Fund Update

Principal Global Opportunities Fund

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Update

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Diversifying Globally

Objective

The fund aims to provide capital growth over the medium to long term predominantly through investment in portfolio of equity and equity related schemes listed overseas. The investments in Emerging Markets are made through **Principal Global Investors – Emerging Markets Equity Fund,** which invests in 25 of the top Emerging Markets.

Fund Facts

Launch Date:	March 29, 2004
Base Currency:	INR
Corpus:	Rs.441cr
Asset Allocator:	Mr. Rajat Jain
Minimum Application Amount:	
New Investor:	Rs.10,000
Existing Investor:	Rs.5,000
Loads	
Entry Load:	2.50%. For investments less than Rs.5 crores Nil – For investments Rs.5 crores and above
Exit Load:	1% - If redeemed on or before 180 days 0.50% - 181 – 365 days Nil – after 365 days
Recurring Expense:	Up to 2.25% p.a of Daily NAV.
Investment Options:	Growth/ Dividend
Benchmark Index:	MSCI Emerging Market Index

A Brief Comment

The investment objective of the Scheme is to build an 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. The fund invests its entire corpus in its Emerging Market Fund, and hence the performance of the Global Fund would act as a proxy of the performance of the Indian Fund (excluding exchange rate risk). The Loads and expenses charged by the PGIF (Global Investment Fund) are waived off for the Indian Fund i.e. Principal Global Opportunities Fund and any additional expenses all be borne by the AMC having no impact on the NAV.

Investment Rationale

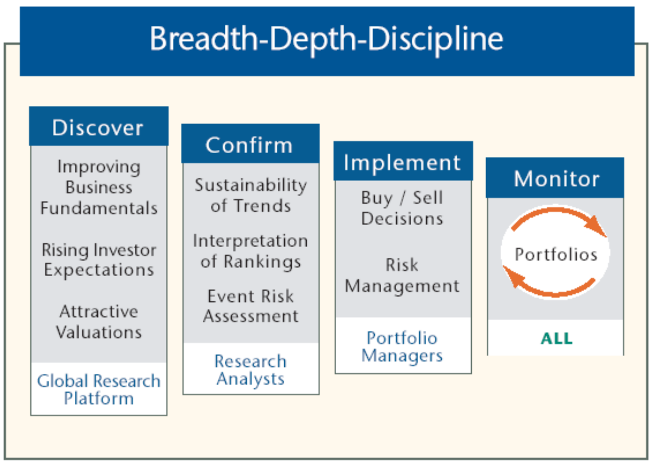
The Principal Global Opportunities Fund (PGOF), provides an opportunity to participate in the rapidly developing emerging market economies along with India, which are expected to have faster long-term growth rates than most developed economies. PGOF generated a return of 14.47% for the one year ending Mar'07 as compared to 10% from Nifty. The post tax return of the fund is 13%, which is still higher than 10% tax free returns of Nifty.

The Principal Global Investors – Emerging Markets Equity Fund, that's used as the investment vehicle for PGOF has significantly outperformed the MSCI – EM Index (276.3% vs. 177.5%) since it's inception in February 19, 1998 and has performed in line with the benchmark index over a period of 1-year.

Facts about Principal Global Investors – Emerging Market Equity Fund

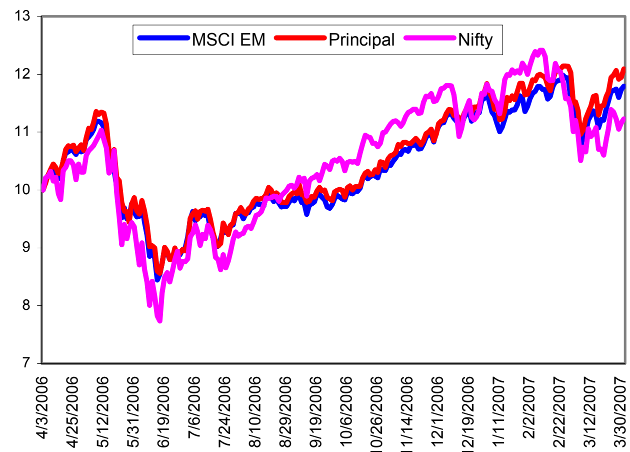
The fund is constituted with the philosophy of generating alpha returns by investing in a portfolio of well-diversified emerging market equities. The fund employs an integrated fundamental research platform by cross combining the expertise of its global research team. The team endeavors to identify superior stocks and maintain a diversified emerging market portfolio.

Investment Process



Source: Principal FactSet Research

Performance Vis-à-vis Benchmarks



Source:Bloomberg

The fund is benchmarked to MSCI Emerging Market Index but follows an independent and active stock selection approach. The fund for the year ending March 2007 displayed high correlation to the MSCI EM Index to the tune of 0.99 despite having a benchmark coverage ration of 29% i.e. an active component of 71% (as of Dec 06) with respect to MSCI EM.

