

## **ADDENDUM DATED JULY 30, 2004: KOTAK LIQUID SWEEP PLAN.**

Kotak Mahindra Liquid Scheme ('Kotak Liquid') is an open-ended Debt Scheme, which has three types of Plans viz. Regular Plan, Institutional Plan and Institutional Premium Plan. A new Plan, i.e. Sweep Plan (the Plan) is now added to the Scheme.

This plan is intended exclusively for eligible account holders (the Unitholders) of Designated Bank(s) ("the Bank") by sweeping their idle funds in their Bank accounts for investment into the Kotak Liquid Scheme. The Unitholders shall be required to open accounts with the Bank and authorize it under a Power of Attorney/Mandate duly executed to invest in the Plan on their behalf.

It is proposed to declare dividends daily, subject to availability of distributable surplus in the Plan. All provisions as applicable to the Daily Dividend Re-investment Option of the Kotak Liquid Institutional Premium Plan will be applicable to the dividends declared under this Plan.

The asset portfolio of the Sweep Plan and all other plans of Kotak Liquid Scheme i.e. Regular Plan, Institutional Plan and Institutional Premium Plan will be unsegregated. The NAV of the Plan will be distinct from those of other Plans.

The following are the key features of the Plan:

### **Minimum Subscription Amount:**

Since the Plan is being added to an existing Portfolio of Kotak Liquid, the Fund does not target any minimum amount to be collected under this plan.

### **Designated Bank:**

For the purpose of this Plan, the AMC will enter into an agreement with one or more banks and designate them to enable their eligible account holders to invest in this plan.

During Initial Purchase Offer and till further notice, Kotak Mahindra Bank Ltd is the Designated Bank for the Plan. Further details about investing in this plan will be available on toll-free Call Center number: 1600 226022 or at the branches of Kotak Mahindra Bank Ltd. mentioned at the end of this Addendum.

### **Who can invest?**

Any person who can invest in the Regular Plan of Kotak Liquid Scheme (please see section "Purchase of Units - Who can invest" on pages 51 and 52 of the Combined Offer Document) and is also an Eligible Account Holder of the Bank.

**Eligible Account Holder** is an Account Holder of the Bank who enters into an agreement with the Bank to invest in the Plan any surpluses beyond a defined threshold / minimum balance. For this purpose, the Account holder would need to authorize the Bank to transact in the Plan on his behalf and do such other acts as are mutually agreed.

It is clarified that, based on the mandate given by the investors, the Bank will represent them for transacting with the Fund and investors will not directly be allowed to transact in the Plan.

### **Who is this Plan suitable for?**

This Plan is suitable for such Account Holders of the Bank, who have idle funds in their Bank Accounts and are looking for reasonable returns and a high level of liquidity.

### **Initial Offer Period:**

The Initial Offer Period for the Plan will be on August 02, 2004 from the commencement of banking hours of Kotak Mahindra Bank Ltd at all their branches to the close of banking hours on the same date. A list of the branches is given at the end of this addendum.

The amount invested during the Initial Offer Period cannot be redeemed till the Plan opens for ongoing sale and repurchase.

**Banker**

The Banker to the Initial Offer will be Kotak Mahindra Bank Ltd (SEBI Registration no: INBI00000927). Applications for the Initial Offer will be accepted at all branches of Kotak Mahindra Bank Ltd.

**Initial Issue Expenses:**

Entire Initial Issue Expenses will be borne by the AMC. As such, for every Rs. 100 contributed by the investor, the entire Rs. 100 will be available to the Plan for investment.

**Continuous Offer:**

Commencing not later than 30 days after the closure of the Initial Offer, the Plan will become open-ended. Thereafter, the Bank may purchase or redeem Units of the Plan on behalf of its Account Holder at the Applicable NAV.

**Allotment and Account Statements:**

Full allotment will be made for all valid applications received during the Initial Offer Period. The Trustee reserves the right, at their discretion without assigning any reason therefore, to reject any application. Allotment will be completed within 30 days after the closure of the Initial Offer. An Account Statement, stating the number of Units allotted, will be sent to Unitholder within 30 days from the date of closure of the Initial Offer Period of the Plan.

**How to Purchase:**

The Bank will issue a purchase request to the Fund on behalf of the Unitholder if, after considering the threshold as agreed with the Bank, there is a surplus in such Bank Account of the Unitholder. The purchase request will be for the amount of such surplus. No application for purchase will be accepted by the Fund directly from the Investor.

**Mode of Payment:** Payments on behalf of the investors will be made by the Bank by way of crediting the Fund's account and debiting the investor's bank account. No other mode of payment (such as by way of cheque/draft/money transfer, etc directly to the Fund) will be available to the investor.

