

OFFER DOCUMENT

Principal Pnb Fixed Maturity Plan 91 Days - Series XIV

A Close-ended Debt Scheme offering Fixed Maturity Plan

New Fund Offer Price:

Rs. 10/- face value during the New Fund Offer Period and at applicable NAV based price thereafter for repurchases.

New Fund Offer Opens on :

New Fund Offer Closes on :

The Scheme offers subscription to units of the Investment plan - Principal Pnb Fixed Maturity Plan under Series XIV with the maturity period of 91 Days.

The terms of this Offering have been prepared in accordance with the Securities & Exchange Board of India (Mutual Funds) Regulations, 1996 as amended from time to time including by way of Circulars, Press Releases, or Notifications issued by the Securities & Exchange Board of India (SEBI) or the Government of India to regulate the activities and growth of mutual funds. This Offer Document has been filed with SEBI. The Units being offered for public subscription have not been approved or disapproved by SEBI. Further, SEBI has not certified the accuracy or the adequacy of the Offer Document. Any changes made to this Offer Document are subject to approval by the Trustees/SEBI/ Unitholders, as may be required.

This Offer Document sets forth concisely, necessary information about the Scheme for a prospective investor to make an informed investment decision in the Scheme described herein. Investor should carefully read the Offer Document prior to making a decision to invest in the Scheme and retain the Offer Document for future reference. No person has been authorized to give any information or to make any representations not confirmed in this Offer Document in connection with the offer or the issue of units, and any information or representations not contained herein must not be relied upon as having been authorized by the Mutual Fund or the AMC.

The Scheme is a close-ended debt scheme. This Offer Document is dated November 21, 2007.

Please retain this Offer Document for future reference.

Principal Mutual Fund

Apeejay House, 5th Floor, 3 Dinshaw Vachha Road, Churchgate, Mumbai 400 020, India.

Sponsor: Principal Financial Services Inc., USA.

Trustee: Principal Trustee Company Private Limited.

Investment Manager: Principal Pnb Asset Management Company Private Limited

Apeejay House, 5th floor, 3 Dinshaw Vachha Road, Churchgate, Mumbai-400 020, India. Tel.: 2204 4988. Fax: 2204 4990.

PRINCIPAL MUTUAL FUND

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E mail: customer@principalindia.com Website: www.principalindia.com

SPONSORS

Principal Financial Services Inc.
(acting through its wholly owned subsidiary Principal Financial Group (Mauritius) Limited)
711 High Street, Des Moines,
Iowa, 50392-0200, USA

CO-SETTLORS

Principal Financial Group (Mauritius) Limited
10, Frere Felix de Valois Street,
Port Louis, Mauritius

Punjab National Bank
7, Bhikhaji Cama Place, New Delhi-110 066, India.

Vijaya Bank
41/2, Mahatma Gandhi Road, Bangalore-560 001, India.

TRUSTEE

Principal Trustee Company Private Limited
Apeejay House, 5th Floor, 3 Dinshaw Vachha Road, Churchgate, Mumbai-400 020, India.

INVESTMENT MANAGER

Principal Pnb Asset Management Company Private Limited
Apeejay House, 5th Floor, 3 Dinshaw Vachha Road, Churchgate, Mumbai-400 020, India.

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Private Limited
21, Avenue 4, Street No. 1, Banjara Hills, Hyderabad-500 034, India.

CUSTODIAN

Citi Bank N.A.
Ramnord House,
77 Dr. Annie Besant Road, Worli, Mumbai-400 018, India.

AUDITORS

Haribhakti and Co., Chartered Accountants
42 Free Press House, 4th Floor,
215 Nariman Point, Mumbai-400 021, India.

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I. ABBREVIATIONS AND DEFINITIONS

AMC/Asset Management Company/Investment Manager/Principal : Principal Pnb Asset Management Company Private Limited.

Applicable NAV (only after scheme opens for ongoing Repurchase):

For Redemptions / Switch-out / Reverse Sweep:

In respect of valid applications received upto 3.00 p.m. at the Official Points of Acceptance of Transactions, the closing NAV of the day of receipt of application shall be applicable; and

In respect of valid applications received after 3.00 p.m. at the Official Points of Acceptance of Transactions, the closing NAV of the next business day shall be applicable.

Cut off time as mentioned above shall be reckoned at the COLLECTION CENTRES which are the official points of acceptance of transactions as disclosed in this offer document and the web-site, www.principalindia.com

The above cut off timings shall also be applicable to investments made through "Sweep" mode available in the Dividend Option.

Switch Transactions

Valid applications for "switch out" shall be treated as redemptions and the above cut-off timings shall be applicable, accordingly.

Business Day : A day other than :

- (i) Saturday and Sunday,
- (ii) a day on which the Banks in Mumbai and/or RBI are closed for business/clearing,
- (iii) a day on which the Bombay Stock Exchange and/or National Stock Exchange are closed,
- (iv) a day which is a public and/or bank holiday at a collection centre where the application is received,
- (v) a day on which sale and repurchase of units is suspended by the AMC,
- (vi) a day on which normal business could not be transacted due to storms, floods, bandhs, strikes etc.

The AMC reserves the right to declare any day as a Business Day or otherwise at any or all collection centres.

Calendar Year / Year: A Calendar Year shall be full English Calendar months viz. 12 months commencing from 1st January and ending on 31st December.

Collection Centre : Branches of Banks and/or AMC's service centres/Investor Service Centre authorized to receive application forms during ongoing offering and also redemption/switch requests as mentioned in this Offer Document or appointed from time to time. These centres shall be regarded the "Official Points" of acceptance of transactions for subscription/redemption/switch and the Cut-Off timing for various transactions shall be reckoned at these Official Points.

Credit Risk : Risk of default in payment of principal or interest or both.

Custodian : An entity (for the time being Citi Bank NA) appointed for holding the securities and other assets of the Fund.

CDSC : Contingent Deferred Sales Charge permitted under the Regulations to be borne by the Unit Holder upon exiting (whether by way of redemption or Inter-scheme switching) based on the amount of investment (if applicable) and period of holding of Units.

Day : Any day (including Saturday, Sunday and holiday) as per English Calendar viz 365 days in a year.

Debt Instruments : Government securities, corporate debentures, bonds, promissory notes, money market instruments, pass-through obligations, asset backed securities/security debt and other possible similar securities.

Depository : Depository as defined in the Depository Act, 1996 (22 of 1996).

Dividend : Income distributed by the Mutual Fund on the units.

Entry Load : Load on sale of units.

Exit Load : Load on repurchase of units.

FIH(s) : Foreign Institutional Investor(s), registered with SEBI under Securities and Exchange Board of India (Foreign Institutional Investors) Regulation, 1995.

Financial Year : A Financial Year shall be full English Calendar months viz. 12 months commencing from 1st April and ending on 31st March.

Fund/Mutual Fund : Mutual Fund, a trust set up under the provisions of the Indian Trust Act, 1882 and registered with SEBI bearing Registration No. MF/019/94/0 dated December 13, 1994.

Fixed Income Securities : Debt Securities created and issued by, inter alia, Central Government, State Government, Local Authorities, Municipal Corporations, PSUs, Public Companies, Private Companies, Bodies Corporate, Unincorporated SPVs and any other entities which may be recognised/permitted which yield at fixed or variable rate by way of interest, premium, discount or a combination of any of them.

Gilts/Government Securities : As defined under Section 2(b) of the Securities Contract (Regulation) Act, 1956, Government Security means a security created and issued, whether before or after the commencement of the Act, by the Central Government and/or a State Government and having one of the forms specified in clause (2) of Section 2 of the Public Debt Act, 1944 (18 of 1944) including any amendments thereto or any replacement or re-enactment thereof/clarification and guidelines in the form of notes or circulars etc. issued from time to time; Treasury Bills, such other instruments as may be declared by Government of India and/or SEBI and/or RBI and/or any other regulatory authority to be securities; and rights or interest in the securities.

GOI : Government of India.

Group : As defined in clause (ef) of section 2 of the Monopolies and Restrictive Trade Practices Act, 1969 (54 of 1969).

Investor : Any resident or non-resident person whether individual or not (legal entity), who is eligible to subscribe for units under the laws of his/her/their state/country of incorporation, establishment, citizenship, residence or domicile and under the Income Tax Act, 1961 including amendments thereto from time to time and who has made an application for subscribing units under the Scheme. Under normal circumstances, a Unitholder shall be deemed to be the investor.

Investment Management Agreement/IMA : Investment Management Agreement dated 25/11/94 as amended from time to time, between the Trustee and AMC.

ISC : Investor Service Centre of the Mutual Fund.

Load : A sum of money deducted from the value received or paid to the unitholder towards Sale/Repurchase of units.

Money market instruments includes commercial papers, commercial bills, treasury bills, Government securities having an unexpired maturity upto one year, call or notice money, certificate of deposit, usance bills, and any other like instruments as specified by the Reserve Bank of India from time to time;

NAV : Net Asset Value of the units of the Scheme (and Options therein) calculated in the manner provided in this Offer Document by dividing the net assets by the number of outstanding units (on any valuation day) or as may be prescribed by the SEBI Regulations from time to time. The NAV will be computed upto four decimal places.

Net Assets : Net Assets of the Scheme at any time shall be the total value of the Schemes' assets, less its liabilities taking into consideration the accruals and the provision.

NFO: New Fund Offer.

Non Resident : Non resident is any person who is not a resident in India.

Offer Document : This document issued by Principal Mutual Fund, inviting to subscribe to the units of Principal Pnb Fixed Maturity Plan – 91 Days – Series XIV.

Person of Indian Origin : A person (not being a citizen of Pakistan or Bangladesh or Sri Lanka) shall be deemed to be of Indian origin, if

- i) He (She), at any time, held an Indian Passport;
- ii) He (She) or either of his (her) parents or any of his (her) grandparents was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955 (57 of 1955);
- iii) The person is the spouse of an Indian citizen or of a person of Indian origin (not being a citizen of Pakistan or Bangladesh or Sri Lanka).

Permissible Investments or Investments : Collective or group investments made on account of the unitholders of the scheme(s) in Securities and other assets in accordance with the SEBI Regulations and amendments thereto.

Portfolio : Portfolio at any time shall include all Permissible Investments and Cash.

RBI : Reserve Bank of India, established under the Reserve Bank of India Act, 1934, as amended from time to time.

Registrars/Registrar and Transfer Agent : Registrar for the time being of the Mutual Fund which, at present, is Karvy Computershare Pvt. Ltd., or such agency appointed by the AMC.

Regulations : Regulations imply SEBI Regulations and the relevant rules and provisions of the Securities and Exchange Board of India (Depositories and Participants) Regulations 1996; Public Debt Act, 1944; The Income Tax Act, 1961; Wealth Tax Act, 1957; Gift Tax Act, 1958, the Foreign Exchange Management Act, 1999, the Indian Trusts Act, 1882 as amended from time to time and shall also include any Circulars, Press releases or Notifications that may be issued by SEBI or the Government of India or the Reserve Bank of India.

Repo/Reverse Repo : Sale/Purchase of Securities as may be allowed by RBI from time to time with simultaneous agreement to repurchase/resell them at a later date.

Repurchase/Redemption : The units of Principal Pnb Fixed Maturity Plan – 91 Days – Series XIV which will be bought back by the Fund on an ongoing basis subsequent to the re-opening of the Scheme for sale/repurchase.

Resident : A resident means any person resident in India under the Foreign Exchange Management Act, and under the Income Tax Act, 1961 including amendments thereto from time to time.

Scheme/Plan : Principal Pnb Fixed Maturity Plan – 91 Days – Series XIV and the Investment Plans and options thereunder being offered by Principal Mutual Fund.

SEBI : Securities and Exchange Board of India, established under the Securities and Exchange Board of India Act, 1992, as amended from time to time.

SEBI Regulations/Mutual Fund Regulations: The Securities and Exchange Board of India (Mutual Funds) Regulations, 1996, or such other Regulation in force from time to time including any amendment thereto or any replacement or re-enactment thereof/clarification and guidelines in the form of notes or circulars etc. issued from time to time for regulating Mutual Funds in India, by SEBI.

Securities : Include Debt instruments like notes bonds, debentures, debenture stock, warrants, etc., futures, options, derivatives etc or other transferable securities of a like nature in or of any incorporated company or other body corporate, Gilts/Government securities, Mutual Fund units, Money Market Instruments like Call Deposit, Commercial Paper, Treasury Bills etc. such other instruments as may be declared by GOI and/or SEBI and/or RBI and/or any other regulatory authority to be securities; and rights or interest in securities, mortgage/Asset backed securities, securitised receivable auto loans, etc.

Sponsor : Principal Financial Services Inc., USA acting through its wholly owned subsidiary Principal Financial Group (Mauritius) Limited

Co-Settlers: Principal Financial Group (Mauritius) Limited, Punjab National Bank and Vijaya Bank, the co-settlers to the Principal Mutual Fund.

Switch : Transfer of units of one Scheme of Principal Mutual Fund to another Scheme of Principal Mutual Fund.

Tax Act : Income Tax Act, 1961, Wealth Tax Act 1957 and Gift Act, 1958, or such other legislation in force from time to time including any amendment thereto or any replacement or re-enactment thereof/rules, regulations any clarification and guidelines issued from time to time by the GOI.

Total Assets : Total Assets of the Scheme at any time shall be the total value of the Scheme's assets, taking into consideration the accruals.

Trust Deed : The Trust Deed of the Mutual Fund dated 25/11/1994 made by and between the Sponsor and the Trustee as amended from time to time or any replacement or substitution thereof.

Trustee : Principal Trustee Company Private Limited incorporated under the Companies Act, 1956.

Unitholder : A unitholder means any resident or non-resident person whether individual or not (legal entity), who being eligible to subscribe in the scheme has been allotted units under the Scheme based on a valid application and thus hold units in the Scheme.

Units : Undivided Share of a unitholder in the assets of the Scheme (and of the option(s), if any) as evidenced by any letter/advice or any other statement/certificate/instrument.

Interpretation

For all purposes of this Offer Document, except as otherwise expressly provided or unless the context otherwise requires:

- The terms defined in this Offer Document include the plural as well as the singular.
- Pronouns having a masculine or feminine gender shall be deemed to include the other.

In this Offer Document, all references to “dollars” or “\$” refers to United States dollars, and “Rs” refers to Indian Rupees. A “crore” means “ten million” and a “lakh” means a “hundred thousand”.

II. HIGHLIGHTS

Sponsor

The Mutual Fund is sponsored by Principal Financial Services Inc. USA through its wholly owned subsidiary, Principal Financial Group (Mauritius) Limited with Punjab National Bank and Vijaya Bank as its co-settlers. 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. Established in 1879, the Principal Financial Group has more than \$282.1 billion of assets under management and serves over 18.1 million customers worldwide through operations in the United States, Asia, Australia, Europe and Latin America (as on June 30, 2007).

The Scheme

Principal Pnb Fixed Maturity Plan - 91 Days - Series XIV (A close-ended debt scheme offering Fixed Maturity Plan).

Investment Objective

The investment objective of the Scheme is to build an income oriented portfolio and provide returns along with regular liquidity to investors.

Investment Plan / Option

The Fund will have an Investment Plan with two Investment Options.

- Growth Option
- Dividend Option

The Dividend Option will have the facility of Payout and Sweep.

Liquidity

- Repurchase at NAV based prices on all business days.
- Facility to move to other open ended scheme of the fund and interse between Growth Option & Dividend Option.

Transparency

- Announcement of NAV on all Business Days.
- Portfolio disclosure every six months.

Unitholder Service

- Repurchase proceeds paid by at-par cheques/demand drafts/pay orders/ direct credits
- Facility of Dividend Sweep
- Updated Account Statement ordinarily mailed within three Business Days for new financial transactions
- Investor Service Centres at major cities across the country
- Investment by NRIs /FIIs fully repatriable
- Facility for nomination.

III. RISK FACTORS

- Mutual funds and securities investments are subject to market risks and there can be no assurance and no guarantee that the objectives of the Mutual Fund will be achieved.
- As with any investment in securities, the NAV of the units issued under the Scheme can go up or down depending on the factors and forces affecting the capital markets.
- Past performance of the Sponsor/AMC/Mutual Fund does not indicate or guarantee the future performance of the schemes of the Mutual Fund and may not necessarily provide a basis of comparison with other investments.
- Principal Pnb Fixed Maturity Plan – 91 Days – Series XIV is only the name of the Scheme and does not in any manner indicate either the quality of the Scheme, its future prospects or the returns. Investors therefore are urged to study the terms of the offer carefully and consult their Investment Advisor before they invest in the Scheme
- The Sponsor or any of its associates including co-settlers is not responsible or liable for any loss or shortfall resulting from the operations of the Scheme. The sponsor's contribution towards the corpus of Principal Mutual Fund is Rs 25 lakh.
- Investors in the Scheme are not being offered a guaranteed or assured rate of return and the actual returns of an Investor will be based on the actual NAV which may go up or down depending on the market conditions.

To the extent the Scheme invests in Money Market Instruments, it will have the following risks:

Price-Risk or Interest-Rate Risk: Fixed income securities such as bonds, debentures and money market instruments run price-risk or interest-rate risk. Generally, when interest rates rise, prices of existing fixed income securities fall and when interest rates drop, such prices increase. The extent of fall or rise in the prices is a function of the existing coupon, days to maturity and the increase or decrease in the level of interest rates.

Credit Risk: In simple terms this risk means that the issuer of a debenture/ bond or a money market instrument may default on interest payment or even in paying back the principal amount on maturity. Even where no default occurs, the price of a security may go down because the credit rating of an issuer goes down. It must, however, be noted that where the Scheme has invested in Government Securities, there is no credit risk to that extent.

Re-investment Risk: Investments in fixed income securities may carry re-investment risk as interest rates prevailing on the interest or maturity due dates may differ from the original coupon of the bond. Consequently, the proceeds may get invested at a lower rate.

Interest rate movement (Basis Risk) : The changes in the prevailing rates of interest will likely affect the value of the Scheme's holdings until the next reset date and thus the value of the Schemes' Units. Increased rates of interest, which frequently accompany inflation and/ or a growing economy, are likely to have a negative effect on the value of the Units. The value of securities held by the Scheme generally will vary inversely with changes in prevailing interest rates. The fund could be exposed to the interest rate risk (i) to the extent of time gap in resetting of the benchmark rates, and (ii) to the extent the benchmark index fails to capture the interest rate movement.

To the extent the Scheme invests in Securitised Debt it will have the following risks:

The Scheme may invest in domestic securitised debt such as asset backed securities (ABS) or mortgage backed securities (MBS). Asset Backed Securities (ABS) are securitised debts where the underlying assets are receivables arising from various loans including automobile loans, personal loans, loans against consumer durables, etc. Mortgage backed securities (MBS) are securitised debts where the underlying assets are receivables arising from loans backed by mortgage of residential / commercial properties. ABS/MBS instruments reflect the undivided interest in the underlying pool of assets and do not represent the obligation of the issuer of ABS/MBS or the originator of the underlying receivables. The ABS/MBS holders have a limited recourse to the extent of credit enhancement provided. If the delinquencies and credit losses in the underlying pool exceed the credit enhancement provided, ABS/MBS holders will suffer credit losses. ABS/MBS are also normally exposed to a higher level of reinvestment risk as compared to the normal corporate or sovereign debt.

At present in Indian market, following types of loans are securitised:

Auto Loans (cars / commercial vehicles /two wheelers)
Residential Mortgages or Housing Loans
Consumer Durable Loans
Personal Loans
Corporates Loans

The main risks pertaining to each of the asset classes above are described below:

Auto Loans (cars / commercial vehicles /two wheelers)

The underlying assets (cars etc) are susceptible to depreciation in value whereas the loans are given at high loan to value ratios. Thus, after a few months, the value of asset becomes lower than the loan outstanding. The borrowers, therefore, may sometimes tend to default on loans and allow the vehicle to be repossessed. These loans are also subject to model risk, i.e. if a particular automobile model does not become popular, loans given for financing that model have a much higher likelihood of turning bad. In such cases, loss on sale of repossession vehicles is higher than usual.

Commercial vehicle loans are susceptible to the cyclicity in the economy. In a downturn in economy, freight rates drop leading to higher defaults in commercial vehicle loans. Further, the second hand prices of these vehicles also decline in such economic environment.

Housing Loans

Housing loans in India have shown very low default rates historically. However, in recent years, loans have been given at high loan to value ratios and to a much younger borrower classes. The loans have not yet gone through the full economic cycle and have not yet seen a period of declining property prices. Thus the performance of these housing loans is yet to be tested and it need not conform to the historical experience of low default rates.

Consumer Durable Loans

The underlying security for such loans is easily transferable without the bank's knowledge and hence repossession is difficult. The underlying security for such loans is also susceptible to quick depreciation in value. This gives the borrowers a high incentive to default.

Personal Loans

These are unsecured loans. In case of a default, the bank has no security to fall back on.

The lender has no control over how the borrower has used the borrowed money. Further, all the above categories of loans have the following common risks:

All the above loans are retail, relatively small value loans. There is a possibility that the borrower takes different loans using the same income proof and thus the income is not sufficient to meet the debt service obligations of all these loans.

In India, there is no ready database available regarding past credit record of borrowers. Thus, loans may be given to borrowers with poor credit record. In retail loans, the risks due to frauds are high.

Corporate Loans

These are loans given to single or multiple corporates. The receivables from a pool of loans to corporates are assigned to a trust that issues Pass Through Certificates (PTC) in turn. The credit risk in such PTCs is on the underlying pool of loans to corporates. The credit risk of the underlying loans to the corporates would in turn depend of economic cycles.

- Trading volumes, settlement periods and transfer procedures may restrict the liquidity of some of these investments. Different segments of the Indian financial markets have different settlement periods, and such periods may be extended significantly by unforeseen circumstances. The length of time for settlement may affect the Scheme in the event it has to meet an inordinately large number of redemption or of restructuring of the Scheme's investment portfolio.
- The AMC has the right to limit repurchases, under certain circumstances. Please read the Section of the Offer Document titled "Right to Limit Repurchases".
- Investments made by a unitholder in foreign currency in the Scheme are subject to the risk of fluctuation in the value of the Rupee.

- A unitholder may invest in the Scheme and acquire a substantial portion of the Scheme's units. The repurchase of units by the unitholder may have an adverse impact on the units of the Scheme, because the timing of such repurchase may impact the ability of other unitholders to repurchase their units.

Minimum Number of Investors

As per SEBI Circular SEBI/MD/CIR No. 10/22701/03 dated December 12, 2003 and June 14, 2005 each scheme and individual plans having different portfolio under the schemes should have a minimum of 20 investors and no single investor should account for more than 25% of the corpus of such scheme/plan(s). In case of non-fulfillment with either of the above two conditions the investors' money shall be refunded immediately after the close of the NFO. The aforesaid Circular would be applicable at the Portfolio level.

Risk factors specific to Principal Pnb Fixed Maturity Plan – 91 Days – Series XIV:

In case of Fixed Income and Government Securities, changes in the prevailing rates of interest are likely to affect the value of the Scheme's holdings (and thus the value of the Scheme's units). Increased rates of interest, which frequently accompany inflation and/or a growing economy, are likely to have a negative effect on the value of the units. Whilst every attempt may be made to invest in securities with matching maturity profile of the Scheme, the Scheme may, depending upon the availability of assets/securities, invest in securities with varying maturity profiles as compared to that of the Scheme. This may have an impact on the units of the Scheme. The value of securities held by the Scheme generally will vary inversely with changes in prevailing interest rates.

The impact on NAV due to amortisation of New Fund Offer expenses is explained by way of an example under section "New Fund Offer Expenses."

IV. SPECIAL CONSIDERATIONS

Investment in the Scheme should be viewed by an investor/unitholder as a medium to long term investment as mutual funds carry normal market risks and there can be no assurance and no guarantee that the Scheme will achieve its objective. It is recommended that an investment in the Scheme should not constitute a substantial proportion of an investment portfolio and may not be appropriate for all, as investment decisions made by the AMC will not always be profitable or prove to have been correct. As with any investment in stocks, shares and securities, the NAV of the Units under the Scheme can go up or down, depending on the factors and forces affecting the capital markets. Past performance of the schemes of Principal Mutual Fund, the Sponsor or its Group affiliates is not indicative of and does not guarantee the future performance of the scheme. The name of the Scheme does not in any manner indicate the quality of the Scheme, its future prospects or the returns. The Scheme is not intended as a complete investment program. Investors, therefore, are urged to study the terms of this offer carefully and consult their Investment Advisor before they invest in the Scheme. Investors'/unitholders' attention is drawn to the risk factors set out in the beginning of this Offer Document and also to the following specific risks:

Regulatory Risks: Neither this Offer Document nor the Units have been registered in any jurisdiction. The distribution of this Offer Document in certain jurisdictions may be restricted or subject to registration requirements and, accordingly, persons who come into possession of this Offer Document are required to inform themselves about, and to observe, any such restrictions. No person receiving a copy of this Offer Document or any accompanying application form in such jurisdiction may treat this Offer Document or such application form as constituting an invitation to them to subscribe for Units, nor should they in any event use any such application form, unless in the relevant jurisdiction such an invitation could lawfully be made to them and such application form could lawfully be used without compliance with any registration or other legal requirements. Accordingly, this Offer Document does not constitute an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not lawful or in which the person making such offer or solicitation is not qualified to do so or to anyone to whom it is unlawful to make such offer or solicitation. It is the responsibility of any persons in possession of this Offer Document and any persons wishing to apply for Units pursuant to this Offer Document to inform themselves of and to observe, all applicable laws and Regulations of such relevant jurisdiction.

Prospective investors should review/study this Offer carefully and in its entirety and shall not construe the contents hereof or regard the summaries contained herein as advice relating to legal, taxation, or financial/investment matters and are advised to consult their own professional advisor(s) as to the legal or any other requirements or restrictions relating to the subscription, gifting, acquisition, holding, disposal (sale, transfer, switch or redemption or conversion into money) of Units and to the treatment of income (if any), capitalization, capital gains, any distribution, and other tax consequences relevant to their subscription, acquisition, holding, capitalization, disposal (sale, transfer, switch or redemption or conversion into money) of Units within their jurisdiction/of nationality, residence, domicile etc. or under the laws of any jurisdiction to which they or any managed Funds to be used to purchase/gift Units are subject, and (also) to determine possible legal, tax, financial or other consequences of subscribing/gifting to, purchasing or holding Units before making an application for Units.

No person has been authorized to give any information or to make any representations not confirmed in this Offer Document in connection with the Offer of Units, and any information or representations not contained herein must not be relied upon as having been authorized by the Mutual Fund or the AMC or the Trustee. Statements made in this Offer Document are based on the law and practice currently in force in India and are subject to change therein. Neither the delivery of this Offer Document nor any sale made hereunder shall, under any circumstances, create any impression that the information herein is correct as of any time subsequent to the date hereof.

Performance Risk: The value of (and income from) an investment in the Scheme can decrease as well as increase, depending on a variety of factors, which may affect the values and income generated by a Scheme's portfolio of securities. The returns of a Scheme's investments are based on the current yields of the securities, which may be affected generally by factors affecting capital markets such as price and volume, volatility in the stock markets, interest rates, currency exchange rates, changes in government and Reserve Bank of India policy, taxation, political, economic or other developments and closure of the stock exchanges. Investors should understand that the investment composition indicated for the Scheme(s), in line with prevailing market conditions, is only a hypothetical example as all investments involve risk and there can be no assurance that the Scheme's investment objective will be attained nor will the Scheme(s) be in a position to maintain the model percentage of investment pattern/composition particularly under exceptional circumstances such that the interest of the unitholders are protected.

The AMC will endeavor to invest in highly researched growth companies, however the growth associated with equities is generally high as also the erosion in the value of the investments/portfolio in the case of the capital markets passing through a bearish phase is a distinct possibility. Changes in the prevailing rates of interest is likely to affect the value of the Scheme's investments and thus the value of the Scheme's Units. The value of money market/debt instruments held by the Scheme generally will vary inversely with the changes in prevailing interest rates. The AMC, while investing in fixed-income instruments like debt, etc., shall consider and evaluate the risk of an issuer's ability to meet principal and interest payments (credit risk) and also the price volatility due to such factors as interest sensitivity, market perception or the creditworthiness of the issuer and general market liquidity (market risk). While it is the intent of the AMC to invest primarily in more highly rated debt securities and highly researched growth companies, the Scheme may from time to time invest in high yielding/growth, lower rated and/or privately placed/unlisted/securitised securities. Lower rated or unrated securities are more likely to react to developments affecting market and credit risk than highly rated securities. The credit risk factors pertaining to lower rated securities also apply to lower rated zero coupon, deferred interest bonds.

Techniques Risk: The Scheme may use techniques and instruments that may be permitted and/or that may become permissible under SEBI/RBI Regulations and/or Regulations and/or statutory modification or re-enactment thereof for efficient portfolio management and to attempt to hedge or reduce the risk of such fluctuation. However, these techniques and instruments, if imperfectly used have the risk of the scheme incurring losses due to mismatches particularly in a volatile market. The Fund's ability to use these techniques may be limited by market conditions, regulatory limits and tax considerations (if any). The use of these techniques is dependent on the ability to predict movements in the prices of securities being hedged and movements in interest rates. There exists an imperfect correlation between the hedging instruments and the securities or market sectors being hedged. Besides, the fact that skills needed to use these instruments are different from those needed to select the Fund's/Scheme's securities. There is a possible absence of a liquid market for any particular instrument at any particular time even though the futures and options may be bought and sold on an organized exchange. The use of these techniques involves possible impediments to effective portfolio management or the ability to meet repurchase/redemption requests or other short-term obligations because of the percentage of the Scheme's assets segregated to cover its obligations.

Liquidity and Settlement Risks: The liquidity of the Scheme's investments may be inherently restricted by trading volumes, transfer procedures and settlement periods. From time to time, the Scheme will invest in certain securities of certain companies, industries, sectors, etc based on certain investment parameters as adopted internally by AMC. While at all times the Trustees and the AMC will endeavor that excessive holding/investment in certain securities of industries, sectors, etc. by the Scheme be avoided, the assets invested by the Scheme in certain securities of industries, sectors, etc. may acquire a substantial portion of the Scheme's investment portfolio and collectively may constitute a risk associated with non-diversification and thus could affect the value of investments. The Scheme may have difficulty in disposing of certain securities because the security may be unlisted, due to greater price fluctuations there may be a thin trading market, different settlement periods and transfer procedures for a particular security at any given time. Settlement if accomplished through physical delivery of stock certificates is labour and paper intensive and may affect the liquidity. It should be noted that the Fund bears the risk of purchasing fraudulent or tainted papers. The secondary market for money market/debt securities does exist, but is generally not as liquid as the secondary market for other securities. Reduced liquidity in the secondary market may have an adverse impact on market price and the Scheme's ability to dispose of particular securities, when necessary, to meet the Scheme's liquidity needs or in response to a specific economic event, such as the deterioration in the creditworthiness of the issuer, etc. or during restructuring of the Scheme's investment portfolio. Furthermore,

from time to time, the AMC, the Custodian, the Registrar, any Associate, any distributor, dealer, any company, corporate bodies, trusts, any scheme/Mutual Fund managed by the AMC or by any other AMC may invest in the Scheme. While at all times the Trustees and the AMC will endeavor that excessive holding of Units in the Scheme(s) among a few unitholders is avoided, however, the amounts invested by these aforesaid persons may acquire a substantial portion of the Scheme's outstanding Units and collectively may constitute a majority unitholder in the Scheme. Accordingly, redemption of Units held by such persons may have an adverse impact on the value of the redemption and may impact the ability of the unitholders to redeem their respective Units.

Political Risk: Whereas the Indian market was formerly restrictive, a process of deregulation has been taking place over recent years. This process has involved the removal of trade barriers and other protectionist measures, which could adversely affect the value of investments. It is possible that future changes in the Indian political situation, including political, social, or economic instability, diplomatic developments and changes in laws or regulations could have an effect on the value of investments. Expropriation, confiscatory taxation, or other relevant developments could also affect the value of investments.

V. DUE DILIGENCE CERTIFICATE

It is confirmed that:

1. The Offer Document forwarded to SEBI is in accordance with the SEBI (Mutual Funds) Regulations, 1996 and the guidelines and directives issued by SEBI from time to time.
2. All legal requirements connected with the launching of the Scheme as also the guidelines, instructions, etc., issued by the Government and any other competent authority in this behalf, have been duly complied with.
3. The disclosures made in the Offer Document are true, fair and adequate to enable the unitholders to make a well-informed decision regarding investment in the proposed Scheme
4. According to the information given to us, Citibank N.A., the Custodians to the Scheme and Karvy Computershare Pvt. Ltd., the Registrar and Transfer Agents to the Scheme are registered with SEBI and till date such registration is valid
5. The contents of the Offer Document including figures, data, yields etc have been checked and are factually correct.

For Principal Pnb Asset Management Company Pvt. Ltd.

Sd/
Place: Mumbai
Date : November 21, 2007

Sujata Punjabi
Head - Legal & Compliance

Note: The Due Diligence Certificate as stated above was submitted to Securities and Exchange Board of India on November 21, 2007.

VI. SCHEME'S FEATURES

NAME OF THE SCHEME: Principal Pnb Fixed Maturity Plan, (close-ended debt scheme), offering Investment plan under Series XIV having maturity period of 91 days

Type of Scheme: A close-ended debt scheme offering Fixed Maturity Plan.

Investment objective: The investment objective of the Scheme is to build an income oriented portfolio and provide returns along with regular liquidity to investors.

Investment Plans:

The Fund will have an Investment Plan with two Investment Options.

- Growth Option
- Dividend Option

The Dividend Option will have the facility of Payout and Sweep.

Rationale behind the above duration:

Interactions with investors and past issuance history have revealed that there is investor interest to lock in money for 91 days. Since interest rates on corporate bonds have risen substantially in the 91 days bucket in the recent past, AMC believes that there could be significant investor interest to lock in funds for 91 days period.

Units under the Scheme can be subscribed only during the New Fund Offer.

Investment Options:

The Investment Plan will offer Growth Option and Dividend Option. Dividend Option will have the facility of Pay-out and Sweep.

Dividend Option

Under this Option, the income and profits realized will be distributed by way of dividend. The undistributed portion of the income will remain in the Option and be reflected in the NAV, on an ongoing basis. The Trustee reserves the right to declare the dividend subject to the Option having adequate distributable profits.

The Dividend Option will have facilities – Payout and Sweep. Under the Payout facility, the dividends so declared/distributed would be paid out to the unitholders. However the Trustees reserve the right to introduce new dividend distribution options. Under the sweep facility unitholders can choose to reinvest their dividend in any other open-ended schemes of the Fund, at Applicable NAV based prices.

Growth Option

Under this Option, ordinarily no dividend shall be declared. All income earned and profits realized in respect of a Unit issued under the Option will continue to remain invested until repurchase and shall be deemed to have remained invested in the Option itself, which will be reflected in the NAV. However, the Trustees reserve the right to pay out dividends either based on a change in market conditions, tax regulations or any other situation that would make it more beneficial for Unitholders to receive dividends.

Please note that if no Option is mentioned/ indicated in the Application Form, the units will, by default, be allotted under the Growth Option. Similarly, under the Dividend Option, if no choice (payout or sweep) is indicated, the applicant will be deemed to have applied for the dividend payout facility under the Option. The unitholder is subsequently free to switch the units from the default option to any other eligible options of the Scheme, at the applicable NAV.

Investment Strategy

Predominantly, investments would be in money market instruments and short dated debt instruments, including securitisation and government securities. Select exposure may be undertaken in debt instruments including securitisation and government securities of maturities different from that of the portfolio.

Portfolio:

The scheme will have a portfolio in line with the maturity of the Scheme i.e. 91 Days. The Investment Options within the said Scheme namely, Growth Option and Dividend Option will share a common portfolio.

Investment Pattern

The Scheme will invest in a diversified portfolio of debt, money market securities and Government Securities from time to time. The Scheme will predominantly invest in a distinct portfolio of debt securities maturing in line with the time profile of the Scheme. The Scheme does not guarantee any returns and there is no assurance that the investment objectives of the Scheme will be achieved.

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

	Type of Instrument	% of Net Assets		Risk Profile
		Min.	Max.	
1.	Debt securities (including securitized debt*) and Money Market Instruments.	0%	100%	Low to Medium
2.	Government Securities	0%	100%	Low

* Investment in Securitised Debt may be up to 100% of the net assets of the Scheme.

The Scheme will not invest in foreign debt instruments including foreign securitized debt.

Change in Investment Pattern

Subject to the SEBI Regulations, the asset allocation pattern indicated above may change from time to time, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors. It must be clearly understood that the percentages stated above are only indicative and not absolute. These proportions can vary substantially depending upon the perception of the Investment Manager; the intention being at all times to seek to protect the interests of the Unitholders. Such changes in the investment pattern will be for short term and for defensive considerations only.

Minimum Target Amount

The minimum target amount under the Plan will be Rs 10 lakhs. In the event of non-receipt of the minimum target amount of Rs 10 lakhs, the entire amount collected as subscription money will be refunded to the investors.

Minimum Application Amount

Minimum application amount will be Rs. 1000 for Dividend Option and Growth Option and any amount thereafter under each option.

Switching Option

Switching from any other existing schemes into this Scheme would be available only at the time of NFO. However, switching from the Plan into other existing schemes would be available on a continuous basis, subject to the loads, as may be applicable.

Liquidity

Liquidity will be available through repurchase of units on an ongoing basis on all business days. Unitholders can get their units repurchased on all business days at NAV related prices. The Fund will ordinarily dispatch the repurchase proceeds, as per the Regulations, within ten business days. However, the Fund will endeavor to dispatch the repurchase proceeds within three business days from the date of acceptance of a valid repurchase request. The Scheme would not be listed on any stock exchange.

Subscription under existing Scheme:

The subscription to the Scheme shall be allowed only at the time of the new fund offer of the Scheme.

Transparency

The NAV of the Scheme will normally be determined on all business days and the same shall be hosted on the website of AMFI i.e. www.amfiindia.com. The Scheme’s NAV and sale/repurchase price will be published in at least two daily newspaper/s (of all India circulation) on all business days. In addition, the ISC and/or collection centre would also make available the NAVs and the NAV related prices. The Fund would publish the half-yearly results as per SEBI Regulations.

Dividend Payout Facility

Under this Facility, the unitholders would receive payout of their dividend in the Option.

Dividend Sweep Facility

Under this facility, the unitholders may reinvest their dividend in any other open ended scheme of the Fund at the applicable NAV based prices, subject to the minimum investment and eligibility requirements of the scheme in which the dividend is being invested which may be waived at the discretion of the AMC.

