



Dear Investor,

With the global economy in throes of deep recession, and the Indian GDP itself witnessing a deceleration, the outlook on the immediate future will naturally be as less than optimistic. It is in this environment that we step into the new financial year of FY10.

It is a well-known fact by now that Indian economy has decelerated to 5.3% in Q3-FY09. This slowdown is now projected to extend well into the next two quarters, with the expected annual GDP growth for FY10 calculated at around 5.5-6%. In this backdrop, an aggressive policy initiative by the regulators to rectify the situation is not only necessary but is also compelling.

However, the general elections in India have suspended the policy-initiative on the economic slowdown for sometime. Yet the newly elected government post-election, irrespective of the party affiliations, may show urgency in addressing the issue. In this context, the redressal of the credit-flow bottlenecks and impetus to 'domestic investment and demand' would be at core of any such policy formulation.

However, at the macro level, the circumstances of the Indian economy, as well as that of the markets, remains interlinked with the larger sentiments prevailing in the global financial arena.

The global stock markets have seen a swift upswing in their performances with FII flows into emerging markets picking up. Indeed, although the market recovery is still months away, yet I remain optimistic that if and when the growth picks up, Indian equities market may emerge as an out-performer amongst the rest.

On a more felicitous note, Kotak Mahindra Mutual Fund had a delightful occasion at ICRA Mutual Funds Awards night in Feb 09. Of the 4 top awards received by the fund house, Kotak 30, and Kotak Liquid received one award each for their performance in their respective categories. Kotak Flexi Debt was awarded with two distinct accolades for performance in different time categories. This haul came as a pleasant booster. And like all our endeavors, these awards help us redefine our benchmark for greater challenges, which lie ahead.

Regards

Sandesh Kirkire
CEO



Is the India economy getting decoupled?

Global markets had a synchronized correction over last one year or so. Has the time come for us to say that we as emerging economies are getting decoupled i.e less connected with the world economy?

We think as far as India is concerned our economy seems to be decoupling. It is visible from the pure fact that while the world economic growth seems to be heading for a negative growth we as India clearly stands out as one of the only few economies in this gloomy world which still shows some rays of hope, although the pace seems to be slowing.

At this current juncture let's examine if decoupling will help or whether recoupling (coming together) will be the way forward.

Does the US dollar still dominate the currency markets?

The theory that has emerged in recent times is whether US dollar still rules the world currencies or some other currency would replace it. One of the theories which have emerged in recent times is that another currency, possibly the Chinese Renminbi or the Euro or a basket of currencies will replace the dollar as an international trade currency. If ever this happens, the rebalancing of the world will take time and the interim period could be a difficult phase. Many things would have to be reworked for example, India which is a large trade partner of the US will have to realign its export strategies. China will have to boost domestic consumption so as to protect itself from the slowing consumption in the US and the developed world, which today is a large consumer of Chinese goods.

Although such a radical shift can happen but in the current scenario seems to be difficult.

Recoupling

What appears to be happening is that the world is adjusting to bring back the old stable economic zone. The dollar is appreciating, and exporting country currencies are depreciating hence making imports to the US cheaper and boosting growth in developing countries. This spells good news for the Indian exporters.

What is happening in the financial markets?

We have seen some hopeful revival signs from the US banks in the recent times. Citibank reported profitable business in the first two months of this year. Another key data which is closely watched is the US housing starts (permission for starting construction of new houses in US), which has surged by 22% in February after a continuous fall for the last eight months. This development may seem as a return of confidence in the economy. But the moot question remains whether the US consumer will start consuming again?

The concerted effort of all central banks seems to be showing signs of revival and the global crisis is gradually easing. The fiscal stimulus by various governments to prevent a complete collapse in economy seems to be showing signs of positive results in some sections, though we are not fully out of the woods.

Crude and commodity at low levels is definitely a big positive for a country like India which remains a big consumer of commodities. Easing interest rates and a falling inflation would be another sweetener for India. In the short term the lack of a stable government will lead to a temporary period of uncertainty but in this gloomy world, India seems to stand out as silver lining in the dark clouds.