**How to Redeem:**

The Bank will issue a redemption request to the Fund on behalf of the Unitholder if, after honouring all his payment instructions through his bank account and after considering the minimum balance requirements as agreed with the Bank, there is a deficit in such Bank Account of the Unitholder. The redemption request will be for the amount of such deficit, or the value of the Units held, whichever is lower.

**Payment of Proceeds**

The redemption will be by way of direct credit to the bank account of the Unit holder with the Bank. No separate redemption warrants will be issued. The amount will generally be credited on the day of the Redemption request by the Bank, but in any case not later than 10 working days from the date of redemption.

The AMC will not entertain any direct purchase or redemption request from any Unitholder.

**Applicable NAV:****Purchase:**

In respect of Valid Applications accepted by the Fund, closing NAV of the day immediately previous to the day on which funds are available for utilisation by the Plan. However, in respect of any application received from the Bank after 1 p.m. and the funds are available for utilisation by the Plan on the same day, closing NAV of the day immediately previous to the next Working Day.

**Redemption:**

For Valid Applications accepted by Fund:

- upto 10:00 a.m., previous day's closing NAV
- after 10:00 a.m., closing NAV of the day immediately previous to the next Working Day.

In the context of the Sweep Plan, valid applications would be the purchase or redemption request, duly signed by the Designated Bank on behalf of the investor accepted by the AMC office.

**Minimum Purchase, Redemption and Balance Amounts:**

Purchase:	
<u>For Opening Unit Account</u>	
During Initial Offer.....	Rs. 5,000.
During Continuous Offer.....	Rs. 5,000.
<u>For Existing Unit holders</u> ..... No Minimum amount	
Redemption .....	No Minimum amount

**Facilities not available:**

The following facilities available to investors of other Schemes/Plans of the Fund will not be available to the Unitholders in this Plan:

- Switching out from the Plan to other Schemes/Plans/Options
- Switching into the Plan from other Schemes/Plans/Options
- Recurring Investment Facility (RIF)
- Recurring Withdrawal Facility (RWF)
- Recurring Transfer Facility (RTF)
- Internet and Telephone transacting

**Joint Applicants and Nomination:**

The Joint Applicants and Nominations will be the same as those provided by the Unitholder for the Bank Account.

**Load Structure:**

No Entry Load will be charged on purchases or subscription of Units in the Plan and no Exit Load, on redemptions.

The Trustee may, however, at their discretion introduce entry/exit load or modify the load structure in future. Any change in load or CDSC on investments by Unit holders will be applicable on a prospective basis.

**Recurring Expenses:**

The estimate of the ongoing fees and expenses of operating the Plan on an annual basis, expressed as a percentage of the amount of the Plan's daily average net assets is given in the table below. The purpose of the table is to assist the unitholder in understanding the various heads of costs and expenses that an unitholder in the Plan will bear directly or indirectly.

Description	(% per annum of daily average net assets)
Investment Management and Advisory Services Fees payable to AMC	0.75

Trustee Fees	0.05
Custodian Fees	0.04
Marketing and Selling Expense (incl. Agents commission)	0.15
Registrar and Transfer Agent Fees	0.06
Transaction costs	0.01
Audit Fees	0.05
Costs related to investor communications	0.01
Cost of Funds transfer	0.01
Cost of providing a/c statements, dividends etc.	0.01
Cost of statutory advertisements	0.01
Other expenses	0.05
Service Tax	0.05
<b>TOTAL ANNUAL RECURRING EXPENSES (ESTIMATED)</b>	<b>1.25%</b>

These estimates are made in good faith by the Investment Manager and are subject to change, both inter se and as an increase or decrease in the estimated total annual recurring expenses. Though the Investment Manager will make efforts to keep the recurring expenses to the minimum, actual expenses under any head and / or the total expenses may be more or less than the estimates. The Investment Manager retains the right to charge the actual expenses to the Fund, however the expenses charged will not exceed the statutory limit prescribed by the Regulations.

The above estimates are based on an amount of Rs. 10 crores for the Plan and will change to the extent assets are lower or higher.

**Additional Risk Factor Specific to the Plan:**

As the folio of the Unit holder under the Plan has to be necessarily operated through the Bank, the Unit holder may not be able at times to transact due to inability of the Bank to process/facilitate such transaction at the request of the Account Holder.

**Fundamental Attributes:**

The Fundamental attributes and the terms of changes therein will be as mentioned in the Combined Offer Document under the paragraph "Fundamental Attributes and Changes Therein".

