mutual Funds in India for their support and direction. The Trustees also wish to thank all the Unitholders, distributors, key partners and service providers for their commitment and strong support.

For Principal Trustee Company Private Limited

Sd/-

V. S. Mathur

Chairman

Date : July 14, 2017

Place : Mumbai

ABRIDGED BALANCE SHEET AS AT MARCH 31, 2017

(₹ in Lacs)

	As at March 31, 2017	As at March 31, 2016
LIABILITIES		
Unit Capital	8,645.42	7,495.75
Reserves & Surplus		
Unit Premium Reserves	(94.94)	(214.99)
Unrealised Appreciation Reserve	1,274.65	480.82
Other Reserves	5,462.28	4,241.76
Loans & Borrowings	-	-
Current Liabilities & Provisions		
Provision for doubtful Income/Deposits		
Other Current Liabilities & Provisions	159.26	522.84
TOTAL	15,446.67	12,526.18
ASSETS		
Investments		
Listed Securities:		
Equity Shares	10,027.74	7,798.45
Preference Shares	-	-
Equity Linked Debentures	-	-
Other Debentures & Bonds	603.64	882.02
Securitized Debt securities	-	-
Securities Awaited Listing:		
Equity Shares	-	-
Preference Shares	-	-
Equity Linked Debentures	-	-
Other Debentures & Bonds	500.88	-
Securitized Debt securities	-	-
Unlisted Securities		
Equity Shares	-	-
Preference Shares	-	-
Equity Linked Debentures	-	-
Other Debentures & Bonds	-	-
Securitized Debt securities	-	-
Government Securities		
Treasury Bills	209.78	316.05
Commercial Paper	24.74	9.86
Certificate of Deposits	1,588.26	1,491.11
Bill Rediscounting	-	499.38
Units of Domestic Mutual Fund		
Foreign Securities	1,078.83	700.54
Total Investments	14,033.86	11,697.41
Deposits		
Other Current Assets	8.81	2.56
Cash & Bank Balance	206.34	20.52
CBLO/ Reverse Repo Lending	546.52	265.31
Others	651.14	540.39
Deferred Revenue Expenditure (to the extent not written off)	-	-
TOTAL	15,446.67	12,526.18

Notes to Accounts - Annexure I

ABRIDGED REVENUE ACCOUNT FOR THE YEAR ENDED MARCH 31, 2017

(₹ in Lacs)

	Current Year ended March 31, 2017	Previous Year ended March 31, 2016
INCOME		
Dividend	98.05	101.86
Interest	322.15	170.42
Realised Gain / (Loss) on Foreign Exchange Transactions	-	-
Realised Gains / (Losses) on Interscheme sale of investments	0.00	0.04
Realised Gains / (Losses) on External sale / redemption of investments	1,121.82	322.71
Realised Gains / (Losses) on Derivative Transactions	(352.95)	162.17
Other Income (Refer Note 5 of Notes to Accounts)	7.51	10.72
(A)	1,196.59	767.92
EXPENSES		
Management fees	205.98	142.48
Service tax on Management fees	30.75	19.84
Transfer agents fees and expenses	17.90	12.16
Custodian fees	1.05	2.78
Trusteeship fees	1.63	0.95
Commission to Agents	147.78	96.84
Marketing & Distribution expenses	5.93	2.67
Audit fees	0.42	0.40
Other operating expenses	10.07	9.08
(B)	421.51	287.22
NET REALISED GAINS / (LOSSES) FOR THE PERIOD (A - B = C)	775.07	480.70
Change in Unrealised Depreciation in value of investments (D)	-	525.78
NET GAINS / (LOSSES) FOR THE PERIOD (E = C - D)	775.07	(45.08)
Change in unrealised appreciation in the value of investments (F)	793.83	-
NET SURPLUS / (DEFICIT) FOR THE PERIOD (E + F = G)	1,568.90	(45.08)
Opening Balance	4,241.76	2,490.78
Add: Balance transfer from Unrealised Appreciation Reserve	480.82	987.72
Less: Balance transfer to Unrealised Appreciation Reserve	1,274.65	480.82
Add / (Less): Equalisation	750.39	1,324.38
Total (Including G)	5,767.22	4,276.98
Dividend appropriation		
Less: Income Distributed during the year	304.94	35.22
Less: Tax on income distributed during the year	-	-
Retained Surplus / (Deficit) carried forward to Balance sheet	5,462.28	4,241.76

