Kotak Mutual Fund
Wishes You a Very Happy Diwali

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Quarterly Newsletter for the Kotak Family

# rishtey

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## Dear Investor

**Dear Investor,**

The onset of the festive season in India, coupled with an ebullient rise in the market and the economy, has given us many reasons to cheer about. To that sentiment, it remains our genuine wish that this festive season symbolize growth, prosperity and Joy in your endeavors. And may this truly be a Happy Diwali for you and all.

In the present state of the Indian economy, almost all the major indicators are hinting of an increased rate of growth in domestic consumption and income levels. In particular, the 15% growth in the corporate advance tax payout for the second quarter, and the rapid growth in sales of automobile and parts, is being seen as a reading of a swifter economic revival.

This, coupled with a turnaround in the foreign investment trends, has seen the Balance of Payment account turn positive in Q1-FY10. Further, the investments surge, and a relatively benign credit regime has assisted in facilitating commercial credit-off take for the corporate sector - prompting growth revival in the manufacturing and allied sectors.

The resultant rapid increase in the equities market is less of a validation, and more of a studied anticipation of this improvement in the economic health. The 68% increase in the key market indices in the last 6 months, with about 18% rise in the last quarter, has left a sense of deja-vu amongst market watchers.

It can be argued that the rapid growth in the Indian equities market has been the outcome of liquidity interplay, which arises from the US$ 13.3 bn FII inflow in H1-FY10. But the fact remains that this skewed flow of the FII money towards Indian markets is a moniker for a relatively better standing of the Indian economy vis-à-vis other emerging markets.

In the mutual funds industry, the aggregate average AUM growth has continued to remain robust. Average AUM in the mutual funds industry in the present calendar year has grown by more than 50% - An increase of more than Rs 2.4 lac crore from the March end number.

During the same period, the average AUM growth in Kotak Mutual Fund was clocked at 99.1%. This helped the fund house increase its market share from 3.7% to almost 5% in the Mar-Sept 09 period – a market-share expansion of 120 bps. This was the fastest market-share expansion by a fund house in the said period.

Wishing you a very Happy Diwali and a prosperous new year once again.

Regards,
**Sandesh Kirkire**
CEO

## Fund Manager Speak

### Growth and interest rates- the debate continues

Since the last quarter, the Indian economy has proved to be far more resilient than earlier thought. Macro parameters have improved on a number of counts and many of the worries of the previous quarter seem to have dissipated.

*However, the debate continues- growth or inflation targeting.* This leaves us with a critical question as to when would RBI take the first step towards monetary tightening. The Reserve Bank of Australia hiked the Australian cash reserve ratio by 25 bps last week raising the spectre of higher policy rates in India as well.

**So what has changed in the Indian context?**

a) **Growth outlook:** while it is true that GDP growth in FY10 would be lower than levels recorded in FY09 what is important to note is that the incremental data on the growth front is positive. The industrial production data surprised on the upside for the second month in a row and a large part of the growth is a resultant impact of the Governments stimulus measures and appears to be offsetting the drought impact.

However, are we completely out of the woods? I would think that the signs of higher growth though clearly present are still in the nascent stages, and incremental growth would be higher as we move closer to the end of the financial year.

b) **Interest rates:** Closely linked to the growth outlook is the interest rate outlook for the economy. RBI Governor Subbarao's speech at the International Banking Seminar in Istanbul reflects RBI's quandary. There is broad agreement on the need to exit the current accommodative monetary but when and how is the issue.

**The following arguments support the need for higher interest rates and liquidity tightening**

- WPI inflation on an annualized basis is now at close to 5.3% mainly on account of food prices and the YoY WPI inflation number is now positive.
- The year end inflation number is likely to trend higher and could reach around 6-7%.
- Liquidity in the system as measured by the daily reverse repo balances remains elevated.

**On the other hand:**

- Growth concerns following the weak monsoons still persist and the kharif crop is likely to be significantly lower this year in comparison to the previous year.
- Credit growth which is a sign of aggregate demand in the economy still remains weak (even so on a YoY basis on account of an high base effect)
- Capital flows are strong and there is pressure on the Rupee to appreciate (we have seen a sharp appreciation of the Rupee in the last few days). Raising rates would exert further pressure on the Rupee impacting export competitiveness.

