

ADDENDUM DATED JUNE 18, 2007 TO THE OFFER DOCUMENT OF KOTAK CASH PLUS

The following changes have been effected in the Offer Document of the Scheme with effect from June 18, 2007:

I. Name and Type of the Scheme:

- a) In the Offer Document of Scheme wherever the name of the scheme appears as “**Kotak Cash Plus**” shall stand replaced as “**Kotak Equity Arbitrage Fund**”.
- b) In the Offer Document of Scheme wherever the type of the scheme is explained as “**An Open ended Income Oriented Scheme**” shall stand replaced as “**An open – ended equity growth scheme**”

II. Investment Objective:

a) CHAPTER – I HIGHLIGHTS, RISK FACTORS AND DUE DILIGENCE (PAGE 2)

In the table ‘Highlights’ the feature, “Investment Objective” shall stand replaced as:

The investment objective of the scheme is to generate capital appreciation and income by predominantly investing in arbitrage opportunities in the cash and derivatives segment of the equity market, and by investing the balance in debt and money market instruments.

However there is no assurance that the investment objective of the scheme will be realized.

b) CHAPTER – IV INVESTMENT OF THE FUND (Page 25)

In Part ‘A’, Point no. 3, shall stand replaced as:

3. Investment Objective

The investment objective of the scheme is to generate capital appreciation and income by predominantly investing in arbitrage opportunities in the cash and derivatives segment of the equity market, and by investing the balance in debt and money market instruments.

The Scheme’s performance will be measured against the benchmark CRISIL Liquid Fund Index

However there is no assurance that the investment objective of the scheme will be realized.

- **Portfolio Turnover:**
- Turnover for the scheme is a function of the following parameters:
 - Purchase and repurchase of units
 - Availability of profitable arbitrage opportunities
 - Availability of profitable reverse arbitrage opportunity
 - Availability of roll over of the profitable arbitrage opportunity
- Since the extent of purchase and repurchase transactions and the above mentioned arbitrage opportunities is difficult to predict, there is no specific target with respect to the turnover of the scheme.
- Portfolio turnover will exclude:
 - The turnover caused on account of investing the initial corpus;
 - The turnover caused on account of investing in debt and money market securities; and
 - The turnover caused on account of fresh purchases and redemptions by Unitholders.

The turnover caused on account of futures transactions, which are backed by delivery based transactions

Turnover means simple average of the aggregate of purchases and sales net of the above exclusions. These purchases and sales invite transaction costs viz. brokerage and custodian transaction charges."

III. Investment Strategy

CHAPTER – IV INVESTMENT OF THE FUND (Page 25)

In Part 'A', Point no. 4, shall stand replaced as:

4. Investment Strategy

The scheme will endeavor to invest predominantly in arbitrage opportunities between spot and futures prices of exchange traded equities and the arbitrage opportunities available within the derivative segment. If suitable arbitrage opportunities are not available in the opinion of the Fund Manager, the scheme may predominantly invest in debt and money market securities.

The fund manager will evaluate the difference between price of a stock in the futures market and in the spot market. If the price of a stock in the futures market is higher than in the spot market, after adjusting for cost and taxes, the scheme may buy the stock in the spot market and sell the same stock in equal quantity in the futures market simultaneously.

For example, on 31-12-2006, the scheme buys 10,000 shares of HLL on spot @ Rs.144.80/- and at the same time sells 10,000 HLL futures for January 2007 expiry @ Rs.146.35. The scheme thus enters into a fully hedged transaction by selling the equity position in the futures market for expiry on 27-01-2007. If the scheme holds this position till expiry of the futures, the scheme earns an annualised net return (after adjusting brokerage, service tax and STT) of 8.46%, irrespective of what is the price of HLL on the date of expiry. On the date of expiry, if the price differential between the spot and futures position of the subsequent month maturity still persists, the scheme may rollover* the futures position and hold onto the position in the spot market. In case such an opportunity is not available, the scheme would liquidate the spot position and settle the futures position simultaneously.

* Rolling over of the futures transaction means,

- Unwinding the short position in the futures and simultaneously buying futures of the subsequent month maturity, and
- Holding onto the spot position.

