

**Important Notes:**

1. Principal Hong Kong Bond Fund invests primarily in debt securities whose value is driven significantly by changes in interest rates, the Fund is subject to interest rate risk. When interest rates rise, the value of previously issued debt securities will normally fall because new debt securities issued will pay a higher rate of interest. In contrast, if interest rates fall, then the value of the previously issued debt securities will normally rise.
2. If the issuer of any of the fixed interest securities/debt securities in which the Fund's assets are invested defaults, such securities may become worthless and the performance of the Fund will be adversely affected.
3. There is a risk of downgrading of securities i.e. securities rating getting downgraded by rating agencies which may cause the value of the securities to drop significantly. It thereby can adversely affect the performance of the Fund.
4. There may be times when the liquidity in the markets may dry up, making it difficult for the portfolio managers to transact in held securities or value them using traded market prices.
5. Investment involves risk. There is no assurance on investment returns and your investments may suffer significant loss.
6. The investment decision is yours but you should not invest in this Fund unless the intermediary who sells it to you has advised you that it is suitable for you and explained how it is consistent with your investment objectives.
7. You should not invest solely in reliance on this marketing material alone. You should read the Explanatory Memorandum of Principal Life Style Fund for further details (including investment policy, risk factors, fees and charges, and fund information).

**Fund Objective**

Principal Life Style Fund – Principal Hong Kong Bond Fund aims to provide a return consisting of income and capital growth over medium to long term. The Fund will seek to achieve its investment objective by primarily investing at least 70% of its assets in Hong Kong debt securities (rated or unrated<sup>\*</sup>), including (but not limited to) sovereign and/or non-sovereign, floating and/or fixed, of varying maturities issued by the government or by multi-lateral agencies or by companies, and denominated in Hong Kong dollars. The types of debt securities that the Principal Hong Kong Bond Fund primarily intends to invest into are government bonds, corporate bonds/debentures, floating rate notes, bills, commercial papers and certificates of deposit. In addition, the Fund will invest not more than 30% of its assets in other short-term investments such as bills and deposits or may hold cash. The risk profile of the Principal Hong Kong Bond Fund is generally regarded as moderate.

<sup>\*</sup> Investment in unrated debt securities is only limited to those issued by the "exempt authority" within the definition of Section 7 of Schedule 1 to the MPF Regulation.

**Fund Commentary****Market Review**

The monetary base ticked up to HK\$1,084bn from HK\$1,073bn while the aggregate balance edged up to HK\$148.7bn at the end of March 2012. Headline liquidity conditions (as expressed by HIBORs) remained easy. Banks reduced their effective deposit rates during the quarter, reflecting easiness in money conditions, which nudged Hong Kong's Composite Interest rate (rates on short term deposits paid by Hong Kong banks) lower to 0.45% from 0.53% at the start of the quarter. Five-year yield went down 41ps to 0.55% while ten-year yield softened 23bps to 1.24%.

**Fund Performance**

The fund performed in line with the index during the first quarter. During the quarter both security selection and asset allocation were positive for performance, but that was offset by an underperformance coming from our duration and curve positioning. Within our sector allocation we had positive driven by our allocation to corporate credit. Security selection was a net positive for the quarter as well. Overall duration and curve positioning was a negative as the fund was positioned short duration as rates declined over the quarter. Curve positioning was also a negative as we were underweight the long end of the curve.

**Portfolio Strategy & Outlook**

Our sector positioning is based on slow to moderate growth in the major Organization for Economic Co-operation and Development (OECD) economies. Currently we are short duration as rates have significantly dropped. We continue to see data in the US show signs of recovery. As this continues, it becomes more likely that the global economy will be able to decouple from Europe. As we continue to add spread, we will do so primarily through the new issue market. With the level spreads have widened, certain sectors are presenting opportunities to add attractive yield for the given risk.

**TOP TEN HOLDINGS**

Bond	%
HONG KONG GOVERNMENT BOND-0.59% 20/05/2013	6.16%
HONG KONG GOVERNMENT BOND-0.79% 19/09/2016	5.64%
HONG KONG GOVERNMENT BOND-2.31% 21/06/2021	4.88%
HONG KONG MORTGAGE CORP-4.525% 02/09/2020	3.16%
HONG KONG MORTGAGE CORP-2% 11/01/2016	3.07%
HONG KONG GOVERNMENT BOND-1.69% 29/09/2014	2.88%
DBS BANK (HK) LTD-2.55% 30/06/2016	2.83%
HONG KONG GOVERNMENT BOND-2.46% 23/06/2014	2.34%
HONG KONG GOVERNMENT BOND PROGRAMME-0.97% 08/12/2016	2.25%
HANG SENG BANK LTD-FLOAT 02/08/2012	2.23%

<sup>\*</sup> Investors should be aware that the exposure of the Fund can change significantly on a daily basis.

This flyer is to be read in conjunction with the Explanatory Memorandum. Future performance and the capital value of the Fund are not guaranteed. Past performance figures are not indicative of future performance. The value of units may rise as well as fall. Investors are reminded that in certain circumstances their right to redeem may be suspended. Full details of the risks of investing in the Fund are contained in the Explanatory Memorandum. We recommend investors obtain and read a copy of the Explanatory Memorandum before investing. This material has not been reviewed by the Securities and Futures Commission.  
Issuer: Principal Asset Management Company (Asia) Limited

**QUICK FUND FACTS**

Fund Manager	Principal Asset Management Company (Asia) Limited
Launch Date	13 October 2011
Fund Domicile	Hong Kong
Base Currency	Hong Kong Dollar
Fund Size (million)	HK\$896.8
Risk Profile	Moderate

**MINIMUM SUBSCRIPTION****Retail Class**

- Initial Subscription (inclusive of initial charges) HK\$10,000 / class
- Each Subsequent Subscription (inclusive of initial charges) HK\$ 5,000 / class
- Regular Savings Plan HK\$ 2,000 per month / class

**Investment Class**

Please contact us for more information.

**FEE STRUCTURE****Retail Class**

- Initial Charge Up to 5%
- Management Fee 0.5% p.a.
- Trustee Fee 0.2% p.a.
- Switching Fee 4 free switches / year<sup>#</sup>
- Valuation Fee Up to HK\$1,000 / month

For other charges and expenses, please refer to the Explanatory Memorandum.

**Investment Class**

Please contact us for more information.

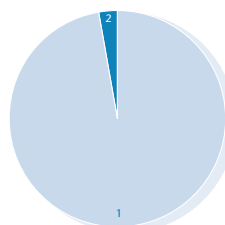
<sup>#</sup> Switching fee of up to 1% of the issue price of the new class of units to be issued may be levied for subsequent switches.

**Cumulative Return(%)<sup>1</sup>**

<sup>1</sup> The performance figures will only be available after 6 months from the launch of the fund.

**Calendar Year Return(%)<sup>1</sup>**

<sup>1</sup> The performance figures will only be available after 6 months from the launch of the fund.

**Asset Allocation**

1 Hong Kong Dollar Bonds	97.3%
2 Cash	2.7%