Account Statements

Unitholders will receive Account Statement and/or transaction confirmation after each transaction. The statement will provide the number and value of the units owned by the unitholder, transactions during the period, dividends declared or paid and other information. The Fund reserves the right to alter the frequency and the detail(s) of Account Statements and/or transaction confirmation.

Special Facilities:

The Fund reserves the right to amend or terminate or introduce special facilities in this Offer Document. Such facilities for the time being include Switch Facility, and Dividend Sweep Plan, Asset Allocation Programme etc. and any such facility/plan that may be introduced in the future.

BRIEF INTRODUCTION TO THE FUTURE GOALS SERIES

The Scheme is part of Principal Future Goals Series. The Future Goals Series is a carefully structured suite of scheme(s) designed to meet a wide range of investment needs. Not only do unitholders have a comprehensive choice of schemes(s) and plans within these scheme(s), but also it is easier for unitholders to move between Scheme(s) as their needs change. Initially four schemes namely Principal Growth Fund (open ended growth scheme), Principal Income Fund (open ended income scheme), Principal Balanced Fund (open ended balanced scheme) and Principal Cash Management Fund (open ended liquid scheme) were launched as part of Future Goals Series. Subsequently Principal Index Fund (open ended index scheme), and Principal Government Securities Fund (open ended dedicated Government Securities scheme investing in government securities), Principal Monthly Income Plan (open ended income scheme with no assured returns), Principal Floating Rate Fund (open ended income scheme), Principal Dividend Yield Fund (open ended equity scheme), Principal Global Opportunities Fund (Open-ended growth fund), Principal Resurgent India Equity Fund (Open-ended equity scheme), Principal Focussed Advantage Fund (Open-ended equity scheme) Principal Junior Cap Fund (Open-ended equity scheme), Principal Large Cap Fund (Open-ended equity scheme), Principal Infrastructure & Services Industries Fund (Open-ended Equity Scheme), Principal Pnb Fixed Duration Funds, Principal Pnb Fixed Maturity Plans and Principal Pnb Long Term Equity Fund - 3 Year Plan - Series I launched by Principal Mutual Fund have been included as part of Future Goals Series.

ASSET ALLOCATION - THE CONCEPT EXPLAINED

The asset allocation program allows the investor to allocate his investment across different asset classes at the time of investment. The allocation would differ for different investor classes at different stages of their life-cycle – for example a young investor may typically invest more in higher return – higher risk assets like equities. Each investment type has a different level of risk and potential return associated with it. One way of reducing risk over short periods of time is to spread/allocate the investment into different investment types i.e. asset allocation between different asset classes i.e. different scheme(s).

Different investment types tend to experience good performance at different times. By not having all the investment in one asset class, a unitholder can offset the higher returns expected in one investment to offset any poor performance that may occur from another asset class.

A diversified programme such as The Future Goals Asset Allocation Programme attempts to overcome the inherent volatility of any particular investment types and will typically enable the unitholder to invest across equity, fixed income products and short-term money market/cash products.

The asset allocation programme works on the following principles:

- Allocation of investment to different asset classes by the unitholder at the time of investment
- Rebalancing the portfolio at periodic intervals by the AMC to maintain the stated proportion in the same applicable ratio as stated by the unitholder at the time of original investment unless changed.

The rebalancing mechanism at periodic intervals would ensure that if there are changes in the market value of assets under a certain class causing the proportion of investment in that asset class to increase/decrease from the originally stated allocation, on the rebalancing date, the AMC would add/reduce assets in that class. Therefore, on all rebalancing dates, the asset proportion ratio would match those indicated by the unitholder at the time of original investment.

Example:

The concept of asset allocation is further clarified through an illustrative example. Investor A invests Rs 1,00,000 in the following proportion on July 1, 2005 and the reallocation date is on a half yearly basis:

July 1, 2005

	Proportion	NAV per Unit	No. of Units	Amount (Rs)
Index Fund	50%	10	5,000	50,000
Government Securities Fund	30%	10	3,000	30,000
MIP	10%	10	1,000	10,000
Cash Management Fund	10%	10	1,000	10,000
TOTAL	100%		10,000	100,000

In the period between the date on which the investment is made and the date of rebalancing i.e. December 31, 2005 the markets react and the values of the Investments of Investor A are valued as follows:

Reallocation date (before reallocation)

	Proportion	NAV per Unit	No. of Units	Amount (Rs)
Index Fund	57%	15	5,000	75,000
Government Securities Fund	27%	12	3,000	36,000
MIP	8%	11	1,000	11,000
Cash Management Fund	8%	11	1,000	11,000
TOTAL	100%		10,000	133,000

The unitholder's assets will then be rebalanced i.e. assets in some scheme(s) will be bought by the sales proceeds of other scheme(s) by way of interscheme switch, to bring the total investment of the unitholder back to the originally nominated proportion:

Reallocation date (after reallocation)

	Proportion	NAV per Unit	No. of Units*	Amount (Rs)
Index Fund	50%	15	4,434	66,502
Government Securities Fund	30%	12	3,325	39,900
MIP	10%	11	1,209	13,299
Cash Management Fund	10%	11	1,209	13,299
TOTAL	100%		10,177	133,000

* Units rounded off to whole numbers

VII. CONSTITUTION OF THE MUTUAL FUND

THE FUND

Principal Mutual Fund (formerly known as IDBI-PRINCIPAL Mutual Fund) has been constituted as a Trust in accordance with the provisions of the Indian Trusts Act, 1882 (2 of 1882). The Mutual Fund is registered with SEBI under Registration No. MF/019/94/0, dated December 13, 1994. The underlying objective of Principal Mutual Fund is to mobilise savings from the public, provide investment expertise to achieve optimal returns on their investments.

The Fund was initially set up by Industrial Development Bank of India (IDBI) in 1994 by execution of a Trust Deed dated November 25, 1994, under which IDBI was the sole Settlor, Sponsor and Principal Trustee and an initial amount of Rs.1 lakh and additional amount of Rs.24.99 crore was settled as the trust

corpus. Subsequently, on March 31, 2000, Principal Financial Services Inc. USA became the deemed sponsor (along with the IDBI) by acquiring 50% stake in IDBI-PRINCIPAL Asset Management Company Limited. On June 23, 2003, Principal Financial Services Inc. USA became the sole sponsor by acquiring 100% stake in IDBI-PRINCIPAL Asset Management Company Limited, through its wholly owned subsidiary Principal Financial Group (Mauritius) Limited (Principal Mauritius). Principal Mauritius has become the sole settlor of the Fund. Name of the Asset Management Company was changed to Principal Asset Management Company Private Limited, to reflect the change in ownership. In tune with the industry standards and practices, Principal Mauritius, the Settlor, maintains a corpus of Rs.25 lakh in the Trust in place of the original contribution of Rs. 1 lakh and additional contribution of Rs.24.99 crore vide execution of a supplemental trust deed dated April 16, 2004.

On May 5, 2004, Punjab National Bank (PNB) and Vijaya Bank (VB) have become equity shareholders and they hold equity shares to the extent of 30% and 5% respectively of the equity capital of both Principal Pnb Asset Management Company Private Limited and Principal Trustee Company Private Limited. Pursuant to this change in ownership, certain amendments have been made to the Principal Mutual Fund vide Supplemental Trust Deed dated 5th May 2004, to reflect, amongst other amendments, the addition of Punjab National Bank and Vijaya Bank as the new co-settlers to the Fund. Accordingly, Principal Mauritius, Punjab National Bank and Vijaya Bank have 65%, 30% and 5% respectively of all the rights, title, interest and obligations as co-settlers to Principal Mutual Fund.

Principal Mutual Fund has been notified under Section 10(23D) of the Income Tax Act by Central Board of Direct Taxes (Gazette Notification No.S.O.52 (E) dated January 18, 1995) vis-a-vis exemption from income tax of the entire income of the Fund in India and therefore all such income received by the Fund will be without any deduction of tax at source.

THE SPONSOR /CO- SETTLORS

The Mutual Fund is sponsored by Principal Financial Services Inc. USA through its wholly owned subsidiary, Principal Financial Group (Mauritius) Limited with Punjab National Bank (PNB) and Vijaya Bank (VB) as its co-settlers. Effective May 5, 2004, Principal Mauritius, PNB and VB have 65%, 30% and 5% respectively of all rights, title, interest and obligations as co-settlers of Principal 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 \$282.1 billion in assets under management and serves over 18.1 million customers worldwide through operations in the United States, Asia, Australia, Europe and Latin America (as on June 30, 2007). 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.

Condensed Financial Position of Principal Financial Group, Inc. (holding Company of Principal Financial Services Inc.)

(Amount in millions, U.S.\$)

Particulars	Dec.2006	Dec.2005	Dec.2004
Total Revenue	9826	9067	8438
Operating Earnings	972	862	765
Net Income	1031	901	826
Total Assets	143658	127035	113798
Total Stakeholders Equity / Net Worth	7861	7807	7544
Operating Earnings per Diluted Share	3.53	2.97	2.43
Book Value per Share (excluding OCI)	24.11	22.35	20.73
Percentage of Dividend Paid (Calculated as Dividend/ Share Capital)	3.0%	2.5%	2.3%

Both Punjab National Bank (PNB) and Vijaya Bank (VB) are scheduled commercial banks. PNB has a network of over 4,000 branches and 400 extension counters throughout India and offers a wide variety of banking services. VB has built a network of over 800 branches that span all 28 states and 4 union territories in the country. With the said infrastructure, Principal Pnb Asset Management Company Private Limited has been in a position to leverage the combined and far-reaching distribution networks of PNB and VB, including more than 5,000 combined retail and commercial banking branches and over 40 million customers throughout India, along with Principal's international expertise and its position as a recognized and prominent manager of mutual funds in India.

Migration of Schemes of PNB Mutual Fund and Sun F&C Mutual Fund

Pursuant to an agreement for sale entered into between the AMC and the Trustee Company of Principal Mutual Fund of One Part and the AMC and Board of Trustees of the PNB Mutual Fund of the Other Part, effective from the date of completion of sale viz. April 30, 2004, PNB Debt Fund,

a scheme of PNB Mutual Fund has migrated to Principal Mutual Fund on receipt of the necessary regulatory approvals and consequently, Principal Trustee Company Private Limited and Principal PNB Asset Management Company Private Limited had become the Trustee and the AMC respectively for this scheme. The name of the scheme was changed to Principal PNB Debt Fund, which was subsequently merged into Principal Income Fund on March 17, 2006.

Pursuant to an agreement for sale entered into between the AMC and the Trustee Company of Principal Mutual Fund and the AMC and Board of Trustees of the SUN F&C Mutual Fund, effective from the date of completion of sale viz. May 14, 2004, the following schemes of Sun F&C Mutual Fund have migrated to Principal Mutual Fund on receipt of the necessary regulatory approvals and consequently, Principal Trustee Company Private Limited and Principal Pnb Asset Management Company Private Limited have become the Trustee and the AMC respectively for these schemes:

Former Name	New Name
Sun F&C Resurgent India Equity Fund	Principal Resurgent India Equity Fund
Sun F&C Personal Tax Saver	Principal Personal Tax Saver Fund
Sun F&C Money Value Fund	Principal Money Value Bond Fund
Sun F&C Balanced Fund	Principal Balanced Fund

Of the above, Principal Money Value Bond Fund has been merged with Principal Income Fund on March 17, 2006.

TRUSTEE OF PRINCIPAL MUTUAL FUND

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.

On June 23, 2003, Principal Financial Services Inc. USA acquired 100% stake in IDBI-PRINCIPAL Trustee Company Limited, through its wholly owned subsidiary Principal Financial Group (Mauritius) Limited. Name of the Trustee Company was changed to Principal Trustee Company Private Limited, to reflect the change in ownership. On May 5, 2004, Punjab National

Bank and Vijaya Bank became equity shareholders of the Trustee Company and post this, Principal Financial Group (Mauritius) Limited, Punjab National Bank and Vijaya Bank hold 65%, 30% and 5% respectively of the paid up equity capital of the Trustee Company.

The Trustees have appointed Citibank NA as the Custodian and Karvy Computershare Pvt. Ltd. as the Registrar for all the schemes, existing as well as schemes to be launched from time to time.

The Trustee discharges the supervisory role by having a number of checks and balances besides having continuous feedback from the AMC on matters of importance and a review of the Mutual Fund's operations at the periodical meetings of the Board of Directors of the Trustee Company which are required to be held at least once in two calendar months as per the Regulations.

Three Board Meetings of the Trustee Company were held during the period ended April 1, 2007 to November 1, 2007.

The performance reports of all the schemes are placed before the Board of the Trustee Company at such meetings. The reports on statutory compliance and investor servicing are also regularly placed at such meetings by AMC. The bi-monthly compliance test report in respect of the Fund, which is filed with SEBI by the AMC, is also placed/adopted before/after, by the Board of the Trustee Company. An Audit committee has been constituted to review the internal audit systems and the recommendations of the internal and statutory auditors and to ensure that the measures as suggested by internal and external auditors are acted upon.

Obligations of Trustee

As per the Trust Deed, the Trustee shall have the following obligations:

1. The Trustees shall take reasonable care to ensure that the schemes floated under the Fund and managed by the AMC are in accordance with the Trust Deed and SEBI Regulations.
2. The Trustees shall not acquire nor allow the AMC to acquire any assets out of the Trust Fund and/or unit capital, which involves the assumption of unlimited liability or results in the encumbrances of Trust Fund, and/or Unit Capital in any way.
3. The Trustees shall maintain arms' length relationship with companies, institutions, financial intermediaries or bodies corporate with which the Trustees may be associated in any capacity in carrying out their responsibilities as the Trustees of the Mutual Fund.

The Directors of the Trustee Company are :

Name of Director	Directorship
MR. B.G. DESHMUKH <i>Former Cabinet Secretary, Government of India</i> Acacia - II, Plot No. 26, Magarapatta Township, Hadapsar, Pune - 411 028. <i>Qualification : B. Sc. (Hons), M.A. (Econ.)</i>	• Siporex India Ltd. • Venky's (India) Ltd. • Venkateshwara Hatcheries Pvt. Ltd. • Finolex Cables Ltd.
MR. NORMAN SORESENSEN* <i>Senior Vice President -</i> <i>Principal Financial Group, USA</i> 539, Burgundy Circle, Waukee, Iowa, USA. <i>Qualification : United States Air Force Academy,</i> <i>Bachelor of Science, Columbia University's</i> <i>Executive Program for Int'l Managers</i>	• BrasilPrev Seguros e Previdencia S.A. • Principal Administradora General de Fondos S.A. • Principal Afore, S. A. De C.V. • Principal Asset Management Company (Asia) Limited • Principal Compania de Seguros de Vida Chile S. A. • Principal Financial Group, Inc • Principal Consulting (India) Private Limited • Principal Financial Group (Mauritius) Limited • Principal Financial Services (Australia), Inc • Principal Financial Services, Inc. • Principal Fondes De Inversion, S.A. De C.V. • Principal Insurance Company (Hong Kong) Ltd • Principal International (Asia) Limited • Principal International de Chile S.A. • Principal International Holding Company, LLC • Principal International Inc. • Principal Investments (Australia) Limited • Principal Life Insurance Company • Principal Mexico Compania de Seguros, S.A. De C.V. • Principal Pensions, S.A. De C.V. • Principal Siefore, S.A. De C.V.
MR. H. M. SINGH <i>Former Secretary, Government of India</i> A-164, New Friends Colony, New Delhi - 110 025 <i>Qualification : M.A (Political Science)</i>	NIL
MR. V. S. MATHUR <i>Former Director General, Systems - Income Tax Dept.</i> <i>Income Tax Department</i> B-70, Sector 14, Noida-201 301. <i>Qualification : M.A</i>	NIL
MR. PRAMOD H. LELE <i>Chief Executive Officer</i> P.D. Hinduja National Hospital & Med. Res. Centre, Veer Savarkar Marg, Mahim, Mumbai - 400 016. <i>Qualification : Chartered Accountant</i>	• SICOM Ltd. • Organon India Ltd. • Maharashtra Safe Chemists & Distributors Alliance Ltd. • Renaissance Jewellery Ltd.
MR. RANJAN DHAWAN* <i>General Manager</i> PNB, Head Office, Rajendra Bhawan, Rajendra Place, New Delhi - 110008 <i>Qualification : MBA (Finance),</i> <i>Cost & Management Accountant (U.K), CIA - USA</i>	• Pnb Principal Financial Planners Private Ltd. • Pnb Principal Insurance Broking Private Ltd. • Principal Pnb Life Insurance Company Ltd.

* Associate directors in terms of SEBI (Mutual Funds) Regulations 1996, amended from time to time.

4. The Trustees shall not participate in any decision-making process/ resolution of its Board for any investment in which they may be interested.
5. All of the Trustees shall furnish to SEBI, the interest which they may have in any other company, or institution or financial intermediary or any corporate by virtue of his/her position as Director, partner or with which he/she may be associated in any other capacity.

No amendments to the trust deed shall be carried out without the prior approval of SEBI and unitholder's approval / consent would be obtained where it affects the interests of unitholders as per the procedure / provisions laid down in the Regulations.

Duties and Responsibilities of Trustees

1. The Trustees and the AMC shall, with the prior approval of SEBI, enter into an Investment Management Agreement.
2. The Investment Management Agreement shall contain such clauses as are mentioned in the fourth Schedule of SEBI Regulations and such other clauses as are necessary for the purpose of making investments.
3. The Trustees shall have a right to obtain from the AMC such information as is considered necessary by the Trustees.
4. The Trustees shall ensure before the launch of any scheme that the AMC has -
 - systems in place for its back office, dealing room and accounting;
 - appointed all key personnel including Fund manager(s) for the scheme and submitted their bio-data which shall contain the educational qualifications, past experience in the securities market with the Trustees, within 15 days of their appointment;
 - appointed auditors to audit its accounts;
 - appointed a compliance officer to comply with regulatory requirement and to redress investor grievances;
 - appointed registrars and laid down parameters for their supervision;
 - prepared a compliance manual and designed internal control mechanisms including internal audit systems;
 - specified norms for empanelment of brokers and marketing agents.
5. The Trustees shall ensure that an AMC has been diligent in empanelling the brokers, in monitoring securities transactions with brokers and avoiding undue concentration of business with any broker.
6. The Trustees shall ensure that the AMC has not given any undue or unfair advantage to any associates or dealt with any of the associates of the AMC in any manner detrimental to interest of the unitholders.
7. The Trustees shall ensure that the transactions entered into by the AMC are in accordance with the SEBI Regulations and the scheme.
8. The Trustees shall ensure that the AMC has been managing the Mutual Fund schemes independently of other activities and have taken adequate steps to ensure that the interest of investors of one scheme are not being compromised with those of any other scheme or of other activities of the AMC.
9. The Trustees shall ensure that all the activities of the AMC are in accordance with the provisions of the SEBI Regulations.
10. Where the Trustees have reason to believe that the conduct of business of the Mutual Fund is not in accordance with the SEBI Regulations and the scheme, they shall forthwith take such remedial steps as are necessary by them, and shall immediately inform SEBI of the violation and the action taken by them.
11. Each Trustee shall file the details of his transactions (exceeding Rs.1 lac) of dealing in securities with the Mutual Fund on a quarterly basis.
12. The Trustees shall be accountable for, and be the custodian of, the property of the respective schemes and shall hold the same in trust for the benefit of the unitholders in accordance with the SEBI Regulations and the provisions of trust deed.
13. The Trustees shall take steps to ensure that the transactions of the Mutual Fund are in accordance with the provisions of the trust deed.
14. The Trustees shall be responsible for the calculation of any income due to be paid to the Mutual Fund and also of any income received in the Mutual Fund for the holders of the units of any scheme in accordance with the SEBI regulations and the trust deed.
15. The Trustees shall obtain the consent of the unitholders -
 - a) whenever required to do so by SEBI in the interest of the unitholders; or
 - b) whenever required to do so on the requisition made by three-fourths of the unitholders of any scheme; or
 - c) when the majority of the Trustees decide to wind up or prematurely redeem the units;
- 15A) The trustees shall ensure that no change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme and affects the interest of unitholders, shall be carried out unless,

- a) a written communication about the proposed change is sent to each unitholder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated; and
- b) the unitholders are given an option to exit at the prevailing Net Asset Value without any exit load."

Explanation: For the purposes of this clause "fundamental attributes" means the type of a scheme, investment objective and terms of a scheme.

16. The Trustees shall call for the details of transactions in securities by the key personnel of the AMC in his own name or on behalf of the AMC and shall report to SEBI, as and when required.
17. The Trustees shall quarterly review all transactions carried out between the Mutual Fund, AMC and its associates.
18. The Trustees shall review the net worth of the AMC on a quarterly basis and in case of any shortfall, ensure that the AMC make up for the shortfall as per clause (f) of sub-regulation (1) of regulation 21 of SEBI Regulations.
19. The Trustees shall periodically review all service contracts such as custody arrangements, transfer agency of the securities and verify it that such contracts are executed in the interest of the unitholders.
20. The Trustees shall ensure that there is no conflict of interest between the manner of deployment of its network by the AMC and the interest of the unitholders.
21. The Trustees shall periodically review the investor complaints received and the redressal of the same by the AMC.
22. The Trustees shall abide by the Code of Conduct as specified in the Fifth Schedule of SEBI Regulations.
23. The Trustees shall furnish to SEBI on a half yearly basis -
 - a) a report on the activities of the Mutual Fund;
 - b) a certificate stating that the Trustees have satisfied themselves that there have been no instances of self dealing or front running by any of the Trustees, directors and key personnel of the AMC;
 - c) a certificate to the effect that the AMC has been managing the schemes independently of any other activities and in case any activities of the nature referred to in sub-regulation (2) of regulation 24 have been undertaken by the AMC and has taken adequate steps to ensure that the interest of the unitholders are protected.
24. The independent Trustees referred to in sub-regulation (5) of regulation 16 of SEBI Regulations shall give their comments on the report received from the AMC regarding the investments by the Mutual Fund in the securities of group companies of the sponsor.
25. Trustees shall exercise due diligence as under:

General Due Diligence

 - a) The Trustees shall be discerning in the appointment of the Board of Directors of the AMC.
 - b) The Trustees shall review the desirability of continuance of AMC if substantial irregularities are observed in any of the schemes and shall not allow the AMC to float new schemes.
 - c) The Trustees shall ensure that the trust property is properly protected, held and administered by proper persons and by a proper number of such persons.
 - d) The Trustees shall ensure that all service providers are holding appropriate registrations from SEBI or concerned regulatory authority.
 - e) The Trustees shall arrange for test checks of service contracts.
 - f) The Trustees shall immediately report to SEBI of any special developments in the Mutual Fund.

Specific Due Diligence

The Trustees shall

 - a) Obtain internal audit reports at regular intervals from independent auditors appointed by the Trustees
 - b) Obtain compliance certificates at regular intervals from the AMC.
 - c) Hold meeting of Trustees more frequently.
 - d) Consider the reports of the independent auditor and compliance reports of AMC at the meetings of Trustees for appropriate action.
 - e) Maintain records of the decisions of the Trustees at their meetings and of the minutes of the meetings.
 - f) Prescribe and adhere to a code of ethics by the Trustees, AMC and its personnel.
 - g) Communicate in writing to the AMC of the deficiencies and checking the removal of deficiencies.
26. Notwithstanding anything contained herein above from points (1) to (25) the Trustees shall not be held liable for acts done in good faith if they have exercised adequate due diligence honestly.

27. The Trustees shall pay specific attention to the following as may be applicable, namely -
- The Investment Management Agreement and the compensation paid under the agreement.
 - Service contracts with affiliates whether the AMC has charged higher fees than outside contractors for the same services.
 - Selection of the AMC independent directors.
 - Securities transactions involving affiliates to the extent such transactions are permitted.
 - Selecting and nominating individuals to fill independent directors vacancies.
 - Code of ethics must be designed to prevent fraudulent, deceptive or manipulative practices by insiders in connection with personal securities transactions,
 - The reasonableness of the fees paid to the sponsors, AMC and any other for services provided.
 - Principal underwriting contracts and the renewals.
 - Any service contract with the associates of the AMC.

Unitholders' consent

Pursuant to clause 15 of regulations 18 of the SEBI Regulations, the Trustees shall obtain the consent of the unitholders of the Scheme, entirely at the option of the Trustees, either at a meeting of the unitholders or through postal ballot or any other mode of communication in conformity with the Regulations and /or SEBI Regulations, in the interest of unitholders. Unitholders are entitled to one vote per unit held on all matters to be voted upon by unitholders.

Trusteeship Fees:

Pursuant to the Deed of Trust constituting the Mutual Fund, the Mutual Fund is authorized to pay trusteeship fees as follows:

A sum of 0.01% p.a. of the daily average net assets of the Trust Fund and all the schemes with a minimum of Rs. 5 lacs.

VIII. MANAGEMENT OF THE FUND

Principal Pnb Asset Management Company Private Limited is the Investment Manager to Principal Mutual Fund. As investment manager to the Fund, the AMC will frame, float and issue schemes from time to time after seeking approval from the Trustee and SEBI as well as manage the Funds mobilized under the various schemes, in accordance with the investment objectives of the respective Schemes, the provisions of the Trust Deed and the SEBI Regulations. The AMC is also responsible for co-ordination with the registrar, brokers, and agents, ensuring compliance with regulatory and statutory provisions and submitting necessary compliance reports to regulatory bodies.

In terms of the Investment Management Agreement dated November 25, 1994 the Trustees appointed IDBI Investment Management Company Limited (IIMCO), as the AMC to manage the Mutual Fund. Previously, IIMCO was a wholly owned subsidiary of IDBI. Principal Financial Services Inc. USA, acquired 50% stake in the paid up equity capital of IIMCO on March 31, 2000 through its subsidiary Principal Financial Group (Mauritius) Limited. Subsequently, the name of the AMC was changed to IDBI-PRINCIPAL Asset Management Company Limited.

Principal Financial Services Inc. USA, acquired 100% stake in the paid up equity capital of IDBI-PRINCIPAL Asset Management Company Limited, through its subsidiary Principal Financial Group (Mauritius) Limited on June 23, 2003. Subsequently, the new name of the AMC was changed to Principal Asset Management Company Private Limited, to reflect the change in ownership.

On May 05, 2004, Punjab National Bank and Vijaya Bank have become equity shareholders of the AMC. The present share holding pattern of the AMC is as follows:

Name of the share holder	% of equity capital
Principal Financial Services, Inc. USA through its Mauritius based subsidiary Principal Financial Group (Mauritius) Limited	65
Punjab National Bank	30
Vijaya Bank	5

Both Punjab National Bank (PNB) and Vijaya Bank (VB) are Scheduled Commercial Banks. PNB has a network of over 4,000 branches and 400 extension counters throughout India and offers a wide variety of banking services. VB has built a network of over 800 branches that span all 28 states and 4 union territories in the country. With the said infrastructure, Principal Pnb Asset Management Company Private Limited has been in a position to leverage the combined and far-reaching distribution networks of PNB and VB, including more than 5,000 combined retail and commercial banking branches and over 40 million customers throughout India, along with Principal's international expertise and its position as a recognized and prominent manager of mutual funds in India.

AMC has been registered as a Portfolio Manager under the provisions of SEBI (Portfolio Manager) Regulations, 1993 vide SEBI Registration no. INP00000951 dated April 18, 2007. AMC has commenced this activity and has ensured that the key personnel of the AMC, the systems, back office, bank and securities accounts have been segregated activity wise and there exists systems to prohibit access to inside information of various activities. Further, the AMC has ensured that it meets with the capital adequacy requirements as mentioned in the Regulations separately for each of the activities.

The AMC at present is managing 22 schemes of Principal Mutual Fund as follows :

- Equity Schemes:** Principal Growth Fund, Principal Tax Savings Fund, Principal Index Fund, Principal Global Opportunities Fund, Principal Resurgent India Equity Fund, Principal Personal Tax Saver Fund, Principal Dividend Yield Fund, Principal Focussed Advantage Fund, Principal Junior Cap Fund, Principal Large Cap Fund, Principal Infrastructure & Services Industries Fund, Principal Pnb Long Term Equity Fund - 3 Year Plan - Series I and Principal Pnb Long Term Equity Fund - 3 Year Plan - Series II.
- Balanced Schemes:** Principal Balanced Fund and Principal Child Benefit Fund
- Debt Schemes:** Principal Income Fund, Principal Cash Management Fund, Principal Government Securities Fund, Principal Monthly Income Plan, Principal Floating Rate Fund, Principal Pnb Fixed Maturity Plan and Principal Pnb Fixed Duration Fund.

The total assets under management across all these schemes as of October 24, 2007 is over Rs. 15,600 crore.

AMC has been granted approval by SEBI to function as an Asset Management Company of the Mutual Fund, and shall be responsible, inter alia, for the following:

- Launching and operating the various schemes of the Mutual Fund
- Performing Investment Management functions for various schemes of the Fund.
- Ensuring that the investment of the assets pertaining to any scheme is made in accordance with the provisions of the SEBI Regulations and the Trust Deed.
- Ensuring that adequate disclosures are made to the unitholders and to SEBI regarding the performance of the Fund, in accordance with SEBI Regulations.

Besides the offering and management of Schemes offered by Principal Mutual Fund, the AMC may undertake activities in the nature of management and advisory services to any entity, pension Funds, administration and record keeping of provident Fund; developing and marketing pension and pension related products and financial consultancy and exchange of research on a commercial basis.

Investment Management Fees

The AMC shall be entitled to fees as permitted under SEBI Regulations which is presently as under:

- 1.25% of the daily average net assets outstanding in each accounting year for the scheme concerned as long as the net assets do not exceed Rs. 100 Crores, and
- 1% of the excess amount over Rs. 100 Crores, where net assets exceed Rs. 100 Crores.

Duties and Responsibilities of the AMC

- The AMC shall take all reasonable steps and exercise due diligence to ensure that the investment of money pertaining to any scheme is not contrary to the provisions of the SEBI Regulations and the Trust Deed.
- The AMC shall exercise due diligence and care in all its investment decisions as would be exercised by other persons engaged in the same business.
- The AMC shall be responsible for the acts of commissions or omissions by its employees or the persons whose services have been procured by the AMC.
- The AMC shall submit to the Trustees quarterly reports of each year on its activities and the compliance with SEBI Regulations.
- The Trustees at the request of the AMC may terminate the assignment of the AMC at any time. Provided that such termination shall become effective only after the Trustees have accepted the termination of assignment and communicated their decision in writing to the AMC.
- Notwithstanding anything contained in any contract or agreement of termination, the AMC or its Directors or other officers shall not be absolved of liability to the Mutual Fund for their acts of commission or omission, while holding such position or office.
 - The Managing Director of the asset management company shall ensure that the mutual fund complies with all the provisions of SEBI Regulations and that the investments made by the fund managers are in the interest of the unitholders and shall also be responsible for the overall risk management function of the mutual fund.

- b) The fund manager/s shall ensure that the funds of the schemes are invested to achieve the objectives of the scheme and in the interest of the unitholders.
- 7 a) The AMC shall not through any broker associated with the Sponsor, purchase or sell securities, which on an average is 5% or more of the aggregate purchases and sale of securities made by the Mutual Fund in all its schemes.
- Provided that for the purpose of this sub-regulation, aggregate purchase and sale shall exclude sale and distribution of units issued by the Mutual Fund.
- Provided further that the aforesaid limit of 5% shall apply for a block of any three months.
- b) The AMC shall not purchase or sell securities through any broker (other than a broker referred to in clause (a) of sub-regulation (7)) which is on an average of 5% or more of the aggregate purchase and sale of securities made by the Mutual Fund in all its Schemes, unless the AMC has recorded in writing the justification for exceeding the limit of 5% and reports of all such Investments are sent to the Trustees on a quarterly basis. Provided that the aforesaid limit of 5% shall apply for a block of 3 months.
8. The AMC shall not utilize the services of the Sponsor or any of its associates, employees or their relatives, for the purpose of any securities transaction and distribution and sale of securities. Provided that an AMC may utilize such services if disclosure to that effect is made to the unitholders and the brokerage or commission paid is also disclosed in the half yearly annual accounts of the Mutual Fund.
- Provided further that the Mutual Fund shall disclose at the time of declaring half-yearly and yearly results:
- any underwriting obligations undertaken by the schemes of the Mutual Fund with respect to issue of securities of associate of companies,
 - devolvement, if any,
 - subscription by the schemes in the issues lead managed by associate companies.
 - Subscription to any issue of equity or debt on private placement basis where the sponsor or its associate companies has acted as arranger or manager.
9. The AMC shall file with the Trustees the details of transactions in securities by the key personnel of the AMC in their own name or on behalf of the AMC and shall also report to SEBI, as and when required by SEBI.
10. In case the AMC enters into any Securities transactions with any of its associates a report to that effect shall be sent to the Trustees at its next meeting.
11. In case any company has invested more than 5 percent of the NAV of a scheme, the investment made by that scheme or by any other scheme of the Mutual Fund in that company or its subsidiaries shall be brought to the notice of the Trustees by the AMC and be disclosed in the half yearly and annual accounts of the respective schemes with justification for such investment, provided the latter investment has been made within one year of the date of the former investment calculated on either side.
12. The AMC shall file with the Trustees and SEBI :
- Detailed bio-data of all its directors along with their interest in other companies within fifteen days of their appointment; and
 - Any change in the interest of Directors every six months.
 - A quarterly report to the Trustees giving details and adequate justification about the purchase and sale of the Securities of the group companies of the sponsor or the AMC as the case may be, by the Mutual Fund during the said quarter.
13. A statement of holdings in securities of the Directors of the AMC shall be filed with the Trustees with dates of acquisitions of such Securities at the end of each financial year.
14. The AMC shall not appoint any person as key personnel who has been found guilty of any economic offence or involved in violation of securities laws.
15. The AMC shall appoint Registrars and Share Transfer Agents who are registered with SEBI. Provided if the work relating to the transfer of units is processed in-house, the charges at competitive market rates may be debited to the scheme and for rate higher than the competitive market rates, prior approval of the Trustees shall be obtained and reasons for charging higher rates shall be disclosed in the annual accounts.
16. The AMC shall abide by the Code of Conduct as specified in the Fifth Schedule of SEBI Regulations.

Board of Directors

The Board of Directors of the AMC consists of eminent persons from the fields of finance, investments, civil service, law and economics.

The Directors of the Asset Management Company are as follows:

Name of Director	Directorship
MR. MUKUND M. CHITALE <i>Partner, Mukund M Chitale & Co.</i> 205, Agrawal Shyamkamal, 'A' Building, Vile Parle (East), Mumbai - 400 057. <i>Qualification : B. Com, FCA</i>	• Larsen & Toubro Limited • ASREC(India) Limited • Ram Ratna Wires Limited • Shriram Transport Finance Company Limited • ITZ Cash Card Limited
MR. RAJAN GHOTGALKAR* <i>Managing Director</i> Principal Pnb Asset Management Company Pvt Ltd Exchange Plaza, 2 nd floor, B Wing, Bandra Kurla Complex, Bandra (E), Mumbai 400 051. <i>Qualification : B. Com (Honours), Chartered Accountant</i>	• Principal Global Services Private Ltd. • Pnb Principal Insurance Broking Private Ltd. • Pnb Principal Financial Planners Private Ltd. • Principal Financial Group (Mauritius) Ltd. • Principal Pnb Life Insurance Co. Ltd.
MR. RUSTAM GAGRAT <i>Partner</i> Gagrats, 12 Nirmal, Nariman Point, Mumbai-400 021. <i>Qualification : M.A., Advocate, Solicitor, Notary</i>	• Potash Fertiliser (India) Pvt. Ltd. • Indo Aden Salt Manufacturing & Trading Co. Pvt. Ltd. • Aristo Reality Developers Ltd. • Blue Rose Properties Pvt. Ltd. • Forbes Marshall Pvt. Ltd. - Supervisory Board Member
MR. J C TUPLING* <i>Chief Operating Officer - Asia</i> CIMB-Principal Asset Management Berhad Level 5 Menara Milenium, No. 8 Jalan Damanlela, 50490, Damansara Heights, Kuala Lumpur <i>Qualification: Bachelor of Arts, University of Western Ontario, London, Ontario, Canada</i>	• CIMB- Principal Asset Management Berhad • Pnb Principal Financial Planners Pvt. Ltd. • Pnb Principal Insurance Broking Pvt. Ltd. • Principal Pnb Life Insurance Company Ltd. • Commerce Asset Fund Manager SDN. BHD.
MR. S.K. DUBEY* <i>Deputy General Manager - Treasury</i> Punjab National Bank 7, Bhikhaji Cama Place, New Delhi-110 066. <i>Qualification : M.Sc (Physics), C.A.I.I.B.</i>	NIL
MR. ASHOK VIJ <i>Partner, Lamba Vij & Co.</i> Chartered Accountants A1/117 A, Safdarjung Enclave, New Delhi-110 029. <i>Qualification : B. Com, FCA</i>	• Dedicated Digital Machines Pvt. Ltd. • Dabur Pharma Ltd. • India Professional Services & Investment Limited

* Associate directors in terms of SEBI (Mutual Funds) Regulations 1996, amended from time to time.

