

## Dear Investor



Dear Investor,



With half of the calendar year behind us, the performance of the Nifty and the SENSEX benchmark indices for the period stood at -7.94% & -8.11%, respectively. The market momentum in this period was generally languid, and remained confined to a broad range, making it one of the poorer performing markets, internationally.

The performance in the equities market can also be explained on the downward reassessment of the GDP growth at around 8% (with further downward bias). The constant upward pressure in the interest rates was expected to have a restrictive effect on the industrial growth and the economy. For a perspective, the economy has seen nearly four rate hikes aggregating 125 bps in the last 6 months, with last one being on 16th June; taking the repo rate to 7.50%.

With the international crude oil prices moderating by around 15% in last two months, the likely-hood of inflation and interest rate cycle peaking sooner, rather than later, gains strength. There is further credence to this opinion, since; the possibility of a generic upward shifts in the interest rates in the US, Europe and Japan looks unlikely due to the global slowdown. In that context, RBI may have to co-ordinate its policy actions with other central banks in the coming months.

While the decline in the crude oil prices may have a direct bearing in mollifying the domestic inflation trend; it may also reduce the high input costs of the manufacturing sector.

The debt market witnessed a modest fall in the short-term yields because of a favorable demand-supply circumstance and a better than expected liquidity scenario. Moreover, the general impression that the interest rates may be near the peak than previously thought, too has fused some optimism in the market.

On the mutual funds side, while the average AUM for Q1-FY12 is higher at Rs 7,43,083 crs; in the June month the AUM may have actually contracted to around Rs 6.80 lacs crore (AMFI declares this data by the 10th of the next month). A partial decline in this AUM may be attributable to the pull out by banks in order to comply with the RBI guidelines which restricts the bank investments in mutual funds to 10% of their networth.

Regards,

Sandesh Kirkire  
CEO

## Fund Manager Speak



### Q & A with Lakshmi Iyer, Sr. Vice President & Head – Products & Fixed Income

**Q) Why should an investor look at debt products while diversifying his portfolio?**

**A:** As a core advice, investors must primarily invest in line with their long-term investment plan and the resultant investment objective of their own unique financial needs. Now, to answer the immediate question, debt funds tend to have a low-risk profile and have a proportionate return profile, which too, is largely predictable (if held till maturity). Such a product, if invested into, brings down the inherent risk on the overall portfolio and increases the possibility of a modest periodic income.



**Q) With the recent rates hikes what is the impact on yields on papers across various maturities ?**

**A:** In most basic form, the debt securities, which have longer pending maturities, usually tend to be more susceptible to interest rate hikes. Likewise, the securities, which say: only have maturity within 1 year, or less, are less sensitive to these interest rate changes.

Q) In your opinion with these rates hikes where do you see inflation heading by the end of the financial year?

A: Measured interest rate hikes are usually aimed at pacifying unacceptable levels of inflation. But, inflation in turn is function of overall demand and overall supply situation in the economy. Thus, the rise in the interest rates tend to provide an incentive for the consumers/spenders to delay their expenditure and rather save at higher rates. This way, the interest rate hikes are used to mollify demand to address inflation.

However, the present case of inflation in India is a supply-side phenomenon. That is, the overall supply in the economy usually falls short of the total demand (food articles), or, is available at a higher import cost (crude oil). In such a scenario, the interest rate hikes all by themselves may be less effective. In the present context as well, the high inflation is an outcome of high international crude oil prices and lag effect of earlier shortfall in the agri-supplies. In such scenario, the inflation may remain obstinately high unless the oil prices come down or the supply of agricultural commodities is boosted.



### Short Term Debt Funds: -

In the last issue of our newsletter we had covered parameters which should be considered while choosing debt funds. Now that you have a fair idea of those concepts let's have a look at Short Term Debt Funds.

A short-term debt fund is a fund that aims to achieve returns over a shorter investment horizon, while simultaneously aiming to preserve capital. Thus these are schemes investing in debt securities that lie at the shorter end of the yield curve.

Short-term interest rates are currently elevated and the yield curve is likely to remain pressured, driven by higher inflationary expectations. The long-term interest rate scenario is uncertain, given the rapidly changing macro factors – both local and international, with the key variable being crude prices and their impact on the fiscal situation. This provides an ideal situation for investing in short term debt funds. These schemes predominantly invest in debt securities with maturities ranging from 3 months to about 18 months. Accordingly, these products are positioned between liquid funds, which invest in short-term liquid money market instruments with maturities of up to 91 days and medium to long-term debt funds, which invest in long-dated securities (instruments with maturities that are typically between 3- 10 years). Since short-term bond funds keep a relatively low average maturity in the range of 3 to 18 months, they are less susceptible to changes in interest rates. The most common instruments in this category are corporate bonds and commercial papers. Commercial papers are short-term debt instruments, usually with a maturity of less than one year, issued by companies. These are liquid instruments and are frequently traded. The corporate bonds held by these funds usually have a residual maturity of one to one-and-a-half-years.