**So what is the outlook?**

Taking all the above into account, we believe, that the Government is unlikely to remove fiscal or monetary stimulus in a hurry in the current year. However, as we enter 2010, clearly the economy would bear largely different look than in 2009 with a different monetary and fiscal policy outlook. The clear factor to watch out for, in order to assess when RBI would raise rates, is to track the fortnightly credit growth figures. Higher credit growth indicating return of demand in the system would then result in the Central bank changing its monetary policy stance.

**The key challenges for the Indian economy remain:**

1. Managing the quantum of fiscal deficit and ensuring that G-Sec yields do not rise as a result of the Governments borrowing requirements.
2. Ensuring the return to a growth rate of closer to 8% by FY11.
3. Managing inflationary expectations with the system flush with liquidity.

## In the spotlight


**Kotak Mutual Fund launches Kotak Select Focus Fund:**

Kotak Mutual Fund had launched Kotak Select Focus Fund - an open ended equity scheme. The New Fund Offer was from 22nd July till the 20th August 2009. The investment objective of the scheme is to generate long term capital appreciation from a portfolio of equity and equity related securities generally focused on a few selected sectors and re opens for investments on 18th September 2009. The scheme mobilized Rs 311 crores during the New Fund Offer.

## Gurukul

**ETF**

ETF is an acronym for Exchange Traded Fund. ETFs are funds that track a particular index but can be traded like a stock on a stock exchange. ETFs are investment vehicles that comprise a number of securities or a basket of assets. Exchange traded funds have been available in the US financial market since 1993 and in the European market since 1999 but in India it is still a relatively new concept though the awareness is slowly and gradually increasing. Most ETFs track an index such as the S&P 500 or the Dow Jones Industrial Average or the Sensex or the CNX 500. You can do just about anything with an ETF that you do with a normal stock. Since ETFs are traded on stock exchanges they can be bought and sold at any time during the day. Their price will fluctuate from moment to moment, just like any other stock's price and you will need a broker in order to purchase them. Since ETFs track indexes they have very low operating and transaction costs associated with them. The first ETF created was the Standard and Poor's Deposit Receipt (SPDR, pronounced "Spider") in 1993. SPDRs gave investors an easy way to track the S&P 500 without buying an index fund and they soon become quite popular.

### The Trading of an ETF

A share of an ETF can be obtained or redeemed directly from mutual fund only by large institutional investors. Such institutional investors are also called authorized participants. They may either hold the ETF shares or act as market makers in the open market. Individual investors use retail brokers for trading ETF shares in the secondary market created by these authorized participants.

### Benefits of ETFs

An ETF gives you the advantage of diversifying an index fund. It also provides the ability to buy on margin, sell short and purchase as little as a single share. The benefits of ETFs are as follows: -

1. ETFs can be bought and sold just like stocks at their exchange traded price on a continuous basis throughout the day. Thus, unlike mutual funds, ETFs are open to price fluctuations during the entire trading period.
2. Since ETFs are traded on the stock market through brokers, minimal interaction with fund houses is required.
3. Fees associated with ETFs are also lower that the mutual fund fees. Additionally, ETFs afford greater tax efficiency than mutual funds.
4. The greatest benefit driving the popularity of ETFs is liquidity as investing in ETFs can be done and redeemed anytime during market trading hours.

Hence an ETF is an ideal asset allocation tool that significantly limits the investment risks associated with individual stocks.

Source: - www.economywatch.com

## Know-a-scheme

### Kotak Gold ETF

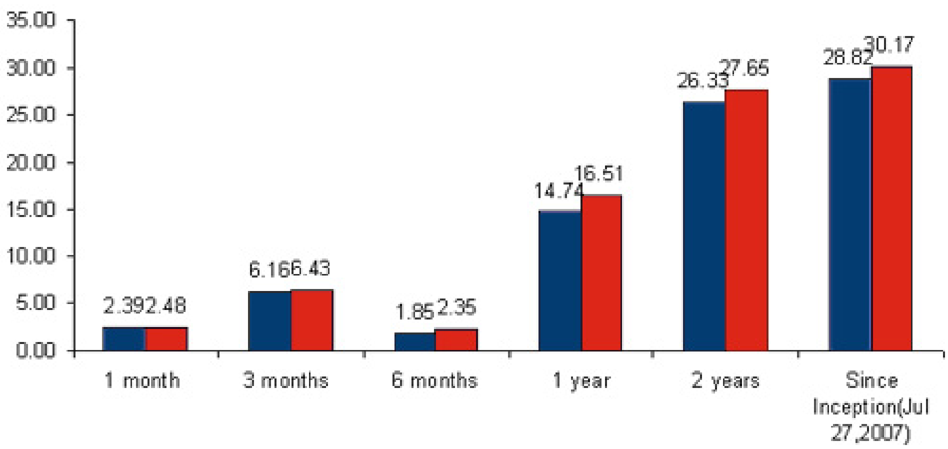
Now that you have a fair understanding of an exchange traded fund, its advantages and benefits lets have a look at Kotak Gold ETF where you can invest in gold without the hassles!

