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CEO CORNER

Dear Friends,

The performance of the Indian equities market in CY 2011 remained dismal to say the least. The key benchmark indices, SENSEX and Nifty closed the year with a performance of -24.64% and -24.61% respectively.



During the period, the repo rate increased by 225 bps in 7 tranches, rising from 6.25% in Dec 10 to 8.50% by Dec 11. During the same period, the industrial activity, as represented by IIP number, declined from 11.33% in Oct-2010; to -5.10% in Oct-11. The resultant moderation in the GDP growth rate and the decline in the investor sentiment significantly weighed down the market performance. The net FII outflows in the equities market in 2011 stood at US\$ 357.8 mn. In contrast, the FII inflows in 2010 stood at US\$ 29.36 bn.

The debt market performance also remained a function of these developments. The 10 year G-sec rose by around 70 bps during the year and was trading at around 8.56% by the Dec-2011 end. The liquidity conditions too continued to remain in the negative, albeit it has eased partially during the last fortnight on account of OMO actions.

That much for the year behind. The good news is that the basic of the India growth story, i.e: strong demographics, entrepreneurial culture, growing urbanization and rule of law remain largely intact. Therefore, were the aforementioned systemic issues to be resolved in the earnest, the double-digit growth trajectory may again begin to emerge on the horizon.

The equities market valuations are approaching FY09 levels. During the same period, the economy has grown more than 20-25% in nominal terms, ever since. With the likely interest rate moderation on the horizon, the investment prospects would naturally begin to improve significantly. Moreover, the peaking of the interest rates provides mild prospects that downward rate reversion may be in the offing by end of Mar-2011. The sharp decline in the food-inflation presents a robust case for such a possibility.

Although, as a caveat, the unperturbed buoyancy in the international crude oil prices and concurrent 17% decline in the Rupee, has drastically increased the oil import bill and has significant inflationary possibilities for the general economy.

On the mutual funds side, the average AUM (Sept-Dec 11) in the industry stood at Rs 6, 81,707 cr, registering a yoy growth of 0.91%. During the same period, the average AUM with Kotak AMC grew at 7.88% and stood at Rs 29,739 cr as of Dec-11. We believe that the economic, turmoil that we have noticed in the last year may be largely behind us, and we may be approaching the bottom of the current economic downturn. While the previous year has provided a milepost to reminisce and meditate on; the year ahead asks from us that we aspire and plan new actions that test newer limits.

Wishing you all a very Happy New Year.

Regards

Sandesh Kirkire
CEO

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Expert Speak

Q & A with Lakshmi Iyer - Head Fixed Income and Products

Q) What is the near term outlook (3-6 months) for the fixed income market?

A: We are of the view that interest rates on the policy front have largely peaked out and the RBI would be on a pause mode before the easing process is embarked upon. This was also indicated in the policy review in 16th December 2011. Interest rate at the longer end, especially the sovereign segment is currently range bound, given the uncertainty on the G Sec supply front. Hence we do not anticipate a unilateral downward move on the benchmark 10yr G-Sec. It would at best trade in a range of 8.25% -8.75% before adequate clarity on supply and quantum of intended OMO buyback by RBI emerges. Sustained depreciation on the INR front coupled with rise in crude prices would remain a risk to our view, as RBI would want to delay the rate cuts to the extent possible.



Q) What kind of products can a distributor suggest to his clients in the current scenario? ?

A We expect the fixed income to offer opportunities across the yield spectrum. Short duration funds may be the prominent beneficiaries of the anticipated steepening in the yield curve (currently flat/inverted). The equity markets may move sideways before some stimulus (read rate cuts) could change sentiment. We are consequently focusing on Kotak Bond Short Term and

 CLASSROOM

Short term bond funds - Suitable vehicle to ride out volatility

Introduction: Take advantage of the present investment scenario by parking your funds prudently in short-term bond funds. Read on to know more about this mutual fund category.

Though inflation has relatively moderated towards the end of the calendar year, it continues to hover beyond RBI's comfort level. 2011 has seen more than 13 interest rate hikes. While the last review did not contain any rate hikes and gave birth to expectations that interest rates may be cut in the near future, RBI's stance continues to be relatively uncertain. Domestic and international economic pressures have also compelled investors to take caution while investing in equity markets. Under the prevailing investment climate, short-term bond funds have emerged as a suitable choice for investors.

What are short-term bond funds?