NOTES TO ACCOUNTS

Annexure I to the Abridged Balance Sheet and Revenue Account for the Year Ended March 31, 2017

1 Investments :-

- 1.1 Except Government Securities, CBLO's and Treasury Bills (which are held in the name of the Mutual Fund), all other investments of the scheme are registered in the name of Principal Trustee Company Pvt. Ltd. - Trustee to Principal Mutual Fund for the benefit of the Schemes unitholders.
- 1.2 Disclosure for investments in derivative instruments

For the financial year 2016-17 :

Hedging Positions through Futures as on March 31, 2017 :

Scheme	Underlying	Long / Short	Futures Price when purchased	Current price of the contract	Margin maintained in ₹ Lakhs	Total exposure due to futures (Hedging positions) as a %age to net assets
Principal Smart Equity Fund	Century Textiles & Industries Limited (April-2017)	Short	1,049.56	1,058.60	49.14	2.07%
Principal Smart Equity Fund	Hindustan Unilever Limited (April-2017)	Short	910.73	913.25	84.13	3.53%
Principal Smart Equity Fund	Indiabulls Housing Finance Limited (April-2017)	Short	966.27	1,000.55	12.53	0.53%
Principal Smart Equity Fund	Jet Airways (India) Limited (April-2017)	Short	520.45	528.90	22.41	0.87%
Principal Smart Equity Fund	Reliance Industries Limited (April-2017)	Short	1,260.98	1,326.20	188.62	7.94%
Principal Smart Equity Fund	Reliance Infrastructure Limited (April-2017)	Short	570.69	572.00	31.40	1.32%
Principal Smart Equity Fund	Reliance Power Limited (April-2017)	Short	48.16	48.30	14.64	0.61%
Principal Smart Equity Fund	Sun Tv Network Limited (April-2017)	Short	781.77	794.00	44.71	1.88%
Principal Smart Equity Fund	Tata Motors Ltd DVR 27-04-2017	Short	285.02	282.70	46.58	1.95%

For the period April 01, 2016 to March 31, 2017, following hedging transactions through futures have been squared off/expired :

Scheme	Total Number of contracts where futures were sold (opening balance)	Total Number of contracts where futures were bought	Total Number of contracts where futures were sold	Gross Notional Value of contracts where futures were sold (opening balance)	Gross Notional Value of contracts where futures were bought	Gross Notional Value of contracts where futures were sold	Net Profit/Loss value on all contracts combined
Principal Smart Equity Fund	140	8,212	8,072	73,680,369	4,691,177,316	4,585,460,148	(32,036,799)

Other than Hedging Positions through Futures as on March 31, 2017 : Nil

For the period April 01, 2016 to March 31, 2017, following non-hedging transactions through futures have been squared off/expired : Nil

Hedging Position through Put Option as on March 31, 2017 : Nil

For the period April 01, 2016 to March 31, 2017, hedging transactions through options which have been squared off/expired : Nil

Other than Hedging Positions through Options as on March 31, 2017 : Nil

For the period April 01, 2016 to March 31, 2017, non-hedging transactions through options have been squared off/expired : Nil

Note : In case of derivative transactions, end of the day position on the date of such

transaction is considered as the basis to assess the nature of transaction as hedge / non-hedge.