Key Personnel and their Relevant Experience

Sr. No.	Name of the Employee and Age	Designation	Educational Qualification	Past Experience
1.	Mr. Rajan Ghotgalkar 46 years	Managing Director	A.C.A.	Mr. Rajan Ghotgalkar has over 24 years of experience in retail banking, branch banking, offshore banking, finance, strategy and re-engineering. In his previous assignment, he was heading the Retail Banking & Branch Operations of IDBI Bank. Experience prior to that includes, handling Retail and Consumer Banking in National Bank of Dubai and Standard Chartered Bank, Bahrain. He was also associated with ANZ Grindlays Bank plc, Dubai as Head Personal Financial Services.
2.	Mr. Rajan Krishnan 45 years	<i>Business Head</i>	BA (Hons) Economics, PGDBM from XLRI, Jamshedpur	Mr. Rajan Krishnan has over 21 years of experience in the area of sales, marketing and general management. Of which the last thirteen years have been in the area of mutual funds. Latest assignments include those as Vice President - Sales at Kothari Pioneer and as Vice President - Sales & Marketing at Zurich India Mutual Fund. Experience prior to that includes Client stints at advertising agencies including Lintas, Ogilvy & Mather and MAA Bozell.
3.	Mr. Rajat Jain 44 years	<i>Chief Investment Officer</i>	B.E. PGDM	Mr. Rajat Jain is the Chief Investment Officer of Principal Pnb Asset Management Co. Pvt. Ltd. In this role, he oversees investments of the Principal Mutual Fund, and is responsible for overall portfolio strategy. He has a total of 18 years of experience in portfolio management, of which the last 7 years have been with the Principal. Prior to joining Principal Pnb AMC, he was with SBI Mutual Fund.
4.	Mr. Sudhin Padhye 44 years	<i>Head - Business Risk Consulting</i>	B.Com., A.C.A., Grad. C.W.A., CISA	Mr. Sudhin Padhye has over 19 years experience in the fields of operations, finance, accounts, audit and administration. In his previous assignment he worked with BNP Paribas and Peregrine Capital as Head-Operations for their equity broking business. Prior to that, he worked in the Finance and Accounts departments of Apple Industries and Goodlass Nerolac Paints in managerial capacity.
5.	Mr. Shyamsunder Bhat 36 years	<i>Asst. Vice President (Investments)</i>	B.E., M.M.S.	Mr. Shyamsunder Bhat has over 13 years experience in equity research and fund management. In his previous assignment, he worked with Tata Asset Management Pvt Ltd, as General Manager (Investments), where he was a member of the fund management team, managing equity and balanced funds.
6.	Mr. Ritesh Jain 35 years	<i>Chief Financial Officer</i>	B.Com, A.C.A., Grad. C.W.A., C.S.	Mr. Ritesh Jain has over 14 years experience in the areas of finance, treasury, tax, audit, regulatory compliances and general administration. In his previous assignment he worked with Morgan Stanley for their asset management and custody business as Financial Controller and with JM Morgan Stanley for their securities business as Treasurer.
7.	Mr. Ritesh Jain 33 years	<i>Fund Manager</i>	M.B.A. (Finance)	Mr. Ritesh Jain is Fund Manager - Fixed Income at Principal PNB AMC. Ritesh is having a rich experience of over Ten years in the Indian Fixed Income market and is associated with the company for last seven years. Currently he is managing the fixed Income portfolios at Principal India AMC.
8.	Mr. Pankaj Tibrewal 28 years	<i>Fund Manager</i>	B.Com (H), Master in Finance	Mr. Pankaj Tibrewal is a Fund Manager at Principal Pnb AMC. Pankaj is a graduate in Commerce from St. Xavier's College, Kolkatta and holds a Masters Degree in Finance from Manchester University, UK.
9.	Mr. Pramod Gupta 34 years	<i>Fund Manager</i>	B.Tech (Hons), PGDM, CFA Manager	Mr. Pramod Gupta is a Fund Manager at Principal Pnb Asset Management Company Pvt Ltd. He has over eight years of experience in Equity Research. In his prior jobs, he has worked with HSBC Securities and ABN Amro Asia Equities as a Research Analyst.
10.	Mrs. Sujata Punjabi 40 years	<i>Head - Legal & Compliance</i>	B. A., L.L.B	Ms. Sujata Punjabi has over 15 years of experience in the area of Compliance, Corporate Secretarial and legal function. Her last assignment was with Kotak Mahindra Old Mutual Life Insurance Limited as Associate Vice President - Legal & Compliance. Prior to that she was also associated with companies like Ion Exchange (India) Limited, UTV Software Communications Ltd. and JKM Group of Companies.

(All key personnel based at Mumbai)

The research team comprising following members will support the Fund Manager.

Sr. No.	Name	Experience
1.	Deepak Bakliwal	Over 2 years experience in equity research.
2.	Hetal Vora	Over 4 years experience as credit analyst.
3.	Abhijit Mukherjee	Over 7 years experience in Corporate Finance and Equity Research Function

Mr. Ritesh Jain (whose details are given above) shall be the Fund Manager for the Scheme

CUSTODIAN

Citibank NA,

The Trustee has appointed Citi Bank NA, as the Custodian to the scheme. Citibank N.A is registered as a custodian with SEBI under number IN/CUS/004 dated April 7, 1998. The Custodian shall hold the custody and possession of the securities and investments of the scheme and will discharge all functions as are ordinarily discharged by a depository institution. It does not have any power or authority to sell or dispose of or deal with the securities/investments held by it on behalf of the Fund except as instructed by the AMC.

The AMC reserves the right to change the custodian, if required.

The salient features of the Custodian Agreement with Citibank are as under:

- Keeping in safe custody all the securities and such other instruments belonging to the Scheme segregated from the other assets of the custodian and from the assets of other clients of the Custodian and shall be held in the name of the Trustee(s) a/c Fund or Scheme or custodian a/c Scheme or in such other manner as may be mutually agreed.
- Ensuring the smooth inflow/outflow of securities and such other instruments as and when necessary, in the best interests of the unitholders.
- Ensuring that the benefits due to the holdings are recovered.
- Responsibility for loss of /or damage to the securities due to fraud, bad faith, negligence, willful neglect, default or willful default on its part or on the part of its approved agents.

The Custodian will charge the Fund a fee in accordance with the terms of the Custodian Service Agreement entered into between the Custodian and the Mutual Fund. The Custodian Agreement may be terminated upon 60 days prior written notice or earlier upon certain breaches.

REGISTRAR AND TRANSFER AGENT

Karvy Computershare Pvt. Ltd

Karvy Computershare Pvt. Ltd., Hyderabad has been appointed as the Registrar and Transfer Agent for the Fund. The Registrar is registered with SEBI vide registration no. INR000000221.

The AMC and the Trustees have satisfied themselves that the Registrar has adequate Capacity to discharge responsibilities with regard to processing of applications and despatching Account Statement, etc. to unitholders within the time limit as per SEBI Regulations and can also provide other services required, including handling investor complaints and have adequate facilities to do so and discharge responsibilities. As Registrar to the Scheme, the Registrar will accept and process unitholders applications and advise the AMC as to the amounts received for subscriptions (duly reconciled) during the New Fund Offer period and also during the ongoing subscription period. They will also handle communications with unitholders, unitholder's grievances, perform data entry services and dispatch Account Statement, or any instrument, received on processing redemption/repurchase/switch requests after the close of the initial offer. They will also maintain an updated, accurate form for the register of unitholders of the Fund and other records as may be required by SEBI Regulations and the laws of India.

The Registrar is thus responsible for carrying out the functioning of Registrar and Transfer Agent set out in the agreement entered into with it and as per any modifications from time to time. The Registrar will be entitled to remuneration for its services as per the terms of the Registrar's Agreement. The AMC reserves the right to change the Registrar. The unitholders will then be informed accordingly. The Trustees have the right to appoint, or change the Registrar and Transfer Agent for any or all of the schemes that may be floated by the Fund. The Registrar Agreement may be terminated upon 90 days prior written notice or earlier upon certain breaches.

STATUTORY AUDITORS

M/s. Haribhakti & Co.

M/s. Haribhakti & Co., Chartered Accountants, 42 Free Press House, 4th Floor, 215 Nariman Point, Mumbai - 400 021 have been appointed as the auditors for all the schemes of Principal Mutual Fund. The Trustee has the right to appoint, or change the Auditors for any or all of the Schemes that may be floated by the Fund.

IX. INVESTMENT POLICIES AND STRATEGY

Principal Pnb Fixed Maturity Plan is a closed-ended debt scheme with a maturity of 91 Days. The plan shall have two Options- Growth Option and Dividend Option. All investments will be made in accordance with SEBI Regulations.

Investment Strategy

Predominantly, investments would be made in money market instruments and short dated debt instruments, including securitisation and government securities. Select exposure may be undertaken in debt instruments including securitisation and government securities of maturities different from that of the portfolio.

Portfolio:

The Scheme will have a portfolio in line with the maturity of the Scheme i.e. 91 Days. The Investment Options within the said Schemes namely, Growth Option and Dividend Option will share a common portfolio.

Investment Pattern

The Scheme will invest in a diversified portfolio of debt, money market securities and Government Securities from time to time. The Scheme will predominantly invest in a distinct portfolio of debt securities maturing in line with the time profile of the Scheme. The Scheme does not guarantee any returns and there is no assurance that the investment objectives of the Scheme will be achieved.

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

	Type of Instrument	% of Net Assets		Risk Profile
		Min.	Max.	
1.	Debt securities (including securitized debt*) and Money Market Instruments.	0%	100%	Low to Medium
2.	Government Securities	0%	100%	Low

* Investment in Securitised Debt may be up to 100% of the net assets of the Scheme.

The Scheme will not invest in foreign debt instruments including foreign securitized debt.

Change in Investment Pattern

Subject to the SEBI Regulations, the asset allocation pattern indicated above may change from time to time, keeping in view market conditions, market opportunities, applicable regulations and political and economic factors. It must be clearly understood that the percentages stated above are only indicative and not absolute. These proportions can vary substantially depending upon the perception of the Investment Manager; the intention being at all times to seek to protect the interests of the Unitholders. Such changes in the investment pattern will be for short term and for defensive considerations only.

Overview of Debt Market in India

Indian debt markets have witnessed a rapid growth in last couple of years aided by increased government borrowing and initiatives by Reserve Bank of India to implement structural changes in the market place. The debt market is primarily divided into four segments - government securities market, corporate debt market, short-term placement market and derivatives market. While government securities market is highly liquid and accounts for almost 90% of daily market turnover, corporate debt and derivatives markets are developing rapidly. The volumes in the government securities market range between Rs.1,500 to Rs.6,000 crores. The main participants in debt market are banks, primary dealers, mutual funds, insurance companies, provident funds and corporates. The government securities are issued in the form of Treasury Bills (91 and 364 days) and long-term bonds. The corporate debt issuance is in the form of short-term commercial papers (upto 1yr) and short and long-term debentures. Of late, securitized asset issuance has gone up sharply with several financial intermediaries issuing asset-backed securities on their assets like commercial loans, personal loans, housing loans etc. The short-term placement market comprises call money, bank deposits and very short maturity corporate debentures. The kinds of risk associated with fixed-income investment are interest rate risk, credit risk and liquidity risk.

Following table exhibits various debt instruments along with indicative yields as on the date of the Offer Document

Instrument and Maturity Profile	Indicative Yield (p.a)	Liquidity Profile	Risk
Treasury bills 3 months - 1 year	7.00% - 7.75%	High	Low
Government of India Securities - 1 yr - 3 yrs	7.50% - 8.00%	High	Moderate
Government of India Securities - 3 yrs - 7 yrs	7.50% - 8.00%	High	Moderate
Government of India Securities - 7-20 years	7.75% - 8.50%	High	High
Money Market Instruments	7.75% - 9.00%	High	Low
Corporate Bonds 1 yr - 3 yr maturity	8.50% - 9.50%	Moderate to High	Low to moderate
Corporate Bonds AAA rated 3 yrs - 5 yrs maturity	9.00% - 10.00%	Moderate to High	Moderate to High
Corporate Bonds below AAA rated but of investment grade 3 yrs - 5yrs	9.50% - 10.50%	Low to Moderate	Moderate to High

INVESTMENT PROCESS

There is separate team for investment in fixed income instruments & equities. The team works under the supervision of Chief Investment Officer (CIO). CIO is overall in charge for the Fund's investment.

Debt – Decision making process :

The debt team comprises of the Fund Manager, Credit Analyst & Dealer. The Fund Manager holds charge of the schemes under his management. He is responsible for the performance of the schemes under him. Role of Credit Analysts is to study all companies in which the fund is investing for credit quality. The dealer executes the trading mandates that are passed onto him with a view to getting the best execution in terms of price and quantity.

A Credit Committee (CC) comprising of Executive Director, Chief Investment Officer and the Debt Fund Manager has been constituted to approve the investment in Securities having credit risks. The decision making in the committee is by majority vote. The investment proposals in specified format are put up before the committee for their approval. The fund manager can invest only in those credits that have been approved by the committee. Such approvals are kept to record the decision taken at the credit committee meeting. In case of unrated papers, same are circulated to AMC board and Board of Trustees for their approval before making an investment. No specific approval is required for investment in government securities and Treasury Bills.

The AMC has been recording investment decisions since the receipt of instructions from SEBI.

Review by Board of AMC and Trustees

A detailed review of the schemes of the Fund including its performance vis-à-vis benchmark index, assets size, rankings/ratings received, if any is placed before the Board of Directors of AMC and to the Trustee on a quarterly basis.

Benchmark for evaluation of performance of the Scheme

The Scheme would benchmark the performance to CRISIL Liquid Fund Index. The Fund reserves the right to change the said benchmark and/or adopt one/more other benchmarks to compare the performance of the Scheme, subject to SEBI Regulations.

INVESTMENT LIMITATIONS

Pursuant to SEBI Regulations, the following investment limitations are applicable :

1. A Mutual Fund scheme shall not invest more than 15% of its NAV in debt instruments (of any residual maturity period) issued by a single issuer which are rated not below investment grade by a credit rating agency authorized to carry out such activity under the Act. Such investment limit may be extended to 20% of the NAV of the scheme with the prior approval of the Board of Trustees and the Board of the AMC.

Provided that such limit shall not be applicable for investments in government securities and money market instruments (other than debentures).

Provided further that the debentures irrespective of any residual maturity period (above or below one year), shall attract restriction as applicable under clause 1 and 1A of Seventh Schedule to the SEBI (Mutual Funds) Regulations, 1996

Provided further that the restrictions for investments made in securitised debt (mortgage backed securities/asset backed securities) would be applicable as per the clarification made by SEBI vide circular no. SEBI/MD/CIR No.6/63715/06, dated March 29, 2006.

2. A Mutual Fund scheme shall not invest more than 10% of its NAV in unrated debt instruments (of any residual maturity period) issued by a single issuer and the total investment in such instruments shall not exceed 25% of the NAV of the scheme. All such investments shall be made with the prior approval of the Board of Trustees and the Board of the AMC.
3. No Mutual Fund under all its schemes taken together should own more than ten per cent of any company's paid up capital carrying voting rights.
4. Transfers of investments from one scheme to another scheme in the same Mutual Fund shall be allowed only if:
 - Such transfers are done at the prevailing market price for quoted instruments on spot basis.
Explanation - "Spot basis" shall have same meaning as specified by stock exchange for spot transactions.
 - The securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.
5. A scheme may invest in another scheme under the same AMC or any other Mutual Fund without charging any fees, provided that aggregate interscheme investment made by all schemes under the same management or in schemes under the management of any other AMC shall not exceed 5% of the NAV of the Mutual Fund.
Provided that this clause shall not apply to any fund of funds scheme.
6. The New Fund Offer expenses in respect of any scheme may not exceed six per cent of the Funds raised under that scheme.
7. Every Mutual Fund shall buy and sell securities on the basis of deliveries and shall in all cases of purchases, take delivery of relative securities and in all cases of sale, deliver the securities and shall in no case put itself in a position whereby it has to make short sale or carry forward transaction or engage in badla finance.
8. Every Mutual Fund shall get the securities purchased or transferred in the name of the Mutual Fund on account of the concerned scheme, wherever investments are intended to be of long-term nature.
9. Pending deployment of Funds of a scheme in securities in terms of investment objective of the scheme, a Mutual Fund can invest the Funds of the scheme in short term deposits of scheduled commercial banks.

- No mutual fund scheme shall park more than 15% of the net assets in Short term deposit(s) of all the scheduled commercial banks put together. However, it may be raised to 20% with prior approval of the trustees. Also, parking of funds in short term deposits of associate and sponsor scheduled commercial banks together shall not exceed 20% of total deployment by the mutual fund in short term deposits.
 - No mutual fund scheme shall park more than 10% of the net assets in short term deposit(s), with any one scheduled commercial bank including its subsidiaries."
 - Short Term for such parking of fund by Mutual Fund shall be treated ad a period not exceeding 91 day.
10. No Mutual Fund scheme shall make any investment in:
 - any unlisted security of an associate or group company of the sponsor; or
 - any security issued by way of private placement by an associate or group company of the sponsor; or
 - the listed securities of group companies of the sponsor which is in excess of 25% of the net assets
 11. No scheme of a mutual fund shall make any investment in any fund of funds scheme.
 12. No Mutual Fund scheme shall invest more than 10% of its NAV in the listed equity shares or listed equity related instruments of any company or listed units/securities of venture capital funds
Provided that the limit of 10% shall not be applicable for investments in index scheme or sector or industry specific scheme.
 13. A Mutual Fund scheme shall not invest more than 5% of its NAV in the unlisted equity shares or equity related instruments of any company or unlisted units/securities of venture capital funds in case of open ended scheme and 10% of its NAV in case of close ended scheme.
 14. Aggregate value of "Illiquid Securities" of the Scheme, which are defined as non-traded, thinly traded and unlisted equity share, shall not exceed 15% of the total assets of the Scheme.

These investment limitations/parameters (as expressed/linked to the net asset/NAV/capital) shall in the ordinary course apply as of the date of the most recent transaction or commitment to invest, and changes do not have to be effected merely because, owing to appreciation or depreciation in value, or by reason of the receipt of any rights, bonuses or benefits in the nature of capital, or of any scheme of arrangement, or for amalgamation, reconstruction or exchange, or at any repayment or repurchase or other reason outside the control of the Fund, any such limits would thereby be breached. If these limits are exceeded for reasons beyond its control, the AMC shall adopt as a priority objective the remedying of that situation, taking due account of the interests of the unitholders.

In addition, certain investment parameters (like limits on exposure to sectors, industries, issuers, etc.) may be adopted internally by the AMC, as amended from time to time, to ensure appropriate diversification/security for the Fund. The AMC may alter these above stated limitations from time to time, and also to the extent the SEBI Regulations change, so as to permit the Fund to make its investments in the full spectrum of permitted investments for Mutual Funds to achieve its investment objective. As such all investments of the Fund will be made in accordance with SEBI Regulations including Schedule VII thereof.

DEPOSITORY

Securities of the Scheme will be held in dematerialised form. In case the securities are held in dematerialized (electronic) mode, the rules of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, would apply. The service charges payable to the Depository Participant will form a part of the annual recurring expenses.

UNDERWRITING

The Scheme may also undertake underwriting and sub-underwriting activities in order to augment its income, after complying with the approval and compliance process specified in the SEBI (Underwriters) Rules and Regulations, 1993 and/or Reserve Bank of India and further subject to the following norms:

- The capital adequacy of the Mutual Fund for the purposes of SEBI (Underwriters) Rules and Regulations, 1993 shall be the net assets of the Scheme.
- The total underwriting obligation of the Scheme shall not exceed 50% of the total net asset value of the Scheme, or such limit as may be stipulated by the AMC and/or Trustees from time to time.
- The decision to take up any underwriting commitment shall be made as if the Scheme is actually investing in that particular security.
- As such, all investment restrictions and prudential guidelines relating to investments, individually and as far as may be applicable, apply to underwriting commitments, which may be undertaken under the Scheme.

These underwriting norms/parameters (as expressed/linked to the net asset/net asset value/capital) shall in the ordinary course apply as at the date of the

most recent transaction of commitment to underwrite, and changes do not have to be effected merely because, owing to appreciation or depreciation in value or by reason of the receipt of any rights, bonuses or benefits in the nature of capital or of any scheme of arrangement or for amalgamation, reconstruction or exchange, or at any repayment or redemption or other reason outside the control of the Fund, any such limits would thereby be breached. If these limits are exceeded for reasons beyond its control, AMC shall adopt as a priority objective the remedying of that situation, taking due account of the interests of the unitholders.

As such all underwriting and sub-underwriting activities of the Fund will be undertaken in accordance with SEBI (Underwriters) Rules and Regulations, 1993, and the norms as laid down by SEBI Circular dated June 30, 1994, and as amended from time to time.

INVESTMENT BY AMC

The AMC, and investment companies managed by the Sponsor, its affiliates, its associate companies and subsidiaries may invest either directly or indirectly in the Scheme. The money managed by these affiliates, associates, the Sponsor, subsidiaries of the Sponsor and/or the AMC may acquire a substantial portion of the Scheme's units and collectively constitute a major investment in the Scheme. Accordingly, repurchase of units held by such affiliates/associates and Sponsor may have an adverse impact on the units of the Scheme, because the timing of such repurchase may impact the ability of other unitholders to repurchase their units. The AMC reserves the right to invest its own funds in the Scheme as may be decided by the AMC from time to time and in accordance with SEBI Circular no. SEBI/IMD/CIR No. 10/22701/03 dated December 12, 2003 regarding minimum number of investors in the Scheme/ Plan. The AMC shall not charge any fees on investment by the AMC in the units of the Scheme in accordance with Sub Regulation 3 of Regulation 24 of the Regulations and shall charge fees on such amounts in future only if the SEBI Regulations so permit.

INVESTMENT BY THE FUND

The Scheme may invest in another scheme under the management of the AMC or any other AMC. The aggregate inter-scheme investment by the Fund under all its schemes [including the present Scheme] taken together, in another scheme managed by the AMC or in any other scheme of any other Mutual Fund, shall not be more than 5% of the Net Asset Value of the Fund. The AMC shall not charge any fees on the investment by the scheme in another scheme under the management of the AMC or any other Asset Management Company.

PORTFOLIO TURNOVER RATE

"Portfolio Turnover" is the term used by any Mutual Fund for measuring the amount of trading that occurs in a Scheme's portfolio during the year.

Portfolio turnover in the Schemes will be a function of market opportunities. The economic environment changes on a continuous basis and exposes debt portfolio to systematic as well as non-systematic risk. Consequently, it is difficult to estimate with any reasonable measure of accuracy, the likely turnover in the portfolio. The Investment Manager will endeavour to optimise portfolio turnover to optimise risk adjusted return keeping in mind the cost associated with it. A high portfolio turnover rate is not necessarily a drag on portfolio performance and may be representative of arbitrage opportunities that exist for scrips / securities held in the portfolio rather than an indication of a change in AMC's view on a scrip, etc.

INTER FUND TRANSFERS

Transfers of investments from one Scheme to another Scheme in the same Mutual Fund shall be allowed only if -

- Such transfers are done at the prevailing market price for quoted instruments on spot basis.
- Explanation - "spot basis" shall have same meaning as specified by stock exchange for spot transactions.
- The securities so transferred shall be in conformity with the investment objective of the scheme to which such transfer has been made.

BORROWING BY THE MUTUAL FUND

In terms of Regulations as presently prevailing, the Scheme shall have the power to borrow up to 20% of its net assets outstanding as on the date of borrowing for a period of up to six months or as may be permitted by the prevailing regulations. This borrowing shall be used only for the purpose of paying repurchase proceeds or payment of interest or dividend to the unitholders. The Mutual Fund may tie up with various banks/institutions for the above mentioned facility for which it may have to give a guarantee or the delivery of the shares/other securities held by it as collateral. The limit of 20% may be revised by the Fund and to the extent the Regulations hereafter permit. Borrowing by the Fund on account of the Scheme will tend to increase the impact of investment gains and losses on the NAV of the Scheme.

The borrowing limitations/parameters (as expressed/limited to the net assets/NAV/Capital) shall in the ordinary course apply as of the date of the most recent transaction or commitment to borrow and changes do not have to be effected merely because, owing to appreciation or depreciation in value or at

any repayment or repurchase or other reason beyond the control of the Fund, any such limit would thereby be breached. If the limit is exceeded for reasons beyond its control, the AMC shall adopt as a priority objective the remedying of that situation, taking due account of the interests of the unitholders.

X. TRANSACTING IN THE UNITS OF PRINCIPAL PNB FIXED MATURITY PLAN – 91 DAYS – SERIES XIV

THE OFFER

The offer is an invitation to investors to subscribe for units under the Principal Pnb Fixed Maturity Plan – 91 Days – Series XIV at face value during New Fund Offer and at NAV based prices for redemption during the ongoing offer. The AMC reserve the right to extend the closing date, subject, however, to the condition that the subscription shall not be kept open for more than 45 days. An application submitted by mail and received within reasonable period of the close of the New Fund Offer period (if the same is more than one day) will be deemed by the Fund to have been received during the New Fund Offer period. The Scheme shall re-open for repurchase not later than 30 days from the date of closure of new fund offer.

Investment Options

The Investment Plan will offer Growth Option and Dividend Option. Dividend Option will have the facility of Pay-out and Sweep.

Dividend Option

Under this Option, the income and profits realized will be distributed by way of dividend. The undistributed portion of the income will remain in the Option and be reflected in the NAV, on an ongoing basis. The Trustee reserves the right to declare the dividend subject to the Option having adequate distributable profits.

The Dividend Option will have facilities – Payout and Sweep. Under the Payout facility, the dividends so declared/distributed would be paid out to the unitholders. However the Trustees reserve the right to introduce new dividend distribution options. Under the sweep facility unitholders can choose to reinvest their dividend in any other open-ended schemes of the Fund, at Applicable NAV based prices.

Dividend Distribution Procedure:

The salient features w.r.t. the dividend distribution, in accordance with SEBI circular no. SEBI/IMD/CIR No.1/64057/06, dated April 4, 2006, are as follows:

- Quantum of Dividend and Record date shall be fixed by the trustees.
- AMC shall issue a notice to the public communicating the decision about dividend including the record date, within one calendar day of the decision made by the trustees in their meeting.
- Record date shall be the date that will be considered for the purpose of determining the eligibility of investors whose name appear on the register of unit holders. Record date shall be five calendar days from the issue of notice.

Growth Option

Under this Option, ordinarily no dividend shall be declared. All income earned and profits realized in respect of a Unit issued under the Option will continue to remain invested until repurchase and shall be deemed to have remained invested in the Option itself, which will be reflected in the NAV. However the Trustees reserve the right to pay out dividends either based on a change in market conditions, tax regulations or any other situation that would make it more beneficial for Unitholders to receive dividends.

Minimum Target Amount

The minimum target amount under the Plan will be Rs 10 lakhs. In the event of non-receipt of the minimum target amount of Rs 10 lakhs, the entire amount collected as subscription money will be refunded to the investors.

Minimum repurchase/redemption amount/units:

The repurchase would be permitted to the extent of credit balance in the unitholder's account. The repurchase request can be made by specifying the Rupee amount or by specifying the number of units to be repurchased. If a repurchase request is for both a specified Rupee amount and a specified number of units, the specified rupee amount will be considered the definitive request. If only the repurchase amount is specified by the unitholder, the AMC will divide the repurchase amount so specified by the applicable NAV based price to arrive at the number of units. The request for repurchase of units could also be in fractions, up to three decimal places.

The minimum repurchase/redemption is Rs. 500 or 50 units. The AMC reserves the right to change the same on a prospective basis subject to SEBI Regulations. Unitholders may also request for repurchase of their entire holding and close the account by indicating the same at the appropriate place in the Transaction Slip/Repurchase form.

Minimum Application Amount

Minimum application amount will be Rs. 1000 for Dividend Option and Growth Option and any amount thereafter under each option.

Subscription under the Scheme: The subscription to the Scheme shall be allowed only at the time of the new fund offer of the Scheme.

Investments by NRIs/FIIs

Investments by NRIs/FIIs are allowed on full repatriation basis, if invested through NRE/FCNR A/C. Presently OCBs cannot invest in domestic mutual funds pursuant to RBI A.P.(DIR Series) Circular No.14 dated September 16, 2003.

Default Option/ Facility

Applicants should indicate the Option(s) /Facility for which the subscription is made by indicating the choice in the appropriate box provided for this purpose in the Application Form. Applicants can allocate the investment in both the Options subject to a minimum investment amount of the Scheme. In case of valid applications received, without indicating any choice of Option, it will be considered as application for Growth Option and processed accordingly. The unitholder is subsequently free to switch the units from the default Option/ facility to any other eligible option/s, facilities of the Scheme, at the applicable NAV.

WHO CAN SUBSCRIBE ?

The following persons (subject wherever relevant to, purchase of Units being permitted under their respective constitutions and relevant State Regulations) are eligible to apply for purchase of units under the Scheme:

- i) Resident Indian Nationals who are:
 - Adult individuals as sole holder,
 - Adult individuals not exceeding three jointly or on an either/anyone or survivor basis.
 - Parents/Lawful guardians on behalf of Minors.
 - Partnership Firms
 - Hindu Undivided Families(HUF), through their Karta
 - Institutions, Companies, Bodies Corporate, Public Sector Undertakings, Societies registered under the Societies Registration Act 1860, or Co-operative Societies, subject to their bye-laws permitting them to invest in the units of the mutual fund,
 - Banks (including Co-operative Banks and Regional Rural Banks), Funds, Financial and Investment Institutions
 - Religious and Charitable Trusts, drafts or endowments and Private Trusts, under the provisions of Section 11(5) of Income tax Act, 1961 read with Rule 17(C) of Income tax Rules 1962 registered under the Societies Registration Act/Indian Trusts Act, Trustees of Private Trusts authorized to invest in mutual fund schemes under their trust deeds
 - Scientific and Industrial Research Organizations
 - Association of Persons/Body of Individuals, whether incorporated or not
 - Army/Air Force/Navy, other paramilitary units and bodies created by such institutions besides other eligible institutions
 - Mutual Funds registered with SEBI
- ii) Multilateral Funding Agencies/Bodies Corporate incorporated outside India with the permission of Government of India/Reserve Bank of India.
- iii) Overseas Financial Organizations which have entered into an arrangement for investment in India, inter-alia with a Mutual Fund registered with SEBI and which arrangement is approved by the Central Government.
- iv) Non-Resident Indians (NRIs)/ Persons of Indian origin residing abroad, on a full repatriation basis or non-repatriation basis. Presently OCBs cannot invest in domestic mutual funds pursuant to RBI A.P.(DIR Series) Circular No.14 dated September 16, 2003.
- v) Foreign Institutional Investors (FIIs).
- vi) Such other individuals/institutions/body corporate, etc. as may be decided by the Fund from time to time, so long as wherever applicable they are in conformity with regulations.
- vii) Other Schemes of Principal Mutual Fund subject to the conditions and limits prescribed by applicable SEBI Regulations.
- viii) The Trustees/Trust, AMC or Sponsor or its affiliates, its associate companies and subsidiaries may also subscribe to the units under this Fund.
- viii) Provident/Pension/Gratuity/Superannuation and such other retirement and employee benefit and other similar Funds.

The Trustees may accept an application from an unincorporated body of persons/trusts. The Trustees may from time to time add and review the persons eligible for making application for purchase of units under the Scheme.

If a person who is a resident of India at the time of subscription becomes a resident outside India subsequently, he/she shall have the option to either be paid repurchase value of Units, or continue into the Scheme if he/she so desires and is otherwise eligible. However, the person who desires to continue in the Scheme shall not be entitled to any interest or any compensation during the period it takes for the Fund to record the change in Address and the Residential Status. Notwithstanding the aforesaid, the Trustees reserve the

right to close such a unitholder's account and to pay the repurchase value of Units, subsequent to his becoming a person resident outside India, should the reasons of expediency, cost, interest of unitholders and other circumstances make it necessary for the Fund to do so. In such an event, no resident unitholders who have subsequently become residents outside India shall have a right to claim the growth in capital and/or income distribution.

The Scheme has not been and will not be registered in any country outside India. To ensure compliance with any Laws, Acts, Enactment, etc. including by way of Circulars, Press Releases, or Notifications of Government of India, the Fund may require/give verification of identity/any special/additional subscription-related information from/ of the unitholders (which may result in delay in dealing with the applications, Units, benefits, distribution, etc./ giving subscription details, etc.). Each unitholder must represent and warrant to the Trustees/AMC that, among other things, he is able to acquire Units without violating applicable laws. The Trustees will not knowingly offer or sell Units to any person to whom such offer or sale would be unlawful, or might result in the Fund incurring any liability or suffering any other pecuniary disadvantages which the Fund might not otherwise incur or suffer. Units may not be held by any person in breach of the law or requirements of any governmental, statutory authority including, without limitation, exchange control regulations. The Trustees may compulsorily redeem any Units held directly or beneficially in contravention of these prohibitions. In view of the individual nature of investment portfolio and its consequence, each unitholder is advised to consult his/her own professional advisor concerning possible consequences of purchasing, holding, selling, converting or otherwise disposing of the Units under the laws of his/her state/country of incorporation, establishment, citizenship, residence or domicile.

HOW TO SUBSCRIBE?

There is only one application form for Residents, Non-Resident Investors and NRIs/FIIs on repatriable/non-repatriable basis. However, if for reasons of expediency, interest of unitholders and other circumstances make it necessary for the Fund, separate application forms may be made for Residents and for Non-Resident Investors (based on repatriation parameters). Applicants should clearly specify their status and indicate the Schemes, investment and dividend option(s), investment option(s) for which the subscription is made by marking the appropriate choice provided for such purpose in the Application Form. Unless the applicant has ticked the appropriate NRI box, the application shall be treated under Resident category.

No receipt will be issued for the application money. The collection centre who receives the application form shall stamp and return the "Acknowledgement Slip" of the application form, thereby acknowledging receipt of the application form.

KINDLY RETAIN THE ACKNOWLEDGEMENT SLIP OF THE APPLICATION FORM/STAMPED BY THE COLLECTION CENTRE. THIS SHALL BE SUBJECT TO FINAL VERIFICATION AND SCRUTINY BY THE BANKERS/TRUSTEES/AMC THAT THE CHEQUE AND APPLICATION FORM ARE IN ORDER/VALID.

Subscription by Residents

- The application form for the sale of units of the Fund will be available at the office of the Collection Centres/ISC/AMC etc. Unitholders under any of the existing scheme(s) can also switch from other scheme(s) to this Scheme during the NFO.
- Applications must be completed in Block Letters in English.
- Signatures should be in English or in any Indian Language. A Magistrate/ Notary Public under his/her official seal must attest Thumb impressions.
- Payment should be made in cheque or bank draft on any bank, which is situated at and is a member of the Bankers' Clearing House, located at the place where the Application is submitted. In respect of valid applications with outstation cheques/ demand drafts not payable at par at the place where the application is received, closing NAV of the day on which cheque/demand draft is credited shall be applicable.
- During NFO, all cheques, bank drafts and payorders must be drawn in favour of "**Principal Pnb Fixed Maturity Plan - 91 days - Series XIV**" or "**Principal Mutual Fund**" and crossed "**Account Payee only**". A separate cheque or bank draft must accompany each application. In case the Fund has separate application forms for Resident & Non-Resident Investors, the cheques may be drawn in the above manner and the Non-Residential status may be added on the cheque.
- Applications not complete in any respect are liable to be rejected.
- Applicants located in a place where there is no designated collection centre, may send their application, accompanied with a separate bank draft crossed "Account Payee only" in favour of "**Principal Pnb Fixed Maturity Plan - 91 days - Series XIV**" the office of the AMC/Investor Service Centre/ Collection Centre superscribing the envelope as "**Principal Pnb Fixed Maturity Plan - 91 days - Series XIV**". Bank charges for outstation

demand drafts will be borne by the AMC and will be limited to those stipulated by the Indian Banks Association. The Mutual Fund will not entertain any request for refund of demand draft charges.

- Please state the application form number and name on the reverse of the cheque/bank draft/payorder.

Subscription by NRIs

In terms of Schedule 5 of Notification No. FEMA 20/2000 dated May 3, 2000, RBI has granted general permission to NRIs to purchase, on a repatriation basis units of domestic mutual funds. Further, the general permission is also granted to NRIs to sell the units to the mutual funds for repurchase or for the payment of maturity proceeds, provided that the units have been purchased in accordance with the conditions set out in the aforesaid notification.

For the purpose of this section, the term "Mutual Funds" is as referred to in Clause (23D) of Section 10 of Income-Tax Act 1961.

However, NRI investors, if so desired, also have the option to make their investment on a non-repatriable basis.

Pursuant to A.P.(DIR Series) Circular No.14 dated September 16, 2003 issued by Exchange Control Department, Reserve Bank of India, OCBs shall not undertake purchase of Government dated securities or treasury bills or units of domestic mutual funds or units of Money Market Mutual Funds in India or National Plan / Savings Certificates both on repatriation and non-repatriation basis. However, the OCBs may continue to hold these securities till they are sold.

Subscription by FIIs

In terms of Schedule 5 of Notification No. FEMA 20/2000 dated May 3, 2000, RBI has granted general permission to a registered FII to purchase on a repatriation basis units of domestic mutual funds subject to the conditions set out in the aforesaid notification. Further, the general permission is also granted to FIIs to sell the units to the mutual funds for repurchase or for the payment of maturity proceeds, provided that the units have been purchased in accordance with the conditions set out in the aforesaid notification.

For the purpose of this section, the term "Mutual Funds" is as referred to in Clause (23D) of Section 10 of Income-Tax Act 1961.

Mode of Payment on Repatriation basis

NRIs

In case of NRIs and persons of Indian origin residing abroad, payment may be made by way of Indian Rupee drafts purchased abroad and payable at Mumbai or by way of cheques drawn on Non-Resident (External) (NRE) Accounts payable at par at Mumbai. Payments can also be made by means of rupee drafts payable at Mumbai and purchased out of funds held in NRE/FCNR Accounts.

In case Indian rupee drafts are purchased abroad or from Foreign Currency Accounts or Non-resident Rupee Accounts an account debit certificate from the Bank issuing the draft confirming the debit shall also be enclosed.

FIIs

FIIs may pay their subscription amounts either by way of inward remittance through normal banking channels or out of funds held in Foreign Currency Account or Non-resident Rupee Account maintained by the FII with a designated branch of an authorized dealer with the approval of the RBI subject to the terms and conditions set out in the aforesaid notification.

All cheques/drafts should be made out in favour "Principal Pnb Fixed Maturity Plan - 91 days - Series XIV" and crossed "Account Payee Only". In case Indian Rupee drafts are purchased abroad or from FCNR/NRE A/c, an account debit certificate from the Bank issuing the draft confirming the debit shall also be enclosed.

Mode of payment on Non-Repatriation basis

In case of NRIs/ Persons of Indian origin seeking to apply for Units on a non-repatriation basis, payments may be made by cheques/demand drafts drawn out of Non-Resident Ordinary (NRO) accounts/Non-Resident Special Rupee (NRSR) accounts and Non Resident Non-Repatriable (NRNR) accounts payable at the city where the Application Form is accepted.

Refunds, interest and other distribution (if any) and maturity proceeds/repurchase price and/or income earned (if any) will be payable in Indian Rupees only. The maturity proceeds/repurchase value of units issued on repatriation basis, income earned thereon, net of taxes may be credited to NRE/FCNR account (details of which should be furnished in the space provided for this purpose in the Application Form) of the non-resident investor or remitted to the non-resident investor. Such payments in Indian Rupees will be converted into US dollars or into any other currency, as may be permitted by the RBI, at the rate of exchange prevailing at the time of remittance and will be dispatched through Registered Post at the unitholders risk. The Fund will not be liable for any loss on account of exchange fluctuations, while converting the rupee amount in US dollar or any other currency. Credit of such proceeds to NRE/FCNR account or remittance thereof may be permitted by authorized dealer only on production of a certificate from the Fund that the investment was made out of inward remittance or

from the Funds held in NRE/FCNR account of the investor maintained with an authorized dealer in India. However, there is no objection to credit of such proceeds to NRO/NRSR account of the investor if he so desires.

Subscription by Multilateral Funding Agencies, on full repatriation basis, is subject to approval by the Foreign Investment Promotion Board.