### About the scheme:

Kotak Gold ETF is an open-ended gold Exchange Traded Fund, which invests in physical gold and endeavors to track the domestic spot price of gold as closely as possible. Thus it provides an option to invest in gold without taking physical delivery of gold. Each unit is approximately equal to 1 gram of gold. The investment objective of the scheme is to generate returns that are in line with the returns on investment in physical gold, subject to tracking error. The key features of the same are:

- Gold accounts for portfolio diversification. Hence you can look at gold as an asset class and allocate a certain portion of your investment in gold as well.
- As mentioned earlier, Gold ETF is simple to buy and sell just like trading in shares.
- There is no concern of risk of handling physical gold and quality of gold

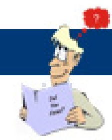
Performance (%) as on 30th September 2009




To know more
**SMS <GETF>**
to **5676788**
or
contact your
financial advisor today.

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

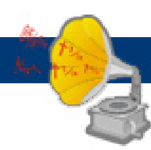
## Did you know?



- All the planets in our solar system rotate anticlockwise, except **Venus**. It is the only planet that **rotates clockwise**.
- **Hummingbirds** are the only animal that can also **fly backwards**.
- **Insects do not make noises** with their voices. The noise of bees, mosquitoes and other buzzing insects is caused by rapidly moving their wings.
- The cockroach is the **fastest animal on 6 legs** covering a meter a second.
- The word "**listen**" contains the same letters as the word "**silent**".
- The only 2 **animals that can see behind itself** without turning its head are the rabbit and the parrot.
- A hippopotamus can run **faster than a man.**
- **'Hippopotomonstrosesquippedaliophobia'** is the fear of long words.
- **Didaskaleinophobia** is the fear of going to school.
- It is impossible to **lick your elbow**. (We know you gonna try this!!!)
- A snail can **sleep for 3 years**. (Wow, lucky chap eh?)

Source: - www.indianchild.com

## Ha ha hee hee...



**The Oldest Profession Debate**

A surgeon, an architect and a lawyer are having a heated discussion concerning which of their professions is actually the oldest profession. The surgeon says: "Surgery is the oldest profession. God took a rib from Adam to create Eve and you can't go back further than that." The architect says: "Hold on! In fact, God was the first architect when he created the world out of chaos in 7 days, and you can't go back any further than that!" The lawyer puffs his cigar and says: "Gentlemen, Gentlemen...who do you think created the CHAOS??!!"

**The Boss & I**

When I take a long time, I am slow.
When my boss takes a long time, he is thorough.
When I don't do it, I am lazy.
When my boss doesn't do it, he is too busy.

When I do something without being told, I am trying to be smart.
When my boss does the same, he's showing initiative.

When I please my boss, I'm kissing up.
When my boss pleases his boss, he's co-operating.

When I do well, my boss never remembers.
When I do wrong, he never forgets.

But regardless of all else....
The Boss is always the Boss!

Source: - www.coolavenues.com

## 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. For any product / service related queries you can always call our service desk on 1800-222-626 (MTNL / BSNL lines)

**Risk Factors**

**Kotak Select Focus Fund:** An open ended equity scheme. Investment Objective: To generate long-term capital appreciation from a portfolio of equity and equity related securities, generally focused on a few selected sectors.
**Kotak Gold ETF** is an open ended exchange traded fund. Investment Objective: The investment objective of the scheme is to generate returns that are in line with the returns on investment in physical gold, subject to tracking errors. Kotak Select Focus and Kotak Gold ETF are only the names of the scheme and do not in any manner indicate their quality, future prospects or returns.
**General Risks**: 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.
**Statutory**: 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. Kotak Mahindra Bank Limited is not liable or responsible for any loss or shortfall resulting from the operations of the Scheme. Before investing, please read the Scheme Information Document (SID) and Statement of Additional Information (SAI) for full understanding of the Scheme and detailed risk factors. SID and SAI available on www.kotakmutual.com.

**Quote**

"The Nature of man is always the same; it is their Habits thats separate them." - Confucius