There could also be instances of unwinding both the spot and the future position before the expiry of the current-month future to increase the base return or to meet redemption. Return enhancement through the use of arbitrage opportunity would depend primarily on the availability of such opportunities.

IV. Investment Pattern.

CHAPTER – IV INVESTMENT OF THE FUND (Page 26)

In Part 'A', Point no. 5 shall stand replaced as:

5. The Risk Profile and Investment Pattern.

The asset allocation under normal circumstances will be as follows:

Investments	Indicative Allocation	Risk Profile
Equity and equity related instruments including derivatives	65%-90%	Low to medium
Debt and money market instruments including margin money deployed in derivatives transactions **	10%-35%	Low

Note: (i) ** Debt securities / instruments are deemed to include securitized debt and investment in securitized debt will not exceed 50% of the debt portion of the scheme.

(ii) The asset allocation as given under normal circumstances is indicative and may vary according to circumstances at the sole discretion of the Fund Manager. Review and rebalancing will be conducted when the asset allocation falls outside the range indicated above, within a reasonable period of time.

The asset allocation under defensive circumstances will be as follows:

Investments	Indicative Allocation	Risk Profile
Equity and equity related instruments including derivatives	0%-65%	Low to medium
Debt and money market instruments including margin money deployed in derivatives transactions **	35%-100%	Low

Note: (i) ** Debt securities / instruments are deemed to include securitized debt and investment in securitized debt will not exceed 50% of the debt portion of the scheme

(ii) Defensive circumstances are when the arbitrage opportunities in the market place are negligible or returns are lower than alternative investment opportunities as per allocation pattern. The allocation under defensive considerations will be made keeping in view the interest of the unitholders.

V. TAX IMPLICATION

CHAPTER – VII UNITHOLDERS' RIGHTS AND SERVICES (Page 53)

Part 'I', shall stand replaced as:

The information set out below outlines the tax implications with respect to the Unit holders of the Scheme and with respect to the Mutual Fund and is based on relevant provisions of the Indian Income Tax Act, 1961 and Wealth Tax Act, 1957 (collectively known as "the relevant provisions"), and prevailing as on May 11, 2007.

Further, for this purpose the proposals of the Finance Bill, 2007 (Budget 2007) are also considered as the same has been presented in the Parliament and will become law after it is approved by both the Houses of Parliament and receive the assent from the President of India. Since the information below is based on the relevant provisions as on May 11, 2007 any subsequent changes in the relevant provisions could affect tax implications.

Price Waterhouse does not make any representation on the procedures for ascertaining the tax implications nor do they make any representations regarding any legal interpretations. Further, except for the above procedure, Price Waterhouse has not performed any other services in connection with any other data or information included in the Offer Document.

THE FOLLOWING INFORMATION IS PROVIDED FOR GENERAL INFORMATION PURPOSES ONLY. IN VIEW OF THE INDIVIDUAL NATURE OF TAX IMPLICATIONS, EACH INVESTOR IS ADVISED TO CONSULT HIS OR HER OWN TAX ADVISER WITH RESPECT TO THE SPECIFIC TAX IMPLICATIONS ARISING OUT OF HIS OR HER PARTICIPATION IN THE SCHEME.

A. For the Unitholders

1. Income from Mutual Fund received by Unit holders would be tax free in the hands of the Unit holders as per the provisions of section 10(35) of the Income Tax Act, 1961 (the Act).
2. The characterization of gains/ losses arising from sale/ transfer of units as capital gains or business income would depend on the classification of the said units by the unit holder. It would depend on whether the unit holder has classified such units as capital assets or as stock in trade.
3. Under Section 2(29A) of the Act read with section 2(42A) of the Act, a unit of a Mutual Fund is treated as a long term capital asset if the same is held for more than 12 months. If the unit is held for 12 months or less the same is treated as a short term capital asset.
4. As per section 10(38) of the Act, long term capital gain arising from the sale of a unit of an equity oriented fund is exempt from tax. However, at the time of sale of units (redemption) the unitholder will have to pay a Securities Transaction Tax (STT) of 0.25% of the sale / redemption value. However, the income by way of long term capital gains of a company would be taken into account in computing the book profits and Minimum Alternate Tax payable, if any, u/s 115JB of the Act.

For this purpose an equity oriented fund is a fund where the investible funds are invested in equity shares of domestic companies to the extent of more than 65% of the total proceeds of such fund.