Unitholder's Bank Account Details

As a matter of precaution against possible fraudulent encashment of redemption Cheques due to loss/misplacement, unitholders are requested to give the full particulars of their Bank Account i.e. nature and number of account, name, branch address of the bank at the appropriate space in the application form. It shall be mandatory for the unitholders to mention their bank account numbers in their applications/requests for redemption. Redemption Cheques and/or any other instruments will then be made out in favour of the Bank for crediting the respective unitholder's account so specified.

The normal processing time may not be applicable in situations where such details are not provided by unitholders. The AMC will not be responsible for any loss arising out of fraudulent encashment of cheques and delay/loss in transit.

Prevention of Money Laundering

In terms of the Prevention of Money Laundering Act, 2002, the Rules issued there under and the guidelines / circulars issued by SEBI regarding the Anti Money Laundering (AML) Laws, all intermediaries, including Mutual Funds, have to formulate and implement a Client Identification Programme, verify and maintain the record of identity and address (es) of investors.

In order to make the data capture and document submission easy and convenient for the investors, Mutual Fund Industry has collectively entrusted this responsibility of collection of documents relating to identity and address and record keeping to an independent agency (presently CDSL Ventures Limited) that will act as central record keeping agency ('Central Agency'). As a token of having verified the identity and address and for efficient retrieval of records, the Central Agency will issue a Know Your Customer Acknowledgement Letter (KYC letter) to each investor who submits an application and the prescribed documents to the Central Agency.

Investors who have obtained the KYC letter can invest in the schemes of the mutual fund by attaching a copy of the KYC letter in lieu of submitting information and documents required under AML Laws.

Unitholder's Permanent Account Number

Submission of PAN Mandatory

As per the recent SEBI directive, effective from July 2, 2007, Permanent Account Number [PAN] issued by Income Tax Authorities has been made the sole identification number for all participants transacting in the securities market, including Mutual Funds, irrespective of the amount of transaction.

Consequently, it is mandatory for all existing as well as prospective investors [including Non Residents Indians, joint applicants, guardians and Power of Attorney holders] to furnish a copy of their PAN card while investing in Mutual Funds.

In addition to the PAN requirement for investments of Rs. 50,000/- and above in mutual funds; the investors will also be required to continue to procure a Know Your Client (KYC) acknowledgement letter from CDSL Ventures Ltd. [the agency appointed by AMFI to assist Mutual Funds to meet with formalities under KYC specified norms, essentially concerning verification of identity and address proof for Mutual Fund investors.]

WHAT HAPPENS IF THE APPLICANT DO NOT HOLD A PAN

Those Mutual Fund applicants not having a PAN card are requested to apply for the same immediately, and their applications for investment should be accompanied by evidence of having applied for PAN.

Further such investors should also submit a declaration in Form 60/61 along with their address proof for each transaction with the fund.

In view of the above, with effect from July 2, 2007, investors are required to adhere to the following :

- A copy of PAN card should be enclosed along with the application form [subsequent applications for investments with Principal Mutual Fund would not require re-submission of the same]. Original PAN card has to be offered for verification at the point of such investment [which will be immediately returned across the counter] or alternatively, certified* copy of PAN card can be submitted.
- In case PAN is not available, then evidence for having applied for PAN [Acknowledgement of Form 49A] should accompany the application.
- KYC acknowledgement letter should be enclosed along with the application form for investments of Rs. 50,000 and above. [subsequent applications for mutual funds would not require re-submission of the same] Such investors should, in addition, submit a declaration in Form 60/61 along with their address proof.
- Effective January 1, 2008, the facility of furnishing evidence of having applied for PAN will stand withdrawn.

Please register your PAN with us by providing your certified* PAN card

copy as soon as you receive your PAN along with a list of your folio numbers for verification and update.

* A copy of PAN card can be certified by any of the distributors of Principal Mutual Fund holding ARN, the identified officials of AMC across all branches, Investor Service Centers, Bank Managers, or Notary.

Non-completion of PAN formalities

Please note that effective July 02, 2007, all investments in Principal Mutual Fund without PAN verification/evidence of having applied for PAN i.e. Acknowledgement of Form 49A (along with Form 60/61 where applicable) are liable to be rejected.

Know Your Customer Acknowledgement Letter (KYC letter)

Investors who wish to obtain a KYC letter have to submit a completed Application Form meant for the same, along with all the prescribed documents listed in the Application Form, at any Point of Service ('POS'). The Application Form for the same is also available at our website (www.principalindia.com) and AMFI website (www.amfiindia.com). POS are the designated centers appointed by the Central Agency for receiving the application forms, processing data and allotment of KYC letter. A complete list of locations of POS is available at our website www.principalindia.com and www.amfiindia.com. On submission of application, documents and information to the satisfaction of the POS, the investor will be allotted a provisional KYC letter across the counter. Subsequently, the Central Agency will scrutinize the information and documents submitted by the investor and discrepancy if any, shall be communicated to the investor. However, the Central Agency may cancel the KYC letter within 10 working days from the date of allotment of the provisional KYC letter, in case if any deficiency in the document / information. No communication, will be sent to the investor if the KYC letter is found to be in order. The KYC letter is one time, unique and can be used for transacting across the Mutual Funds.

Presently, it is mandatory for all applications for subscription of value of Rs. 50,000/- and above to attach the KYC letter of all applicants (guardian in case of minor) in the application for subscription. Applications for subscriptions of value of Rs. 50,000/- and above without attaching the KYC letter may be rejected.

All investors (both individual and non- individual) can apply for KYC letter. However, applicants should note that minors cannot apply for KYC letter and any investment in the name of minors should be along with a Guardian, who should obtain a KYC letter for the purpose of investing with a Mutual Fund. Also, applicants / unit holders intending to apply for units / currently holding units and operating their Mutual Fund folios a Power of Attorney (PoA) must ensure that the issuer of the PoA and the holder of the PoA must attach the KYC letter at the time of investment of Rs. 50,000/- and above. PoA holders shall not submit the documents for the KYC letter on behalf of the issuer of the PoA. Separate procedures are prescribed for change in name, address and other KYC letter related details, should the applicant desire to change such information. POS will extend the services of effecting such changes.

If the applicant has already completed the KYC formalities through CDSL Ventures Ltd., please submit a copy of your KYC acknowledgement letter to us along with a list of folio numbers for verification and update.

As a majority of Mutual Funds have tied up with CDSL Ventures Ltd., you only need to complete these formalities **only once** across all such participating mutual funds.

Should you have any queries on the above or may wish to know more about the formalities/procedure for obtaining KYC acknowledgement letter, please call us on our Toll free number - 1 800 22 5600 / or a land-line number - 022-22021111 and speak to any of our Client Relations Officers. Alternatively email us at customer@principalindia.com. You may also visit our website at www.principalindia.com.

Documents to be submitted

In case of applications under power of attorney.

If any application or any request for transmission is signed by a person holding a valid Power of Attorney, the original Power of Attorney or a certified copy duly notarized should be submitted with the application or the transmission request, as the case may be unless the Power of Attorney has already been registered with the Fund/Registrar.

In the case of applications by limited company, a corporate body, an eligible institution, a registered society, a Trust, a Fund, or an FII etc.

In the case of applications by limited company, a corporate body, an eligible institution, a registered society, a trust, a Fund, a FII or an OCB, a certified true copy of the Board resolution of the Managing Body authorizing investments in Units including authority granted in favour of the officials signing the application of Units and their specimen signature etc. along with a certified copy of the Memorandum and Articles of Association and/or bylaws and/or trust deed and/or partnership deed and Certificate or Registration should be submitted. The officials should sign the application under the official

designation. In the case of a trust/fund, it shall produce a resolution from the Trustee(s) authorizing purchases.

The above mentioned documents or duly certified copy thereof must be lodged separately at the office of the Registrar to the Offer, quoting the serial number of the application and also with the collection centre where the application form has been submitted simultaneously with the submission of the Application form.

All NRI applications by mail should be sent to the address(es) of the AMC/ Investor Services Centres/Collection Centres along with the relevant foreign inward remittance certificates to indicate the status of the Account debited and the relevant approvals if required.

In case of non submission of the above mentioned documents, the AMC is entitled, in its sole and absolute discretion, to reject or accept any application. Besides the normal processing time may not be applicable in situations where such documents/details are not provided by unitholders. The AMC will not be responsible for any loss arising out of non-allotment/ rejection of such application. It is expressly understood that the investor/ unitholder has the express authority from the relevant constitution to invest in units of the Fund and the AMC/Trustee/Fund would not be responsible if the investment is ultravires the relevant constitution.

ALLOTMENT AND ACCOUNT STATEMENT

Allotment :

Allotment of units will be made not later than 30 days from the closure of the New Fund Offer. The allotment will be made to all applicants provided the applications received are complete in all respects. An offer to purchase units is not binding on, and may be rejected by AMC, until it has been confirmed through an Account/Transaction Statement and payment has been received.

Account Number:

Each unitholder will have an account number. The number of units allotted to a unitholder or repurchased by a unitholder will be reflected in his or her account and a statement/advice to this effect will be issued to the unitholder.

Common Account Number:

As a unitholder friendly measure, (unless otherwise requested by the unitholder), one Common Account Number will be assigned for one entity investing in different schemes of the Fund. In such a case, one consolidated account statement will be provided. The AMC reserves the right to assign the existing Common Account Number against multiple applications and/or subsequent purchases under a new application form by an existing unitholder, with identical mode of holding and address.

Account Statement

An Account or Transaction Statement reflecting the unit balance of the unitholder will be mailed to the unitholder by ordinary post, after every financial transaction is effected. The Account Statement shall not be construed as a proof of title and is only a computer-printed statement indicating the details of transactions under the scheme and is a non-transferable document. The Account Statement shall normally be dispatched within three business days on an ongoing basis.

After the completion of New Fund Offer Period, the process of allotment of units and mailing of account statement will be completed within thirty days from the date of closure of the New Fund Offer period.

Unit Certificates

Normally no unit certificates will be issued under the Scheme. However, if the unitholder so desires, the AMC shall issue a unit certificate to the unitholder within 6 weeks of the receipt of request for the certificate. The cost of stamp duty paid for issuing the unit certificate will form part of the annual ongoing expenses and/or may be recovered from the unitholder.

Refunds

In accordance with the Regulations, if the Scheme fails to collect the minimum subscription amount, the Fund shall be liable to refund the money to the applicants. In addition to the above, refund of subscription money to applicants whose applications are invalid for any reason whatsoever will commence immediately after the allotment process is completed. Refunds will be completed within six weeks of the close of the New Fund Offer Period. If the Fund refunds the amount after six weeks, interest @ 15% per annum shall be paid by the AMC.

UNITS WITH DEPOSITORY

Units of the Scheme may, if decided by the AMC, be held with a depository. Under such circumstances, units will be dematted in accordance with the provisions of the Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996, as may be amended from time to time.

SWITCH FACILITY

The unitholders under the Scheme can opt to switch units for units of the other select open-ended Scheme (existing and/or to be launched in the future) or close-ended schemes at appropriate subscription period of the Fund at applicable NAV based prices of the respective units to be exchanged.

In the case of NRIs, FIIs, etc. this will be subject to necessary approval

(if any) from the Reserve Bank of India and any other approval as applicable. Tax deduction at source, if any, will be effected at the appropriate rate in case of a switch and the balance amount would be utilized to exchange units to the other Scheme.

Unitholders should note that each switch option represents the simultaneous repurchase of units from one scheme/plan/option (which may result in a capital gain or loss) and the subscription of units in another scheme/Plan.

A request for switch may be specified either in terms of amount or in terms of the number of units of the scheme/plan/option from which the switch is sought. Such instructions may be provided in writing by completing the switch form or using the relevant tear off section of the Transaction Slip that may be enclosed with the Account Statement and lodging the same on any business day at any of the designated collection centres or office of the Registrar. The switch will be effected by redeeming units from the scheme in which the units are held and investing the net proceeds in the other scheme, subject to the minimum balance applicable for the respective scheme.

Switching from any other existing schemes into the Scheme would be available only at the time of new fund offer. For any application of switch-in from any other schemes of Principal Mutual Fund into this scheme, received on any date during the NFO, the application will be deemed to have been received on the last date of the NFO and will be processed accordingly.

While determining the prices of units, the Scheme shall ensure that the repurchase price is not lower than 95% of the Net Asset Value and the sale price is not higher than 107% of the Net Asset Value. Provided further that the difference between the repurchase price and the sale price of the unit shall not exceed 7% calculated on the sale price.

The price at which the units will be switched out of the scheme/into the scheme will be based on the Applicable NAV of the relevant Scheme and after considering any exit/entry loads and/or combination of entry and exit loads that the AMC may charge from time to time. The AMC reserves the right to charge a load on switching applicable on a prospective basis. The Switch request will be subject to the minimum application amount and other terms and conditions of the scheme for which the Switch request has been made.

MODE OF HOLDING

The mode of holding may be "single", "joint" or "either/anyone or survivor".

When units are held "singly", all notices, correspondences, distributions, redemptions, etc would be sent to the single holder. Where Units are jointly held, the person first-named in the Application Form will receive all notices and correspondences with respect to the Account, as well as any distributions through dividends, redemptions or otherwise. Such person shall hold the voting right, if any, associated with the Units. However, all documentation/purchase applications/redemption requests/enrollment forms shall necessarily be signed by all the holders. All payments and settlements, etc made to such first named holder shall be a valid discharge by the Fund and the liability of the Mutual Fund in this regard shall be only to the first-named holder.

When Units are held as "either/anyone or survivor", the person first-named in the Application Form will receive all notices and correspondences with respect to the Account, as well as any distributions through dividends, redemptions or otherwise. Any one of the Joint holders (in case of either/ anyone or survivor) shall hold the voting right, if any, associated with the Units and all documentation/purchase applications/redemption requests/enrolment forms may be signed by any one of the joint holders (in case of either/anyone or survivor) and the Mutual Fund will act on the instructions of the first holder/anyone of the joint account holders. However under all the cases ("joint" or "either/anyone or survivor" and without percentage allocation of investment amongst joint holders), the first shall recognise the first named joint holder as the unit holder and all payments and settlements, etc. made to such first-named holder shall be a valid discharge by the Fund and the Fund shall not be liable to any other joint applicants in this regard.

In case the joint holder(s) want to change the names/order of the joint holding, or want to nominate nominees, all joint-holders should jointly indicate the change/alterations of persons and its holders and nominees. It should be noted that if unit certificate is held, such introduction/alteration of Joint holders shall attract stamp duty and the cost of stamp duty will form part of its annual ongoing expenses and/or may be recovered from the unitholder.

In case the mode of holding is "joint" or "either/anyone or survivor", the joint holders can specify the percentage of investment that can be allotted to each of the three joint holder(s) along with their addresses. The redemption/distribution cheques would then be issued separately to each of the joint holders (upto three) in the percentages which equate to the percentage of allocation of the original investment unless requested otherwise. All other correspondence would continue to be addressed to the first named joint holder. All voting rights shall remain the same as is stated aforesaid. All payments/settlements, etc. made to such joint-holders, individually and separately, shall be a valid discharge by the Fund and the liability of the Mutual Fund in this regard shall be to all the joint holders.

In the absence of any percentage allocation of investment amongst joint-holders, the redemption/distribution cheques would be issued in favour of the first named joint holder. The unitholder(s) would be liable for the loss resulting from a fraudulent encashment, based on the unitholder(s) (single

holder or joint holders or first holder or any holder, with or without percentage allocation of investment) instructions, that the fund reasonably believed as genuine. The subsequent clauses on "Nomination" and "Appointment of Beneficiary" further clarifies the position in the event of the death of one of the joint holder or the first holder.

NOMINATION FACILITY

If an application is made in the name of a single individual holder or jointly not exceeding three individuals (under any mode of holding) the unitholders can request a Nomination Form to nominate beneficiary(s)/successor(s) (upto three) to receive the Units upon his/her/their death, to the extent provided in the Regulations. Unitholders can nominate individuals not exceeding three (jointly) as beneficiary(s)/successor(s) to receive the units either on first holder basis or in a particular percentage allocation upon his/her/their death. Notwithstanding anything contained in any other law for the time being in force or in any disposition, whether testamentary or otherwise, in respect of such units of the Scheme, where a nomination made in the prescribed manner purports to confer on any person(s) the right to vest the units of the scheme, the nominee(s) shall, on the death of the unitholders (single holder or all the joint holders) of the scheme become entitled to all the rights in the units of the Scheme (as an agent & trustee) to the exclusion of all other persons, unless the nomination is varied or cancelled in the prescribed manner. In case of 3 joint nominee(s) without any percentage allocation the first named nominee alone has the right to receive the amount due in respect of units in the event of death of the unitholder(s). In case of 3 joint nominee(s) with a particular percentage allocation, all payouts and settlements would be made to all successors in the particular percentage as stated by the unitholder(s). If no percentage is stated for allocation amongst nominees and if the first named nominee predeceases the unitholder(s) and the unitholder(s) has/have not cancelled or substituted the nomination, second named nominee shall be entitled to receive the amount due in respect of the units of the deceased unitholder(s). However, the nomination will cease to be valid on units repurchased/transferred by the original unitholder in full. All payments and settlements made to such nominee(s) (as agent & trustee) and a receipt thereof shall be a valid discharge by the Fund. Unitholders being either parent or lawful guardian on behalf of a minor and power of attorney holder of an eligible institution, societies, Funds, bodies corporate, partnership firms and HUF shall have no right to make any nomination. Nomination in favor of Non-residents will be governed by the rules formulated by Reserve Bank of India from time to time.

Nomination can also be made for units which are pledged and offered as security in favour of any entity/body for any purpose but only after "approval"/"no objection" clearance from such entity/body. Notwithstanding anything contained in any other law for the time being in force or in disposition, whether testamentary or otherwise, in respect of such pledge units of the scheme, where a nomination made in the prescribed manner purports to confer on any person(s) the right to vest the pledged units of the scheme, the nominee(s) shall, on the death of the unitholder(s) (single holder or all the joint holders) of the scheme become entitled to all the rights in the pledged units of the scheme to the exclusion of all other persons except the entity/body in whose favour the units are pledged by way of lieu, unless the nomination is cancelled or varied.

The provisions for nomination with regard to Mutual Funds would be as per Section 56 and Section 69 (regarding the right of the beneficiary to transfer possession) of the Indian Trust Act, 1882 since the Mutual Fund is formed as a Trust under the said Act. However, acceptance of such nomination/appointment of beneficiary would be at the entire discretion of the Fund taking into consideration the provisions of the Indian Trust Act and the Mutual Fund assumes no responsibility therefor, and the unitholder(s) would be liable for the loss resulting from a fraudulent nomination/appointment of beneficiary based on the unitholder(s) (single holder or joint-holders) instructions, that the Fund reasonably believed as genuine.

By provision of this facility the AMC is not in any way attempting to grant any rights other than those granted by law to the nominee. A nomination in respect of the Units does not create an interest in the property after the death of the Unitholder. The nominee shall receive the Units only as an agent and trustee for the legal heirs or legatees as the case may be. It is hereby clarified that the nominees under the nomination facility provided herein shall not necessarily acquire any title or beneficial interest in the property by virtue of this nomination and the transmission of units would normally be governed as per succession certificate/probate of the will.

The nomination can be made only by individuals applying for / holding units on their own behalf singly or jointly. Non-individuals including society, trust, body corporate, partnership firm, Karta of Hindu Undivided Family, holder of Power of Attorney cannot nominate. If the units are held jointly, all joint holders will sign the nomination form. A minor can be nominated and in that event, the name and address of the guardian of the minor nominee shall be provided by the unit holder. Nomination can also be in favour of the Central Government, State Government, a local authority, any person designated by virtue of his office or a religious or charitable trust. The Nominee shall not be a trust other than religious or charitable trust, society, body corporate, partnership firm, Karta of Hindu Undivided Family or a Power of Attorney holder. A non-resident Indian can be a Nominee subject to the exchange

controls in force, from time to time. Nomination in respect of the units stands rescinded upon the transfer of units. Transfer of units in favour of a Nominee shall be valid discharge by the asset management company against the legal heir. The cancellation of nomination can be made only by those individuals who hold units on their own behalf singly or jointly and who made the original nomination. On cancellation of the nomination, the nomination shall stand rescinded and the asset management company shall not be under any obligation to transfer the units in favour of the Nominee.

PLEDGE OF UNITS

In conformity with the guidelines and notification issued by SEBI/Government of India/any other regulatory body from time to time and/or any statutory modification or re-enactment thereof, the units under the Scheme may be offered as security by way of a pledge/charge in favor of scheduled banks, financial institutions, NBFC, or any other body. The AMC and/or the Registrar will note and record such pledged units. Appropriate documentation has been drafted for this purpose and is available on request. However, disbursement of such loans will be at the entire discretion of the bank/financial institution/NBFC, any other regulatory body concerned and the Mutual Fund assumes no responsibility thereof.

LISTING

The units under the scheme, after their respective new fund offer, on a continuous basis will offer redemption of units on every business day. Therefore, it is not necessary to list the units of the plan on any exchange even though the scheme is a closed ended scheme.

TRANSFER

As the Fund will be repurchasing and issuing the units on an ongoing basis, no transfer facility is required. However, if units are gifted or in case of change of joint holding or otherwise when unit certificates are held, or if a unitholder wants to sell the units in the market, by operation of law or otherwise upon enforcement of a pledge/charge, then the Trustees/AMC shall effect the transfer, so long as the intended transferee is otherwise eligible to hold the units. The instrument of transfer used for transfer of the units (in case of unit certificates) shall be the same transfer instruments (Form 7B) used for company shares.

It is expressly understood that the investor/unitholder is aware of the relevant statutes, tax related provisions etc. pertaining to transfer and he undertakes to abide by the same and shall pay all relevant applicable duties, tax, cess etc. The investor/unitholder should not make any transfer etc. contrary to the relevant statutes, tax related provisions etc.

For effecting the transfer, unitholders can request the Fund by writing to the Registrar along with the account statement/unit certificate, gift deed instrument and any other documents. The AMC shall, on production of instrument of transfer, together with relevant unit certificate(s), account statement, etc. register the transfer and return the unit certificate(s)/account statement to the transferee within 30 days from the date of such production.

REPURCHASE OF UNITS

Repurchase Procedure

The units of the Scheme can be repurchased (sold back to the Fund) on any business day. The repurchase request can be made on a repurchase form or by using the relevant tear off section of the Transaction Slip that may be enclosed with the Account Statement, which should be submitted at any of the Investor Service Centres or at the office of the AMC.

In case the units are standing in the names of more than one unitholder, where mode of holding is specified as "jointly", repurchase requests will have to be signed by all the joint holders. However, in cases of holding specified as 'either/ anyone or survivor', any one of the jointholders (in case of either/anyone or survivor) will have the power to make repurchase request. However, in all cases, the repurchase proceeds will be paid to the first named holder only, unless otherwise stated in case of percentage allocation of investment where the repurchase proceeds will be paid separately to each of the joint holders.

In case a unitholder has subscribed to units on more than one Business Day (either through continuation in case of existing unitholder, or through subsequent subscriptions), the units subscribed to prior in time (that is those units which have been held for the longest period of time), will be deemed to have been repurchased first, that is on a First -In -First-Out basis. However, an unitholder may request the Fund to repurchase units subscribed by him/her at different dates, by indicating the specific date of subscription of the units, which is offered for repurchase.

Minimum repurchase/redemption amount/units:

The repurchase would be permitted to the extent of credit balance in the unitholder's account. The repurchase request can be made by specifying the Rupee amount or by specifying the number of units to be repurchased. If a repurchase request is for both a specified Rupee amount and a specified number of units, the specified rupee amount will be considered the definitive request. If only the repurchase amount is specified by the unitholder, the AMC will divide the repurchase amount so specified by the applicable NAV based price to arrive at the number of units. The request for repurchase of units could also be in fractions, up to three decimal places.

The minimum repurchase/redemption is Rs. 500 or 50 units. The AMC reserves the right to change the same on a prospective basis subject to SEBI Regulations. Unitholders may also request for repurchase of their entire holding and close the account by indicating the same at the appropriate place in the Transaction Slip/Repurchase form.

Repurchase Price

An exit load of up to a maximum of 5% or as stipulated by SEBI will be charged on repurchase of units by unitholders under the Scheme. The exit load may be different for the Dividend and Growth and any other options. The exit load will be calculated as a percentage of the applicable NAV. Further, the difference between the sale price and repurchase price of units shall not exceed 5% calculated on the sale price.

The repurchase price will be calculated using the following formula:

Repurchase Price = Applicable NAV*(1 – Exit Load, if any).

Example for calculation of Repurchase Price

If the Applicable NAV is Rs. 11.25 and a 1.00% exit load is charged the repurchase price will be calculated as follows:

$$\begin{aligned}\text{Repurchase Price} &= \text{Rs. } 11.25 (1-1.00\%) \\ &= \text{Rs. } 11.25 - \text{Re. } 0.01 \\ &= \text{Rs. } 11.24 \text{ per unit}\end{aligned}$$

The AMC reserves the right to modify the exit load or levy a different exit load for any individual(s) or group of investors. However, any such change in the load structure shall be only on a prospective basis. The unitholder is requested to confirm the applicable exit load at the time of investment from the AMC/collection centre.

Repurchase by NRI's/FIIs

Credit balances in the account of an NRI/FII will be subject to any procedures laid down by the RBI. Such repurchase proceeds will be paid by means of a rupee cheque payable to the designated NRE/NRO account of the unitholder or by a US dollar (or any other currency) draft drawn at the exchange rates prevailing at that time and subject to RBI procedures and approvals and subject to deduction of tax at source, as applicable. All bank charges in connection with such payment will have to be borne by the unitholder and/or the Scheme by way of ongoing expenses.

The Fund will not be liable for any delays or for any loss on account of exchange fluctuations, while converting the rupee amount in US Dollar or any other currency.

Payment of Repurchase Proceeds

The time limit set for dispatch of repurchase proceeds will be from the Business Day when the request is accepted at the collection centres or the AMC's office. As per the SEBI Regulations, the Fund shall mail the repurchase proceeds within ten Business Days from the date of acceptance of valid request at any of the collection centres or the office of the AMC, in case of a repurchase request being sent by post. The Fund will endeavor to dispatch the repurchase warrant within 3 (Three) business days from the date of acceptance of a valid repurchase request.

In the event of failure to dispatch the repurchase or repurchase proceeds within the statutory period specified above as per the SEBI Regulations, the AMC shall be liable to pay interest to the unitholders at such rate (currently 15% per annum) as may be specified by SEBI for the period of such delay.

Electronic Credit Clearing Services (ECS)

ECS is a facility offered by RBI for facilitating better customer service by direct credit of dividend or repurchase amount to a unitholder's bank account through electronic credit. This helps in avoiding loss of dividend or repurchase warrant in transit or fraudulent encashment. The Fund will endeavour to arrange such facility for payment of dividend/repurchase proceeds to the unitholders. However, this facility is optional for the unitholders.

Repurchase proceeds may be released through the ECS facility to unitholders residing in any of the cities where such a facility is available. However, the maximum amount of repurchase in such cases should be Rs. 100,000/-. The AMC may change this amount depending upon the relevant guidelines from the RBI from time to time.

In order to avail the above facility, the unitholder will have to give a written request to the Registrar. If the unitholder has opted for the ECS facility his/her bank branch will directly credit the amount due to them in their account whenever the payment is through ECS. The Registrar will send a separate advice to the unitholder informing them of the direct credit.

It may be noted that there is no commitment from the Fund that this facility will be made available to the unitholders for payment of dividend/repurchase proceeds. While the Fund will endeavour in arranging the facility it will be dependent on various factors including sufficient demand for the facility from unitholders at any centre, as required by the authorities. In places where such a facility is not available or if the facility is discontinued by the Fund for any reason the repurchase warrants will be mailed to the unitholder.

CLOSURE OF UNITHOLDER'S ACCOUNT

Unitholders may note that the AMC at its sole discretion may close a unitholder's account after giving notice of 45 days, if at the time of any part repurchase, the value of units (represented by the units in the unitholder's account if such repurchase were to take place, valued at the applicable NAV related price), falls below the minimum investment/balance required for each scheme (or such other amount as the AMC may decide from time to time) or where the units are held by a unitholder in breach of any Regulation.

RIGHT TO LIMIT REPURCHASES

The AMC may, in the general interest of the unitholders of the Scheme, keeping in view the unforeseen circumstances/unsure conditions, limit the total number of units which may be repurchased on any Business Day to 15% of the total number of units of the Scheme (or such higher percentage as the AMC may decide in any particular case). Any units which by virtue of these limitations are not repurchased on a particular Business Day will be carried forward for repurchase to the next Business Day, in order of receipt. Repurchases so carried forward will be priced on the basis of the Repurchase Price of the Business Day on which repurchase is made. Under such circumstances, to the extent multiple repurchase requests are received at the same time on a single Business Day, repurchase will be made on pro-rata basis, based on the size of each repurchase request, the balance amount being carried forward for repurchase to the next Business Day(s).

POSSIBLE DEFERRAL OF REDEMPTION/REPURCHASE REQUESTS

Whilst every effort will be made to ensure that the Scheme will have sufficient liquidity to enable the repurchase cheques to be collected/despatched within the deadline stated in the foregoing clause, unitholders should note that where the Scheme is obliged to arrange for the disposal of the underlying securities/borrow, in order to satisfy redemption/repurchase requests, unitholders may experience some delays in receiving repurchase cheques, reflecting the time involved in settling the underlying sales of securities/borrowing. However in any case, the Fund will ensure that the collection/despatch of repurchase cheques is not delayed beyond ten working days (when Principal is open for business) from the date of receipt of the repurchase request in accordance with Regulation 53(b) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

SUSPENSION OF REPURCHASE/SWITCH OPTIONS OF THE UNITS

The Fund at its sole discretion reserves the right to withdraw repurchase and/ or switch of the units under the scheme, temporarily or indefinitely, if in the opinion of the AMC the general market conditions are not favourable. However, the suspension of repurchase/switch either temporarily or indefinitely will be made applicable only after the approval of the Board of Directors of the AMC and Trustee. The approval from the AMC Board and the Trustees giving details of circumstances and justification for the proposed action shall also be informed to SEBI in advance.

The repurchase and switch of the units may be temporarily suspended under any or all of the following conditions :

- If the stock/money markets stop functioning or trading is restricted
- Under uncertain conditions when the market (capital/stock/money etc become extremely volatile and the AMC so decides in the best interest of the unitholders)
- Declaration of war or occurrence of insurrection, civil commotion or any other serious or sustained financial, political or industrial emergency or disturbance or any natural calamity
- In extreme cases or complete breakdown or dislocation of business in the financial markets.
- Breakdown in the means of communication used for the valuation of investments in the Scheme(s), without which the value of the securities held in the Scheme(s) cannot be accurately calculated.
- In the event of any force majeure or disaster that affects the normal functioning of the AMC or the ISC
- SEBI by order so permits
- During the period of Book Closure/Record Date
- On a requisition made by three-fourth's of the unitholders.

The AMC reserves the right in its sole discretion to withdraw the facility of sale and switch option of units into and out of the scheme, temporarily or indefinitely, if AMC views that changing the size of the corpus further may prove detrimental to the existing unitholders of the Scheme.

SPLIT IN THE FACE VALUE OF UNITS

The units under the scheme are presently being issued at the face value of Rs.10. Subject to SEBI Regulations in this regard, the AMC may split the face value of the units to below Rs. 10 in multiple of an appropriate integer, the intent being to protect the interest of the unitholders. The units after split in the face value would be issued to all Unitholders whose names appear in the register of members as on the record date fixed for the purpose. Fresh account/transaction statements will be sent to all unitholders after the split procedure is completed. The NAV of the Scheme will be adjusted to the extent of the split in the face value of units after the record date fixed for the purpose.

XI. VALUATION POLICY AND DETERMINATION OF NET ASSET VALUE (NAV)

The assets of the Scheme will be valued according to the following guidelines, presently in force, which are in conformity with SEBI Regulations.

VALUATION POLICY

1. Traded Securities :

1. The securities shall be valued at the last quoted closing price on the stock exchange.
2. When the securities are traded on more than one recognised stock exchange, the securities shall be valued at the last quoted closing price on the stock exchange where the security is actively traded. It would be left to the AMC to select the appropriate stock exchange, but the reasons for the selection should be recorded in writing. There should however be no objection for all scrips being valued at the prices quoted on the stock exchange where a majority in value of the investments are principally traded such as the National Stock Exchange (NSE) or The Stock Exchange, Mumbai (BSE).
3. Once a stock exchange has been selected for valuation of a particular security, reasons for change of the exchange shall be recorded in writing by the AMC.
4. When on a particular valuation day, a security has not been traded on the selected stock exchange; the value at which it is traded on another stock exchange may be used.
5. When a security (other than government securities) is not traded on any stock exchange on a particular valuation day, the value at which it was traded on the selected stock exchange or any other stock exchange, as the case may be, on the earliest previous day may be used provided such date is not more than thirty days prior to the valuation date.
6. Presently the AMC is valuing the securities of the scheme based on the quotations of the NSE, since the price quotations of all securities listed on most of the Stock Exchanges are available on NSE. However, the AMC reserves the right to change the basis of valuation to BSE, or any other stock exchange, if it is found to be more appropriate.

2. Thinly Traded Securities :

(i) Thinly Traded Equity/Equity Related Securities :

When trading in an equity/equity related security (such as convertible debentures, equity warrants, etc.) in a month is less than Rs. 5 lacs or the total volume is less than 50,000 shares, it shall be considered as a thinly traded security and valued accordingly.

Where a stock exchange identifies the "thinly traded" securities by applying the above parameters for the preceding calendar month and publishes/provides the required information along with the daily quotations, the same can be used by the Fund.

If the share is not listed on the stock exchanges which provide such information, then it will be obligatory on the part of the Fund to make its own analysis in line with the above criteria to check whether such securities are thinly traded which would then be valued accordingly.

In case trading in an equity security is suspended upto 30 days, then the last traded price would be considered for valuation of that security. If an equity security is suspended for more than 30 days, then the Asset Management Company/Trustees will decide the valuation norms to be followed and such norms would be documented and recorded.

(ii) Thinly Traded Debt Securities:

A debt security (other than Government Securities) shall be considered as a thinly traded security if on the valuation date, there are no individual trades in that security in marketable lots (currently Rs 5 crore) on the principal stock exchange or any other stock exchange.

A thinly traded debt security as defined above would be valued as per the norms set for non-traded debt security.

3. Non Traded Securities :

When a security (other than Government Securities) is not traded on any stock exchange for a period of thirty days prior to the valuation date, the scrip must be treated as a 'non traded' security.

4. Valuation of Non-Traded/Thinly Traded Securities

Non traded/ thinly traded securities shall be valued "in good faith" by the Asset Management Company on the basis of appropriate valuation methods based on the principles laid down below and approved by the AMC. Such decision of the AMC must be documented and the supporting data in respect of each security so valued must be preserved. The methods used to arrive at the values "in good faith" shall be periodically reviewed by the Trustees and reported upon by the Auditors as "Fair and Reasonable" in their report on the annual accounts of the Fund. For the purpose of valuation of non traded securities, the following principles will be adopted;

5 Non Traded Debt Instruments

Non traded debt instruments in the Fund shall generally be valued on an "yield to maturity" basis, the capitalization factor being determined for comparable traded securities and with appropriate discount for lower liquidity.

(a) Non Traded/Thinly Traded Debt Securities of Upto 182 Days to Maturity :

As the non-traded money market securities are valued on the basis of amortization (cost plus accrued interest till the beginning of the day plus the difference between the redemption value and the cost spread uniformly over the remaining maturity period of the instruments) the same process should be adopted for non-traded debt securities with residual maturity of upto 182 days, in the absence of any other standard benchmarks in the market. All other non traded Non Government debt instruments should be valued using the method suggested in (ii)(b) hereof.

(b) Non Traded/Thinly Traded Debt Securities of Over 182 Days to Maturity.

For the purpose of valuation, all Non Traded Debt Securities would be classified into "Investment grade" and "Non Investment grade" securities based on their credit ratings. The non-investment grade securities would further be classified as "Performing" and "Non Performing" assets

- All Non Government investment grade debt securities, classified as not traded, shall be valued on yield to maturity basis as described below.
- All Non Government non investment grade performing debt securities would be valued at a discount of 25% to the face value
- All Non Government non investment grade non performing debt securities would be valued based on the provisioning norms.

The approach in valuation of non traded debt securities is based on the concept of using spreads over the benchmark rate to arrive at the yields for pricing the non traded security.

The Yields for pricing the non traded debt security would be arrived at using the process as defined below.

Step A

A Risk Free Benchmark Yield is built using the government securities (GOI Sec) as the base. GOI Secs are used as the benchmarks as they are traded regularly; free of credit risk; and traded across different maturity spectrums every week.

Step B

A Matrix of spreads (based on the credit risk) are built for marking up the benchmark yields. The matrix is built based on traded corporate paper on the wholesale debt segment of an appropriate stock exchange and the primary market issuances. The matrix is restricted only to investment grade corporate paper.

Step C

The yields as calculated above are Marked-up/Marked-down for ill-liquidity risk

Step D

The Yields so arrived are used to price the portfolio

METHODOLOGY

A. Construction of Risk Free Benchmark

Using Government of India dated securities, the Benchmark shall be constructed as below :

Government of India Dated securities will be grouped into the following duration buckets viz., 0.5-1 years, 1-2 years, 2-3 years, 3-4 years, 4-5 years, 5-6 years and over 6 years and the volume weighted yield would be computed for each bucket. Accordingly, there will be a benchmark YTM for each duration bucket.

The benchmark as calculated above will be set weekly, and in the event of any change in the Reserve Bank of India (RBI) policies affecting interest rates during the week, the benchmark will be reset to reflect any change in the market conditions.

Note : The concept of duration over tenor has been chosen in order to capture the reinvestment risk. It is intended to gradually move towards a methodology that incorporates the continuous curve approach for valuation of such securities. However, in view of the current lack of liquidity in the corporate bond markets, a continuous curve approach to valuation would be necessarily based on limited data points, and this would result in out of line valuations. As an interim methodology therefore it is proposed that the Duration Bucket approach be adopted and continuously tracked in order to fine tune the duration buckets on a periodic basis. Over the next few years it is expected that with the deepening of the secondary market trading, it would be possible to make a gradual move from the Duration Bucket approach towards a continuous curve approach.

B. Building a Matrix of Spreads for Marking-up the Benchmark Yield

Mark up for credit risk over the risk free benchmark YTM as calculated in step A, will be determined using the trades of corporate debentures/bonds of different ratings. All trades on appropriate stock exchange during the fortnight prior to the benchmark date will be used in building the corporate YTM and spread matrices. Initially these matrices will be built only for corporate securities of investment grade. The matrices are dynamic and the spreads will be computed every week. The matrix will be built for all duration buckets for which the benchmark GOI matrix is built to effectively link the corporate matrix with the GOI securities matrix.