Before going into the details of short-term bond funds, let's first understand the concept of bond and bond funds. A bond is a debt instrument issued to raise capital. When you purchase a bond, you are lending money to the entity issuing the bond. In return for that money, the bond issuer pays you interest. Depending upon the terms of the bond, the issuer promises to pay a specified rate of interest during the life of the bond and to repay the face value of the bond (i.e. the principal lent) when it matures.

A bond fund is a mutual fund scheme which primarily invests in a variety of bond investments with varying tenures, interest rates as well as issuers. A short-term bond fund is a mutual fund category which invests in only short-term fixed income bonds wherein the maturity period is less than one year.

Instruments such as certificate of deposits, commercial paper and bonds fall within its purview. Further, it generally invests into bonds which enjoy a higher credit rating. (A higher credit rating signifies that the credit risk i.e. the risk of default in principal repayment or interest payment is low.)

Synergy with the present debt climate

There is a certain degree of uncertainty in the present debt climate. High inflationary figures combined with a lower IIP (Index of Industrial Production) continue to keep the economy and the equity market under pressure. Though there are indications that we may be in the last phase of the interest rate hikes, it cannot be said with certainty on how long will it take for interest rates to come down. In such a scenario, investing in short-term bonds ensures that your investments are not unduly impacted if there are a few more hikes before the rates move south-wards and become stable. In addition, the shorter maturity provides enough elbow-room to an investor to tweak his/her strategy as per the changing market conditions.

Investment risks

Short-term bond funds are not risk-free. They come with attendant investment risks such as:

- **Interest rate risk** :If interest rate moves up, the prices of bonds comes down, and, when rates come down, the prices of bonds go up. The reason for the inverse relationship is that when interest rates fall, new bonds of a similar tenure attract a lower interest rate, making the earlier bond which carries a higher interest rate more attractive.
- **Inflation risk** :The risk that the spiralling inflation could eat into your returns leading to a lower 'real return' (investment return less inflation) cannot be ignored.
- **Credit risk** :The risk that the issuer of the bond may not be able to pay the interest and/or the principal is termed as 'default risk' or 'credit risk'. While bonds issues by the government are risk-free, those issued by corporates do carry a credit risk.

Suitability

Short-term bond funds are suitable for medium and low risk-tolerant investors as the short-term nature allows it to insulate your investment portfolio from interest rate risk. However, as they provide stable returns and lend diversification to an investment portfolio, short-term bond funds should not be ignored by those who have a high risk appetite.

Way forward

The market outlook in the next few months is expected to remain volatile owing to domestic and international factors. It is likely that there will be pressure on the equity market and debt will continue to be the preference of investors looking for a relatively safer yet attractive parking place for their investments, once again signifying the suitability of short-term bond funds.

Kotak Bond Short Term and Kotak Credit Opportunities Fund belong in this short term and medium term to short term category respectively. In the present scenario, they can form part of an investment portfolio. Both the funds aim to invest in instruments of different maturities, interest rates and different kinds of issuers in the debt markets. Both the funds offer multiple investment options and are suitable for all types of investors with an investment horizon of 6 months and above.

Snapshot of offerings from Kotak Mutual Fund: -

	Kotak Bond Short Term	Kotak Credit Opportunities Fund
Investment Objective	The investment objective of the scheme is to generate income by investing in debt /and money market securities across the yield curve and credit spectrum. The scheme would also seek to maintain reasonable liquidity within the fund	The investment objective of the scheme is to generate income by investing in debt /and money market securities across the yield curve and credit spectrum. The scheme would also seek to maintain reasonable liquidity within the fund

Benchmark Index	CRISIL Short-Term Bond Fund Index	CRISIL Short Term Bond Index
Minimum Investment Amount	<p>For Growth and Monthly Dividend Re-investment Option: Rs. 5,000/- and in multiples of Re.1 for purchases and of Re. 0.01 for switches. For Monthly Dividend Payout Option: Rs. 50,000/- and above.</p> <p>Additional Purchase (Non SIP) - Rs. 1,000/- and in multiples of Re.1 for purchases and of Re. 0.01 for switches</p> <p>SIP Purchase: - Rs. 1,000/- (Subject to a minimum of 6 SIP instalments of Rs. 1,000/- each)</p>	<p>Initial: Rs. 5,000/- and in multiples of Rs 1 for purchases and for Re 0.01 for switches.</p> <p>Additional: Rs. 1,000/- and in multiples of Rs 1 for purchases and for Re 0.01 for switches.</p> <p>Systematic Investment Plan: Rs. 1,000/- (Subject to a minimum of 6 SIP instalments of Rs. 1,000/- each).</p>
Investment Horizon	6 months & above	6 months & above
Investment Options	Growth, Dividend Payout, Dividend Reinvestment	Growth , Dividend Reinvestment & Dividend Payout
Modified Duration	1.10	0.92
Yield to Maturity	9.80	10.0