5. As per section 111A of the Act, short term capital gain arising from the sale of a unit of an equity oriented fund is taxable at the rate of 10%. However, at the time of sale of units (redemption) the unitholder will have to pay STT of 0.25% of the sale / redemption value.

In addition to the aforesaid tax, in the case of an individual, HUF or Association of Persons (AOP), where the income exceeds Rs. 1,000,000 a surcharge of 10%, in the case of domestic companies a surcharge of 10%, in case of foreign companies a surcharge of 2.5% and in case of an artificial juridical person a surcharge of 10%, of such tax liability is also payable. A 2% education cess on total income tax (including surcharge) is payable by all categories of taxpayers.

6. The capital loss resulting from sale of units would be available for setting off against other capital gains made by the investor and would reduce the tax liability of the investor to that extent. However, losses on transfer of long term capital assets would be allowed to be set-off only against gains from transfer of long-term capital assets and the balance long-term capital loss shall be carried forward separately for a period of eight assessment years to be set off only against long-term capital gains. Further, as the long-term capital gains on sale of units of equity oriented fund are exempt from tax the losses from such units may not be allowed to be set off against other gains.
7. Where the units are treated as stock in trade and the profits arising from the sale of units are taxed under the head "Profits & Gains of business or profession", the STT paid by the unit holder would not be allowed as deduction in computing the total income u/s 40(a)(ib) of the Act. However, in such a case, an amount equal to the STT paid by the unitholder can be claimed as a rebate from the tax payable on the income from such sale of units by virtue of the provisions of section 88E of the Act. Similarly, no deduction would be allowed for STT while calculating capital gains.
8. Where a person buys any units within a period of three months before the record date and sells such units within nine months after such date, the dividend income on such units being exempt from tax, then the capital loss, if any, on such sale to the extent of dividend income cannot be set off against other gains.
9. Where a person buys units (original units) within a period of three months before the record date, receives bonus units on such original units, and then sells all or any of the original units within a period of nine months from the record date and continues to hold the bonus units, then the loss incurred on the original units shall not be allowed to be set off against other gains but shall be deemed to be the cost of acquisition of the bonus units.
10. However, in cases, which are not covered by clause 9 above, the cost of acquisition of bonus units for the investors would be NIL, as provided by section 55(2) of the Act.
11. No deduction of tax at source shall be made from income credited or paid by a mutual fund to a Unitholder.
12. As per circular no. 715 dated August 8, 1995 issued by the CBDT in case of resident Unitholders, no tax is required to be deducted at source from capital gains arising at the time of repurchase or redemption of the units.

Under Section 195 of the Act, the Mutual Fund is not required to deduct tax at source on long-term capital gains arising from units of equity oriented fund in the case of non-resident Unit holder. In respect of short term capital gain, the Mutual Fund is required to deduct tax at source at the rate of 10% if the payee Unit holder is a non resident non-corporate or a foreign company.

In addition to the aforesaid tax, in the case of an individual, HUF or Association of Persons (AOP), where the income exceeds Rs. 1,000,000 a surcharge of 10%, in the case of domestic companies a surcharge of 10%, in case of foreign companies a surcharge of 2.5% and in case of an artificial juridical person a surcharge of 10% of such tax liability is also payable. A 2% education cess on total income tax (including surcharge) is payable by all categories of taxpayers.

13. As per circular no. 728 dated October 30, 1995 issued by the CBDT, in the case of a remittance to a country with which a Double Tax 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 the DTAA, whichever is more beneficial to the assessee. In order for the Unitholder to obtain the benefit of a lower rate available under a DTAA, the Unitholder will be required to provide the Mutual Fund with a certificate obtained from his Assessing Officer stating his eligibility for the lower rate.
14. Mutual Fund units are exempt from wealth tax.

B. For the Mutual Fund

1. Kotak Mahindra Mutual Fund is a Mutual Fund registered with the Securities and Exchange Board of India and its entire income is exempt from tax under section 10(23D) of the Act.
2. Dividend Distribution tax is not payable on distribution of income by an equity oriented fund.

This addendum is an integral part of the Offer Document.

**SANDESH KIRKIRE
CHIEF EXECUTIVE OFFICER**