Accordingly:

- All traded paper (with minimum traded value of Rs. 1 crore) will be classified by their ratings and grouped into 7 duration buckets; for rated securities, the most conservative publicly available rating will be used;
- For each rating category, average volume weighted yield will be obtained both from trades on the appropriate stock exchange and from the primary market issuances
- Where there are no secondary trades on the appropriate stock exchange in a particular rating category and no primary market issuances during the fortnight under consideration, then trades on appropriate stock exchange during the 30 day period prior to the benchmark date will be considered for computing the average YTM for such rating category;
- If the matrix cannot be populated using any or all of the above steps, then credit spreads from trades on appropriate stock exchange of the relevant rating category over the AAA trades will be used to populate the matrix;
- In each rating category, all outliers will be removed for smoothening the YTM matrix;
- Spreads will be obtained by deducting the YTM in each duration category from the respective YTM of the GOI securities;
- In the event of lack of trades in the secondary market and the primary market the gaps in the matrix would be filled by extrapolation. If the spreads cannot be extrapolated for the reason of practicality, the gaps in the matrix will be filled by carrying the spreads from the last matrix.

C. Mark-up/Mark-down Yield

The Yields calculated would be marked-up/marked-down to account for the ill-liquidity risk, promoter background, finance company risk and the issuer class risk. As the level of ill-liquidity risk would be higher for non rated securities the marking process for rated and non rated securities would be differentiated as follows:

C(I) Adjustments for Securities rated by external rating agencies

The Yields so derived out of the above methodology could be adjusted to account for risk mentioned above.

A Discretionary discount/premium of upto +100/-50 Basis Points for securities having a duration of upto 2 years and upto +75/-25 Basis Points for securities having duration higher than 2 years will be permitted to be provided for the above mentioned types of risks. The rationale for the above discount structure is to take cognizance of the differential interest rate risk of the securities. This structure will be reviewed periodically.

C (II) Adjustments for Internally Rated Securities

To value an un-rated security, the investment manager has to assign an internal credit rating, which will be used for valuation. Since un-rated instruments tend to be more illiquid than rated securities, the yields would be marked up by adding +50 basis point for securities having a duration of upto 2 years and +25 basis point for securities having duration of higher than 2 years to account for the illiquidity risk. Further additional discretionary discount upto +50 for instruments may be provided.

6. Valuation of securities with Put/Call Options

The option embedded securities would be valued as follows:

Securities with call option :

The securities with call option shall be valued at the lower of the value as obtained by valuing the security to final maturity and valuing the security to call option.

In case there are multiple call options, the lowest value obtained by valuing to the various call dates and valuing to the maturity date is to be taken as the value of the instrument.

Securities with Put option :

The securities with put option shall be valued at the higher of the value as obtained by valuing the security to final maturity and valuing the security to put option.

In case there are multiple put options, the highest value obtained by valuing to the various put dates and valuing to the maturity date is to be taken as the value of the instruments.

Securities with both Put and Call option on the same day.

The securities with both Put and Call option on the same day would be deemed to mature on the Put/Call day and would be valued accordingly.

- (c) **Government securities:** Government securities will be valued at prices released by an agency suggested by AMFI.

(iii) Illiquid Securities:

- (a) Aggregate value of "illiquid securities" of the scheme, which are defined as non-traded, thinly traded and unlisted equity shares, shall not exceed 15% of the total assets of the scheme and any illiquid securities held above 15% of the total assets shall be assigned zero value.
- (b) The Fund shall disclose as on March 31 and September 30 the scheme-wise total illiquid securities in value and percentage of the net assets while making disclosures of half yearly portfolios to the unitholders. In the list of investments, an asterisk mark shall also be given against all such investments which are recognised as illiquid securities.

- (c) The Fund shall not transfer illiquid securities among its schemes w.e.f. October 1, 2000.
- (d) In respect of closed ended funds, for the purposes of valuation of illiquid securities, the limits of 15% and 20% applicable to open-ended funds should be increased to 20% and 25% respectively.
- (e) Where a scheme has illiquid securities as at September 30, 2001 not exceeding 15% in the case of an open-ended fund and 20% in the case of closed fund, the concessions of giving time period for reducing the illiquid security to the prescribed limits would not be applicable and at all time the excess over 15% or 20% shall be assigned nil value.
- iv) In respect of convertible debentures and bonds, the non-convertible and convertible components will be valued separately. The non-convertible component is valued on the same basis as would be applicable to a debt instrument. The convertible component is valued on the same basis as would be applicable to an equity instrument. If, after conversion the resultant equity instrument would be traded pari-passu with an existing instrument, which is traded, the value of the latter instrument is adopted after appropriately discounting for the non-tradability of the instrument during the period preceding the conversion. While valuing such instruments, the fact whether the conversion is optional will be factored in.
- v) In respect of warrants to subscribe for shares attached to instruments, the warrants are valued at the value of the share which would be obtained on exercise of the warrant as reduced by the amount which would be payable on exercise of the warrant. A discount similar to the discount to be determined in respect of convertible debentures (as referred to above) is deducted to account for the period that must elapse before the warrant can be exercised.
- vi) Where instruments have been bought on 'repo' basis, the instrument will be valued at the resale price after deduction of applicable interest up to date of resale. Where an instrument has been sold on a 'repo' basis, adjustment must be made for the difference between the repurchase price (after deduction of applicable interest up to date of repurchase) and the value of the instrument. If the repurchase price exceeds the value, the depreciation must be provided for and if the repurchase price is lower than the value, credit must be taken for the appreciation.
- vii) While investments in call money, bills purchased under rediscounting scheme and short term deposits with bank shall be valued at cost plus accrual, other money market instruments shall be valued at the yield at which they are currently traded. For this purpose, non-traded instruments (instruments not traded for a period of seven days) will be valued at cost plus interest accrued till the beginning of the day plus the difference between the repurchase value and the cost spread uniformly over the remaining maturity period of the instruments.

7. Expense and Income Accrual

All expenses and incomes accrued up to the valuation date shall be considered for computation of NAV. For this purpose, while major expenses like management fees and other periodic expenses should be accrued on a day to day basis, other minor expenses and income need not be so accrued, provided the non-accrual does not affect the NAV calculations by more than 1%.

8. Changes in the Securities and Units

Any changes in securities and in the number of units are recorded in the books not later than the first valuation date following the date of transaction. If this is not possible given the frequency of NAV disclosure, the recording may be delayed up to a period of seven days following the date of the transaction, provided that as a result of the non-recording, the NAV calculations shall not be affected by more than 1%.

In case the Net Asset Value of a scheme differs by more than 1%, due to non-recording of the transactions, the investors or scheme/s as the case may be, shall be paid the difference in amount as follows:-

- (i) If the investors are allotted units at a price higher than Net Asset Value or are given a price lower than Net Asset Value at the time of sale of their units, they shall be paid the difference in amount by the scheme.
- (ii) If the investors are charged lower Net Asset Value at the time of purchase of their units or are given higher Net Asset Value at the time of sale of their units, asset management company shall pay the difference in amount to the scheme. The asset management company may recover the difference from the investors.

All other assets (if any) are taken at fair value as determined in-good faith in accordance with the appropriate valuation methods based on the principles approved/adopted by the AMC, and amended from time to time, to ensure appropriate fair valuation of assets for the Fund. The Trustees/AMC may alter these above stated investment valuation norms from time to time, and also to the extent the SEBI (Mutual Funds) Regulations, 1996 change, so as to permit the Scheme to make valuation of its investments in the full spectrum of permitted valuation norms for Mutual Funds to determine NAV. As such valuation of all investments of the Scheme will be made in accordance with SEBI (Mutual Funds) Regulations, 1996 including Schedule VIII thereof.

DETERMINATION OF NAV

The NAV of the Scheme for each option at any time shall be determined by dividing the net assets of the Scheme by the number of outstanding units on

the valuation date

The NAV of the Scheme will be calculated on a daily basis as shown below:

$\text{NAV per unit} = \frac{(\text{Market / Fair Value of Securities} + \text{Accrued Income} + \text{Receivables} + \text{other assets} + \text{unamortised issue expenses} - \text{Accrued Expenses} - \text{payables} - \text{other liabilities})}{\text{No. of units outstanding of the scheme / option}}$

The NAV will be calculated up to four decimals. The NAVs will be declared as of the close of every Business Day.

The computation of Net Asset Value, valuation of assets, computation of applicable Net Asset Value (related price) for repurchase, switch and their frequency of disclosure shall be based upon a formula in accordance with the Regulations and as amended from time to time including by way of Circulars, Press Releases, or Notifications issued by SEBI or the Government of India to regulate the activities and growth of Mutual Funds.

The dividend paid on units under the Dividend Option of the Fund shall be deducted in computing the NAV of the units under the Dividend Option, each time a dividend is declared and till it is distributed. Consequently, once the dividend is distributed, the NAV of the units will always remain lower than the NAV of the units under the Growth Option. The income earned and profits realized attributable to the units under the Growth Option shall remain invested and shall be deemed to have remained invested in the Growth Option (exclusive of the units under the Dividend Option) and would be reflected in the NAV of the units under the Growth Option.

ACCOUNTING POLICIES AND STANDARDS

The AMC will follow Accounting Policies and Standards as prescribed under Schedule Nine of the SEBI Regulations.

1. All investments will be marked to market and will be carried in the balance sheet at market value. However, since the unrealised gain arising out of appreciation can not be distributed, provision will be made for exclusion of this item when arriving at distributable income.
2. Dividend income earned by the scheme will be recognised; not on the date the dividend is declared, but on the date the share is quoted on an ex-dividend basis. For investments that are not quoted on the stock exchange, dividend income must be recognised on the date of declaration.
3. In respect of all interest bearing investments, income will be accrued on a day to day basis as it is earned. Therefore, when such investments are purchased, interest paid for the period from the last interest due date up to the date of purchase shall not be treated as a cost of purchase but shall be debited to Interest Recoverable Account. Similarly, interest received at the time of sale for the period from the last interest due date up to the date of sale shall not be treated as an addition to sale value but shall be credited to Interest Recoverable Account.
4. In determining the holding cost of investments and the gains or loss on sale of investments, the "average cost" method shall be followed.
5. Transactions for purchase or sale of investments would be recognized as of the trade date and not as of the settlement date so that the effect of all investments traded during the financial year are recorded and reflected in the financial statements for that year. When investment transactions take place outside the stock market, e.g. acquisition through private placement or purchase or sales through private treaty, the transaction would be recorded, in the event of a purchase, as of the date on which the scheme obtains an enforceable obligation to pay the price or, in the event of a sale, when the scheme obtains an enforceable right to collect the proceeds of sale or an enforceable obligation to deliver the instruments sold.
6. Where income receivable on investments has been accrued and has not been received for a period of twelve months beyond the due date, provision shall be made by debit to the revenue account for the income so accrued and no further accrual of income shall be made in respect of such investment.
7. When units are sold in the case of an open ended scheme, the difference between the sale price and the face value of the Unit, if positive, should be credited to the reserves and, if negative, is debited to reserves, the face value being credited to Capital Account. Similarly, when in respect of such a scheme, units are repurchased, the difference between the purchase price and the face value of the unit, if positive, shall be debited to reserves and, if negative, shall be credited to reserves, the face value being debited to the Capital Account.
8. In the case of an open ended scheme, when units are sold, an appropriate part of the sale proceeds shall be credited to an Equalisation Account and when units are repurchased, an appropriate amount shall be debited to Equalisation Account. The net balance on this account shall be credited or debited to the revenue account. The balance on the Equalisation Account debited or credited to the revenue account shall not decrease or increase the net income of the Fund but is only an adjustment to the

distributable surplus. It shall therefore be reflected in the revenue account only after the net income of the Fund is determined.

9. The cost of investment acquired or purchased would include brokerage, stamp charges and any charge customarily included in the brokers' bought note. In respect of privately placed debt instrument, any front-end discount offered shall be reduced from the cost of the investment.
10. Underwriting commission shall be recognised as revenue only when there is no devolvement on the Fund. Where there is devolvement on the Fund, the full underwriting commission received and not merely the portion applicable to the devolvement shall be reduced from the cost of the investment.
11. Identification and Provisioning for Non Performing Assets:

(i) Definition of a Non Performing Asset (NPA)

An 'asset' shall be classified as non performing, if the interest and/or principal amount has not been received or remained outstanding for one quarter from the day such income / installment has fallen due.

(ii) Effective date for classification and provisioning of NPAs :

The definition of NPA may be applied after a quarter following the due date of interest. For e.g. if the due date for interest is 30.09.2002 it will be classified as NPA from 01.01.2003.

(iii) Treatment of income accrued on the NPA and further accruals

- After the expiry of the 1st quarter from the date the income has fallen due, there will be no further interest accrual on the asset i.e. if the due date for interest falls on 30.09.2002 and if the interest is not received, accrual will continue till 31.12.2002 after which there will be no further accrual of income. In short, taking the above example, from the beginning of the 2nd quarter, there will be no further accrual on income.
- On classification of the asset as NPA from a quarter following the due date of interest, all interest accrued and recognized in the books of accounts of the Fund till the date, should be provided for. For e.g. if interest income falls due on 30.09.2002, accrual will continue till 31.12.2002 even if the income as on 30.09.2002 has not been received. Further, no accrual will be done from 01.01.2003 onwards. Full provision will also be made for interest accrued and outstanding as on 30.09.2002.

(iv) Provision for NPAs

Both secured and unsecured investments, once recognized as NPAs, call for provisioning in the same manner and where these are related to close ended scheme the phasing would be such to ensure full provisioning prior to the closure of the scheme or the scheduled phasing, whichever is earlier.

The value of the asset must be provided in the following manner or earlier at the discretion of the fund. The Fund will not have the discretion to extend the period of provisioning. The provisioning against the principal amount or instalments should be made at the following rates irrespective of whether the principal is due for repayment or not.

- 10% of the book value of the asset should be provided for after 6 months following the due date of interest i.e. 3 months from the date of classification of the asset as NPA.
- 20% of the book value of the asset should be provided for after 9 months following the due date of interest i.e 6 months from the date of classification of the asset as NPA.
- Another 20% of the book value of the assets should be provided for after 12 months following the due date of interest i.e 9 months from the date of classification of the asset as NPA.
- Another 25% of the book value of the assets should be provided for after 15 months following the due date of interest i.e. 12 months from the date of classification of the asset as NPA.
- The balance 25% of the book value of the asset should be provided for after 18 months following the due date of interest i.e 15 months from the date of classification of the assets as NPA.

Book value for the purpose of provisioning for NPAs shall be taken as a value determined as per the prescribed valuation method. If any installment is fallen due, during the period of interest default, the amount of provision should be installment amount or above provision amount, whichever is higher.

(v) Reclassification of assets :

Upon reclassification of assets as 'performing assets' :

1. In case an issuer has fully cleared all the arrears of interest, the interest provisions can be written back in full.

2. The asset will be reclassified as performing on clearance of all interest arrears and if the debt is regularly serviced over the next two quarters.
3. In case the issuer has fully cleared all the arrears of interest, the interest not credited on accrual basis would be credited at the time of receipt.
4. The provision made for the principal amount can be written back in the following manner :-
 - 100% of the asset provided for in the books will be written back at the end of the 2nd quarter where the provision of principal was made due to the interest defaults only.
 - 50% of the asset provided for in the books will be written back at the end of the 2nd quarter and 25% after every subsequent quarter where both installments and interest were in default earlier.
5. An asset is reclassified as 'standard asset' only when both overdue interest and overdue installments are paid in full and there is satisfactory performance for a subsequent period of 6 months.

(vi) Receipt of past dues :

When the fund has received income/principal amount after their classification as NPAs ;

- For the next 2 quarters, income should be recognized on cash basis and thereafter on accrual basis. The asset will continue to be classified as NPA for these two quarters.
- During this period (2 quarters), although the asset is classified as NPA no provision needs to be made for the principal if the same is not due and outstanding.
- If part payment is received towards principal, the asset continues to be classified as NPA and provisions are continued as per the norms set at (iv) above. Any excess provision will be written back.

(vii) Classification of Deep Discount Bonds as NPAs :

Investments in Deep Discount Bonds can be classified as NPAs, if any two of the following conditions are satisfied:

- If the rating of the Bond comes down to grade 'BB' or below.
- If the company is defaulting in their commitments in respect of other assets, if available.
- Full Networth erosion.

Provision should be made as per the norms set at (iv) above as soon as the asset is classified as NPA.

Full provision can be made if the rating comes down to grade 'D'.

(viii) Reschedulement of an asset :

In case any company defaults either interest or principal amount and the Fund has accepted a reschedulement of the schedule of payments, then the following practice may be adhered to :

- (a) In case it is a first reschedulement and only interest is in default, the status of the asset, namely, 'NPA' may be continued and existing provisions should not be written back. This practice should be continued for two quarters of regular servicing of the debt. Thereafter, this be classified as 'performing asset' and the interest provided may be written back.
- (b) If the reschedulement is done due to default in interest and principal amount, the asset should be continued as non performing for a period of 4 quarters, even though the asset continues to be serviced during these 4 quarters regularly. Thereafter, this can be classified as 'performing asset' and all the interest provided till such date should be written back.
- (c) If the reschedulement is done for a second/third time or thereafter, the characteristic of NPA should be continued for eight quarters of regular servicing of the debt. The provision should be written back only after it is reclassified as 'performing asset'.

To provide appropriate details of the Schemewise deployment of the assets of the Fund, certain accounting policies and standards in accordance with the appropriate guidance notes issued by the Institute of Chartered Accountants of India may be adopted by AMC and amended from time to time. The Trustees/AMC may alter these above stated accounting policies and standards from time to time, and also to the extent the guidance notes issued by the Institute of Chartered Accountants of India, and the SEBI (Mutual Funds) Regulations, 1996 change, so as to permit the Scheme to give a true and fair view of its state of affairs. As such the accounting policies and standards, and the preparation of the annual report and annual statement of account of the Scheme will be in accordance with SEBI (Mutual Funds) Regulations, 1996, including Schedule IX and XI thereof.

XII. LOAD, EXPENSES AND FEES

The information provided under this section is to assist the unitholder to understand the expense structure of the current Scheme and types of fees and their percentage the unitholder is likely to incur on subscribing the units of the Scheme.

LOAD

The units will be repurchased on an on-going basis at applicable NAV-based prices. For the information of investors/unitholders, the maximum total transaction expenses of the Scheme that may be levied on the investor/unitholder and expressed as a percentage of the amount of the Scheme's NAV, are estimated to be as follows:

Type of Transaction	Levy Upto % of NAV
Maximum Sales Load imposed on Resale	5
Sales Load, if any, on issue of Units in lieu of Dividends	Nil
Contingent Deferred Redemption/Sales Load Year 1, Year 2, Year 3, Year 4	Nil
Maximum Redemption/ Repurchase Load	5
Maximum Switchover/Exchange Fee	At applicable entry-exit loads for the Scheme

Under normal circumstances based on the Scheme's potential performance in the market environment, the Fund intends to charge the following load, till subsequently changed.

As per SEBI circular dated 04/04/06 close-ended schemes are not permitted to charge entry load. Principal Pnb Fixed Maturity Plan - 91 Days - Series XIV being a close-ended scheme shall not charge entry load during the NFO.

Load Structure during New Fund Offer and on ongoing basis for Redemption/ Switch-out transactions before maturity of the Scheme:

No Entry Load will be charged during the New Fund Offer of the Scheme. The exit load will be charged as follows:

Redemption	As a % of amount redeemed/ NAV
From First NAV to Maturity	1%
On Maturity	NIL

In case if the date of redemption is a holiday / non business day, the deemed date will be the next business day.

Load on switch will be same as entry/exit load applicable for the respective Scheme.

E.g. If NAV is Rs. 11.25 then, Repurchase Price = Applicable NAV*(1-Exit Load, if any). Therefore, the Repurchase Price would be Rs. 11.25*(1-1.00%) = Rs. 11.24 (after rounding off to two decimal places)

In case if an investor exits before the maturity of the scheme he shall have to bear an exit load along with the balanced proportionate unamortised expenses. The details of the same are explained vide an illustration in the section titled "New Fund Offer Expenses".

The repurchase price shall not be lower than 95% of the NAV and the sale price shall not be higher than 107% of the NAV and the difference between the repurchase price and sale price shall not exceed 7% on the sale price.

The AMC reserves the right to change/modify entry/exit/switchover load (including zero load), depending upon the circumstances prevailing at any given time. A load structure when introduced by the AMC may comprise of an entry load and/or exit load and/or switchover load as may be permissible under the SEBI Regulations. The AMC may charge an entry/exit load for switch of units between Dividend Option and Growth Option of the Scheme and/or switch over load depending upon the circumstances prevailing at any given time. The load may also be changed from time to time and in the case of an exit/repurchase load this may be linked to the period of holding, while in case of entry load this may be linked to the amount of investment. The switchover load may be different for different plans/options and the switchover load may be different from the entry and/or exit load charged for sale and/or repurchase units. The load charged could also be different as regards the amount/tenor of investment, etc. However, any such change in the load structure shall be applicable on prospective investment only. The addendum shall be circulated to all the distributors/brokers so that the same can be attached to all offer documents and abridged offer documents already in stock. The addendum will be circulated to unitholders along with/included in the

newsletter sent to unitholders. Further arrangement will be made to make available the changes in the load structure in the form of a notice/any other manner in/at all the investor service centers/distributors/brokers office. Applicable load will be disclosed in the account statement/transaction confirmation statement. The introduction of the exit load/ CDSC alongwith the details may be stamped in the acknowledgement slip issued to the investors on submission of the application form and may also be disclosed in the statement of accounts issued after the introduction of such load/CDSC

The Load, if levied, will be retained in the Scheme in a separate account and used by the Fund/AMC to cover the cost of raising/redeeming units on a continuous basis by way of providing redemption/distribution related services to the Fund relating to the Sale, promotion, advertising and marketing of the units of the Scheme and costs associated with liquidating the Fund's investment Securities, including payments for postage and also payments to brokers for their services in connection with the redemption/distribution of the units. Any surplus in this account may be credited to the scheme, whenever felt appropriate by the AMC

In case of switch between Schemes, the applicable entry load, if any, will be reduced by any entry and/or exit load already paid by the unitholder in the Scheme he is switching out from.

EXPENSES

New Fund Offer Expenses

i) Present Scheme

The New Fund Offer expenses for Principal Pnb Fixed Maturity Plan - 91 Days - Series XIV would be borne by the Scheme. For the information of investors/unitholders, the total expenses of the Scheme for the New Fund Offer expressed as a percentage of the aggregate amount expected to be raised in the New Fund Offer period, are estimated to be as follows:

Nature of Expenses	Rs. in Lacs	% of Initial Mobilisation
Brokerage, Fees and Sales Commission	0.15	1.50
Marketing and Advertising	0.25	2.50
Printing and Distribution	0.075	0.75
Registrar's Fees	0.065	0.65
Bank Charges	0.05	0.50
Misc. Expenses	0.01	0.10
Total	0.60	6.00

The above information has been made in good faith as per the information available to the AMC and is subject to change as per actuals. Any expenditure for the Scheme which is in excess of the above stated maximum figure would be borne by the AMC and/or the Trust and or the Sponsor. Therefore the amount available for investment under the Scheme, for each Rs.100 invested would be Rs. 94.

The New Fund Offer expenses debited to the Scheme would be amortised over a period of the Maturity of the Scheme, and would be included in the NAV. However, the same would not be included in the NAV for determining the Investment Management and Trustee Fees. The above is as per SEBI Regulations including Schedule VII and X thereof. The same can further be explained as follows, for amortisation period of 91 days :

NAV Computation	
Unitholder's Investment	Rs. 100
Unit face value	Rs. 10
Nos of units	10
New Fund Offer Expenses	Rs. 6
Amount with Fund for Investment	Rs. 94
Nos of days Amortisation of New Fund Offer Expenses	91 days
Per day Amortisation of New Fund Offer Expense	Rs. 6/91
	=0.0659
Net Assets Day one	
Net Assets before amortisation	Rs. 100
Less: Amortisation	Rs. 0.0659
Net Assets after amortisation	Rs. 99.9341
Number of units	10
Net Asset Value per unit	Rs. 9.9934

Note: The NAV of the Scheme will have an impact of Rs. 0.0659/- per unit every day per Rs. 100 of investment as illustrated above due to amortisation of new fund offer expenses.

Please note:

- (a) The above illustration is merely to show the impact of amortisation on NAV per unit and ignores other impacts on NAV due to valuation, expense charges and changes in total Scheme Assets under Management.

As the New Fund offer expense shall be amortised during the tenure of the scheme, the investor who exits before the maturity of the scheme shall bear the proportionate balanced unamortised new fund expenses i.e. the AMC shall redeem the units only after recovering the unamortised new fund offer expense.

The same has been explained through an illustration:

Estimated NFO expenses (Per Unit)	Rs. 0.60
Date of Allotment (Assumed)	July 10, 2006
Total Number of days for amortisation	91
NAV at the time of redemption by an investor on August 10, 2006	Rs. 12.00 [#]
Total number of days from the date of allotment	30 days
Total amortised new fund offer expense (0.60 * 30/91)	Rs. 0.1978
Total unamortised expense as on August 10, 2006 (0.60 - 0.1978)	Rs. 0.4022
Amount paid to the investor at the time of exiting the scheme as on August 10, 2006 (12.00 - 0.4022)	Rs. 11.5978

[#] NAV of the scheme has been arrived at assuming that the scheme has appreciated due to interest accruals and appreciation in the Market value of the investment of the scheme etc.

As per SEBI (Mutual Funds) Regulations, 1996 any expenses more than 6% of funds raised during the New Fund Offer shall be borne by the AMC.

ii) Past Schemes

The following schemes were launched during the Financial Year 2006-2007.

Name of the Scheme	Launch Date	% of New Fund Offer Expense borne by the Scheme	Amount Mobilised during the New Fund Offer (Rs. in crore)
Principal Pnb Fixed Maturity Plan - 385 Days - Series II	June 7, 2006	0.05%	115.38
Principal Pnb Fixed Duration Fund - 3 Year Plan - Series I	May 22, 2006	2.70%	43.36
Principal Pnb Fixed Maturity Plan - 91 Days - Series IV	July 12, 2006	0.01%	242.87
Principal Pnb Fixed Maturity Plan - 460 Days - Series II	August 2, 2006	0.05%	119.44
Principal Pnb Fixed Maturity Plan - 91 Days - Series V	Sept. 12, 2006	0.0064%	230.45
Principal Pnb Fixed Maturity Plan - 385 Days - Series III	Oct. 31, 2006	0.0179%	300.97
Principal Pnb Fixed Maturity Plan - 91 Days - Series VI	Dec. 27, 2006	0.01%	425.45
Principal Pnb Fixed Maturity Plan - 540 Days - Series I	Jan. 10, 2007	0.02%	267.29
Principal Pnb Fixed Maturity Plan - 91 Days - Series VII	Feb. 7, 2007	0.01%	369.41
Principal Pnb Fixed Maturity Plan - 91 Days - Series VIII	Feb. 26, 2007	0.005%	495.55
Principal Pnb Fixed Maturity Plan - 460 Days - Series III	March 13, 2007	0.09%	251.70
Principal Pnb Fixed Maturity Plan - 385 Days - Series IV	March 23, 2007	0.12%	180.32
Principal Pnb Long Term Equity Fund - 3 Year Plan - Series I	Jan. 24, 2007	5.94%	219.03

Annual Recurring Expenses -

The Scheme would commence incurring ongoing expenses from the first day including the subscription received during the New Fund Offer period. It shall be the endeavor of the AMC to maintain a lower expense ratio than that allowed by SEBI as given in the table below: -

Nature of Expenses	% of Daily average net assets
Investment Management and Advisory Fees	1.25
Trustee Fees	0.01
Custodian Fees/Depository Charges	0.10
Registrar and Transfer Agent Fees	0.13
Costs related to investor communications, costs of Fund transfer from one location to another, cost of providing account statements and dividend repurchase cheques and warrants, costs of statutory advertisements	0.15
Marketing and Selling Expenses	0.60
Audit Fees	0.01
Total Annual Recurring Expenses	2.25

These estimates have been made in good faith by the AMC and are subject to change inter-se. The expenses may be more than as specified in the table above, but the total recurring expenses that can be charged to the Scheme will be subject to limits prescribed from time to time under the SEBI Regulations. Expenses over and above the permissible limits will be borne by the AMC and/or the Trust and/ or the sponsor. Any expense other than those specified in the SEBI Regulations shall be borne by the AMC and/ or the Sponsors and/or Trust. The purpose of the above table is to assist the unitholder in understanding the various costs and expenses that a unitholder in the Scheme will bear directly or indirectly.

The AMC shall charge the Mutual Fund with investment and advisory fees subject to the following:

Average Daily Net Assets	Fees
On first Rs.100 crores	1.25%
On the balance of Assets	1.00%

SEBI has prescribed the following limits for total annual recurring expenses, which can be charged to the Scheme:

Average Daily Net Assets	%
On the first Rs. 100 Crores	2.25
On the next Rs. 300 Crores	2.00
On the next Rs. 300 Crores	1.75
On the balance of assets	1.50

Any expenditure in excess of the limits specified in the SEBI Regulations shall be borne by the AMC and/or by the Sponsor and/or Trust.

The Fund shall strive to reduce the level of these expenses so as to keep them well within the maximum limits currently allowed by SEBI and any revision in the said expenses limits by SEBI would be applicable.

XIII. UNITHOLDERS' RIGHTS AND SERVICES

A unitholder of the Scheme has a proportionate right in the beneficial ownership of assets of the Scheme and to the dividends declared by the Scheme (in case of Dividend Option). Unitholders are advised to refer to the relevant provisions of the Indian Trusts Act, 1882, in this regard. Copies of certain relevant documents will be available for inspection at the office of the AMC at Mumbai.

FUNDAMENTAL ATTRIBUTES

The scheme type, investment objective and terms of a scheme constitute the fundamental attributes of the Scheme, vide clarification issued by SEBI on February 4, 1998.

As per the Regulation 18(15A) of SEBI Regulations, the trustees shall ensure that no change in the fundamental attributes of any scheme or the trust or fees and expenses payable or any other change which would modify the scheme and affects the interest of unitholders, shall be carried out unless,-

- A written communication about the proposed change is sent to each unitholder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated; and
- The unitholders are given an option to exit at the prevailing Net Asset Value without any exit load.

In addition to change in the fundamental attributes of the scheme, any other change which would affect the interest of the unitholders would not be carried out unless

- A written communication about the proposed change is sent to each unitholder and an advertisement is given in one English daily newspaper having nationwide circulation as well as in a newspaper published in the language of the region where the Head Office of the Mutual Fund is situated; and
- The unitholders are given an option to exit at the prevailing Net Asset Value without any exit load.

RIGHTS OF UNITHOLDERS

The allottees of units under the scheme of the Fund are the beneficiaries. The following are the significant rights of the beneficiaries under the SEBI Regulations.

- Unitholders under the Scheme have a proportionate right in the beneficial ownership of the assets under the Scheme.
- The unitholders have a right to ask the Trustees about any information which may have an adverse bearing on their investments, and the Trustees shall be bound to disclose such information to the unitholders as stated in the clauses "NAV Information" and "Disclosures"
- The unitholders have a right to receive abridged audited annual report setting forth the financials of the Scheme as on 31st March.
- The appointment of AMC for the Fund can be terminated upon resolution by the Trustees or by seventy five percent of the unitholders of the Scheme.
- Unitholders have the right to inspect all the documents listed under the clause "Documents for Inspection"
- Under normal circumstances, the redemption/repurchase proceeds shall be mailed within ten working days from the date of redemption/repurchase, while income distribution warrants shall be despatched within 30 days of the declaration of income
- In the event of failure to dispatch the repurchase or repurchase proceeds within the statutory period specified above as per the SEBI Regulations, the AMC shall be liable to pay interest to the unitholders at such rate (currently 15% per annum) as may be specified by SEBI for the period of such delay.

DIVIDENDS AND DISTRIBUTIONS

In the interest of the Scheme and the unitholders the AMC may consider providing returns to the unitholders at appropriate times by way of periodic declaration of dividend and /or bonus units under the Scheme after providing for all necessary recurring and other expenses.

Only those unitholders whose names appear in the register of unitholders as on the record date will be entitled for dividend and/or bonus units. This date will be fixed by the AMC/Trustees appropriately.

The dividend warrants and/or fresh Account Statement with the bonus units shall be despatched/credited to the unitholders within 30 days or such stipulated period of the declaration of dividend/bonus units

In case of Dividend Sweep Option, the appropriate number of units shall be credited to unitholders account at the applicable NAV on the same date when the NAV is ex-dividend

All benefits accruing/earned/received under the Scheme(s) in respect of income (not included in NAV), capital reserves and surpluses, if any, at the time of its/their declaration or otherwise under the Scheme(s) shall be available only to the unitholders who hold the units at the time of its/their declaration.

VOTING RIGHTS OF THE UNITHOLDERS

Subject to the provisions of the SEBI Regulations, the consent of unitholders shall be obtained, entirely at the option of the Trustees, either at a meeting through a postal ballot or any other mode of communication as stated in the clause "Unitholder's Consent".

DISCLOSURES

NAV Information

The NAV of the Scheme will be calculated by the Fund on all Business Days. The unitholders may obtain the information on NAV on any business day, by calling the office of the AMC or any of the collection centres at various locations. The Fund shall make available to the press (for publishing) the NAV on all business days (either through an advertisement or) by Press Release, in at least two daily newspaper/s. Further, the Repurchase prices of units will also be similarly made available to the press for publishing on all business days or as may be prescribed by SEBI in at least two daily newspaper. The Fund shall also make available to AMFI for publishing the Scheme's NAV, Sale/Repurchase price in at least two daily newspaper (of all India circulation) on all business days. Under normal circumstances, the NAV will be determined and updated on AMFI web site by 9.00 p.m. on all business days. However, NAV computation has to take into account number of factors such as redemptions details, securities transactions and their valuation, timely receipt of stock prices and hence, there may a delay in determining and/or updating NAV on AMFI website. Further, NAV may be determined before 9 p.m. but may not be updated before 9 p.m. on AMFI web site due to technical reasons such as Internet traffic, system shut down etc. On occasions of delay in updation of NAV on AMFI website, the reasons for the same would be informed to AMFI. NAVs would however be endeavoured to be made available before commencement of business hours the following business day, failing which a press release explaining the material reasons for non-availability would be released. In the event NAV cannot be calculated and/or published because of suspension of trading on the BSE/NSE/RBI, during the existence of a state of emergency and/or a breakdown in communications, the AMC may suspend calculation and/or publication of NAV, etc of the units.

Financial Results

The Fund will mail to all unitholders an abridged scheme wise annual report, not later than six months from 31st March, containing details as specified in the SEBI Regulations. Further, the full text of the annual report will be available for inspection at the office of the Fund. A copy of the full annual report shall be available to the unitholders, at a price, on specific request.

The Fund will publish, before the expiry of one month from the close of each half year, as on 31st March and 30th September, the Fund's unaudited financial results in one English daily newspaper circulating in the whole of India and in a newspaper published in the language of the region where the Head Office of the Fund is situated. The Fund shall also display half yearly results on its web site and web-site of AMFI.

Portfolio Disclosure

The Fund will send to all unitholders a complete statement of its portfolio before the expiry of one month from the close of each half year (i.e. 31st March and 30th September) or the Fund may publish statement of scheme portfolio by way of an advertisement, in one national English daily and in a newspaper published in the language of the region where the head office of the Mutual Fund is situated. The Fund shall make scripwise disclosures of NPAs on half yearly basis along with the half yearly portfolio disclosure. The total amount of provisions made against the NPAs shall be disclosed in addition to the total quantum of NPAs and their proportion of the assets of the Fund's scheme.

The Scheme's entire portfolio/top holdings will also be disclosed half yearly. The Fund shall also display half yearly portfolio statement on its web site. The format for half yearly disclosure of portfolio will be as prescribed by SEBI vide guidelines Ref: MFD/CIR/9/120/2000 dated November 24, 2000.

Unclaimed Distribution Amount

As per SEBI guidelines Ref: MFD/CIR/9/120/2000 dated November 24, 2000, unclaimed redemption and dividend amounts shall be deployed by the Fund in call money market or money market instruments only and the investors who claim these amounts during a period of three years from the due date shall be paid at the prevailing Net Asset Value. After a period of three years, this amount can be transferred to a pool account and the investors can claim the amount at NAV prevailing at the end of the third year. The income earned on such amount can be used for the purpose of investor education. The AMC shall make continuous efforts to remind the investors through letters to take their unclaimed amounts. Further, the investment management fee charged by the AMC for managing unclaimed amounts shall not exceed 50 basis points.

Scheme Amendments

The AMC may add to or otherwise amend either all or any of the terms of the Scheme, by duly complying with the guidelines of and notifications issued by SEBI/GOI/any other regulatory body, that may be issued from time to time subject to the prior approval of SEBI, wherever required. Till the time the offer document is revised and reprinted, an addendum giving details of each of the changes shall be attached to offer document and abridged offer document. The addendum shall be circulated to all the distributors/brokers so that the same can be attached to all offer documents already in stock. The addendum/amendment will be circulated to unitholders along with/included in the newsletter sent to unitholders. Further, arrangements will be made to provide changes in the offer document in the form of a notice/any other manner in/at all the investor service centers/distributors/brokers office.

DURATION OF THE SCHEME AND WINDING UP

The Scheme will come to an end as per specified period/duration of the Scheme. On maturity of the scheme, the outstanding units shall be redeemed and proceeds will be paid to the unitholders unless rolled over as per SEBI guidelines. In case the due date of maturity falls on a non-business day, the maturity date will be deemed to be the 'immediately following business day'. The AMC, the Fund and Trustees reserve the right to make such changes/alterations to the Scheme (including charging of fees and expenses) offered under this Offer Document to the extent permitted by the SEBI Regulations. However, in terms of the SEBI Regulations, the Scheme may be wound up:

- a) On the happening of any event which, in the opinion of the Trustees, requires the Scheme to be wound up; or
- b) Seventy five percent of the unitholders of the Scheme(s) pass a resolution that the Scheme be wound up; or
- c) SEBI directs the Scheme to be wound up in the interest of the unitholders.

Where a Scheme is to be wound up pursuant to the above/SEBI Regulations, the Trustees shall give notice of the circumstances leading to the winding up of the Scheme to SEBI; and in two daily newspapers having circulation all over India and also in a vernacular newspaper circulating at the place where the Mutual Fund is established.

Effect of Winding Up

On and from the date of the publication of the notice as stated above, the Trustee or the AMC as the case maybe, shall -

- Cease to carry on any business activities in respect of the Scheme so wound up;
- Cease to create or cancel units in the Scheme;
- Cease to issue or redeem units in the Scheme.