For the financial year 2015-16

Hedging Positions through Futures as on March 31, 2016 :

Scheme	Underlying	Long / Short	Futures Price when purchased	Current price of the contract	Margin maintained in ₹ Lakhs	Total exposure due to futures (non-hedging positions) as a %age to net assets
Principal Smart Equity Fund	Reliance Industries Ltd. (Apr 2016)	Short	1,052.58	1,050.40	90.41	6.38%

For the period April 01, 2015 to March 31, 2016, following hedging transactions through futures have been squared off/expired :

Scheme	Total Number of contracts where futures were sold (opening balance)	Total Number of contracts where futures were bought	Total Number of contracts where futures were sold	Gross Notional Value of contracts where futures were sold (opening balance)	Gross Notional Value of contracts where futures were bought	Gross Notional Value of contracts where futures were sold	Net Profit/Loss value on all contracts combined
Principal Smart Equity Fund	953	10,256	9,303	296,579,533	3,346,335,828	3,065,883,793	16,127,498

Other than Hedging Positions through Futures as on March 31, 2016 : Nil

For the period April 01, 2015 to March 31, 2016, following non-hedging transactions through futures have been squared off/expired : Nil

Hedging Position through Put Option as on March 31, 2016 : Nil

For the period April 01, 2015 to March 31, 2016, hedging transactions through options which have been squared off/expired : Nil

Other than Hedging Positions through Options as on March 31, 2016 : Nil

For the period April 01, 2015 to March 31, 2016, non-hedging transactions through options have been squared off/expired : Nil

Note : In case of derivative transactions, end of the day position on the date of such transaction is considered as the basis to assess the nature of transaction as hedge / non-hedge.

- 1.3 During the year ended March 31, 2017 the scheme has made investments in securities of the Associate / Group Companies of the Sponsor. Details of Aggregate Value of Investments made by the schemes of Principal Mutual Fund during the year ended March 31, 2017 is given in Annexure II. The above investments were considered sound before making investment. The AMC evaluated the same on merits and on arm's length basis and in accordance with the investment objectives of the respective Schemes.
- 1.4 There are no open positions of securities borrowed and / or lent by the scheme as at March 31, 2017 and as at March 31, 2016.
- 1.5 Non Performing Assets as at March 31, 2017 Market Value is Rs. Nil (as at March 31, 2016 Market Value is ₹ Nil).
- 1.6 Aggregate value of Unrealised Gain / Loss as at the end of the Financial Year, expressed as a percentage to Net Assets.

(₹ In Lakhs)

Scheme	Year ended March 31, 2017		Year ended March 31, 2016	
	Unrealised Gain / (Loss)	% to Net Assets	Unrealised Gain / (Loss)	% to Net Assets
Principal Smart Equity Fund	1,255.77	8.26	460.41	4.83

- 1.7 Aggregate Value of Purchase and Sale made during the year, expressed as a percentage of Average Daily Net Asset Value :

(₹ In Lakhs)

Year	Purchases		Sales*	
	Amount	% of Avg. Net Assets	Amount	% of Avg. Net Assets
March 31, 2017	90,134.41	636.04	92,326.15	651.50
March 31, 2016	82,524.24	866.21	76,004.91	797.78

* Sales includes redemptions / maturities

- 1.8 The Aggregate book value of Non-Traded / Thinly traded Debt Investments, which have been valued in good faith in accordance with the guidelines for valuation of securities of Mutual Fund issued by SEBI, expressed as percentage to Net Assets is given below :

(₹ In Lakhs)

Particulars	Year ended March 31, 2017		Year ended March 31, 2016	
	Amount	% to Net Assets	Amount	% to Net Assets
Book Value	2,661.44	17.51	2,868.06	23.89
Market / Fair Value	2,692.77	17.71	2,872.51	23.93