Source: - <http://www.referenceforbusiness.com> ; <http://www.investopedia.com>

### Offering from Kotak Mutual Fund

#### Kotak Bond Short Term: -

is a debt scheme, with a diversified portfolio, comprising government, PSU and corporate bonds. Thus the fund has invested in a variety of debt and money market instruments of various maturities while maintaining an optimal maturity on the portfolio based on the prevailing market conditions. The scheme is suitable for investors who may generally want to position themselves at the shorter end of the yield curve with a time horizon of 3 to 6 months. To invest in the scheme you can call us on our toll free number 1800-222-626 or visit a branch near you.



Returns <= 1 year : Absolute; Returns > 1 year : CAGR (Compounded Annualised Growth Rate). Past performance may or may not be sustained in future.

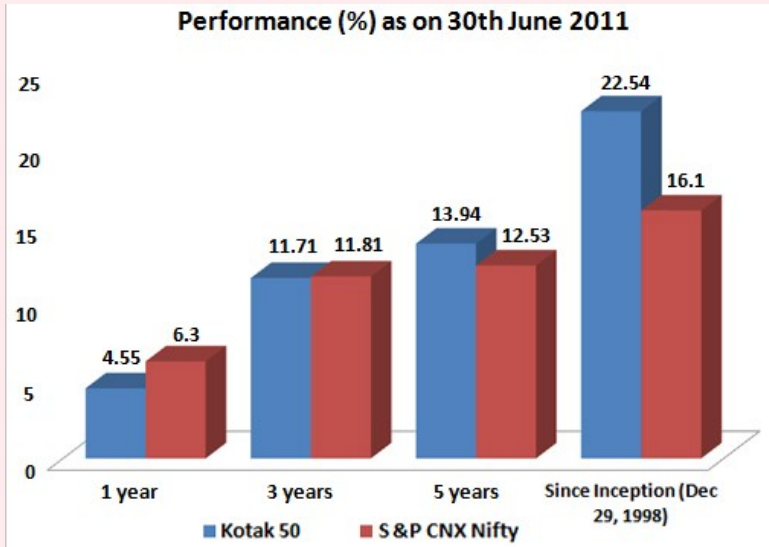
Kotak Bond Short Term NAV : Rs.18.8950 (Growth Option), Rs. 10.1227 (Dividend Option). All payouts during the period have been re-invested in the units of the scheme at the then prevailing NAV.

## Know-a-scheme



### Kotak 50

Kotak 50 has been in inception since December 29, 1998. It is a diversified scheme which invests predominantly in quality companies in the large market capitalization segment across various sectors. The portfolio generally comprises of equity & equity related instruments of around 50 companies with the flexibility of going upto 59 companies. The scheme is well positioned to take benefit of growth offered by well established companies.



Returns <= 1 year: Absolute ; Returns > 1 year: CAGR (Compounded Annualised Growth Rate). Past performance may or may not be sustained in future.

Kotak 50 NAV: Rs. 29.951 (Dividend Option), Rs. 101.443 (Growth Option). Returns assumed reinvestment of the tax free dividend declared. All payouts during the period have been re-invested in the units of the scheme at the then prevailing NAV.

## Did you know?



- The maximum weight for a golf ball is 1.62 oz.
- A bear has 42 teeth
- The only domestic animal not mentioned in the Bible is the cat.
- The dot over the letter 'i' is called a tittle.
- The volume of the Earth's moon is the same as the volume of the Pacific Ocean
- Ingrown toenails are hereditary.
- The reason honey is so easy to digest is that it's already been digested by a bee
- Michael Jordan makes more money from Nike annually than all of the Nike factory workers in Malaysia combined.
- The word "set" has more definitions than any other word in the English language.
- The most sensitive finger is the forefinger.
- A dragonfly has a lifespan of 24 hours.





HAHAHEEHEE

Wife to Husband: "A great disaster was averted today. When my mother was passing from below the clock, it fell. Had she been late by a few seconds, it would have fallen on her & she would have got injured".

Husband: "I know this useless clock is always slow!!"

There was a rich man who was approached by a poor beggar asking for food.

The rich man asked, "Do you smoke? I could give you some cigarettes."

The beggar responded, "No, I don't. I am just hungry and want food."

Then the rich man asked, "Do you drink? I have a bottle of good whiskey I could give you."

The beggar replied, "No, I don't drink. I am just hungry and need food."

Finally the rich man asked, "Do you gamble? I could give you some good tips on the races this weekend."

The beggar again replied, "No. I am just hungry and want some food."

Finally the rich man said, "Well, in that case, I had better take you to my home."

He invited the beggar into his car and drove him to his very substantial home. There, he introduced the beggar to his wife, who asked, "What are you going to do with this man? Are you going to invite him to live with us, eat our food, and wear our clothes?" The man replied, "No, of course not. I just wanted to show you what happens to a man who doesn't smoke, drink or gamble."

Source: - <http://marriagejokes.net/>

## Get in touch



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](mailto: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 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 50:** - is an open-ended equity scheme. **Investment Objective:** The investment objective of the Scheme is to generate capital appreciation from a portfolio of predominantly equity related securities. The portfolio will generally comprise of equity & equity related instruments of around 50 companies which may go upto 59 companies.

**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 50 are only the names 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 available on [mutualfund.kotak.com](http://mutualfund.kotak.com)**

Quote

If you have positive expectations from people around you, they will act to fulfill your expectations – Anonymous