Procedure and Manner of Winding Up

In the event of the Scheme being wound up, the AMC shall proceed as follows:

- The Trustee shall call a meeting of the unitholders to consider and pass necessary resolutions by simple majority of unitholders present and voting at the meeting for authorising the AMC or any other person/agency to take the steps for winding up of the Scheme
- The AMC or the person authorised as above shall dispose of the assets of the Scheme(s) concerned in the best interests of the unitholders of that Scheme.
- The proceeds of the sale made in pursuance of the above, shall in the first instance be utilised towards discharge of such liabilities as are properly due under the Scheme and after making appropriate provision for meeting the expenses connected with such winding up, the balance shall be paid to the unitholders in proportion to their respective interests in the assets of the Scheme as on the date when the decision for the winding up was taken.
- On the completion of the winding up, the AMC shall forward to SEBI and the unitholders, a report on the winding up containing particulars such as circumstances leading to the winding up, the steps taken for disposal of assets of the Scheme before winding up, expenses of the Scheme for winding up, net assets available for distribution to the unitholders and a certificate from the Auditors of the Fund.

Notwithstanding anything contained herein, the application of the provisions of SEBI Regulations in respect of disclosures of half-yearly reports and annual reports shall continue to be applicable until the winding up is completed or the Scheme ceases to exist.

After the receipt of report referred to in the above, if SEBI is satisfied that all measures for winding up of the Scheme have been completed, the Scheme shall cease to exist.

SERVICES TO UNITHOLDERS

Investor Services

It is the endeavour of the Fund to provide consistently high quality service to its unitholders. This would encompass all interactions by the unitholders with the Fund. The Fund will strive to upgrade the quality of service through implementation of appropriate technology and through ensuring quality consciousness amongst its service personnel and agencies associated with it. The Fund will endeavour to provide a high degree of convenience for the unitholders' dealing with it. The Fund will strive to constantly increase this level of convenience.

Facilitating Enquiries and Transactions

- It will be the endeavour of the Fund to extensively use technological tools in rendering unitholder service. The Fund will endeavour to send the Account Statements (on account of financial and/or non-financial transactions) e.g., allotment of units in lieu of distribution of periodic dividend, besides periodic information etc by way of e-mail, which is speedier and economical. Other financial transactions (subscription of units) can also be conveyed to the unitholders by way of e-mail, wherever requested, subject to such safeguards the Fund may deem necessary.
- Investor Service centres in select cities
The AMC shall provide unitholder service through its centers. Unitholders' enquiries and transactions during business hours will be entertained at the AMC's centres at the addresses listed at the end of this Offer Document. Unitholders/investors can also write/e-mail/contact them at the AMC's corporate office at Mumbai. In addition, unitholders may also contact the AMC at its corporate office for any additional service. The AMC will, in course of time, be setting up its own service centres at other major locations to handle unitholder enquiries and transactions, besides providing a high degree of convenience to the unitholders.
- Meeting in Person
An Investor Relations personnel of the AMC will be available every business day between normal official hours of the AMC for personal meeting with any unitholder. The purpose of this facility is to attend to any query related to investment needs of a unitholder, resolve any unitholder service related queries through the Registrar and to provide such other services that the unitholder desires.
- Client Relations Manager
At present Mr. Stoney Antony is the Head - Client Relations and can be contacted at the office of the AMC, the present address being as follows:

Principal Mutual Fund
Apeejay House, 5th floor, 3 Dinshaw Vachha Road,
Churchgate, Mumbai 400 020
Tel.: +91 22 2202 1111, Fax: +91 22 2204 4466
E-mail: customer@principalindia.com

e) Service Standards

The Fund shall endeavour to adhere to the following time schedules on an ongoing basis provided the unitholder furnishes the Mutual Fund with all the required correct and complete supporting legal /other documents.

	MAXIMUM	STANDARD
Repurchase Cheque Mailing	Within 10 Business Days	Within 3 Business Days
Purchase intimation	Within 30 Days	Within 3 Business Days
Updated Account Statement on a/c of allotment of units in lieu of dividend	Within 30 Days	Within 5 Business Days
Address Change	Within 10 Business Days	Within 5 Business Days
Ownership Transmission	Within 30 Days	Within 10 Business Days
Despatch of Dividend Proceeds	Within 30 Days	Within 10 Business Days

The above mentioned time schedule does not include postal transit time.

TELEPHONE TRANSACTION SERVICES

Facilitating Enquiries and Transactions

TELETOUCH provides you with a host of services that will help you plan ahead, get ahead:

Know NAV'S - Whenever you want information, you can now keep track of our funds. This feature will ensure that you make your purchase, sale or switch decisions correctly, to maximise the returns on your portfolio.

Know your last 5 transactions – Sometimes, it is difficult to keep track of your transactions. This unique feature helps you keep a tab on your last 5 transactions. Thereby helping you keep a record of how your portfolio has changed.

Subscriptions made easy – Want information on different mutual fund schemes? Want to know how to purchase units, how much you need to invest, and what fund is the best investment avenue for you?

Material Request – You can order for the product brochures.

Account Balances – Know the exact details of your investments in our different schemes.

SIGNATURE VERIFICATION/INDEMNITY

Certain transactions may require that the unitholder's signature be verified by a bank manager, or a notary public or a magistrate or any other party acceptable to the Fund for the following.

- Redemption of Rs.1,00,00,000/- or more from an individual/joint holder account
- If the redemption cheque is payable to other than the unitholder, the sponsor or its affiliates/associates.
- To make a dividend sweep from a folio/account with joint holders to a folio/account with only one holder or different joint holders.
- To change ownership of a folio/account.
- To add telephone transaction services or other privileges that would be added from time to time.
- To change bank account information designated under an existing telephone withdrawal plan
- To have a redemption cheque mailed to an address other than the addresses on the folio/account or to the address on the folio/account if it has been changed within the preceding month
- To switch among folios with different ownership
- To issue duplicate unit certificate.
- To change or introduce nomination and/or percentage allocation of investment, if the ownership of the folio/account has been changed within the preceding month.

The above is an indication of transactions, that may require signature verification that the AMC may insist upon.

REGISTER OF UNITHOLDERS

A register of unitholders shall be maintained electronically or in any other mode at the office of the Registrar and Transfer Agent and also at such other places as the AMC may decide and such register shall be conclusive evidence of ownership. The register may be closed for such time and for such period as the AMC may determine. In the event of closure of the register for a period or periods, appropriate notice shall be given by way of publication in newspaper(s) or other media. Requests for fresh/ongoing sales, repurchase, switching will not be accepted during the period the register is closed and no NAV would be determined/declared.

XIV. HISTORICAL INFORMATION

EXISTING SCHEMES OF THE MUTUAL FUND

Schemes Name	Type	Objective	Date of Commencement/ Allotment
Principal Tax Savings Fund	An Open-ended Equity Linked Savings Scheme	To build a high quality growth-oriented portfolio to provide long-term capital gains to the investor. The scheme aims at providing returns through capital appreciation	March 31, 1996
Principal Child Benefit Fund	An Open-ended Growth Scheme	To generate regular returns and/or capital appreciation/accretion with the aim of giving lumpsum capital growth at the end of the chosen target period or otherwise to the Beneficiary.	January 7, 1998
Principal Index Fund	An Open-ended Index Scheme	To invest principally in securities of companies whose securities are included in the S&P CNX Nifty (NSE) and subject to tracking errors endeavor to attain results commensurate with the Nifty	July 27, 1999
Principal Growth Fund	An Open-ended Equity Scheme	To achieve long term capital appreciation	October 25, 2000
Principal Balanced Fund	An Open-ended Balanced Scheme	To provide long term appreciation and current income by investing in a portfolio of equity & equity related securities and fixed income securities.	January 14, 2000
Principal Income Fund	An Open-ended Income Scheme	To generate regular income and capital appreciation / accretion thro investment in debt instruments and related securities besides preservation of capital.	October 25, 2000
Principal Cash Management Fund	An Open-ended Liquid Scheme	To provide high level of income available from short term investments as is considered consistent with preservation of capital and maintenance of liquidity by investing in a portfolio of money market and investment grade debt instrument.	October 25, 2000
Principal Government Securities Fund	An Open-ended Dedicated Government Securities Scheme	To generate risk-free return and thus provide medium to long term capital gains and income distribution to its Unitholders, while at all times emphasising the importance of capital preservation.	August 23, 2001
Principal Monthly Income Plan	An Open Ended Income Scheme with no assured monthly returns	To generate regular income through investments in fixed income securities so as to make periodical income distribution to the Unitholders and also to generate long- term capital appreciation by investing a portion of the Scheme's assets in equity and equity related instruments.	May 23, 2002
Principal Global Opportunities Fund	An Open-ended Growth Scheme	To build a high quality International Equity portfolio out of the Permissible Investments as defined and permitted under the regulations from time to time, and provide returns and/or capital appreciation along with regular liquidity to the investors.	March 29, 2004
Principal Personal Tax Saver Fund	An Open-ended Equity Linked Savings Scheme	To provide long term growth of capital.	April 12, 1996
Principal Resurgent India Equity Fund	An Open-ended Equity Scheme	To generate long term capital appreciation by investing in equity and equity related securities of Indian Companies that are perceived to be potential growth stories.	June 30, 2000
Principal Dividend Yield Fund	An Open ended Equity Scheme	To provide capital appreciation and/or dividend distribution by investing predominantly in a well-diversified portfolio of companies that have a relatively high dividend yield.	October 15, 2004
Principal Floating Rate Fund	An open-ended Income Scheme	To generate income consistent with the prudent risk from a portfolio comprising substantially of floating rate debt instruments, fixed rate debt instruments swapped for floating rate return, and also fixed rate instruments and money market instruments.	September 14, 2004
Principal Focussed Advantage Fund	An open-ended Equity Scheme	To provide capital appreciation and/or dividend distribution by investing in companies from a maximum of six sectors, depending upon their growth prospects and valuation at any given point in time.	March 15, 2005
Principal Junior Cap Fund	An open-ended equity scheme	To provide capital appreciation and/or income in the form of dividend by investing predominantly (at least 65% of net assets) in the equity and equity related instruments of the companies within the market capitalization range of the companies comprising CNX Nifty Junior Index. Of this, at least 51% will be invested in the equity equity and equity related instruments of the companies that comprise the CNX Nifty Junior Index. Upto 35% of net assets will be invested in the stocks of companies with the market capitalization below Rs. 2000 crore as on the date of investment.	June 30, 2005

Schemes Name	Type	Objective	Date of Commencement/ Allotment
Principal Large Cap Fund	An open-ended Equity Scheme	To provide capital appreciation and /or dividend distribution by predominantly investing in companies having a large market capitalization. For the purpose of this Fund, Large Cap Companies are defined as those having market capitalization greater than Rs.750 crore as on the date of investment (or any such amount as may be specified by India Index Services Ltd (IISL) from time to time) being the upper limit of market capitalisation as a criteria for inclusion of a company in CNX Midcap 200 Index. However, should IISL come out with a definition of 'Large Cap companies', the same will be utilized.	November 11, 2005
Principal Infrastructure & Services Industries Fund	An open-ended Equity Scheme	To provide capital appreciation and income distribution to the unit holders by investing predominantly in equity/equity related securities of the companies belonging to the infrastructure and service industries and the balance in debt securities and money market instruments including call money.	March 6, 2006
Principal Pnb Fixed Duration Fund - 3 Year Plan - Series I	A closed-ended income scheme offering Fixed Maturity Plan	To provide investors steady returns along with capital appreciation through equity exposure.	July 6, 2006
Principal Pnb Fixed Maturity Plan - 460 Days - Series II	A closed-ended debt scheme offering Fixed Maturity Plan	To build an income oriented portfolio and provide returns along with regular liquidity to investors.	August 9, 2006
Principal Pnb Fixed Maturity Plan - 385 Days - Series III	A closed-ended debt scheme offering Fixed Maturity Plan	To build an income oriented portfolio and provide returns along with regular liquidity to investors.	November 3, 2006
Principal Pnb Fixed Maturity Plan - 540 Days - Series I	A closed-ended debt scheme offering Fixed Maturity Plan	To build an income oriented portfolio and provide returns along with regular liquidity to investors.	January 12, 2007
Principal Pnb Fixed Maturity Plan - 385 Days - Series IV	A closed-ended debt scheme offering Fixed Maturity Plan	To build an income oriented portfolio and provide returns along with regular liquidity to investors.	March 29, 2007
Principal Pnb Fixed Maturity Plan - 460 Days - Series III	A closed-ended debt scheme offering Fixed Maturity Plan	To build an income oriented portfolio and provide returns along with regular liquidity to investors.	March 14, 2007
Principal Pnb Long Term Equity Fund - 3 Year Plan - Series I	A 3-year closed-ended equity scheme with automatic conversion into an open-ended scheme upon maturity	To achieve long-term capital appreciation by investing in equity and equity related instruments.	February 21, 2007
Principal Pnb Fixed Maturity Plan - 385 Days - Series V	A closed-ended debt scheme offering Fixed Maturity Plan	To build an income oriented portfolio and provide returns along with regular liquidity to investors.	August 17, 2007
Principal Pnb Long Term Equity Fund - 3 Year Plan - Series II	A 3-year closed-ended equity scheme	To achieve long-term capital appreciation by investing in equity and equity related instruments.	September 28, 2007

Condensed Financial Information (Audited) of the Scheme of Principal Mutual Fund Launched during Last Three Fiscal Year i.e. from April 1, 2004 to March 31, 2007:

1. Principal Dividend Yield Fund

Date of initial allotment : 15th October, 2004

	Fiscal Year 2006-2007		Fiscal Year 2005-2006		15/10/2004 to 31/3/2005	
	Dividend	Growth	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	15.40	17.08	11.38	11.40	N.A.	N.A.
Net Income (Rs. per unit)	2.07		5.29		1.46	
Net Dividend - Corporate (Rs. per unit)	1.50	-	1.25	-	-	-
Net Dividend - Non Corporate (Rs. per unit)	1.50	-	1.25	-	-	-
Transfer to reserves (if any) (Rs. in crore)**	-	-	56.97		44.80	
NAV at the end of the year (Rs. per unit)	11.70	14.36	15.40	17.08	11.38	11.40
Net Assets end of period (Rs. in crore)	80.83	53.66	150.87	40.70	253.97	51.46
Ratio of Recurring Expenses to net assets (%)	2.27		2.24%		2.23%	
Return since allotment (%)	15.88		44.38		14.00	
Bench mark return (since date of allotment) (%)	34.89 (S&P CNX 500)		56.96 (S&P CNX 500)		17.52 (S&P CNX 500)	

** Net surplus for the year

2. Principal Focussed Advantage Fund

Date of initial allotment : 15th March, 2005

	Fiscal Year 2006-2007		Fiscal Year 2005-2006		15/3/2005 to 31/3/2005	
	Dividend	Growth	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	15.4400	15.4400	9.7100	9.7000	N.A.	N.A.
Net Income (Rs. per unit)	4.42		5.00		1.01	
Net Dividend - Corporate (Rs. per unit)	-	-	-	-	-	-
Net Dividend - Non Corporate (Rs. per unit)	-	-	-	-	-	-
Transfer to reserves (if any) (Rs. in crore)**	-	-	70.20		(9.46)	
NAV at the end of the year (Rs. per unit)	15.43	15.43	15.44	15.44	9.7100	9.7000
Net Assets end of period (Rs. in crore)	40.53	18.50	85.01	29.00	170.32	88.45
Ratio of Recurring Expenses to net assets (%)	2.35		2.32%		2.37%	
Return since allotment (%)	23.68		51.61		(3.00)	
Bench mark return (since date of allotment) (%)	33.19 (S&P Nifty)		56.71 (S&P Nifty)		(4.38) (S&P Nifty)	

3. Principal Junior Cap Fund

Date of initial allotment : 30th June, 2005

	Fiscal Year 2006-2007		30/6/2005 to 31/3/2006	
	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	13.65	13.65	N.A.	N.A.
Net Income (Rs. per unit)	4.03		3.16	
Net Dividends - Corporate (Rs. Per unit)	-	-	-	-
Net Dividends - Non-Corporate (Rs. Per unit)	-	-	-	-
Transfer to reserves (if any) (Rs. in crore)**	-	-	70.64	
NAV at the end of the year (Rs. per unit)	14.04	14.04	13.65	13.65
Net Assets end of period (Rs. in crore)	40.11	30.28	103.68	46.49
Ratio of Recurring Expenses to net assets (%)	2.23		2.23	
Return since allotment (%)	21.43		36.50	
Bench mark return (since date of allotment) (%)	29.23 CNX Nifty Junior		45.95 CNX Nifty Junior	

** Net surplus for the year

4. Principal Floating Rate Fund

Date of initial allotment : 14th September, 2004

	Fiscal Year 2006-2007							
	Short Maturity Plan - Regular Option				Short Maturity Plan - Institutional Option			
	Growth	Daily Dividend	Monthly Dividend	Weekly Dividend	Growth	Daily Dividend	Monthly Dividend	Weekly Dividend
NAV at the beginning of the year (Rs. per unit)	10.8397	10.0007	10.0473	10.0025	10.8728	10.0007	10.1228	10.0025
Net Income (Rs. per unit)	0.75							
Net Dividend - Corporate (Rs. Per unit)	-	0.58	0.47	0.58	-	0.58	0.30	0.58
Net Dividend - Non-Corporate (Rs. Per unit)	-	0.62	0.50	0.62	-	0.62	0.32	0.63
Transfer to reserves (if any) (Rs. In Crore)**	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	11.6418	10.0007	10.2042	10.0098	11.6842	10.0007	10.4935	10.0099
Net Assets end of period (Rs. Crs.)	44.03	15.57	7.61	13.99	399.70	205.45	0.23	10.35
Ratio of Recurring Expenses to Net Assets (%)	0.56				0.52			
Return since allotment (%)	6.16				6.31			
Bench mark return (%) (Since date of allotment)	5.39 Crisil Liquid Fund Index				5.39 Crisil Liquid Fund Index			

	Fiscal Year 2005-2006							
	Short Maturity Plan - Regular Option				Short Maturity Plan - Institutional Option			
	Growth	Daily Dividend	Monthly Dividend	Weekly Dividend	Growth	Daily Dividend	Monthly Dividend	Weekly Dividend
NAV at the beginning of the year (Rs. per unit)	10.2765	10.0007	10.0106	10.0007	10.2866	10.0007	10.0213	10.0007
Net Income (Rs. per unit)	1.45							
Net Dividend - Corporate (Rs. Per unit)	-	0.44	0.41	0.44	-	0.46	0.37	0.45
Net Dividend - Non-Corporate (Rs. Per unit)	-	0.47	0.44	0.47	-	0.49	0.40	0.49
Transfer to reserves (if any) (Rs. In Crore)**	6.29							
NAV at the end of the year/ period (Rs. per Unit)	10.8397	10.0007	10.0473	10.0025	10.8728	10.0007	10.1228	10.0025
Net Assets end of period (Rs. Crs.)	33.87	8.43	4.67	4.48	106.41	41.13	3.05	57.61
Ratio of Recurring Expenses to Net Assets (%)	0.75				0.55			
Return since allotment (%)	5.37				5.57			
Bench mark return (%) (Since date of allotment)	4.69 Crisil Liquid Fund Index				4.69 Crisil Liquid Fund Index			

	14/9/2004 to 31/3/2005							
	Short Maturity Plan - Regular Option				Short Maturity Plan - Institutional Option			
	Daily Dividend	Weekly Dividend	Monthly Dividend	Growth	Daily Dividend	Weekly Dividend	Monthly Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Net Income (Rs. per unit)	0.26							
Dividends (Rs. per unit)	0.24	0.24	0.23	-	0.25	0.25	0.23	-
Transfer to reserves (if any) (Rs. in crore)**	4.88							
NAV at the end of the year (Rs. per unit)	10.0007	10.0007	10.0106	10.2765	10.0007	10.0007	10.0213	10.2866
Return since allotment (%)	2.77				2.87			
Net Assets end of period (Rs. in crore)	12.97	9.02	8.52	17.17	108.77	56.05	57.28	148.42
Ratio of Recurring Expenses to net assets	0.73%				0.54%			
Bench mark return (since date of allotment)	2.35% (Crisil Liquid Fund Index)							

** Net surplus for the year

	Fiscal Year 2006-2007						
	Flexible Maturity Plan - Regular Option			Flexible Maturity Plan - Institutional Option			
	Weekly Dividend	Monthly Dividend	Growth	Weekly Dividend	Monthly Dividend	Growth	
NAV at the beginning of the year (Rs. per unit)	10.0041	10.0664	10.8657	10.0041	10.0804	10.8968	
Net Income (Rs. per unit)	0.87						
Net Dividends - Corporate (Rs. Per unit)	0.59	0.42	-	0.59	-	-	
Net Dividends - Non-Corporate (Rs. Per unit)	0.63	0.46	-	0.64	-	-	
Transfer to reserves (if any) (Rs. in crore)**	-	-	-	-	-	-	
NAV at the end of the year (Rs. per unit)	10.0051	10.2809	11.6803	10.0050	10.1106	11.7202	
Net Assets end of period (Rs. in crore)	4.65	4.79	19.31	85.78	(0.00)	41.54	
Ratio of Recurring Expenses to net assets (%)	0.73			0.67			
Return since allotment (%)	6.31			6.45			
Bench mark return (since date of allotment) (%)	5.36			5.36			
	(Crisil Liquid Fund Index)						

	Fiscal Year 2005-2006					
	Flexible Maturity Plan - Regular Option			Flexible Maturity Plan - Institutional Option		
	Growth	Monthly Dividend	Weekly Dividend	Growth	Monthly Dividend	Weekly Dividend
NAV at the beginning of the year (Rs. per unit)	10.2911	10.0240	10.0008	10.3009	10.0342	10.0007
Net Income (Rs. per unit)	1.20					
Net Dividends - Corporate (Rs. Per unit)	-	0.45	0.43	-	0.46	0.46
Net Dividends - Non-Corporate (Rs. Per unit)	-	0.48	0.46	-	0.49	0.49
Transfer to reserves (if any) (Rs. in crore)**	2.73					
NAV at the end of the year (Rs. per unit)	10.8657	10.0664	10.0041	10.8968	10.0804	10.0041
Net Assets end of period (Rs. in crore)	11.65	2.80	6.90	34.33	-	111.58
Ratio of Recurring Expenses to net assets (%)	0.84			0.65		
Return since allotment (%)	5.53			5.73		
Bench mark return (since date of allotment) (%)	4.69			4.69		
	(Crisil Liquid Fund Index)					

	14/9/2004 to 31/3/2005					
	Flexible Maturity Plan - Regular Option			Flexible Maturity Plan - Institutional Option		
	Weekly Dividend	Monthly Dividend	Growth	Weekly Dividend	Monthly Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Net Income (Rs. per unit)	0.34					
Dividends (Rs. per unit)	0.26	0.23	-	0.26	0.23	-
Transfer to reserves (if any) (Rs. in crore)**	1.36					
NAV at the end of the year (Rs. per unit)	10.0008	10.0240	10.2911	10.0007	10.0342	10.3009
Return since allotment (%)	2.91			3.01		
Net Assets end of period (Rs. in crore)	13.59	6.43	17.61	27.11	12.05	25.45
Ratio of Recurring Expenses to net assets (%)	0.84			0.64		
Bench mark return (since date of allotment) (%)	2.35 (Crisil Liquid Fund Index)					

** Net surplus for the year

5. Principal Large Cap Fund

Date of initial allotment : 11th November, 2005

	Fiscal Year 2006-2007		11/11/2005 to 31/3/2006	
	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	14.52	14.52	N.A.	N.A.
Net Income (Rs. per unit)	5.39		1.40	
Net Dividends - Corporate (Rs. Per unit)	-	-	-	-
Net Dividends - Non-Corporate (Rs. Per unit)	-	-	-	-
Transfer to reserves (if any) (Rs. in crore)**	-		113.99	
NAV at the end of the year (Rs. per unit)	16.25	16.25	14.52	14.52
Net Assets end of period (Rs. in crore)	127.67	136.75	202.62	90.06
Ratio of Recurring Expenses to net assets (%)	2.31		2.17	
Return since allotment (%)	42.14		45.20	
Bench mark return (since date of allotment) (%)	34.09 (S&P CNX Nifty)		33.50 (S&P CNX Nifty)	

** Net surplus for the year

6. Principal Infrastructure & Services Industries Fund

Date of initial allotment : 6th March, 2006

	Fiscal Year 2006-2007		6/3/2006 to 31/3/2006	
	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	10.70	10.70	N.A.	N.A.
Net Income (Rs. per unit)	0.81		0.15	
Net Dividends - Corporate (Rs. Per unit)	-	-	-	-
Net Dividends - Non-Corporate (Rs. Per unit)	-	-	-	-
Transfer to reserves (if any) (Rs. in crore)**	-		37.06	
NAV at the end of the year (Rs. per unit)	10.96	10.96	10.70	10.70
Net Assets end of period (Rs. in crore)	128.33	129.63	254.51	243.57
Ratio of Recurring Expenses to net assets (%)	2.23		1.47	
Return since allotment (%)	8.98		7.00	
Bench mark return (since date of allotment) (%)	18.46 (S&P CNX Nifty)		6.65 (S&P CNX Nifty)	

** Net surplus for the year

7. Principal Pnb Fixed Maturity Plans

	Fiscal Year 2006-2007			
	460 days - Series II ⁺⁺			
	Regular Plan		Institutional Plan	
	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.	N.A.	N.A.
Net Income (Rs. per unit)	0.51			
Net Dividend - Corporate (Rs. Per unit)	-	-	-	-
Net Dividend - Non-Corporate (Rs. Per unit)	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore) **	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	10.3693	10.3693	10.3972	10.3972
Net Assets end of period (Rs. Crs.)	0.32	3.79	0.52	110.23
Ratio of Recurring Expenses to Net Assets (%)	0.57		0.15	
Return since allotment (%)	3.69		3.97	
Benchmark return (since date of allotment) (%)	2.93		2.93	
	Crisil Short Term Bond Fund Index		Crisil Liquid Fund Index	

⁺⁺ Allotment date as on 09/08/2006.

	Fiscal Year 2006-2007			
	385 days - Series III [~]			
	Regular Plan		Institutional Plan	
	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.	N.A.	N.A.
Net Income (Rs. per unit)	0.27			
Net Dividend - Corporate (Rs. Per unit)	-	-	-	-
Net Dividend - Non-Corporate (Rs. Per unit)	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore) **	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	10.1967	10.1967	10.2069	10.2069
Net Assets end of period (Rs. Crs.)	0.10	37.79	4.85	260.87
Ratio of Recurring Expenses to Net Assets (%)	0.35		0.10	
Return since allotment (%)	1.97		2.07	
Bench mark return (since date of allotment) (%)	1.49		1.49	
	Crisil Short Term Bond Fund Index			

[~] Allotment date as on 03/11/2006.

	Fiscal Year 2006-2007			
	540 days - Series I [¥]			
	Regular Plan		Institutional Plan	
	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.	N.A.	N.A.
Net Income (Rs. per unit)	0.14			
Net Dividend - Corporate (Rs. Per unit)	-	-	-	-
Net Dividend - Non-Corporate (Rs. Per unit)	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore) **	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	10.0414	10.0414	10.0458	10.0458
Net Assets end of period (Rs. Crs.)	0.28	4.50	2.51	261.29
Ratio of Recurring Expenses to Net Assets (%)	0.30		0.10	
Return since allotment (%)	0.41		0.46	
Bench mark return (since date of allotment) (%)	0.63		0.63	
	Crisil Short Term Bond Fund Index			

[¥] Allotment date as on 03/11/2006.

	Fiscal Year 2006-2007							
	460 days - Series III [£]				385 days - Series IV ^{££}			
	Regular Plan		Institutional Plan		Regular Plan		Institutional Plan	
	Dividend	Growth	Dividend	Growth	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Net Income (Rs. per unit)	0.04				0.01			
Net Dividend - Corporate (Rs. Per unit)	-	-	-	-	-	-	-	-
Net Dividend - Non-Corporate (Rs. Per unit)	-	-	-	-	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore)**	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	10.0379	10.0379	10.0409	10.0409	10.0063	10.0063	0.0000	10.0064
Net Assets end of period (Rs. Crs.)	0.00	27.35	0.00	225.43	0.63	38.33	-	141.72
Ratio of Recurring Expenses to Net Assets (%)	0.80		0.15		0.14		0.10	
Return since allotment (%)	0.38		0.41		0.06		0.06	
Bench mark return (since date of allotment) (%)	0.31		0.31		0.02		0.02	
	Crisil Short Term Bond Fund Index				Crisil Short Term Bond Fund Index			

[£] Allotment date as on 14/03/2007. ^{££} Allotment date as on 29/03/2007.

8. Principal Pnb Fixed Duration Fund - 3 Year Plan - Series I

Date of initial allotment : 6th July, 2006

	Fiscal Year 2006-2007	
	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.
Net Income (Rs. per unit)	0.53	
Net Dividends - Corporate (Rs. Per unit)	-	-
Net Dividends - Non-Corporate (Rs. Per unit)	-	-
Transfer to reserves (if any) (Rs. in crore)**	-	-
NAV at the end of the year (Rs. per unit)	10.5358	10.5358
Net Assets end of period (Rs. in crore)	9.53	35.05
Ratio of Recurring Expenses to net assets (%)	0.83	
Return since allotment (%)	5.36	
Bench mark return (since date of allotment) (%)	7.27	
	Crisil MIP Blended Index	

** Net surplus for the year

9. Principal Pnb Long Term Equity Fund - 3 Year Plan - Series I

Date of initial allotment : 23rd March, 2007

	Fiscal Year 2006-2007	
	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.
Net Income (Rs. per unit)	0.03	
Net Dividends - Corporate (Rs. Per unit)	-	-
Net Dividends - Non-Corporate (Rs. Per unit)	-	-
Transfer to reserves (if any) (Rs. in crore)**	-	-
NAV at the end of the year (Rs. per unit)	9.89	9.89
Net Assets end of period (Rs. in crore)	81.42	134.20
Ratio of Recurring Expenses to net assets (%)	1.44	
Return since allotment (%)	(1.10)	
Bench mark return (since date of allotment) (%)	(6.17)	
	CNX Midcap	

** Net surplus for the year

The Returns of all the schemes except Principal Floating Rate Fund - Short Maturity Plan is provided as of March 30, 2007 (as March 31, 2007 was a non-business day).

LATEST NAV & ANNUALISED RETURNS AS ON OCTOBER 24, 2007

	Principal Balanced Fund		Principal Focussed Advantage Fund		Principal Resurgent India Equity Fund		Principal Dividend Yield Fund	
	Dividend	Growth	Dividend	Growth	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	16.73	20.79	15.43	15.43	13.52	70.83	11.70	14.36
Net Income (Rs. per unit)*	2.43		2.56		2.14		2.21	
Net Dividend - Corporate (Rs. Per unit)#	-	-	2.00	-	-	-	1.50	-
Net Dividend - Non-Corporate (Rs. Per unit)#	-	-	2.00	-	-	-	1.50	-
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	22.73	28.25	17.74	19.70	18.92	99.25	14.19	19.22
Net Assets end of period (Rs. Crs.)	180.57	10.23	38.02	19.37	213.54	28.01	73.03	61.56
Ratio of Recurring Expenses to Net Assets (%)	2.41		2.36		2.37		2.32	
Last 1 year (%)	33.82		28.76		51.04		20.80	
Benchmark Returns (%)	33.20		50.11		50.11		47.28	
Last 3 years (%)	32.16		N.A.		44.25		24.34	
Benchmark Returns (%)	29.03		N.A.		45.47		44.09	
Last 5 years (%)	34.85		N.A.		55.45		N.A.	
Benchmark Returns (%)	27.39		N.A.		42.12		N.A.	
Return since allotment^ (%)	14.28		29.65		36.82		24.11	
Benchmark Returns (%)	N.A.		43.80		19.72		43.46	
BENCHMARK	Crisil Balanced Fund Index		S&P Nifty		S&P Nifty		CNX 500	

	Principal Pnb Fixed Maturity Plan - 540 days - Series I			
	Regular Plan		Institutional Plan	
	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	10.0414	10.0414	10.0458	10.0458
Net Income (Rs. per unit)*	0.49			
Net Dividend - Corporate (Rs. Per unit)#	-	-	-	-
Net Dividend - Non-Corporate (Rs. Per unit)#	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	10.6687	10.6687	10.6855	10.6855
Net Assets end of period (Rs. Crs.)	0.29	4.59	2.67	267.18
Ratio of Recurring Expenses to Net Assets (%)	0.30		0.10	
Last 1 year (%)	N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.	
Last 3 years (%)	N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.	
Last 5 years (%)	N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.	
Return since allotment^ (%)	6.69		6.86	
Benchmark Returns (%)	6.53		6.53	
BENCHMARK	Crisil Short Term Bond Fund Index			

	Principal Pnb Fixed Maturity Plan - 460 days - Series III				Principal Pnb Fixed Maturity Plan - 385 days - Series IV			
	Regular Plan		Institutional Plan		Regular Plan		Institutional Plan	
	Dividend	Growth	Dividend	Growth	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	10.0379	10.0379	10.0409	10.0409	10.0063	10.0063	0.0000	10.0064
Net Income (Rs. per unit)*	0.29				0.22			
Net Dividend - Corporate (Rs. Per unit)#	-	-	-	-	-	-	-	-
Net Dividend - Non-Corporate (Rs. Per unit)#	-	-	-	-	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	10.6436	10.6436	10.6863	10.6863	10.6283	10.6283	10.6316	10.6316
Net Assets end of period (Rs. Crs.)	0.00	24.19	0.00	234.51	0.92	33.34	-	157.17
Ratio of Recurring Expenses to Net Assets (%)	0.80		0.15		0.15		0.10	
Last 1 year (%)	N.A.		N.A.		N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.		N.A.		N.A.	
Last 3 years (%)	N.A.		N.A.		N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.		N.A.		N.A.	
Last 5 years (%)	N.A.		N.A.		N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.		N.A.		N.A.	
Return since allotment^ (%)	6.44		6.86		6.28		6.32	
Benchmark Returns (%)	6.18		6.18		5.88		5.88	
BENCHMARK	Crisil Short Term Bond Fund Index				Crisil Short Term Bond Fund Index			

	Principal Pnb Fixed Maturity Plan - 385 days - Series V			
	Regular Plan		Institutional Plan	
	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	N.A.	N.A.	N.A.	N.A.
Net Income (Rs. per unit)*	0.13			
Net Dividend - Corporate (Rs. Per unit)#	-	-	-	-
Net Dividend - Non-Corporate (Rs. Per unit)#	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	10.1083	10.1083	10.1179	10.1179
Net Assets end of period (Rs. Crs.)	0.00	0.94	0.51	80.94
Ratio of Recurring Expenses to Net Assets (%)	0.65		0.15	
Last 1 year (%)	N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.	
Last 3 years (%)	N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.	
Last 5 years (%)	N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.	
Return since allotment^ (%)	1.08		1.18	
Benchmark Returns (%)	1.95		1.95	
BENCHMARK	Crisil Short Term Bond Fund Index			

	Principal Government Securities Fund								
	Investment Plan				Provident Fund Plan			Savings Plan	
	Quarterly Dividend	Half Yearly Dividend	Annual Dividend	Growth	Annual Dividend	Growth	Half Yearly Dividend	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	10.8593	10.7756	13.1275	15.9791	10.4383	10.7684	10.0573	10.3039	14.0655
Net Income (Rs. per unit)*	1.16				0.37			0.23	
Net Dividend - Corporate (Rs. Per unit)#	0.24	0.26	0.57	-	0.29	-	0.16	0.14	-
Net Dividend - Non-Corporate (Rs. Per unit)#	0.26	0.28	0.61	-	0.31	-	0.18	0.15	-
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	11.1717	11.0684	13.1706	16.8932	10.6234	11.3245	10.3744	10.3119	14.3172
Net Assets end of period (Rs. Crs.)	0.45	0.20	0.02	7.55	0.25	44.26	0.55	0.01	1.72
Ratio of Recurring Expenses to Net Assets (%)	1.25				1.10			1.00	
Last 1 year (%)	5.45				4.57			3.58	
Benchmark Returns (%)	7.41				7.41			7.58	
Last 3 years (%)	5.80				5.02			4.44	
Benchmark Returns (%)	6.48				6.48			6.19	
Last 5 years (%)	6.78				N.A.			4.79	
Benchmark Returns (%)	6.68				N.A.			6.07	
Return since allotment^ (%)	8.87				3.42			5.99	
Benchmark Returns (%)	N.A.				4.57			N.A.	
BENCHMARK	I-SEC Composite Index				I-SEC Composite Index			I-Sec Si-Bex	

	Principal Floating Rate Fund - Short Maturity Plan							
	Regular Option				Institutional Option			
	Growth	Daily Dividend	Monthly Dividend	Weekly Dividend	Growth	Daily Dividend	Monthly Dividend	Weekly Dividend
NAV at the beginning of the year (Rs. per unit)	11.6418	10.0007	10.2042	10.0098	11.6842	10.0007	10.4935	10.0099
Net Income (Rs. per unit)*	0.48							
Net Dividend - Corporate (Rs. Per unit)#	-	0.35	0.23	0.35	-	0.36	0.20	0.31
Net Dividend - Non-Corporate (Rs. Per unit)#	-	0.35	0.23	0.35	-	0.36	0.20	0.31
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	12.1810	10.0007	10.3701	10.0134	12.2292	10.0007	10.7233	10.0135
Net Assets end of period (Rs. Crs.)	48.53	11.68	4.29	6.61	354.82	262.19	1.16	125.71
Ratio of Recurring Expenses to Net Assets (%)	0.51				0.45			
Last 1 year (%)	8.23				8.29			
Benchmark Returns (%)	7.47				7.47			
Last 3 years (%)	6.59				6.73			
Benchmark Returns (%)	5.93				5.93			
Last 5 years (%)	N.A.				N.A.			
Benchmark Returns (%)	N.A.				N.A.			
Return since allotment^ (%)	6.55				6.69			
Benchmark Returns (%)	5.85				5.85			
BENCHMARK	Crisil Liquid Fund Index							