**Other Terms:**

Except as otherwise stated above, all other terms and conditions of this Plan, including Investment Objective, risk factors (Common and Scheme specific), valuation norms, accounting policies, NAV computation, fractional units, purchase price, Redemption of Units, etc. will be as applicable to Kotak Liquid. These terms and conditions may be amended from time to time subject to extant Regulations or within the discretionary powers of the Trustee relating to various matters and till such amendment, remain as applicable to Kotak Liquid. Any amendment in the terms and conditions of any other Plan under Kotak Liquid will not result in an equivalent amendment in this Plan, unless otherwise specified. This addendum is an integral part of the Combined Offer Document.

**AJAY BAGGA**  
**CHIEF EXECUTIVE OFFICER**

Branches of Kotak Mahindra Bank Limited

<p>Kotak Mahindra Bank Ltd. 5 C/ II, Mittal Court 224, Nariman Point Mumbai 400 021</p>	<p>Ground Floor, Ambadeep, 14, Kasturba Gandhi Road, New Delhi -1</p>	<p>Kotak Mahindra Bank Ltd. 213-214, Sakar II Ellisbridge Corner Ashram Road Ahmedabad 380 006</p>
<p>Kotak Mahindra Bank Ltd. Ground Floor, Centre Point, Andheri Kurla Rd, J B Nagar, Mumbai 400 059.</p>	<p>G-17, Sector 18, Noida, Gautam Budh Nagar, Uttar Pradesh - 201 301</p>	<p>Panorama Building R.C. Dutt Road, Alkapuri, Vadodara - 390 005</p>
<p>Kotak Mahindra Bank Ltd. Sainara Building Linking Road, Santacruz (W) Mumbai - 400054</p>	<p>JMD Regent Square, Mehrauli Gurgaon Road, Opposite Bristol Hotel, Gurgaon, Haryana - 122 002</p>	

## Concept Note for Kotak Liquid Sweep Plan

### Background

Kotak Bank has approached the AMC for a sweep arrangement whereby credit balances at end-of-day (i.e. excess moneys over predefined thresholds) from their CASA (Current Accounts Savings Accounts) will be swept on an automated basis to a KMMF collection account for investment in Kotak Liquid Scheme. These units (updated with their latest value) will be available to the Account holders as OD Limits. Any debit balances at the end-of-day within OD Limits are treated as redemptions of Kotak Liquid units and are reverse swept from KMMF redemption account maintained with the bank into respective CASA.

A separate plan in Kotak Liquid viz. Sweep Plan is proposed which will be operated with following conditions:

- Available only for all CASA holders who sign up for this product with Kotak Bank
- Operation of their investments / disinvestments will be only through sweeps/reverse sweeps from their CASAs held with Kotak Bank
- All transactions for the investor will be by Kotak Bank under PoA from CASA Holder
- Facilities such as Switch-in/Switch-out/RIF/RWF/RTF, etc. are not available.

This Plan will share the portfolio of Kotak Liquid Scheme with other plans i.e. Regular Plan, Institutional Plan and Institutional Premium Plan.

### Comparison with other Plans in Kotak Liquid

A comparison is given to highlight differences from the Kotak Regular Plan:

	Timing for Kotak Liquid Sweep Plan		Timing for Kotak Liquid Regular Plan	
<b>Purchase Activity</b>				
Investor deposits cheque (HV) in his Bank Account	T-1	10.30 am		
Cheque is cleared in his Bank Account	T-1	4.30 pm		
Clear balance available at EOD	T-1	11.00 pm		
Excess over threshold swept into KMMF Collection A/c	T-1	11.00 pm		
Investment amount withdrawn by KMMF and invested	T	10.00 am	T	10.00 am
Applicable NAV	T		T-1	
Interest accrued on Investment determined, added to net assets	T	6.30 pm	T	6.30 pm
NAV Computation	T	7.30 pm	T	7.30 pm
<b>Redemption Activity</b>				
Investor's cheque (HV) hits his Bank Account	T	1.30 pm		
Information of HV cheques hitting (1 <sup>st</sup> Redemption estimate)	T	1.45 pm		
KMMF will fund from RBI to Kotak Bank if redemptions are higher than existing funding available with Kotak Bank	T	2.00 pm		
Information of MICR/ATM/Internet debits, net of HV/MICR deposits (2 <sup>nd</sup> Redemption estimate)	T	6.00 pm		
Information of credits in CASA (Purchase estimate for next day)	T	6.00 pm		
Based on final estimates of both redemptions/purchases, FD with Kotak Bank is broken to fund KMMF Redemption Account	T	6.30 pm		
Utilisation of OD Limits, determination of Redemption amount	T	11.00 pm		
Reverse Sweep from KMMF Redemption Account to CASA	T	11.00 pm	T	10.00 am
Applicable NAV	T		T-1	
Interest accrued on Investment determined, (after Net Assets reduced by Broken FD)	T	6.30 pm	T	6.30 pm
NAV Computation	T	7.30 pm	T	7.30 pm

The notable difference between the Sweep Plan and Regular Plan is that in the former, the Applicable NAV for both purchase and redemption is of the same date as the Cash-flow date in Investor's CASA and in the case of the latter, there is a Cash-flow date trails the Applicable NAV date by 1 day. However, in both cases, the no. of days that the investor is out of money is equal to the no of days the Scheme is in the money is equal to the gap between the Applicable NAV days of Purchase to Redemption.