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Prasad Sawant
Proprietor, Prithvi Consultants, Pune

- My likes : Eating, Cooking & Fishing
- My hobbies : Collecting Precious Stones and Gems
- My favourite past time : Spending Time with Friends at Hotel Roopali
- I am very fond of : Eating Sea Food
- Ideal holiday destination : Bora Bora Islands
- Most memorable moment(s) : My Marriage
- Wildest / craziest thing I have ever done : Travelled to Kanyakumari in my Own car
- My prized possession : My Family
- 3 things I cant leave home without : Money, Mobile & My watch
- My favourite perfume : BRUT
- My favourite book : Facebook(Just Kidding). It would be Rich Dad, Poor Dad
- If I was 18 again : I would save more
- My idol : Dhirubhai Ambani
- I would like to be reborn as : Prasad Sawant

If I was not in this profession then : I would have become a Professor

The last meal of my life will be : Fish Curry & Rice

3 wishes from a genie :

- Wisdom
- Early Retirement (not that I am lazy, I just like the free time to do what I want to do and catch up on stuff which needs to be done)
- Peace, Prosperity & happiness in this world

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BOOK REVIEW

We: The Ideal Customer Relationship, By Steve Yastrow

There is always a divide between the customer and the distributor. Questions such as how to attract the customer's attention or what will prompt him/her to buy are some of the questions that Steve Yastrow explores in his book, 'We: The Ideal Customer Relationship'. He focuses on how to keep an existing customer relationship intact so that you emerge as an important point of contact for him/her.

According to Yastrow, there are two ways that your client can think of you:

1) 'Us' and 'Them': Here, the client thinks of you as a sales person who has different goals and ambitions than him/her as a buyer.

Or

2) 'We': The customer thinks of you as a part of him/her and expects you to fulfil goals that are common and sympathetic.

In the book, Yastrow describes ways of building the relationship wherein you and your customer think alike leading to the realisation of the 'We' style of thinking. He is of the view that to achieve such a relationship the key lies in listening. It works well to lend an ear rather than trying to force the customer to play according to your script. So, instead of preaching the benefits of the products that you intend to sell, it may be better to hear patiently what the customer needs and try to help him/her find it within your own product portfolio.

It is also important to be mentally present for the customer. Absentmindedness is an enemy of a good salesperson. Giving the customer your complete attention is of paramount importance according to Yastrow.

There are some key points that he lists in his book that are worth remembering:

1. Engage in the moment.
2. Create conversation.
3. Make it unique.

Yastrow expounds the importance of doing it step by step, right from the first encounter with the customer. Overall, this is a great book that will help you sell because it focuses on the client for a change. It is often the case that marketing books deal with heavy strategies, but, do not focus on the one aspect that is central to the sale, the client.



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WHAT'S UP ON YOU & I?

What's up on www.kotakyouandi.com?

We, at Kotak Mutual Fund strive to build lasting relationships with our existing and potential channel partners like you. We recognize you as a valuable partner and when You & I work together we will reach greater success and create value for each other. We have launched an online platform called www.kotakyouandi.com exclusively for our existing and potential distribution partners.

www.kotakyouandi.com provides you with a host of sections like Gyanshala - an online learning platform, weekly key market statistics, news on the financial sector, informs you on the latest happenings in Kotak Mutual Fund, Interactive calculators, stimulated AMFI Tests and presentation and selling skills. This site seeks to assist you with knowledge and skills, to help you in your profession as a Financial Advisor.

Gyanshala is an online self learning module covering topics on Equity, Debt, Derivatives, Economics and Financial Products. You can go through the study material and take a TEST at the end of each module. So go ahead and chose to learn a topic of your choice. On scoring 60% and above you will instantly be awarded with a Certificate of Recognition. This can be printed from your PC.

Catch a glimpse of all this and more only on www.kotakyouandi.com. In case you have still not registered then do so now.