- 2 As per the requirements of Regulation 25 (8) of SEBI Regulation 1996, the details of Payments made to Associates during the year is given in **Annexure III**.
- 3 As per the SEBI disclosure vide circular No. MFD/CIR No.3/211/2001 dated April 30, 2001, Scheme does not have a single unit holder holding more than 25% of the NAV at the end as on March 31, 2016 and March 31, 2017.
- 4 Expenses other than management fees are inclusive of service tax wherever applicable.
- 5 Other Income represents receipts /payments of miscellaneous nature and also includes load on redemption of units net off service tax.
- 6 Details of movement in Unit Capital during the year is given in **Annexure IV**.
- 7 In view of the AMFI Best Practices Guidelines Circular No. 56/2015-16, the IEF accrual is set aside in a separate bank account and the consolidated balance across all schemes as on March 31, 2017 is ₹ 24.10 lakhs. The break-up of which is as under:

Particulars	Amount (in ₹ Lakhs)
Opening Balance as on April 01, 2016	20.63
Add: Accrual during FY 2016-17	100.37
Add: Investment Income FY 2016-17	0.60
Less: Spent during FY 2016-17	97.51
Closing Balance as on March 31, 2017	24.10

- 8 Previous Year's figures have been regrouped and reclassified, wherever necessary, to make them comparable with current year's presentation.
- 9 There was no Contingent Liability for the current financial year & previous financial year.
- 10 ₹ 0.00' in notes to accounts and annexures indicates amount less than a five hundred and '₹ -' indicates Nil amount.

Annexure II

Details of Investments made in Associates / Group Companies

(₹ In Lakhs)

Larsen & Toubro Limited	Equity Shares	
	2016-2017	2015-2016
Principal Growth Fund	733.03	-
Principal Index Fund - Nifty	2.10	84.04
Principal Large Cap Fund	744.27	33.16
Principal Dividend Yield Fund	131.76	-
Principal Personal Tax Saver Fund	822.37	-
Principal Smart Equity Fund	304.77	105.46
Principal Tax Savings Fund	510.07	-
Principal Balanced Fund	109.32	8.43
Principal Arbitrage Fund	257.02	-
Aggregate Investments by all Schemes	3,614.72	231.09

(₹ In Lakhs)

Atul Ltd.	Equity Shares	
	2016-2017	2015-2016
Principal Emerging Bluechip Fund	152.09	114.85
Aggregate Investments by all Schemes	152.09	114.85

Punjab National Bank	Equity Shares	
	2016-2017	2015-2016
Principal Index Fund - Midcap	5.90	-
Principal Index Fund - Nifty	-	6.70
Aggregate Investments by all Schemes	5.90	6.70

Annexure III Details of Payments made to Associates in terms of regulation 25(8):

i) Brokerage paid to associates/related parties/group companies of Sponsor/Asset Management Company (AMC) for securities transaction

Name of associate/related parties/ group companies of Sponsor/AMC	Nature of Association /Nature of Relation	April 01, 2016/Launch date to March 31, 2017/Maturity date		April 01, 2015/Launch date to March 31, 2016/Maturity date	
		Value of transaction (₹ In Lakhs & % of total value of transaction of the fund)	Brokerage (₹ In Lakhs & % of total brokerage paid by the fund)	Value of transaction (₹ In Lakhs & % of total value of transaction of the fund)	Brokerage (₹ In Lakhs & % of total brokerage paid by the fund)
NIL					

ii) Commission paid to associates/related parties/group companies of Sponsor/ Asset Management Company (AMC) for Distribution of units

Name of associate/related parties/ group companies of Sponsor/AMC	Nature of Association /Nature of Relation	April 01, 2016/Launch date to March 31, 2017/Maturity date		April 01, 2015/Launch date to March 31, 2016/Maturity date	
		Business given (₹ In Lakhs & % of total business received by the fund)	Commission paid (₹ In Lakhs & % of total commission paid by the fund)	Business given (₹ In Lakhs & % of total business received by the fund)	Commission paid (₹ In Lakhs & % of total commission paid by the fund)
Punjab National Bank	Company Holding 21.38% stake in the Investment Manager of the Schemes of the Fund	3,95,628.99 (12.88%)	283.66 (15.23%)	3,34,458.78 (4.21%)	302.16 (18.79%)
Principal Retirement Advisors Pvt. Ltd	Associate of Investment Manager	2,111.06 (0.07%)	14.55 (0.82%)	3,263.17 (0.04%)	12.96 (0.81%)