In Sweep Plan, the investor loses in on the day he enters, because, though his money is invested, he does not get the return on it. He makes up on the day he exits, by gaining the NAV return on the day of redemption. This is akin to a Friday situation in the Regular Plan, where the investor parts with the money, for Friday NAV.

While the Liquid scheme broadly works on this principle, the aberrations due to systemic inefficiencies, such as:

- MICR cheques which clear after 2 days, and hence not investible on T+1
- High Value cheques from Non-high-value territories which clear after 2 days, and hence not investible on T+1
- Moneys collected in remote locations or SBI clearing locations which cannot be transferred to Mumbai and hence not investible on T+1

- Floats lying idle at the Scheme level due to minimum balance requirements

These inefficiencies are borne by the entire body of investors in a uniform manner and are consistent with the spirit of a Mutual Fund.

Till the Fund size is less than 10% of the Kotak Liquid Scheme (all Plans) or 100 crores – whichever is lower – it is suggested to have this as a Separate Plan. On achieving this size, it can be reviewed whether a separate portfolio is desirable.

### Comparison with Term Deposit

Srl		Kotak Liquid Sweep Plan	Bank Sweep – Term Deposit	Kotak Liquid Regular Plan
1.	Investor deposits HV cheque in his Bank A/c	T	T	T
2.	Investor issues cheque to MF / Application	-	-	T
3.	Applicable NAV (Purchase) / Deposit commences	T+1	T+1	T-1
4.	Investor redeems to fund T+3 fund requirement			T+2
5.	Investor writes HV cheque to third party	T+3	T+3	T+3
6.	Investor's bank account debited by HV cheque	T+3	T+3	T+3
7.	Applicable NAV (Redemption) / Deposit is broken	T+3	T+3	T+2
8.	Total no. of days return (7 minus 3)	2	2	3

Thus, the Kotak Liquid Sweep Plan is on par with the Sweep Term Deposit product, but is less attractive by 1 day's return compared to other plans of Kotak Liquid. Hence, it is not expected that a High Value investor would invest through the Kotak Liquid Sweep Plan. Hence, this product will work only for lower balance idle floats in CASA.

### Products in the Market

Other comparable products in the Market are :

Fund House / Bank	Scheme	Corpus	Cost as per OD
Franklin Templeton / American Express	Templeton India Liquid Plus	Rs 370 cr	2.25%
Prudential ICICI / ICICI Bank	Prudential ICICI Sweep Plan	Rs 42 cr	1.25%
Birla Sunlife / HSBC	Birla Sweep Plan	< Rs. 1 cr	N.A.

### Fund and Treasury Management

The Fund Management for all purchases will be akin to other plans of Kotak Liquid. The Cash-flows are available in the morning for investment for Unitholders entering on that day. However, since redemptions are crystallised only at End-of-day (say 11 pm), advance information on likely outflows from the Bank at 1.30 pm and 6 pm will help to break FDs with Kotak Bank to fund the Redemption account. Any debits after 6 pm (possible through ATM / Internet transfers) have to be covered by a balance of say 10 lacs in the Redemption account. If this balance is insufficient, the overdraft will be transferred to KMAMC's current account. Any OD interest in such case will be borne by KMAMC and not the Fund.

### Data Interchange for Registrar activity

At End-of-Day process in the Bank (expected at 11 pm), a file will be generated for all Purchases and Redemptions for that day. This file will be sent through Secure E-mail to CAMS and KMAMC in the night. On the next morning (say 10 am), CAMS will run the Posting Control for all these transactions and allot / redeem units at the earlier day's NAV.

### Data Interchange for Bank's requirements

After Posting Control is run by CAMS, they will send two files to the Bank.

- All Purchase / Redemption transactions (which had been submitted by the Bank as applications) with their full values of Units / Applicable NAV / Purchase or Redemption Price
- The entire list of Unitholders in the Plan with their latest holdings in units and their value in Rupees at the NAV declared for the earlier day. This will be used to update OD limits of Account Holders

### Cost Structure

As per market, it is planned to have the total cost to scheme of 1.25%