Kotak Mutual Fund selected for managing pension money from Pension Fund Regulatory Development Authority (PFRDA)

The Pension Fund Regulatory and Development Authority (PFRDA) has appointed Kotak Mahindra Asset Management Company Ltd. (KMAMC) as a sponsor of a pension fund manager to manage pension subscriptions from citizens of India under the New Pension Scheme announced by Government of India through PFRDA. The pension fund manager will be a subsidiary company of KMAMC. The selection was done through a two stage bidding process. The first stage involved a technical and professional competency evaluation followed by the second stage which was a commercial bidding round. KMAMC won the bids to emerge as one of the six Fund Managers for the New Pension Scheme from amongst 16 other fund houses who participated in the bidding process.



Kotak Mutual Fund wins in four categories at ICRA Awards 2009

It has been a constant endeavor at Kotak Mutual Fund to provide the best investment solution in the market. And understandably our efforts have not gone unnoticed at the 2009 Indian Credit Rating Agency (ICRA) Awards. The following products were pronounced best-in-category and rated for their market performance:

Kotak 30	Rated 5 Star Fund for 3 year performance
Kotak Flexi Debt	Rated 5 Star for 1 Year Performance
Kotak Flexi Debt	Rated 5 Star for 3 Year Performance
Kotak Liquid	Rated 7 Star for 1 Year Performance

Past performance is no guarantee of future performance.



What do your stars say? Ours say 5 stars!

Kotak 30 and Kotak Floater Long Term have received a 5 Star Rating from Value Research for the month ended 28th February 2009. Five-stars indicate that a fund is in the top 10 per cent of its category in terms of historical risk-adjusted returns. For more details and risk factors, log on www.valuereasonline.com.

Past performance is no guarantee of future performance.



“Arbitrage” – simplified for you

Very simply put, arbitrage is an opportunity to buy a product at a low price in one market and then sell it simultaneously in another market at a higher price. It is thus the practice of taking advantage of a price differential of the same product between two or more markets. Arbitrage exists as a result of market inefficiencies and it provides a mechanism to ensure prices do not deviate substantially from their fair value for long periods of time. In financial markets too, there are opportunities of arbitrage available. To understand this better, let's look at an example but after you get familiar with some terms used.

A cash market also called as the spot market is one in which stocks or commodities are bought and sold for cash and delivered immediately.

A futures contract is a contract to buy or sell a certain underlying instrument at a certain date in the future, at a pre-set price.

A futures market is one in which participants buy and sell futures / contracts for delivery on a specified future date.

The future date is called the delivery date or final settlement date.

The price of the underlying asset on the delivery date is called the settlement price.

An arbitrageur is an individual or institution who engages in such arbitrage.

Derivatives are financial contracts or financial instruments, whose values are derived from the value of something else (known as the underlying). The underlying on which a derivative is based can be an asset (e.g., commodities, stocks, residential mortgages, commercial real estate, loans, and bonds); an index (e.g., interest rates, exchange rates, stock market indices, consumer price index) or other items (e.g., weather conditions)

Example of an arbitrage transaction

Say price of stock 'A' is Rs 1000 in the spot market and Rs 1100 in the futures market.

To exploit the price differential we:

Buy stock A @ Rs 1000 in the spot market and

Sell stock A @ Rs 1100 in the futures market

Profit locked in = Rs 100 (1100-1000).

This profit is realized irrespective of the price movement of stock A. Say during expiry of contracts, if price of stock A is Rs 1200, then we have made a profit of Rs 200 (1200-1000) on our cash position but a loss of Rs 100 (1100-1200) on the futures position. Thus we made a net profit of Rs 100, which is exactly equal to the profit we initially locked in. The same holds true even in case of falling markets. Say the stock price goes down to Rs 800. In this case we have made a loss of Rs 200 (1000-800) on our cash position and a profit of Rs 300 (1100-800) on the futures position giving a net profit of Rs 100.