Note : Commission paid to associates has been disclosed on payment basis and business given indicates Gross Mobilisation (net of rejections, if any) during the corresponding period for which the commission paid has been disclosed

iii) Fees/Charges Paid to Associates / Related Parties / Group Companies of Sponsor AMC

(₹ In Lakhs)

Name of the Related Party	Nature of Transactions	For the year ended March 31, 2017 (₹)	Outstanding as at March 31, 2017 (₹)	For the year ended March 31, 2016 (₹)	Outstanding as at March 31, 2016 (₹)
Punjab National Bank	Bank Charges	0.00	-	-	-

Annexure IV Details of Movement in Unit Capital for the year ended March 31, 2017

Scheme	Opening Balance *	Subscription *	Redemption *	Closing Balance *
Principal Smart Equity Fund - Growth Option	480,793,242	305,898,054	190,895,068	595,796,228
Principal Smart Equity Fund - Monthly Yearly Dividend Option	243,110,361	113,967,599	118,941,958	238,136,002
Principal Smart Equity Fund - Direct Growth Option	13,672,000	8,306,542	4,931,273	17,047,269
Principal Smart Equity Fund - Direct Monthly Yearly Dividend Option	11,999,554	12,798,342	11,235,052	13,562,844

* Face Value is ₹ 10 per unit

KEY STATISTICS FOR THE YEAR ENDED 31 MARCH 2017

Particulars	Regular Plan				Direct Plan			
	Monthly Dividend Option		Growth Option		Monthly Dividend Option		Growth Option	
	March 31, 2017 (₹)	March 31, 2016 (₹)	March 31, 2017 (₹)	March 31, 2016 (₹)	March 31, 2017 (₹)	March 31, 2016 (₹)	March 31, 2017 (₹)	March 31, 2016 (₹)
1. NAV per unit (Rs.):								
Open	14.94	15.27	16.51	16.60	16.20	16.36	16.97	16.89
High	15.91	15.51	18.50	16.98	17.14	16.62	19.22	17.33
Low	14.78	14.01	16.37	15.48	15.97	15.17	16.83	15.89
End	15.58	14.94	18.50	16.51	16.89	16.20	19.22	16.97
2. Closing Assets Under Management (Rs. in Lakhs)								
End	3,694.84	3,231.60	10,950.19	7,860.77	229.02	194.36	327.62	232.05
	March 31, 2017				March 31, 2016			
Average (AAuM)								
- Regular plan (Rs. in Lakhs)		13,728.42				9,084.99		
- Direct plan (Rs. in Lakhs)		442.79				442.01		
3. Gross income as % of AAuM ¹		8.44%				8.06%		
4. Expense Ratio:								
a. Total Expense as % of AAuM (plan wise)								
- Regular plan		3.01%				3.11%		
- Direct plan		1.89%				2.07%		
b. Management Fee as % of AAuM (plan wise)								
- Regular plan		1.45%				1.50%		
- Direct plan		1.45%				1.50%		
5. Net Income as a percentage of AAuM ²		5.47%				5.05%		
6. Portfolio turnover ratio ³		6.36				6.54		
7. Total Net Dividend per unit distributed during the year / period (plan wise)								
	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016	March 31, 2017	March 31, 2016
Corporates	1.1059	0.2500	-	-	1.3701	0.2500	-	-
Non-Corporates	1.1059	0.2500	-	-	1.3701	0.2500	-	-
8. Returns (%) ⁴	March 31, 2017		March 31, 2016		March 31, 2017		March 31, 2016	
a. Last One Year	12.05		(0.54)		13.26		0.47	
Benchmark	16.10		(2.90)		16.10		(2.90)	
b. Since Inception	10.27		9.94		12.59		12.38	
Benchmark	8.09		6.64		10.41		8.72	
Benchmark	Crisil Balanced Fund - Aggressive Index							