As a new user you will have to first register using your valid ARN and then login





Contest Form

To participate in the "Jumbling clues" contest, all you need to do is fill up the form online.

Full Name (in blocks)	:	<input type="text"/>
		First Name Middle Name Last Name
ARN Code	:	<input type="text"/>
Sub-Advisor Code	:	<input type="text"/>
Name of Organisation	:	<input type="text"/>
Date of Birth	:	<input type="text"/>
		dd/mm/yyyy
Anniversary	:	<input type="text"/>
		dd/mm/yyyy
Office Address	:	<input type="text"/>
City	:	<input type="text"/>
Pin	:	<input type="text"/>
Phone (Office)	:	<input type="text"/>
Phone (Mobile)	:	<input type="text"/>
Fax	:	<input type="text"/>
E-mail Address:	:	<input type="text"/>

***Terms and Conditions :**

- Only AMFI registered individuals can participate, with only one entry per individual.
- You are requested to submit the form by 10th March 2012.
- All fields in the form are compulsory. Forms that are incomplete or have been incorrectly filled will be invalid.
- In case of a tie, the winner will be decided on by drawing of lots.
- KMAMC's decision will be final and binding.
- In case of multiple entries by an individual, all entries will be considered invalid.

In the previous issue of the newsletter we had carried "Match Box " contest. A lucky draw of all the entries was done and 3 lucky winners were short listed.

Sr. No	Name	ARN No	Location
1	Kapil Sahni	23766	Ajmer
2	Christopher Sequeira	0356	Mangalore
3	Rakeshkumar N Lahori	27014	Mumbai

Congratulations to all the lucky winners!!

To participate in the "Jumbling clues" Contest Fill in the individual clues to solve the larger clue

Now re-arrange the highlighted alphabets to get the answer to the following clue:

Investment return less rate of inflation is termed as: return

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a) An equity oriented mutual fund scheme which invests in shares of companies operating in specific sector or industry is termed as a '_____' fund

b) The full form of P/B ratio is _____/Book Ratio

c) _____ coupon bonds do not pay interest during the life of the bond

d) The interest rate stated on a bond denoted as a percentage of the principal

Now re-arrange the highlighted alphabets to get the answer to the following clue:

A derivative instrument which infers the right to buy or sell a security after a particular period at a particular price and quantity:

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a) An acronym for the National Bank for Agricultural and Rural Development

b) A measure of the fund's volatility with respect to the stock market:

c) Term denoting failure to pay principal or interest on a debt:

d) Any holding with monetary value, such as stocks, bonds, real estate, cash etc:

Now re-arrange the highlighted alphabets to get the answer to the following clue:

"A period during which securities prices are falling in the stock market": market

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a) Agencies which have custody of all the securities purchased by the mutual fund.

b) The total amount of money invested in a mutual fund is termed as:

c) Acronym of Securities and Exchange Board of India

Now re-arrange the highlighted alphabets to get the answer to the following clue

Additional units allotted to investors on the basis of their existing holdings:

Submit

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Risk Factors :

Kotak Bond Short Term - is an open-ended debt scheme. **Investment Objective:** To provide reasonable returns and high level of liquidity by investing in debt and money market instruments of different maturities, so as to spread the risk across different kinds of issuers in the debt market

Kotak Credit Opportunities Fund : is an open-ended debt scheme **Investment Objective:** The investment objective of the scheme is to generate income by investing in debt /and money market securities across the yield curve and credit spectrum. The scheme would also seek to maintain reasonable liquidity within the fund. There is no assurance that or guarantee that the investment objective of the scheme will be achieved.

General Risks: - **Mutual Funds and securities investments are subject to market risks. There is no assurance that the Scheme's objective will be achieved. NAV of the Scheme's Units can go up / down depending on factors and forces affecting securities markets.** Past performance of Sponsor / AMC / Fund does not indicate the scheme's future performance. **Kotak Bond Short Term and Kotak Credit Opportunities Fund are only the name of the schemes and do not in any manner indicate either the quality of the schemes, future prospects or returns.** Statutory details: Kotak Mahindra Mutual Fund is a Trust (Indian Trust act, 1882);

Investment Manager: Kotak Mahindra Asset Management Company Ltd.;

Sponsor: Kotak Mahindra Bank Ltd. (Liability Rs. Nil);

Trustee: Kotak Mahindra Trustee Company Ltd.

Please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) carefully before investing. SID and SAI are available on mutualfund.kotak.com



Think Investments. Think Kotak.

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