Relevance of arbitrage in the current scenario: - We have experienced unprecedented volatility in the equity market as an effect of the global sub prime and credit crisis. Directional calls in equities may prove risky.

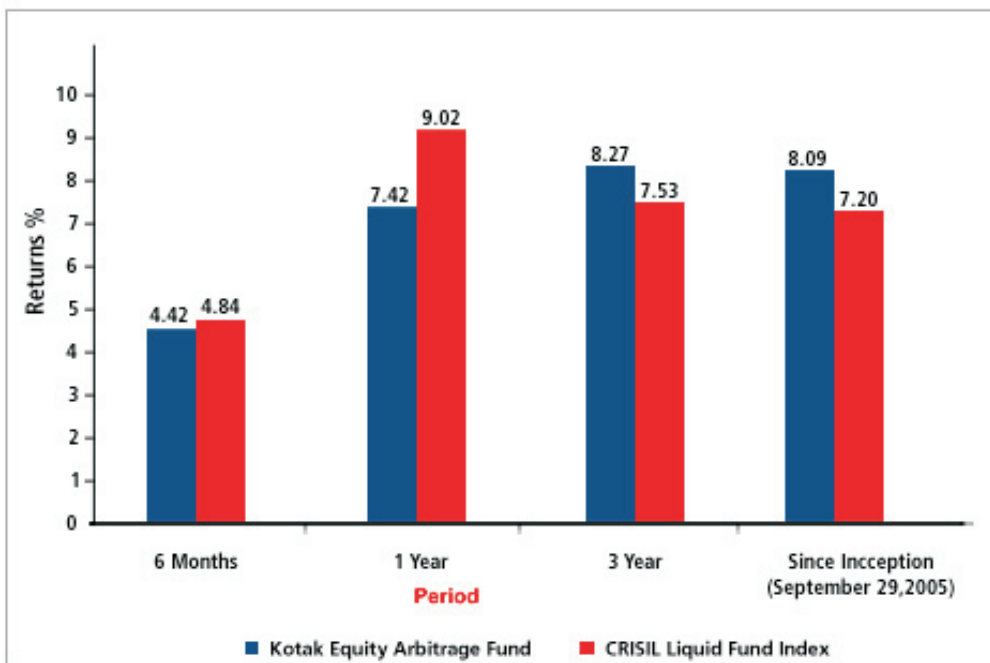
On the debt side as well, there is interim volatility. Currently the low yields mean fewer attractive opportunities in the debt market and uncertainty still looms on the equity side. In such a situation arbitrage funds provide an opportunity to generate returns without taking directional exposure. Ideally you should look at investing in arbitrage funds with a time horizon of at least 6 months.



Kotak Equity Arbitrage

Now that you have a fair understanding of how arbitrage works, let's have a look at Kotak Equity Arbitrage. It is an open ended equity scheme that aims to generate income and capital appreciation by predominantly investing in arbitrage opportunities in the cash and derivatives segment of the equity market and in debt and money market securities. The scheme evaluates the difference between price of a stock in futures and spot market and enters into only those trades where there is a potential arbitrage available.

Performance (%) as on 27th February 2009








Invest Now

To invest in Kotak Equity Arbitrage Fund you can log on to www.kotakmutual.com and invest online. Alternatively you can also get in touch with your advisor or visit the nearest Kotak Mutual Fund office. Please read the offer document carefully before investing.







Source: Mutual Fund Explorer. Kotak Equity Arbitrage NAV: Rs. 13.0443 (Growth Option). Returns <= 1 year: Absolute; Returns > 1 year: CAGR (Compounded Annualized Growth Rate). Past performance may or may not be sustained in future.



Quotable Quotes

	"No worldly success can compensate for failure in the home" – David O McKay
	"No one can make you feel inferior without your consent" – Eleanor Roosevelt
	"People generally quarrel because they cannot argue" – G. K. Chesterton
	"Systems die. Instincts remain" – Oliver W. Holmes
	"The shortest answer is doing" – George Herbert

Did you know your human body?