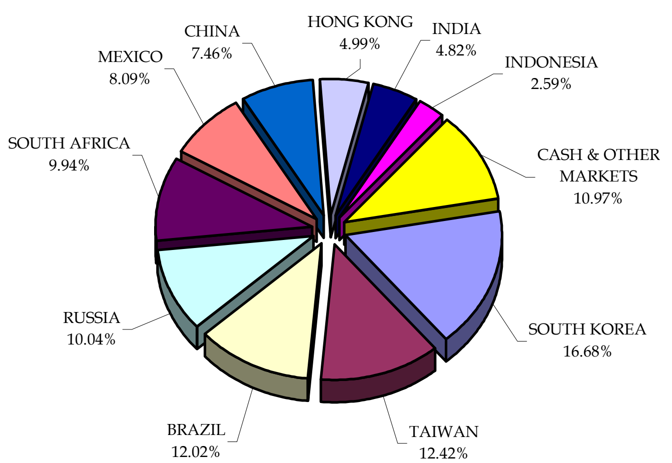
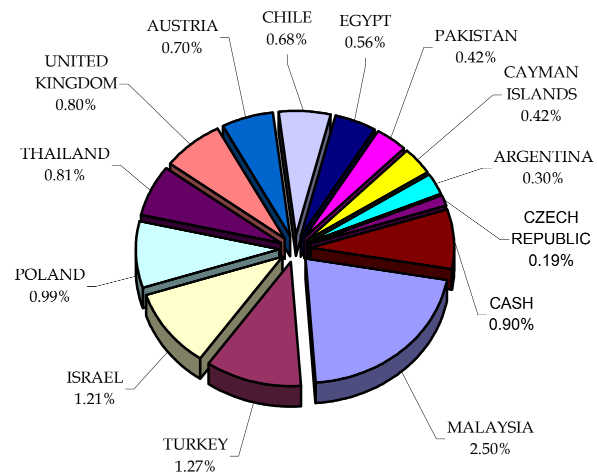
Fund Managers:
The fund is being managed by **Michael Marusaik**, MIA Columbia University, having 12 years of investment experience and **Michael Reynal**, MBA Dartmouth College with 16 years of investment experience.

Analysts:
The team also consists of 5 emerging market equity analysts with 7 years of average experience.

Investment Pattern
Up to 100 % in permitted listed Foreign Equities. Deployment of the funds is done keeping in view the investment objectives of the Scheme, 100% of the scheme's assets may be invested in Indian or overseas money market instruments (as permitted by the Regulations).

Portfolio summary (*Data as of Mar 2007*):
The fund is invested in 22 emerging market countries with top 10 countries filling up over 88% and Top 5 countries filling 60.5% of the total pie. The largest investments are in Korea & Taiwan markets. The entire portfolio is spread across 171 scrips. The Emerging Market strategic Portfolio of Principal currently manages EM securities worth $3.5bn as of Mar'07. The exposure to BRIC countries accounts for 29%. The portfolio in certain months carries small amounts of negative cash

exposure, signifying a leveraged portfolio for generating alpha returns. Some of the largest holdings of the fund include Samsung Electronics (2.64%), Oao Gazprom (2.43%), Petroleo Brasileiro 2.23%.

Top 10 countries Allocation	Rest of the Emerging Markets Allocation
	
Source: Principal Global Investors	*Source: Principal Global Investors*

The fund is suitable for investors who would like to diversify investments into other markets /securities by taking advantage of the potential growth in the global markets and thereby reduce the risk of having a portfolio predominantly invested in India.

Over the years, improved corporate governance in these economies has led to greater transparency and enhanced shareholder value. Also, the geopolitical stability combined with the improved fiscal and monetary policies make emerging markets an attractive destination in the long run.

Emerging market equities provide exposure to a broad opportunity set, including both emerging global leaders and a wide range of companies tied to local companies. Although emerging markets can be volatile in isolation, as was seen in the last quarter, they may also provide opportunities for enhanced returns and reduced portfolio volatility.

Risk Factors

1. Though long-term growth story of emerging markets is still perceived to be intact, the immediate short term risks which are posed by expected slowdown in US growth, the liquidity tightening world-over could affect the fund's performance negatively in the near term.

2. The investment option is subject to ***additional risks due to fluctuating exchange rates***, foreign accounting and financial policies, and regional economic and political environments.

3. Market volatility and time horizon Investments in equity markets are synonymous with high volatility. Investors should therefore be cognizant of the risks associated with investing in equity markets and have a time horizon of at least two to three years to earn reasonable returns.

4. The fund as per the Income Tax regulations will be treated as a Debt Fund. As per the Act, a fund to be classified as Equity fund needs to be invested atleast 65% in Indian equities at all points of time. Since the stated fund

invests its entire corpus in overseas securities it is treated as normal Debt Mutual Fund. The Fund therefore attracts a higher tax on STCG (33.99%, as per the slab) and a LTCG of 10% (or 20% with indexation). The dividends of the funds are taxed at 14.025% as opposed to nil tax for equity funds.

Conclusion:
We believe, the fund despite have a drawback of being treated as a debt fund would be a rational investment for achieving global diversification. The fund provides an opportunity to reduce exposure to Indian stock and take exposure to internationally competitive companies. Moreover, considering the lack of information available for the stock in emerging markets, the fund with specialized team with expertise in these markets becomes an obvious choice of investment. In the current economic atmosphere of high uncertainty on the interest rate front following regulatory actions and other domestic concerns, channeling the investment resources to cash or other countries would help minimize the overall portfolio risk. Investments can be considered in this fund with an ideal horizon of one year.

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