Past performance may or may not be sustained in the future

* Calculated after considering that all dividend payouts / bonus have been reinvested in the Scheme at the then prevailing NAV. Returns are calculated only in respect of Growth Plan/Option, on compounded annualised basis for a period of more than one year and on an absolute basis for a period less than one year.

- indicates NIL

¹ Gross income = amount against (A) in the Revenue account i.e. Income.

² Net income = amount against (C) in the Revenue account i.e. in the Revenue account i.e. Net realised gains / (losses) for the year / period.

³ Portfolio Turnover = Lower of sales or purchase divided by the Average AuM for the year/period.

⁴ AAuM = Average daily net assets.

Annexure – I to the Trustee Report :

Redressal of Complaints received against Mutual Funds (MFs) during 2016-2017

Total Number of Folios as on March 31, 2017 : 4,30,581

Complaint Code	Type of Complaint [#]	(a) No. of complaints pending at the beginning of the year Total	(b) No. of complaints received during the year Total	Action on (a) and (b)								
				Resolved				Non Actionable [*]	Pending			
				Within 30 days	30-60 days	60-180 days	Beyond 180 days		0-3 months	3-6 months	6-9 months	9-12 months
I A	Non receipt of Dividend on Units	-	-	-	-	-	-	-	-	-	-	-
I B	Interest on delay payment of dividend	-	-	-	-	-	-	-	-	-	-	-
I C	Non receipt of Redemption Proceeds	-	18	18	-	-	-	-	-	-	-	-
I D	Interest on delay payment of redemption	-	-	-	-	-	-	-	-	-	-	-
II A	Non receipt of Statement of Account/Unit Certificate	-	-	-	-	-	-	-	-	-	-	-
II B	Discrepancy in Statement of Account	-	265	265	-	-	-	-	-	-	-	-
II C	Non receipt of Annual Report/Abridged Summary	-	-	-	-	-	-	-	-	-	-	-
III A	Wrong switch between Schemes	-	-	-	-	-	-	-	-	-	-	-
III B	Unauthorized switch between Schemes	-	-	-	-	-	-	-	-	-	-	-
III C	Deviation from Schemes attributes	-	-	-	-	-	-	-	-	-	-	-
III D	Wrong or excess charges/load	-	-	-	-	-	-	-	-	-	-	-
III E	Non updation of changes viz. address, PAN, bank details, nomination, etc	-	113	113	-	-	-	-	-	-	-	-
IV	Others	1	33	34	-	-	-	-	-	-	-	-
	Total	1	429	430	0	0	0	0	0	0	0	0

Notes: [#]including against its authorised persons/distributors/employees etc. *Non actionable means the complaints that are incomplete/outside the scope of Mutual Fund

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

If undelivered, please return to:

Principal Pnb Asset Management Company Pvt. Ltd., Exchange Plaza, 'B' wing, Ground Floor, NSE Building, Bandra Kurla Complex, Bandra (East), Mumbai - 400051.

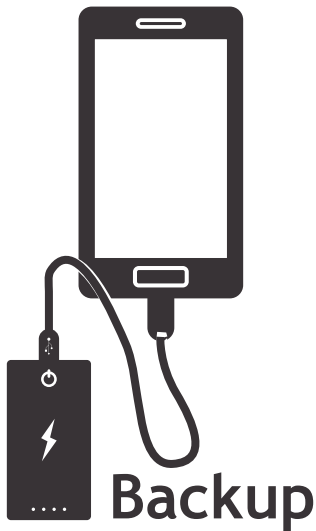
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Mutual Fund investments are subject to market risks, read all scheme related documents carefully.