	An adult man’s body contains about 5 litres of blood whereas a woman’s body contains about 4.3 litres
	The blood travels along 1, 00,000 kms of blood vessels, which is equal to going 2.5 times round the equator.
	Red cells are made and destroyed at a rate of 2-3 million per second.
	You loose 1, 00,000 brain cells every day! Luckily you have 100 billion altogether.
	Eyes blink about 20,000 times a day.
	Your heart pumps 13,640 litres of blood around your body in a day- enough to fill nearly 40,000 drink cans.

Source: - Whitaker’s World of Facts

Kept your resolutions? 

Thank you for your responses to the “Kept your resolutions” section in our last issue. It is heartening to know that so many of you have stuck to your resolutions and have been committed towards them throughout the year.

Based on a lucky draw from amongst all entries, we are happy to feature Bhibhupriya Acharya from Pune. Bhibhu had decided to invest in Mutual funds by way of SIP and not stop the SIPs even if the market tanks (which was previously done out of panic). Bhibhu has kept kept the resolution and has decided to think long term and continue SIPs in various highly rated MF schemes.

Congratulations Bhibhu and best wishes!



We would love to hear from you. Please give us your feedback / suggestions on how we can make Rishtey better. Please write into rishtey@kotak.com. For any product / service related queries you can always call our service desk on 1800-222-626 (MTNL / BSNL lines)

Risk Factors

Kotak Equity Arbitrage is an open - ended equity growth scheme. Investment Objective: 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.

Kotak 30, Kotak Flexi Debt, Kotak Liquid and Kotak Floater Long Term are only the names and do not in any manner indicate the quality, future prospects or returns. For details on type of scheme and investment objectives please refer to their Offer Documents available on www.kotakmutual.com.

Mutual Funds investments are subject to market risks and there is no assurance or guarantee that the objectives of the Schemes will be achieved. As with any securities investment, the NAV of the Units issued under the Schemes can go up or down depending on the factors and forces affecting the capital and money markets. Past performance of the Sponsor/ AMC/ Fund or that of existing Schemes of the Fund does not indicate the future performance of the Schemes. Kotak Mahindra Mutual Fund has been established as a trust under the Indian Trusts Act, 1882, by Kotak Mahindra Bank Limited (liability Rs. NIL) with Kotak Mahindra Trustee Company Limited as the Trustee and with Kotak Mahindra Asset Management Company Limited as the Investment Manager. Before investing, please read the offer document for detailed risk factors.

Value Research Fund Ratings are a composite measure of historical risk-adjusted returns. In the case of equity and hybrid funds this rating is based on the weighted average monthly returns for the last 3 and 5-year periods. In the case of debt funds this rating is based on the weighted average weekly returns for the last 18 months and 3-year periods and in case of short-term debt funds - weekly returns for the last 18 months. These ratings do not take into consideration any entry or exit load.

Kotak 30 Fund has been ranked as a Five Star Fund in the category of 'Open Ended Diversified Equity - Defensive' schemes for its 3 year performance, Kotak Flexi Debt Fund has been ranked as a Five Star Fund in the category of 'Open Ended Liquid Plus' schemes for its 1 year and 3 years performance and Kotak Liquid – Regular Plan has been ranked as a Seven Star Fund in the category of 'Open Ended Liquid' schemes for its 1 year performance till December 31, 2008. The rank is an outcome of an objective and comparative analysis against various parameters, including: risk adjusted return, fund size, company concentration, portfolio turnover and liquidity. The ranking methodology did not take into account entry and exit loads imposed by the Fund. There were 55 schemes considered in 'Open Ended Diversified Equity - Defensive' category, 46 schemes considered in 'Open Ended Liquid Plus' category, 7 schemes considered in 'Open Ended Liquid' category and 30 schemes considered in 'Open Ended Liquid Plus' category for the ranking exercise. The rank is neither a certificate of statutory compliance nor any guarantee on the future performance of Kotak 30 Fund, Kotak Flexi Debt Fund and Kotak Liquid – Regular Plan. Ranking Source & Publisher: ICRA Online Limited