	Principal Floating Rate Fund - Flexible Maturity Plan							
	Regular Option				Institutional Option			
	Growth	Daily Dividend	Monthly Dividend	Weekly Dividend	Growth	Daily Dividend	Monthly Dividend	Weekly Dividend
NAV at the beginning of the year (Rs. per unit)	11.6803	N.A.	10.2809	10.0051	11.7202	N.A.	10.1106	10.0050
Net Income (Rs. per unit)*	0.31							
Net Dividend - Corporate (Rs. Per unit)#	-	0.35	0.24	0.38	-	0.35	0.09	0.39
Net Dividend - Non-Corporate (Rs. Per unit)#	-	0.38	0.26	0.41	-	0.38	0.10	0.41
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	12.2526	10.0122	10.4775	10.0143	12.2983	10.0123	10.1615	10.0143
Net Assets end of period (Rs. Crs.)	449.91	25.93	10.60	12.90	884.46	2,715.85	37.67	938.05
Ratio of Recurring Expenses to Net Assets (%)	0.57				0.54			
Last 1 year (%)	8.52				8.59			
Benchmark Returns (%)	7.47				7.47			
Last 3 years (%)	6.79				6.92			
Benchmark Returns (%)	5.93				5.93			
Last 5 years (%)	N.A.				N.A.			
Benchmark Returns (%)	N.A.				N.A.			
Return since allotment^ (%)	6.75				6.88			
Benchmark Returns (%)	5.85				5.85			
BENCHMARK	Crisil Liquid Fund Index							

	Principal Income Fund - Short Term Plan					Principal Global Opportunities Fund		Principal Personal Tax Saver Fund
	Dividend	Growth	Institutional Plan			Dividend	Growth	
			Daily Dividend	Weekly Dividend	Growth			
NAV at the beginning of the year (Rs. per unit)	10.1056	13.4051	10.1562	10.8338	12.4553	14.8893	14.8893	122.34
Net Income (Rs. per unit)*	0.26					0.65		15.12
Net Dividends - Corporate (Rs. Per unit)#	0.24	-	0.17	0.46	-	-	-	-
Net Dividends - Non-Corporate (Rs. Per unit)#	0.26	-	0.17	0.49	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	10.3445	14.1306	10.5608	10.8544	13.1444	18.8029	18.8029	182.07
Net Assets end of period (Rs. Crs.)	21.88	23.30	45.73	312.12	102.02	257.66	363.74	167.75
Ratio of Recurring Expenses to Net Assets (%)	0.80		0.60			0.87		2.48
Last 1 year (%)	7.53		7.75			41.02		63.88
Benchmark Returns (%)	7.57		7.57			15.04		49.75
Last 3 years (%)	6.57		6.75			21.84		47.50
Benchmark Returns (%)	5.90		5.90			15.64		47.06
Last 5 years (%)	6.24		N.A.			N.A.		47.94
Benchmark Returns (%)	5.35		N.A.			N.A.		46.02
Return since allotment^ (%)	6.48		6.32			19.33		34.63
Benchmark Returns (%)	5.70		5.21			12.98		16.84
BENCHMARK	Crisil Short Term Bond Fund Index					S&P CNX Nifty		BSE 100

	Principal Pnb Fixed Duration Fund - 3 Year Plan - Series I		Principal Infrastructure & Services Industries Fund		Principal Pnb Long Term Equity Fund - 3 Year Plan - Series I		Principal Pnb Long Term Equity Fund - 3 Year Plan - Series II	
	Dividend	Growth	Dividend	Growth	Dividend	Growth	Dividend	Growth
NAV at the beginning of the year (Rs. per unit)	10.5358	10.5358	10.96	10.96	9.89	9.89	N.A.	N.A.
Net Income (Rs. per unit)*	0.76		2.97		1.06		(0.00)	
Net Dividend - Corporate (Rs. Per unit)#	-	-	-	-	-	-	-	-
Net Dividend - Non-Corporate (Rs. Per unit)#	-	-	-	-	-	-	-	-
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	11.8427	11.8427	15.28	15.28	12.72	12.71	10.32	10.32
Net Assets end of period (Rs. Crs.)	10.53	38.27	105.11	109.13	99.29	142.04	58.32	244.67
Ratio of Recurring Expenses to Net Assets (%)	0.82		2.28		2.25		1.69	
Last 1 year (%)	12.91		41.88		N.A.		N.A.	
Benchmark Returns (%)	12.32		50.11		N.A.		N.A.	
Last 3 years (%)	N.A.		N.A.		N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.		N.A.		N.A.	
Last 5 years (%)	N.A.		N.A.		N.A.		N.A.	
Benchmark Returns (%)	N.A.		N.A.		N.A.		N.A.	
Return since allotment^ (%)	13.25		29.59		27.10		3.20	
Benchmark Returns (%)	13.67		39.45		36.48		13.63	
BENCHMARK	Crisil MIP Blended Index		MSCI World Index		CNX Midcap		CNX Midcap	

	Principal Monthly Income Plan						Principal Junior Cap Fund		Principal Large Cap Fund	
	Monthly Dividend	Quarterly Dividend	Growth	MIP Plus			Dividend	Growth	Dividend	Growth
				Growth	Monthly Dividend	Quarterly Dividend				
NAV at the beginning of the year (Rs. per unit)	10.4222	10.4477	14.9529	12.5583	10.4640	10.4816	14.04	14.04	16.25	16.25
Net Income (Rs. per unit)*	1.05			1.17			2.31		4.47	
Net Dividends - Corporate (Rs. Per unit)#	0.28	0.24	-	-	0.25	0.24	-	-	1.50	-
Net Dividends - Non-Corporate (Rs. Per unit)#	0.30	0.26	-	-	0.27	0.26	-	-	1.50	-
Transfer to reserves (if any) (Rs. In Crore)	-	-	-	-	-	-	-	-	-	-
NAV at the end of the year/ period (Rs. per Unit)	11.3575	11.4329	16.8155	14.4774	11.7294	11.7658	18.94	18.94	22.03	24.06
Net Assets end of period (Rs. Crs.)	4.45	6.21	33.24	10.54	3.23	5.11	38.79	36.60	141.34	155.23
Ratio of Recurring Expenses to Net Assets (%)	2.00			2.00			2.32		2.32	
Last 1 year (%)	13.36			16.51			44.80		53.64	
Benchmark Returns (%)	12.32			12.32			50.60		50.11	
Last 3 years (%)	9.38			12.28			N.A.		N.A.	
Benchmark Returns (%)	10.71			10.71			N.A.		N.A.	
Last 5 years (%)	9.64			N.A.			N.A.		N.A.	
Benchmark Returns (%)	10.48			N.A.			N.A.		N.A.	
Return since allotment^ (%)	10.05			10.17			31.73		56.84	
Benchmark Returns (%)	10.34			7.98			41.91		48.28	
BENCHMARK	Crisil MIP Blended Index						CNX Nifty Junior		S&P CNX Nifty	

Note:

* Excluding change in Unrealised Appreciation / Depreciation on Investments.

(Excl. Dividend Distribution Tax)

^All the returns shown above have been calculated after considering movement of NAV and assuming that all dividend payouts / bonus have been reinvested in units of the scheme at the then prevailing NAV. Returns are calculated only in respect of Growth Plan/Option, wherever applicable, on compounded annualised basis for a period of more than 1 year and absolute basis for a period less than 1 year.

INVESTOR COMPLAINTS AND REDRESSAL

The basic objective of the Fund is to set high standards with regard to unitholder servicing as stated in the earlier clauses. To achieve this end, the Fund has attempted to handle unitholder grievances efficiently and resolve any problems relating to its unitholders. Unitholder grievances are normally received at AMC's corporate office /Centres.

The complaint/query history given as below:

Particulars	Principal Equity Fund	Principal Tax Savings Fund	Principal Deposit Fund	Principal Child Benefit Fund	Principal Index Fund	Principal Growth Fund	Principal Balanced Fund*	Principal Income Fund	Principal Cash Management Fund	Principal Government Securities Fund
Direct										
01/04/2004 to 31/03/2005										
Received	0	2	1~	3	0	13	0	0	0	0
Redressed	0	2	0	3	0	13	0	0	0	0
Pending as on 31/03/2005	0	0	1~	0	0	0	0	0	0	0
01/04/2005 to 31/03/2006										
Received	20	16	0	3	0	36	2	1	2	0
Redressed	20	16	0	3	0	36	2	1	2	0
Pending as on 31/03/2006	0	0	0	0	0	0	0	0	0	0
01/04/2006 to 31/03/2007										
Received	5	42	1	8	1	70	22	0	1	0
Redressed	5	41	1	8	1	69	22	0	1	0
Pending as on 31/03/2007	0	1	0	0	0	1	0	0	0	0
01/04/2007 to 24/10/2007										
Received	5	56	0	6	0	36	0	4	0	1
Redressed	5	57	0	6	0	37	0	4	0	1
Pending as on 24/10/2007	0	3	0	0	0	0	0	0	0	0
Forwarded by SEBI										
01/04/2004 to 31/03/2005										
Received	1	8	0	0	0	0	4	0	0	0
Redressed	1	8	0	0	0	0	4	0	0	0
Pending as on 31/03/2005	0	0	0	0	0	0	0	0	0	0
01/04/2005 to 31/03/2006										
Received	8	11	0	0	0	15	6	0	0	0
Redressed	8	11	0	0	0	15	6	0	0	0
Pending as on 31/03/2006	0	0	0	0	0	0	0	0	0	0
01/04/2006 to 31/03/2007										
Received	4	6	0	0	0	6	3	0	0	0
Redressed	4	6	0	0	0	6	3	0	0	0
Pending as on 31/03/2007	0	0	0	0	0	0	0	0	0	0
01/04/2007 to 24/10/2007										
Received	1	8	0	0	0	8	1	0	0	1
Redressed	1	7	0	0	0	7	1	0	0	1
Pending as on 24/10/2007	0	1	0	0	0	1	0	0	0	0

Particulars	Principal Monthly Income Plan	Principal Monthly Income Plan - MIP Plus	Principal Trust Benefit Fund	Principal Global Opportunities Fund	Principal PNB Debt Fund*	Principal Personal Tax Saver Fund*	Principal Resurgent India Equity Fund*	Principal Money Value Bond Fund*	Principal Floating Rate Fund - Short Maturity Plan ^s	Principal Floating Rate Fund - Flexible Maturity Plan ^s
Direct										
01/04/2004 to 31/03/2005										
Received	8	2	0	5	1	1	0	0	0	0
Redressed	8	2	0	5	1	1	0	0	0	0
Pending as on 31/03/2005	0	0	0	0	0	0	0	0	0	0
01/04/2005 to 31/03/2006										
Received	1	0	0	2	0	17	26	0	2	0
Redressed	1	0	0	2	0	17	26	0	2	0
Pending as on 31/03/2006	0	0	0	0	0	0	0	0	0	0
01/04/2006 to 31/03/2007										
Received	3	5	0	8	0	9	76	0	2	0
Redressed	3	4	0	7	0	9	74	0	2	0
Pending as on 31/03/2007	0	1	0	1	0	0	2	0	0	0
01/04/2007 to 24/10/2007										
Received	0	4	0	9	0	13	39	0	1	0
Redressed	0	5	0	8	0	13	41	0	1	0
Pending as on 24/10/2007	0	0	0	1	0	0	0	0	0	0
Forwarded by SEBI										
01/04/2004 to 31/03/2005										
Received	1	0	0	1	1	1	0	0	0	0
Redressed	1	0	0	1	1	1	0	0	0	0
Pending as on 31/03/2005	0	0	0	0	0	0	0	0	0	0
01/04/2005 to 31/03/2006										
Received	1	0	0	5	0	2	0	0	0	0
Redressed	1	0	0	5	0	2	0	0	0	0
Pending as on 31/03/2006	0	0	0	0	0	0	0	0	0	0
01/04/2006 to 31/03/2007										
Received	0	0	0	0	0	0	11	0	0	0
Redressed	0	0	0	0	0	0	11	0	0	0
Pending as on 31/03/2007	0	0	0	0	0	0	0	0	0	0
01/04/2007 to 24/10/2007										
Received	0	0	0	0	0	1	3	0	3	0
Redressed	0	0	0	0	0	1	3	0	3	0
Pending as on 24/10/2007	0	0	0	0	0	0	0	0	0	0

Particulars	Principal Dividend Yield Fund	Principal Focussed Advantage Fund ⁺	Principal Junior Cap Fund ⁺⁺	Principal Large Cap Fund ^{##}	Principal Infrastructure & Services Industries Fund [^]	Principal Pnb Fixed Duration Fund - 3 Year Plan - Series I	Principal Pnb Fixed Maturity Plan - 91 days - Series VIII	Principal Pnb Fixed Maturity Plan - 365 days - Plan - Series III
Direct								
01/04/2004 to 31/03/2005								
Received	14	0	-	-	-	-	-	-
Redressed	14	0	-	-	-	-	-	-
Pending as on 31/03/2005	0	0	-	-	-	-	-	-
01/04/2005 to 31/03/2006								
Received	55	97	33	59	29	-	-	-
Redressed	55	97	33	58	28	-	-	-
Pending as on 31/03/2006	0	0	0	1	1	-	-	-
01/04/2006 to 31/03/2007								
Received	39	8	7	63	147	3	-	-
Redressed	39	8	7	62	147	3	-	-
Pending as on 31/03/2007	0	0	0	1	0	0	-	-
01/04/2007 to 24/10/2007								
Received	48	9	9	40	28	101	1	1
Redressed	48	9	9	39	28	101	1	1
Pending as on 24/10/2007	0	0	0	2	0	0	0	0
Forwarded by SEBI								
01/04/2004 to 31/03/2005								
Received	0	0	-	-	-	-	-	-
Redressed	0	0	-	-	-	-	-	-
Pending as on 31/03/2005	0	0	-	-	-	-	-	-
01/04/2005 to 31/03/2006								
Received	0	2	0	0	-	-	-	-
Redressed	0	2	0	0	-	-	-	-
Pending as on 31/03/2006	0	0	0	0	-	-	-	-
01/04/2006 to 31/03/2007								
Received	2	1	0	0	3	-	-	-
Redressed	2	1	0	0	3	-	-	-
Pending as on 31/03/2007	0	0	0	0	0	-	-	-
01/04/2007 to 24/10/2007								
Received	2	0	0	0	4	0	0	1
Redressed	2	0	0	0	3	0	0	1
Pending as on 24/10/2007	0	0	0	0	1	0	0	0

*The investor complaints statistics is provided for the period commencing from May 14, 2004 as the schemes were migrated from Sun F&C Mutual Fund to Principal Mutual Fund effective May 14, 2004.
~The investor complaint was received at the end of the respective month. The same was duly resolved in the immediately following month and hence shown as pending as on the last day of the respective month.
@The investor complaints statistics is provided for the period commencing from April 30, 2004 as the scheme was migrated from PNB Mutual Fund to Principal Mutual Fund effective April 30, 2004.
\$The Scheme was launched on August 19, 2004. Hence, the statistics of investor complaints for previous years is not applicable.
+The Scheme was launched on January 31, 2005. Hence, the statistics of investor complaints for the previous years is not applicable.
++The Scheme was launched on May 12, 2005. Hence, the statistics of investor complaints for the previous years is not applicable.
##The Scheme was launched on September 23, 2005. Hence, the statistics of investor complaints for the previous years is not applicable.
^The Scheme was launched on January 9, 2006. Hence, the statistics of investor complaints for the previous years is not applicable.

ASSOCIATE TRANSACTIONS

Under the normal circumstances, the Fund may have dealing with and/or do transactions with or may utilise the services of associates of sponsors/AMC

Name of the Associate	Nature of Associates Activity	Services utilised or to be utilised
Principal Consulting India (Pvt.) Ltd.	Investor Services	• Services relating to investor communication

The brokerage/commission payable to the sponsor/its associates will be/market related and disclosed in the published half-yearly and annual accounts of the scheme.

The details of brokerage paid to IDBI Capital Market Services Ltd.* during the last three years and upto October 24, 2007 for current financial year is as below :

(All volume figures in Rs lacs and brokerage is a % of volume)

	Principal Equity Fund		Principal Tax Savings Fund		Principal Child Benefit Fund		Principal Index Fund		Principal Monthly Income Plan	
	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)
1/4/2003 to 30/6/2003	-	-	-	-	-	-	1464.05	0.24	-	-
5/5/2004 [^] to 31/12/2004	231.43	0.27	309.29	0.23	32.78	0.23	9976.58	0.19	327.89	0.25
1/1/2005 to 31/3/2005	140.62	0.27	104.74	0.28	8.44	0.27	1598.65	0.19	-	-
1/4/2005 to 31/03/2006	212.32	0.30	117.08	0.30	36.96	0.30	995.85	0.20	26.53	0.28
1/4/2006 to 15/03/2007	19.08	0.32	7.61	0.32	37.30	0.33	2896.45	0.24	27.72	0.32

	Principal Monthly Income Plan - MIP Plus		Principal Growth Fund		Principal Balanced Fund		Principal Personal Tax Saver Fund		Principal Resurgent India Equity Fund	
	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)
1/4/2003 to 30/6/2003	-	-	87.74	0.32	-	-	-	-	-	-
5/5/2004 [^] to 31/12/2004	210.95	0.24	1932.76	0.23	151.72	0.26	147.12	0.24	516.05	0.26
1/1/2005 to 31/3/2005	-	-	422.50	0.27	-	-	12.66	0.27	63.16	0.28
1/4/2005 to 31/03/2006	6.59	0.27	242.70	0.30	42.18	0.30	45.84	0.30	661.08	0.21
1/4/2006 to 15/03/2007	13.87	0.31	534.40	0.32	13.90	0.32	115.20	0.30	92.33	0.33

	Principal Dividend Yield Fund		Principal Focussed Advantage Fund		Principal Junior Cap Fund		Principal Infrastructure & Services Industries Fund		Principal Pnb Fixed Maturity Fund - 3 Year Plan - Series I	
	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)	Volume	Brokerage (%)
1/4/2003 to 30/6/2003	-	-	-	-	-	-	-	-	-	-
5/5/2004 [^] to 31/12/2004	233.30	0.27	-	-	-	-	-	-	-	-
1/1/2005 to 31/3/2005	606.75	0.27	-	-	-	-	-	-	-	-
1/4/2005 to 31/03/2006	496.67	0.30	294.40	0.30	707.55	0.21	224.43	0.30	-	-
1/4/2006 to 15/03/2007	398.21	0.32	49.16	0.32	153.60	0.32	399.02	0.33	12.42	0.25

* Ceased to be an associate since March 15, 2007

Fees paid to IDBI Capital Market Services Ltd. (ICMS)* as intermediary for distribution of units. (Rs. in Lacs)

PARTICULARS	2002-2003	1/4/03 to 30/6/03	5/5/04 [^] to 31/3/05	1/4/05 to 31/3/06	1/4/06 to 31/3/07
Brokerage on unit mobilisation	32.45	6.07	51.98	13.01	15.92

Fees paid to intermediaries for distribution of units. (Rs. in Lacs)

PARTICULARS		1/4/2005 to 31/3/2006	1/4/2006 to 31/3/2007	1/4/2007 to 24/10/2007
Brokerage on unit mobilisation	Punjab National Bank	243.35	287.33	325.22
	PNB Gilts Ltd.	13.98	8.76	6.61
	Pnb Principal Financial Planners Pvt. Ltd.	1.42	9.72	2.93
	QUANTUM Information Services Ltd.*	0.60	0.50	-
	Corporation Bank ⁵	4.88	3.41	-

* Ceased to be Associate w.e.f. March 15, 2007.

⁵ Ceased to be Associate w.e.f. December 18, 2006.

Fees for Investor Communication Services paid to Principal Consulting India (P) Ltd. (Rs. in lacs)

Financial Year 2004-2005	327.92
Financial Year 2005-2006	441.81
Financial Year 2006-2007	620.64
1/4/2007 to 24/10/2007	454.37

Investment in Group Company / ies of Sponsor

There were no investments made in the securities of Sponsor/Group companies of the Sponsor.

ISSUES SUBSCRIBED BY PRINCIPAL MUTUAL FUND IN WHICH SPONSOR/ ASSOCIATE IS THE ISSUE MANAGER

During last three fiscal years i.e 2004-2005, 2005-2006 & 2006-2007 the Fund has not undertaken any underwriting obligations with respect to issues of associate companies and have not subscribed to the issues lead managed by associate companies.

Details of investment made by any scheme in company which has invested in any scheme of Principal Mutual Fund in excess of 5% of net assets of that scheme in terms of Regulation 25(11) as on October 24, 2007.

Name of the Company (Investor)	Scheme in which investment is made by Company	Scheme by which investment is made in securities of the company	Aggregate investment by schemes in securities of the company during 01/09/2005 to 24/10/2007		Aggregate Investment outstanding as on October 24, 2007 (At Market Value)	
			Nature of Investment	Amount (Rs in Lacs)	Nature of Investment	Amount (Rs in Lacs)
ALLAHABAD BANK	LCAP	TAX96, PDYF	Equity Shares	500.89	Equity Shares	-
		FR-SMP, LIQUID, FMP-19, FR-FMP	Term Deposit	25,500.00	Term Deposit	-
		FR-SMP, INCOME, LIQUID, STP, FMP-21, FMP-23, FMP-24, FMP-26, FMP-29, FMP-32, FMP-33, FMP-31, FMP-35, FMP-36, FMP-37, FR-FMP	Certificate of Deposit	171,669.03	Certificate of Deposit	39,152.17
AIA ENGINEERING	FMP-32	FOCUS, GROWTH, MINCOM, MIPPL, PBF, PTSE, RIF, TAX96, JUNIOR, INFRA, LTEF, CHILDI1	Equity Shares	3,807.31	Equity Shares	1,333.29
BAJAJ AUTO	FMP-25	GROWTH, INDEX, MINCOM, MIPPL, RIF, LCAP, FOCUS	Equity Shares	5,217.70	Equity Shares	879.87
BALAJI TELEFILMS	FMP-39	MINCOM, PBF, PDYF, RIF, TAX96, JUNIOR, INFRA, FDF, LTEF, GROWTH	Equity Shares	4,232.32	Equity Shares	4,620.49
BHART FORGE	FMP-32, FMP-21	GROWTH, MINCOM, MIPPL, RIF, TAX96, JUNIOR, FOCUS	Equity Shares	1,366.99	Equity Shares	-
BHARTI AIRTEL	FR-SMP	INDEX, MINCOM, MIPPL, PBF, RIF, LCAP, INFRA, FDF, GROWTH	Equity Shares	14,095.86	Equity Shares	4,981.21
BIRLA GLOBAL FINANCE	STP	CHILDI1	Equity Shares	7.61	Equity Shares	-
		FR-SMP, LIQUID, STP, FMP-21, FMP-34, FMP-31, FMP-35, FR-FMP	Debt	35,960.62	Debt	2,460.62
BRITANNIA INDUSTRIES	FMP-33	PTSE	Equity Shares	77.52	Equity Shares	-
		LIQUID	Debt	2,916.03	Debt	-
CORPORATION BANK	INDEX, STP, FR-SMP	JUNIOR, INFRA, FOCUS	Equity Shares	588.60	Equity Shares	-
		FR-FMP	Term Deposit	20,000.00	Term Deposit	-
		LIQUID, STP, FR-FMP	Certificate of Deposit	5,685.66	Certificate of Deposit	460.21
DSP MERRILL LYNCH CAPITAL	LIQUID	STP, FR-SMP, INCOME, LIQUID, FR-FMP, FMP-31, FMP-36, FMP-33, FMP-24, FMP-22	Debt	348,368.76	Debt	29,711.35
EXPORT IMPORT BANK OF INDIA	FR-SMP	INCOME, LIQUID, STP, FR-FMP, FR-SMP, PBF, FMP-22, FMP-35	Debt	46,098.36	Debt	9,500.77
GLAXO INDIA	FMP-28, STP	INDEX, PDYF, DNIT95	Equity Shares	820.88	Equity Shares	2.59
GRASIM INDUSTRIES	FMP-20, FMP-27, FMP-31, FMP-33, FMP-39, FR-FMP	GROWTH, INDEX, MINCOM, MIPPL, PBF, PDYF, PTSE, RIF, TAX96, JUNIOR, LCAP, INFRA, FDF, LTEF, CHILDI1	Equity Shares	11,970.97	Equity Shares	8,070.29
		LIQUID, FR-SMP	Debt	8,000.00	Debt	-

Name of the Company (Investor)	Scheme in which investment is made by Company	Scheme by which investment is made in securities of the company	Aggregate investment by schemes in securities of the company during 01/09/2005 to 24/10/2007		Aggregate Investment outstanding as on October 24, 2007 (At Market Value)	
			Nature of Investment	Amount (Rs in Lacs)	Nature of Investment	Amount (Rs in Lacs)
GLOBAL TRADE FINANCE	FR-SMP	FR-SMP, LIQUID, STP, FR-FMP	Debt	41,500.00	Debt	-
HCL TECHNOLOGIES	STP, FMP-20, FMP-31, FR-FMP	FOCUS, GROWTH, INDEX, MINCOM, MIPPL, PBF, PDYF, RIF, LCAP, INFRA, DNIT95	Equity Shares	13,369.50	Equity Shares	411.01
HDFC BANK	LIQUID, FR-FMP	FOCUS, GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, TAX96, LCAP, INFRA, FDF, CHILDI	Equity Shares	11,709.46	Equity Shares	4,428.88
		FMP-21	Debt	2,461.47	Debt	-
		LIQUID, FR-SMP	Term Deposit	18,863.00	Term Deposit	-
		FR-SMP, INCOME, LIQUID, STP, LTEF, FR-FMP	Certificate of Deposit	50,157.79	Certificate of Deposit	-
HERO HONDA MOTORS	FMP-31, INCOME	FOCUS, GROWTH, INDEX, PBF, PDYF, RIF, JUNIOR, LCAP, DNIT95	Equity Shares	8,094.13	Equity Shares	975.43
		LIQUID	Debt	4,000.00	Debt	-
HINDALCO INDUSTRIES	STP, FMP-21, FMP-22, FMP-24, FMP-26, FMP-27, FMP-31, FMP-38, FMP-39, FR-FMP, FR-SMP	GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, TAX96, JUNIOR, LCAP, INFRA, FDF, DNIT95	Equity Shares	8,837.77	Equity Shares	6.18
HINDUSTAN UNILEVER	FMP-22, FMP-25, FMP-26, FMP-27, FMP-28, FMP-30, FMP-32, FMP-35, FR-FMP	FOCUS, GROWTH, INDEX, MINCOM, MIPPL, PBF, PDYF, PTSF, RIF, LCAP, FDF, DNIT95	Equity Shares	6,937.95	Equity Shares	12.03
HINDUSTAN ZINC	FR-SMP, INCOME, LIQUID, STP, FMP-20, FMP-23, FMP-25, FMP-27, FMP-29, FMP-32, FMP-33, FMP-36, FMP-37, FMP-39, FR-FMP	RIF, LCAP, INFRA, GROWTH	Equity Shares	3,080.73	Equity Shares	1,396.04
ICI INDIA	FMP-36, FMP-28	GROWTH, MINCOM, MIPPL, PDYF, FOCUS	Equity Shares	792.10	Equity Shares	822.10
ICICI BANK	LIQUID, FR-SMP	DNIT95, FOCUS, GROWTH, INDEX, MINCOM, MIPPL, PBF, PDYF, PTSF, RIF, TAX96, LCAP, INFRA, FDF, LTEF, CHILDI	Equity Shares	16,535.63	Equity Shares	1,447.99
		LIQUID, FR-FMP, FMP-30, FMP-29, FR-SMP, INCOME	Debt	16,745.08	Debt	2,489.74
		FR-SMP, INCOME, LIQUID, PBF, STP, FMP-21, FMP-23, FMP-24, FMP-25, FMP-26, FMP-27, FMP-29, FMP-32, FMP-31, FMP-35, LTEF, FMP-36, FMP-37, FR-FMP	Certificate of Deposit	194,350.65	Certificate of Deposit	43,645.82
INDUSTRIAL DEVELOPMENT BANK OF INDIA	DEP-EA, LIQUID	INCOME, STP, LIQUID, FR-SMP, FR-FMP	Debt	11,342.32	Debt	5,967.30
		FR-SMP, LIQUID, FR-FMP	Term Deposit	16,000.00	Term Deposit	-
		FR-SMP, GROWTH, INCOME, LIQUID, STP, TAX96, LCAP, INFRA, LTEF, FR-FMP	Certificate of Deposit	75,514.30	Certificate of	24,135.50
INFOSYS TECHNOLOGIES	LIQUID	FOCUS, GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, TAX96, LCAP, INFRA, FDF, DNIT95	Equity Shares	20,064.74	Equity Shares	5,175.06
INFRASTRUCTURE DEVELOPMENT FINANCE COMPANY	INCOME, FMP-33	TAX96, JUNIOR, RIF	Equity Shares	1,860.42	Equity Shares	256.44
		FR-SMP, INCOME, LIQUID, STP, FMP-29, FMP-33, FR-FMP	Debt	78,650.36	Debt	8,820.45
INDIAN PETROCHEMICALS CORPORATION	FMP-35, FMP-32	INDEX, MINCOM, MIPPL, PDYF, RIF, TAX96, LCAP, GROWTH	Equity Shares	3,608.29	Equity Shares	-
		STP, FR-FMP	Debt	1,298.60	Debt	-
ITC	FR-SMP, INCOME, LIQUID, STP, FMP-28, FMP-32, FMP-34, FMP-35, FMP-39, FR-FMP	FOCUS, GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, TAX96, LCAP, FDF, LTEF, DNIT95	Equity Shares	15,124.04	Equity Shares	2,373.92
INFOTECH ENTERPRISES LTD	STP	FOCUS, MINCOM, MIPPL, PTSF, RIF, TAX96, JUNIOR, LTEF, LTEFS2, CHILDI	Equity Shares	7,047.57	Equity Shares	4,124.89
THE JAMMU & KASHMIR BANK	FR-SMP	FR-SMP, INCOME, LIQUID, STP, INFRA, FMP-24, FMP-26, FR-FMP	Certificate of Deposit	104,876.10	Certificate of Deposit	36,410.43
KIRLOSKAR OIL	INCOME	LIQUID	Debt	5,000.00	Debt	-
L&T INFRASTRUCTURE DEVELOPMENT PROJECTS ^^	STP	-	Equity Shares	-	Equity Shares	-
		-	Debt	-	Debt	-
		-	Term Deposit	-	Term Deposit	-
		-	Certificate of Deposit	-	Certificate of Deposit	-
LARSEN & TOUBRO	FR-SMP, INCOME, PBF, RIF, STP, LCAP, FR-FMP	GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, LCAP, INFRA, FDF, FOCUS	Equity Shares	8,365.49	Equity Shares	5,221.28
		FR-SMP, LIQUID, FR-FMP	Debt	10,000.00	Debt	-
MAHINDRA & MAHINDRA	FR-SMP, INCOME, FR-FMP	GROWTH, INDEX, MINCOM, MIPPL, PBF, PDYF, RIF, TAX96, JUNIOR, LCAP, FDF, LTEF, FOCUS	Equity Shares	10,577.80	Equity Shares	4.69
MARUTI UDYOG	FR-SMP, FMP-23, FMP-25, FMP-28, FMP-30, FMP-31, FMP-33, FMP-34, FMP-36, FMP-38, FR-FMP	GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, LCAP, FDF, FOCUS	Equity Shares	10,278.86	Equity Shares	8.15
MAX INDIA	FMP-28	JUNIOR, TAX96	Equity Shares	475.89	Equity Shares	-
NESTLE INDIA	FR-SMP	PDYF, RIF, DNIT95	Equity Shares	1,316.37	Equity Shares	1,287.49
PATNI COMPUTERS SYSTEMS	FMP-25, FMP-30, FMP-23	JUNIOR, DNIT95	Equity Shares	791.32	Equity Shares	-

Name of the Company (Investor)	Scheme in which investment is made by Company	Scheme by which investment is made in securities of the company	Aggregate investment by schemes in securities of the company during 01/09/2005 to 24/10/2007		Aggregate Investment outstanding as on October 24, 2007 (At Market Value)	
			Nature of Investment	Amount (Rs in Lacs)	Nature of Investment	Amount (Rs in Lacs)
PTC INDIA	GILT-I, INCOME, FR-SMP, STP	PTSF, RIF, CHILD1	Equity Shares	531.91	Equity Shares	439.54
PUNJAB NATIONAL BANK	LIQUID	PDYF, INDEX	Equity Shares	194.48	Equity Shares	4.58
		INCOME, MINCOM, MIPPL, PBF, STP, FDF, CHILD1	Debt	10,723.35	Debt	1,471.46
		FR-SMP, LIQUID, STP, TAX96, FMP-26, FR-FMP	Term Deposit	66,746.00	Term Deposit	-
		FR-SMP, LIQUID, STP, FMP-32, FMP-28, FMP-38, FR-FMP	Certificate of Deposit	102,278.68	Certificate of Deposit	29,839.45
THE PHOENIX MILLS LTD	FR-SMP	PTSF, RIF, TAX96, JUNIOR, LTEF, CHILD1	Equity Shares	2,374.42	Equity Shares	1,375.82
RAYMOND	FMP-37, FMP-30	JUNIOR, LCAP, LTEF, RIF	Equity Shares	1,737.24	Equity Shares	418.85
RELIANCE ENERGY	FMP-20	DNIT95, FOCUS, GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, TAX96, LCAP, INFRA, CHILD1	Equity Shares	6,910.48	Equity Shares	9.64
		LIQUID, FR-SMP	Debt	3,953.82	Debt	-
RELIANCE INDUSTRIES	LIQUID, FR-SMP	DNIT95, FOCUS, GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, TAX96, LCAP, INFRA, FDF, LTEFS2, CHILD1	Equity Shares	23,977.87	Equity Shares	9,676.70
RELIANCE PETROLEUM	INCOME, LIQUID, STP, FR-SMP	GROWTH, INDEX, RIF, TAX96, JUNIOR, LCAP, INFRA, FOCUS	Equity Shares	750.93	Equity Shares	21.60
SINTEX INDUSTRIES	FMP-28	LTEFS2, PTSF	Equity Shares	1,404.56	Equity Shares	1,614.60
		FR-SMP, LIQUID, FR-FMP	Debt	2,508.85	Debt	-
SRF LIMITED	FR-SMP	MINCOM, MIPPL, PDYF, GROWTH	Equity Shares	760.61	Equity Shares	-
		FR-SMP, FMP-30, FR-FMP	Debt	2,500.00	Debt	-
THE SOUTH INDIAN BANK	FR-SMP	PTSF, TAX96, JUNIOR, CHILD1	Equity Shares	455.34	Equity Shares	-
STATE BANK OF HYDERABAD	FR-SMP	FR-SMP, LIQUID, STP, FMP-27, FR-FMP	Certificate of Deposit	19,183.58	Certificate of Deposit	5,117.72
STERLITE INDUSTRIES	FMP-29, FR-FMP	INDEX, MINCOM, MIPPL, PTSF, RIF, TAX96, LCAP, INFRA, GROWTH	Equity Shares	6,674.95	Equity Shares	15.79
		STP, LIQUID	Debt	8,400.00	Debt	5,000.00
SUN PHARMACEUTICAL INDUSTRIES	FMP-23	INDEX, LCAP, GROWTH	Equity Shares	1,051.75	Equity Shares	5.34
		LIQUID	Debt	8,000.00	Debt	-
TATA CHEMICALS	FR-FMP	GROWTH, INDEX, MINCOM, MIPPL, PBF, PDYF, PTSF, LCAP, LTEF, LTEFS2, DNIT95	Equity Shares	9,010.48	Equity Shares	5,290.76
TATA CONSULTANCY SERVICES	FMP-25, FMP-33, FMP-34, FMP-37, FR-FMP	GROWTH, INDEX, MINCOM, MIPPL, PBF, PTSF, RIF, LCAP, INFRA, FDF, FOCUS	Equity Shares	10,253.23	Equity Shares	416.84
TATA IRON & STEEL COMPANY	FMP-26, LIQUID	GROWTH, INDEX, MINCOM, MIPPL, PBF, PDYF, RIF, LCAP, INFRA, DNIT95	Equity Shares	9,030.54	Equity Shares	14.04
TATA SONS	FMP-24	STP, LIQUID, FR-FMP, FR-SMP	Debt	12,540.84	Debt	10,277.18
TATA TEA	FMP-21, FMP-20	INDEX	Equity Shares	0.40	Equity Shares	-
THERMAX	FMP-22, FMP-34, FMP-21	GROWTH, PBF, PDYF, PTSF, TAX96, INFRA, FOCUS	Equity Shares	2,041.58	Equity Shares	502.87
		JUNIOR	Equity Shares	315.75	Equity Shares	335.26
ULTRATECH CEMENT^		LIQUID, FR-FMP	Debt	10,000.00	Debt	-
		INDEX	Equity Shares	12.06	Equity Shares	4.27
VIDESH SANCHAR NIGAM	FMP-21, FMP-24, FMP-30, FMP-31, FMP-33, STP	INDEX	Equity Shares	12.06	Equity Shares	4.27
UCO BANK	FR-SMP	FR-SMP, INCOME, LIQUID, STP, FMP-21, FMP-20, FMP-23, FMP-34, FMP-35, LTEF, FR-FMP	Certificate of Deposit	108,352.70	Certificate of Deposit	38,854.97
UTI BANK	LIQUID	GROWTH, MINCOM, MIPPL, PBF, JUNIOR, INFRA, FOCUS	Equity Shares	5,237.81	Equity Shares	346.56
		FR-SMP, LIQUID, FMP-36, FMP-37, FR-FMP	Debt	26,321.41	Debt	12,520.93
		FR-SMP, LIQUID, FMP-30, FMP-32, FMP-34, FMP-35, FR-FMP	Term Deposit	26,000.00	Term Deposit	-
		FR-SMP, LIQUID, STP, FMP-20, FMP-27, FR-FMP	Certificate of Deposit	65,228.27	Certificate of Deposit	26,156.96
UNION BANK OF INDIA	LIQUID	JUNIOR	Equity Shares	316.78	Equity Shares	-
		LIQUID	Term Deposit	5,000.00	Term Deposit	-
		FR-SMP, INCOME, LIQUID, PBF, STP, FMP-26, FMP-32, FMP-37, FMP-38, FR-FMP	Certificate of Deposit	128,995.18	Certificate of Deposit	43,001.17
WIPRO	FMP-26, FMP-28, FMP-30, FMP-32, FMP-34, STP	GROWTH, INDEX, MINCOM, MIPPL, PBF, RIF, LCAP, INFRA, FDF, FOCUS	Equity Shares	12,214.23	Equity Shares	17.89
YES BANK	FR-FMP	FR-SMP, INCOME, LIQUID, STP, FMP-33, FMP-36, FR-FMP	Debt	31,128.97	Debt	24,016.61
		FMP-35	Term Deposit	5,000.00	Term Deposit	-
		FR-SMP, LIQUID, FR-FMP	Certificate of Deposit	13,339.11	Certificate of Deposit	7,060.11

Name of the Company (Investor)	Scheme in which investment is made by Company	Scheme by which investment is made in securities of the company	Aggregate investment by schemes in securities of the company during 01/09/2005 to 24/10/2007		Aggregate Investment outstanding as on October 24, 2007 (At Market Value)	
			Nature of Investment	Amount (Rs in Lacs)	Nature of Investment	Amount (Rs in Lacs)
ANDHRA BANK	FR-SMP	PDYF, RIF, TAX96, JUNIOR, DNIT95	Equity Shares	1,123.68	Equity Shares	293.84
STATE BANK OF MYSORE	FR-SMP	FR-SMP, INCOME, LIQUID, STP, FMP-23, FMP-34, FR-FMP	Certificate of Deposit	80,434.12	Certificate of Deposit	20,771.28
SYNDICATE BANK	LIQUID	INFRA	Equity Shares	1,190.46	Equity Shares	-
ICICI SECURITIES PRIMARY DEALERSHIP LTD [#]	STP, INCOME		Equity Shares	-	Equity Shares	-
			Debt	-	Debt	-
			Term Deposit	-	Term Deposit	-
			Certificate of Deposit	-	Certificate of Deposit	-
RELIANCE RETAIL LTD ^{**}	FR-SMP		Equity Shares	-	Equity Shares	-
			Debt	-	Debt	-
			Term Deposit	-	Term Deposit	-
			Certificate of Deposit	-	Certificate of Deposit	-
TATA INVESTMENT CORPORATION LTD ^{###}	FMP-39		Equity Shares	-	Equity Shares	-
			Debt	-	Debt	-
			Term Deposit	-	Term Deposit	-
			Certificate of Deposit	-	Certificate of Deposit	-
WELSPUN GUJARAT STAHL ROHREN LTD	FR-SMP	LIQUID	Debt	5,000.00	Debt	-

[^] Ultratech Cement is a subsidiary of Grasim Industries Limited

^{^^} L&T INFRASTRUCTURE DEVELOPMENT PROJECTS LTD is a subsidiary of L&T

[#] ICICI Securities Primary Dealership Ltd is a subsidiary of ICICI Bank

^{**} Reliance Retail Ltd is a subsidiary of Reliance Industries Limited.

^{###} Tata Investment Corporation Ltd is a subsidiary of Tata Sons Limited.

Scheme Codes	Scheme	Scheme Codes	Scheme
CHILD1	PRINCIPAL CHILD BENEFIT FUND	LCAP	PRINCIPAL LARGE CAP FUND
DEP-EA	PRINCIPAL DEPOSIT FUND FOR 54EA BENEFIT	LIQUID	PRINCIPAL CASH MANAGEMENT FUND -LIQUID OPTION
DNIT-95	PRINCIPAL EQUITY FUND	MINCOM	PRINCIPAL MONTHLY INCOME PLAN
FMP-19	PRINCIPAL FIXED MATURITY PLAN -371 DAYS MAR 2005	MIPPL	PRINCIPAL MONTHLY INCOME PLAN-MIP PLUS
FMP-20	PRINCIPAL FIXED MATURITY PLAN - 371 DAYS OCT 2005	PBF	PRINCIPAL BALANCED FUND
FMP-21	PRINCIPAL FIXED MATURITY PLAN -91 DAYS NOV 2005	PDYF	PRINCIPAL DIVIDEND YIELD FUND
FMP-22	PRINCIPAL PNB FIXED MATURITY PLAN-91 DAYS-SERIES I	PTSF	PRINCIPAL PERSONAL TAX SAVER FUND
FMP-23	PRINCIPAL PNB FIXED MATURITY PLAN - 460 DAYS	RIF	PRINCIPAL RESURGENT INDIA EQUITY FUND
FMP-24	PRINCIPAL PNB FIXED MATURITY PLAN -91 DAYS -SERIES II	STP	PRINCIPAL INCOME FUND -SHORT TERM PLAN
FMP-25	PRINCIPAL PNB FIXED MATURITY PLAN -385 DAYS -SERIES I	TAX96	PRINCIPAL TAX SAVING FUND
FMP-26	PRINCIPAL PNB FIXED MATURITY PLAN -91 DAYS -SERIES III	FDF	PRINCIPAL PNB FIXED DURATION FUND 3 YEAR PLAN SERIES I
FMP-27	PRINCIPAL PNB FIXED MATURITY PLAN 385 DAYS-SERIES II	FMP-29	PRINCIPAL PNB FIXED MATURITY PLAN 460 DAYS - SERIES II
FMP-28	PRINCIPAL PNB FIXED MATURITY PLAN 91 DAYS - SERIES IV	FMP-30	PRINCIPAL PNB FIXED MATURITY PLAN 91 DAYS - SERIES V
FOCUS	PRINCIPAL FOCUSED ADVANTAGE FUND	FMP-31	PRINCIPAL PNB FIXED MATURITY PLAN 385 DAYS - SERIES III
FR-FMP	PRINCIPAL FLOATING RATE FUND - FLEXIBLE MATURITY PLAN	FMP-32	PRINCIPAL PNB FIXED MATURITY PLAN FMP 91 DAYS -SERIES VI
FR-SMP	PRINCIPAL FLOATING RATE FUND - SHORT MATURITY PLAN	FMP-33	PRINCIPAL PNB FIXED MATURITY PLAN 540 DAYS SERIES I
GILT-I	PRINCIPAL GOVERNMENT SECURITIES FUND-INVESTMENT PLAN	FMP-34	PRINCIPAL PNB FMP 91 DAYS SERIES VII
GILT-P	PRINCIPAL GOVERNMENT SECURITIES FUND-PROVIDENT FUND PLAN	FMP-35	PRINCIPAL PNB FMP 91 DAYS SERIES VIII
GILT-S	PRINCIPAL GOVERNMENT SECURITIES FUND-SAVINGS PLAN	FMP-36	PRINCIPAL PNB FMP 460 DAYS SERIES III
GOF	PRINCIPAL GLOBAL OPPORTUNITIES FUND	FMP-37	PRINCIPAL PNB FMP 385 DAYS SERIES IV
GROWTH	PRINCIPAL GROWTH FUND	FMP-38	PRINCIPAL PNB FMP 91 DAYS SERIES IX
INCOME	PRINCIPAL INCOME FUND	LTEF	PRINCIPAL LONG TERM EQUITY FUND 3 YEAR PLAN - SERIES- I
INDEX	PRINCIPAL INDEX FUND	FMP-39	PRINCIPAL PNB FMP 385 DAYS SERIES V
INFRA	PRINCIPAL INFRASTRUCTURE & SERVICES FUND	LTEFS2	PRINCIPAL LONG TERM EQUITY FUND 3 YEAR PLAN - SERIES- II
JUNIOR	PRINCIPAL JUNIOR CAP FUND		

Most of the above securities were purchased from the open secondary/primary market at relevant market/offer prices over a period of time based on the approved investment strategy. All the securities pertain to highly rated blue-chip companies.

The AMC is of the view that the above investments are considered sound and in line with the investment objective of the relevant schemes.

**This is an aggregate of all investments made during the above mentioned period in accordance with Regulation 25(11) without considering sale/redemptions and interscheme transactions, which might have occurred

BORROWING BY THE MUTUAL FUND

Details of borrowing for the period from April 1, 2006 to October 24, 2007:

Name of the Fund (Category)	Nature of the Instrument/ Mode of Borrowings	Source	Purpose	Date of Borrowings	Date of Repayment of borrowing (specify the period of borrowing)	Rate of Borrowing (P.A.)	Amount Borrowed as % of Net Assets	Amount Borrowed (Rs. in crores)
Principal Large Cap Fund	Temporary Overdraft	PNB	Redemption	31/03/06	3/04/06 (three day)	10.75%	0.26%	0.75
Principal Equity Fund	Temporary Overdraft	PNB	Redemption	31/03/06	3/04/06 (three day)	10.75%	13.48%	10.97
Principal Resurgent India Equity Fund	Temporary Overdraft	PNB	Redemption	31/03/06	3/04/06 (three day)	10.75%	4.83%	7.73
Principal Resurgent India Equity Fund	Temporary Overdraft	IDBI Bank Ltd	Redemption	31/03/06	3/04/06 (three day)	10.50%	1.14%	1.82
Principal Equity Fund	Temporary Overdraft	PNB	Redemption	3/04/06	4/04/06 (one day)	10.75%	13.21%	10.85
Principal Tax Savings Fund	Temporary Overdraft	PNB	Redemption	4/04/06	5/04/06 (one day)	10.75%	0.03%	0.05
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	4/04/06	5/04/06 (one day)	10.75%	1.53%	2.35
Principal Index Fund	Temporary Overdraft	PNB	Redemption	5/04/06	7/04/06 (two day)	10.75%	0.53%	0.03
Principal Tax Savings Fund	Temporary Overdraft	PNB	Redemption	5/04/06	7/04/06 (one day)	10.75%	1.28%	2.08
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	5/04/06	7/04/06 (one day)	10.75%	1.97%	3.02
Principal Tax Savings Fund	Temporary Overdraft	PNB	Redemption	7/04/06	10/04/06 (three day)	10.75%	1.52%	2.47
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	7/04/06	10/04/06 (three day)	10.75%	2.27%	3.48
Principal Tax Saving Fund	Temporary Overdraft	PNB	Redemption	10/04/06	12/04/06 (two day)	10.75%	0.36%	0.58
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	10/04/06	12/04/06 (two day)	10.75%	4.25%	6.39
Principal Tax Saving Fund	Temporary Overdraft	PNB	Redemption	4/05/06	5/05/06 (one day)	10.75%	2.66%	4.40
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	16/05/06	17/05/06 (one day)	10.75%	2.17%	3.18
Principal Cash Management Fund - Liquid Option	Temporary Overdraft	PNB	Redemption	26/06/06	27/06/06 (one day)	10.75%	0.01%	0.93
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	7/07/06	11/07/06 (four day)	10.75%	0.65%	0.70
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	10/07/06	11/07/06 (one day)	10.75%	0.41%	0.42
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	12/07/06	14/07/06 (two day)	10.75%	0.36%	0.37
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	13/07/06	14/07/06 (one day)	10.75%	0.22%	0.23
Principal Index Fund	Temporary Overdraft	PNB	Redemption	17/07/06	18/07/06 (one day)	10.75%	1.64%	0.08
Principal Index Fund	Temporary Overdraft	PNB	Redemption	18/07/06	19/07/06 (one day)	10.75%	1.68%	0.08
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	20/07/06	21/07/06 (one day)	10.75%	0.27%	0.26
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	21/07/06	24/07/06 (three day)	10.75%	0.39%	0.38
Principal Index Fund	Temporary Overdraft	PNB	Redemption	17/08/06	21/08/06 (four day)	11.50%	0.32%	0.02
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	25/08/06	28/08/06 (three day)	11.50%	0.04%	0.04
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	29/08/06	30/08/06 (one day)	11.50%	0.25%	0.23
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	4/09/06	5/09/06 (one day)	11.50%	0.21%	0.19
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	14/09/06	15/09/06 (one day)	11.50%	0.05%	0.04
Principal Index Fund	Temporary Overdraft	PNB	Redemption	20/09/06	22/09/06 (two day)	11.50%	0.55%	0.03
Principal Index Fund	Temporary Overdraft	PNB	Redemption	21/09/06	22/09/06 (one day)	11.50%	1.11%	0.06
Principal Index Fund	Temporary Overdraft	PNB	Redemption	28/09/06	3/10/06 (five day)	11.50%	6.83%	0.37
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	3/10/06	4/10/06 (one day)	11.50%	0.48%	0.42

Name of the Fund (Category)	Nature of the Instrument/ Mode of Borrowings	Source	Purpose	Date of Borrowings	Date of Repayment of borrowing (specify the period of borrowing)	Rate of Borrowing (P.A.)	Amount Borrowed as % of Net Assets	Amount Borrowed (Rs. in crores)
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	4/10/06	5/10/06 (one day)	11.50%	0.30%	0.26
Principal Cash Management Fund - Liquid Option	Temporary Overdraft	PNB	Redemption	16/10/06	17/10/06 (one day)	11.50%	0.17%	9.09
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	26/10/06	30/10/06 (four day)	11.50%	0.17%	0.14
Principal Index Fund	Temporary Overdraft	PNB	Redemption	26/10/06	30/10/06 (four day)	11.50%	1.78%	0.09
Principal Large Cap Fund	Temporary Overdraft	PNB	Redemption	16/11/06	20/11/06 (four day)	11.50%	1.05%	3.16
Principal Large Cap Fund	Temporary Overdraft	PNB	Redemption	17/11/06	20/11/06 (three day)	11.50%	0.52%	1.58
Principal Large Cap Fund	Temporary Overdraft	PNB	Redemption	22/11/06	24/11/06 (two day)	11.50%	2.64%	7.61
Principal Large Cap Fund	Temporary Overdraft	PNB	Redemption	23/11/06	27/11/06 (four day)	11.50%	3%	8.32
Principal Large Cap Fund	Temporary Overdraft	PNB	Redemption	24/11/06	27/11/06 (three day)	11.50%	1.44%	4.17
Principal Large Cap Fund	Temporary Overdraft	PNB	Redemption	27/11/06	28/11/06 (one day)	11.50%	0.94%	2.63
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	1/12/06	4/12/06 (three day)	11.50%	0.50%	0.41
Principal Large Cap Fund	Temporary Overdraft	PNB	Redemption	11/12/06	12/12/06 (one day)	11.50%	0.32%	0.87
Principal Tax Savings Fund	Temporary Overdraft	PNB	Redemption	11/12/06	12/12/06 (one day)	11.50%	0.05%	0.09
Principal Junior Cap Fund	Temporary Overdraft	PNB	Redemption	11/12/06	12/12/06 (one day)	11.50%	0.24%	0.20
Principal Index Fund	Temporary Overdraft	PNB	Redemption	5/01/07	8/01/07 (three day)	11.50%	1.47%	0.09
Principal Index Fund	Temporary Overdraft	PNB	Redemption	8/01/07	9/01/07 (one day)	11.50%	1.09%	0.06
Principal Index Fund	Temporary Overdraft	PNB	Redemption	8/01/07	10/01/07 (two day)	11.50%	1.76%	0.10
Principal Monthly Income Plan - MIP Plus	Temporary Overdraft	PNB	Redemption	15/01/07	16/01/07 (one day)	11.50%	0.13%	0.03
Principal Global Opportunities Fund	Temporary Overdraft	PNB	Redemption	27/02/07	28/02/07 (one day)	11.50%	0.49%	2.26
Principal Global Opportunities Fund	Temporary Overdraft	PNB	Redemption	20/03/07	26/03/07 (six day)	11.50%	0.24%	1.00
Principal Cash Management Fund - Liquid Option	Temporary Overdraft	PNB	Redemption	21/03/07	26/03/07 (five day)	11.50%	2.85%	99.00
Principal Floating Rate Fund - Short Maturity Plan	Temporary Overdraft	PNB	Redemption	22/03/07	23/03/07 (one day)	9.50%	3.97%	23.13
Principal Cash Management Fund - Liquid Option	Temporary Overdraft	PNB	Redemption	22/03/07	23/03/07 (one day)	9.50%	2.13%	69.38
Principal Cash Management Fund - Liquid Option	Temporary Overdraft	PNB	Redemption	30/03/07	03/04/07 (four day)	11.50%	2.98%	100.00
Principal Cash Management Fund - Liquid Option	Temporary Overdraft	SBI	Redemption	30/03/07	4/04/07 (five day)	13.40%	4.77%	160.00
Principal Government Securities Fund - Investment Plan	Temporary Overdraft	PNB	Redemption	3/04/07	04/04/07 (one day)	11.50%	4.13%	0.72
Principal Cash Management Fund - Liquid Option	Temporary Overdraft	PNB	Redemption	3/04/07	04/04/07 (one day)	11.50%	3.28%	99.28
Principal Income Fund - Short Term Plan	Temporary Overdraft	PNB	Redemption	3-May-07	4-May-07 (one day)	13.00%	0.12%	0.14
Principal Monthly Income Plan	Temporary Overdraft	PNB	Redemption	18-May-07	19-May-07 (one day)	13.00%	0.81%	0.40
Principal Global Opportunities Fund	Temporary Overdraft	PNB	Redemption	20-Sep-07	21-Sept-07 (one day)	15.05%	0.09%	0.57

XV. TAX TREATMENT OF INVESTMENTS IN MUTUAL FUNDS

TAX TREATMENT FOR THE SCHEME AND INVESTORS (UNITHOLDERS):

Tax implication for the Fund in respect of its schemes (being other than a Equity Oriented fund (Not being a Money Market Mutual Fund or a Liquid Fund)) and the unitholders (on the assumption that units are not held as stock-in-trade) as per the taxation laws in force:

I. PRINCIPAL MUTUAL FUND

The entire income of Fund registered under the Securities and Exchange Board of India Act, 1992 (15 of 1992) or regulations made thereunder will be exempt from income tax in accordance with the provisions of section 10(23D) of the Income-tax Act, 1961. Consequently, income received by the Scheme is not liable for deduction of tax at source

A. DIVIDEND DISTRIBUTION TAX

Under section 115R of the Income tax Act, 1961, any amount of income distributed by Mutual Fund to its unitholders is chargeable to tax. As per prevailing taxation laws in force, the Dividend Distribution Tax payable by Principal Mutual Fund on Income Distributed to its unitholders is as under:

Nature of the Fund	Individual / HUF (%)	Others (%)
Tax on Income Distributed by a Fund other than an Equity Oriented Fund # (Not being a Money Market Mutual Fund ^ or a Liquid Fund ^^)	12.50*	20*

* Plus applicable surcharge, education cess and secondary & higher education cess.

^ "Money Market Mutual Fund" means a Money Market Mutual Fund as defined in sub-clause (p) of clause (2) of the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996.

^^ "Liquid Fund" means a scheme or plan of a Mutual Fund which is classified by Securities and Exchange Board of India as a Liquid Fund in accordance with the guidelines issued by it in this behalf under the Securities and Exchange Board of India Act, 1992 or regulations made thereunder.

"Equity Oriented Funds" means "such fund where the investible funds are invested by way of equity shares in domestic companies to the extent of more than Sixty five percent of the total proceeds of such fund". The percentage of Equity share holding of the fund shall be computed with reference to the annual average of the monthly averages of the opening and closing figures.

II. UNITHOLDERS

A. IN RESPECT OF INCOME DISTRIBUTION:

Under the provisions of section 10(35) of the Income-tax Act, 1961, income received by all categories of unitholders from the Scheme will be exempt from income tax in their hands. In view of this position, no tax needs be deducted at source from such distribution by the scheme. However, income from the transfer of Units of a mutual fund is not exempt from taxation.

B. IN RESPECT OF LONG TERM CAPITAL GAINS

Mutual Fund units other than those of Equity Oriented Schemes

Long term capital gains arising from the transfer of units other than Equity Oriented Schemes would be chargeable to tax as under:

a) For Individuals and HUFs (including Non Resident Indians)

Long-term Capital Gains in respect of Units held for a period of more than 12 months are chargeable under section 112 of the Income-Tax Act, 1961 at the rate of 20% (plus applicable surcharge, education cess and secondary & higher education cess). Capital gains would be computed after taking into account cost of acquisition, as adjusted by Cost Inflation Index notified by the Central Government and expenditure incurred wholly and exclusively in connection with such transfer. In a case, where taxable income, as reduced by long term capital gains, is below the exemption limit, the long term capital gains will be reduced to the extent of the shortfall and only the balance long term capital gains will be charged at the flat rate of 20% (plus applicable surcharge, education cess and secondary & higher education cess).

It is further provided that an assessee will have an option to seek concessional rate of tax of 10% (plus applicable surcharge, education cess and secondary & higher education cess), provided the long term capital gains are computed without substituting indexed cost in place of actual cost of acquisition.

b) For Partnership Firms, Indian Companies/Foreign Companies

Long-term Capital Gains in respect of units held for a period of more than 12 months will be chargeable under section 112 of the Income-Tax Act, 1961, at the rate of 20% (plus applicable surcharge, education cess and secondary & higher education cess). Capital gains would be computed after taking into account cost of acquisition, as adjusted by Cost Inflation Index notified by the Central Government, and expenditure incurred wholly and exclusively in connection with such transfer.

It is further provided that an assessee will have an option to avail of the concessional rate of tax of 10% (plus applicable surcharge, education cess and secondary & higher education cess) on long term capital gains computed without adjusting cost for indexation.

c) For Overseas Financial Organisations, and Foreign Institutional Investors fulfilling conditions laid down under section 115AB and 115AD respectively

Under section 115AB/115AD of the Income-Tax Act, 1961, long term capital gains in respect of units held for a period of more than 12 months will be chargeable at the rate of 10% (plus applicable surcharge, education cess and secondary & higher education cess). Such gains would be calculated without indexation of cost of acquisition.

d) Setting Off Previous Year's Brought Forward Losses

Loss arising on transfer of a long term capital asset can be set off only against other long term capital gains and not against any other income. If there is nil or inadequate long term capital gains in any year, the loss remaining will be allowed to be carried forward to the next year upto a maximum of 8 years.

C. SHORT TERM CAPITAL GAINS:

Mutual Fund units other than Equity Oriented Schemes

Short term capital gains arising from the transfer of units other than Equity Oriented Schemes would be chargeable to tax as under:

a. Capital Gains/Losses

Short term capital gains are taxed at the normal rates applicable to each unitholder. Loss arising on transfer of a short term capital asset can be set off only against other short term capital gains or long term capital gains. If there is nil or inadequate capital gains in any year, the loss remaining will be allowed to be carried forward to the next year upto a maximum of 8 years.

As per section 94(7), if any person buys or acquires units within a period of three months prior to the record date fixed for declaration of dividend, or distribution of income, and sells or transfers the same within a period of nine months from such record date, then capital losses arising from such sale to the extent of dividend or income received or receivable on such units will be ignored for the purpose of computing his income chargeable to tax.

Similarly, as per section 94(8), if any person buys or acquires units within a period of three months prior to the record date fixed for declaration of bonus units and sells or transfers the same within a period of nine months from such record date, then capital losses arising from such sale will be ignored for the purpose of computing his income chargeable to tax and the loss so ignored shall be deemed to be the cost of the bonus units.

b. Income Tax Rates

Short term Capital Gains in respect of Units held for a period of not more than 12 months is added to the total income. Total income including short-term capital gains is chargeable to tax as per the relevant slab rates. The maximum marginal tax rates applicable to different categories of assessee are as follows:

Resident individuals and HUF	30% ^
Partnership Firms	30% ^
Domestic Companies	30% ^
Non Resident Indians	30% ^
Foreign Companies	40% ^

D. TAX DEDUCTION AT SOURCE

(i) Under section 195/196B/196D of the Income Tax Act, 1961, tax shall be deducted at source in respect of capital gains as under:

a. In case of non resident other than a company -	
➤ Long term capital gains (other than Equity oriented schemes)	20% ^
➤ Short term capital gains	30%^
b. In case of foreign company -	
➤ Long term capital gains (other than Equity oriented schemes)	20% ^
➤ Short term capital gains	40% ^
c. In case of Offshore Fund and FII as defined in Section 115AB	
➤ Long term capital gains	10% ^

^ plus applicable surcharge, education cess and secondary & higher education cess.

As per circular no. 728 issued by CBDT in October 1995, in the case of a remittance to a country with which a Double Taxation Avoidance Agreement (DTAA) is in force, the tax should be deducted at the rate provided in the Finance Act of the relevant year or at the rate provided in DTAA between India and that country whichever is more beneficial to the tax payer.

E. EXEMPTION FROM TAX ON CAPITAL GAINS ARISING ON TRANSFER OF UNITS HELD FOR MORE THAN 12 MONTHS (WHEREVER APPLICABLE)

U/S. 54EC of the Income Tax Act, 1961

Under section 54EC of the Income Tax Act, 1961, where a tax payer has made long term capital gains from the transfer of units held in the Mutual Fund for a period exceeding 12 months and the assessee has any time within a period of 6 months after the date of such transfer, invested the whole of the capital gains in any of the specified assets i.e., in bonds redeemable after 3 years issued by the

National Bank for Agriculture and Rural Development, or by the National Highways Authority of India or by the Rural Electrification Corporation Limited or by The National Housing Bank or by the Small Industries Development Bank of India, such capital gains shall be exempted from tax on capital gains under section 54EC of the Income Tax Act, 1961. However, if the assessee has invested only a part of the capital gains, he will be eligible for proportionate exemption.

U/S 54ED of the Income Tax Act, 1961

Under Section 54ED, whereby the capital gains arising from the transfer (before the 1st day of April 2006) of units held in the mutual fund for a period exceeding 12 months will be exempt, if the assessee has, any time within a period of 6 months after the date of such transfer, invested the whole of the capital gains in acquiring equity shares forming part of an eligible issue of capital. However, if the assessee has invested only a part of the capital gains, he will be eligible for proportionate exemption. An eligible issue of capital means an issue of equity shares offered for subscription to the public by a public company formed and registered in India.

Indirect Tax impact on investors due to tax impact on the scheme:

The scheme may be impacted by the rates of taxation on capital gains, interest and other corporate actions on investment by non resident mutual funds, in different countries of investment, in line with the prevailing tax laws in those countries of investment, as also in line with the respective tax treaties in existence with India.

F. INVESTMENTS BY CHARITABLE AND RELIGIOUS TRUSTS IN THE SCHEME

Units of the Scheme constitute an eligible avenue for investment by charitable or religious trusts per rule 17C of the Income Tax Rules, 1962, read with clause (xii) of sub-section (5) of section 11 of the Income Tax Act, 1961.

G. WEALTH TAX

Units held under the Scheme are not treated as assets within the meaning of section 2(ea) of the Wealth Tax Act, 1957 and are, therefore, not liable to Wealth-Tax.

The information given above is included only for general purpose and is based on advise received by the AMC regarding the law and practise currently in force in India and the Investors/Unit holders should be aware that the relevant fiscal rules or their interpretation may change. As is the case with any investment, there can be no guarantee that the tax position or the proposed tax position prevailing at the time of an investment in the Scheme will endure indefinitely. In view of the individual nature of tax consequences, each Investor/ Unit holders is advised to consult his / her own professional tax advisor.

XVI. GENERAL INFORMATION

Utilisation of Services of Associates

The Trustees, the AMC, the Custodian, the Registrar, any Associate, any Distributor, Dealer other companies within the Principal group etc. may from time to time act (individually and/or jointly) as manager, custodian, registrar, administrator, investment adviser, distributor or dealer or agent or marketing associate, respectively in relation to, or be otherwise involved in, other Schemes/Funds/ Activities (in the same or different capacity) (to the extent permitted under various relevant Regulations), which may have similar investment objectives to those of the Scheme/Fund. The AMC, may for example, make investments for other permitted business activities or on its own behalf without making the same available to the Scheme/Fund. The AMC/Trustees will, at all times have regard in such event to its obligations to act in the best interests of the Scheme/Fund so far as is practicable, having regard to its obligations to other permitted business activities and will ensure that such transactions are conducted with/by the Scheme/Fund purely on commercial terms/on an arm's length basis as principal to principal.

AMC may, utilise the services of the Companies stated in the clause 'Associate Transactions' (and to whom selling commission has been paid/ provided for their marketing efforts in mobilising subscription for the units of the previous schemes of the Fund) and/or the Sponsor, Associates, other Companies within the Principal group, Employees or their relatives, etc. for the purpose of any securities transactions and distribution and sale of units/securities, provided that any deal in securities through any broker associated with the Sponsors should not be beyond 5% of the quarterly aggregate purchase and sale of securities by the Fund, as per SEBI Regulations and brokerage or commission paid as per prevailing market practice and/or approved rates is disclosed in the half yearly annual accounts of the Fund. AMC may, invest in Units of the Funds/Schemes in Principal (the existing Funds/Schemes including the present Scheme and others as may be announced/ launched from time to time), only after full disclosure of its intention to invest has been made in the Offer Documents. AMC shall not charge any fees on its investment in Units of the Funds/Schemes in the Fund.

AMC shall not act as a Trustees of any Mutual Fund and shall not undertake any other business activities except in the nature of portfolio management services, management and advisory services to offshore funds, pension funds, provident funds, venture capitals funds, management of insurance funds, financial consultancy and exchange of research on commercial basis, if any of such activities are not in conflict with the activities of the Fund. Provided that AMC may itself or through its subsidiaries undertake such activities if it satisfies SEBI that its key personnel, the system, back office, bank and securities accounts are segregated activity wise and there exist systems to prohibit access to inside information of various activities. Provided further that AMC shall meet the capital adequacy

requirements, if any, separately for each such activity and obtain separate approval, if necessary under the relevant Regulations.

SCHEME RIGHTS AND ADDITIONS/AMENDMENTS TO THE SCHEME

The AMC may add to or otherwise amend either all or any of the terms of the Scheme, by duly complying with the guidelines of and notifications issued by SEBI/GOI/any other regulatory body, that may be issued from time to time subject to the prior approval of SEBI, if required.

POWER TO REMOVE DIFFICULTIES

If any difficulty arises in giving effect to the provision of the Scheme, the Trustees may take such steps, which are not inconsistent with these provisions which appear to them to be necessary and expedient, for the purpose of removing the difficulties.

POWER TO MAKE RULES

The AMC may from time to time prescribe such forms and make such rules for the purpose of giving effect to the provisions of the scheme(s), and add to, alter or amend all or any of the forms and rules that may be framed from time to time.

DOCUMENTS FOR INSPECTION

The following documents are available for inspection by prospective unitholders, under the Scheme, between 11.00 a.m. and 1.00 p.m. on any Business Day at the office of AMC at 5th Floor, Apeejay House, 3 Dinshaw Vachha Road, Mumbai 400 020.

- Memorandum and Articles of Principal Pnb Asset Management Company Private Limited and Principal Trustee Company Private Ltd. along with Registration Certificate from SEBI.
- Copy of Trust Deed and Investment Management Agreement.
- Copy of Custodian Agreement.
- Copy of Agreement with Registrars.
- Copy of this Scheme Offer Document.
- Copies of the Indian Trust Act, 1882, Indian Registration Act 1908, and the Securities (Contracts Regulations) Act, 1956.
- Copy of SEBI (Mutual Funds) Regulations 1996.
- Consent of Auditors

Penalties and Pending Litigations

1.	All cases of penalties (indicating nature of penalty) awarded by SEBI under the SEBI Act or any of its regulations against the Sponsor of the Mutual Fund or any company associated with the Sponsor in any capacity including the Asset Management Company, Trustee Company/Board of Trustees, or any of the directors or key personnel (specifically the fund managers) of the Asset Management Company and Trustee Company.	None
	For Sponsor and its associates, other than the penalties as mentioned above, the penalties awarded by any financial regulatory body, including stock exchanges, for defaults in respect of shareholders, debenture holders and depositors shall also be disclosed. Additionally, penalties awarded for any economic offence and violation of any securities laws shall be disclosed.	None
2.	Details of all cases of suspensions and cancellation of certificate of registration (for irregularities / violations in financial services sector or for defaults in respect of share holders, debenture holders and depositors) of the AMC, Trustee Company and sponsor or any associate of the sponsor shall be disclosed for the last 10 years.	None
3.	Any pending material litigation/legal proceedings against the portfolio manager /key personnel with separate disclosure regarding pending criminal cases, if any.	^ As mentioned below
4.	Any deficiency in the systems and operations of the Sponsor of the Mutual Fund or any company associated with the sponsor in any capacity including the AMC or the Trustee Company which SEBI has specifically advised to be disclosed in the offer document, or which has been notified by any other regulatory agency, shall be disclosed.	None
5.	Any enquiry/adjudication proceedings under the SEBI Act and the Regulations made thereunder, that are in progress against the Sponsor of the Mutual Fund or any company associated with the Sponsor in any capacity such as the AMC, Board of Trustees/Trustee Company or any of the Directors or key personnel of the Asset Management Company shall be disclosed.	None

^ There is a legal case pending against Mr. Rajat Jain, Chief Investment Officer of Principal Pnb Asset Management Company Pvt. Ltd. in the "Court of Sessions of Greater Bombay". The case was filed at the instance of CBI, Economic Offences Wing, Mumbai pertaining to a matter alleged during Mr Jain's previous employment with SBI Mutual Fund, prior to his joining Principal Pnb Asset Management Company Pvt. Ltd. The case pertains to the purchase of certain shares at SBI Mutual Fund where Mr. Rajat Jain was, at that time, Chief Investment Officer.

The above information has been disclosed in good faith as per the information available to the AMC.

MISCELLANEOUS CLAUSE

Statements in this Offer Document are, except where otherwise stated, based on the law and practice currently in force in India and are subject to changes therein. Notwithstanding anything contained in the Offer Document, the provisions of the SEBI (Mutual Funds) Regulations, 1996 and the guidelines there under shall be applicable.

Subject to SEBI Regulations permitting:

The AMC, the Trust/or the Sponsor may also absorb expenditures in addition to the limits laid down under Regulation 52 of SEBI Regulations.

Further, any amendments/replacement/re-enactment of SEBI Regulation/clarification and guidelines in the form of notes or circulars issued from time to time by SEBI for the operation and management of Mutual Fund subsequent to the date of the Offer Document shall prevail over those specified in this Offer Document.

JURISDICTION

Any dispute arising out of this issue shall be subject to the exclusive jurisdiction of the Courts in India. Statements in this Offer Document are, except where otherwise stated, based on the law, practice currently in force in India, and are subject to changes therein.

This information contained in this Offer Document regarding taxation is for general information purposes only and is in conformity with the relevant provisions of the Tax Act, and has been included relying upon advice provided to the Fund's tax advisor based on the relevant provisions prevailing as at November 21, 2007.

The scheme under this Offer Document was approved by the Trustee on September 7, 2007.

For and on behalf of the Board of Directors of
Principal Pnb Asset Management Company Private Limited

Sd/-

RAJAN GHOTGALKAR
Managing Director

Place : Mumbai
Date : November 21, 2007

COLLECTION CENTRES

For details, please contact your financial advisor or call the Principal Customer Relations Team.

Principal Pnb Asset Management Company Private Limited

Mumbai:	(022) 2202 1111.
Agra:	(0562) 6453016 / 09997020063
Ahmedabad:	(079) 2640 7933-36.
Ajmer:	09829447268.
Amritsar:	(0183) 5063303 / 09872838208.
Asansol:	(0341) 2256809 / 09434002312.
Bangalore:	(080) 64541251-52 / 65370869-71.
Bhopal:	(0755) 4252121, 4256161.
Bhubaneshwar:	(0674) 6541276 / 09937063766.
Burdwan:	09434477053.
Chandigarh:	(0172) 508 9514 / 507 5068 / 4611456.
Chennai:	(044) 24314678-79 / 24353887.
Coimbatore:	(0422) 4393561. Tele/Fax: (0422) 4393562.
Dehradun:	(0135) 2713758 / 09719003097.
Durgapur:	(0343) 2548056 / 09434014743.
Guwahati:	(0361) 2463563 / 09864151519.
Hyderabad:	(040) 6675 0380 / 6662 0812.
Indore:	(0731) 406 7345 / 406 7596 / 09826045003 .
Jaipur:	(0141) 511 8240 / 60 / 61.
Jalandhar:	(0181) 5061251 / 09888378414.
Jamshedpur:	(0657) 232 0938 / 645 7807 / 099343 03911 / 099343 10017
Jodhpur:	(0291) 6537371 / 09829437371.
Kanpur:	(0512) 233 2005 / 233 2004.
Kochi:	(0484) 6533164 - 165.
Kolkata:	(033) 2281 7268 / 2281 7247.
Lucknow:	(0522) 223 9770 / 223 8816.
Ludhiana:	(0161) 277 4209 / 508 6682.
Mangalore:	09986008285.
Nagpur:	(0712) 2541563 / 09850316126.
Nasik:	(0253) 2312971-74 ext 215 / 098227 47902.
New Delhi:	(011) 6611 5111.
Patna:	09934303367.
Pune:	(020) 2553 8737 / 38, 5601 5055.
Raipur:	(0771) 4042115 / 4042116.
Rajkot:	(0281) 6594383 / 09879740237.
Ranchi:	(0651) 2332092 / 09931771010.
Siliguri:	(0353) 2526377 / 09832018828.
Surat:	(0261) 246 0123 / 657 7964.
Udaipur:	(0294) 5120699 / 2529175 / 09828192181.
Vadodara:	(0265) 658 6212.
Vijayawada:	09959193111.
Visakhapatnam:	09866048360.

Principal Mutual Fund - Investor Service Centres (ISC) - Karvy Computershare Private Limited

Allahabad:	(0532) 3294280-81 / 09839071091.
Anand:	(02692) 320394 / 248980 / 248873.
Aurangabad:	(0240) 2363530 / 2363517 / 2363524 / 2363523.
Bareilly:	(0581) 2476809 - Ext: 32.
Bhavnagar:	(0278) 2567005 / 2567006.
Bhilai:	(0788) 3297477 / 2295329.
Bhopal:	(0755) 3010725/26/27/28, 5272995.
Bokaro:	(06542) 233330 / 233331 / 233332 / 320730.
Calicut:	(0495) 4022480 / 2742105 / 2742107 / 3042083.
Cuttack:	(0671) 2613906 / 2613905.
Dhanbad:	(0326) 2301045 / 2301046.
Gorakhpur:	(0551) 3297816.
Gurgaon:	(0124) 4083854 / 3243535 / 4086419.
Gwalior:	(0751) 4042435 / 4069001 - 004.
Hubli:	(0836) 235 3961/6201.
Jammu:	(0191) 2471016 / 5037 / 7994.
Jamnagar:	(0288) 3298794 / 3299330 / 3299265 / 3299263.
Kottayam:	(0481) 3200990 / 2302420 / 2302421.
Madurai:	(0452) 2600852.
Mangalore:	(0824) 2492302.
Mehsana:	(02762) 322559 / 242949 - 50.
Moradabad:	(0591) 3202774 / 9359717615.
Mumbai:	(022) 6634 1967 / 1966
Nagpur:	(0712) 5610513, 5612375/ 74.
Nasik:	(0253) 5602542 / 43 / 44.
Navsari:	(02637) 329161 / 233553 - 554 / 324832 / 326096.
Panjim:	(0832) 2426870 / 74 / 3260660.
Patiala:	(0175) 5051726 / 27 / 28.
Patna:	(0612) 2321355.
Pondicherry:	2220640 / 36 / 33 / 44.
Salem:	(0427) 4020300 / 2210835-36 / 2335705.
Shimoga:	(08182) 228795 / 97.
Tirunelveli:	(0462) 2335136 / 35 / 94.
Trichy:	(0431) 4020227 / 2792800 / 2794132.
Trichur:	(0487) 2322483 / 84.
Valsad:	(02632) 326902 / 01.
Varanasi:	(0542) 222 5365 / 3814.
Vapi:	(0260) 3205955 / 3093480 / 3206404 / 3296397.
Vellore:	(0416) 2215007 / 22150008 / 22150009.
Vijayawada:	(0866) 2495200.
Visakhapatnam:	(0891) 2513362.
Trivandrum:	(0471) 2725728.