

What is an Exchange Traded Fund (ETF)

An exchange-traded fund or ETF is a passively managed fund tracking a benchmark index and reflect the performance of that index. Exchange Traded Funds (ETF) are open-ended mutual funds listed on the stock exchange. It trades like any other security on the stock exchange.

Kotak Nifty ETF

The objective of Kotak Nifty ETF is to provide returns before expenses that closely correspond to the total returns of the S&P CNX Nifty subject to tracking errors. Kotak Nifty ETF will be listed and shall be tradable on the National Stock Exchange (NSE). The fund manager would invest predominantly in stocks forming part of the underlying in the same ratio. Units can be bought and sold like any other security on the NSE through a stockbroker post listing. Any investor eligible to invest in equity shares can invest in Kotak Nifty ETF. The value of Kotak Nifty ETF units is continuous during normal trading hours. Each Kotak Nifty ETF unit is approximately valued at 1/10th of the S&P CNX Nifty value. For example, if the S&P CNX Nifty is at 4500 points, one unit of Kotak Nifty ETF will trade approximately at Rs 450.

About the INDEX

The S&P CNX Nifty is the headline index on the National Stock Exchange of India Ltd. (NSE). It includes 50 of the approximately 1,300 companies listed on the NSE, captures approximately 63%* of its equity market capitalization and is a true reflection of the Indian stock market. S&P CNX Nifty tracks the behavior of a portfolio of blue chip companies, the largest and most liquid Indian securities. It covers 21 sectors of the Indian economy and offers investment managers an exposure to the Indian market in one efficient portfolio. The index has been trading since Nov of 1995 and is well suited for benchmarking, index funds, and index-based derivatives. The S&P CNX Nifty index is owned and managed by the India Index Services and Products Ltd. (IISL), with which Standard and Poor's has a consulting and licensing agreement. IISL is a joint venture between NSE and CRISIL (formerly Credit Rating Information Services of India Ltd.).

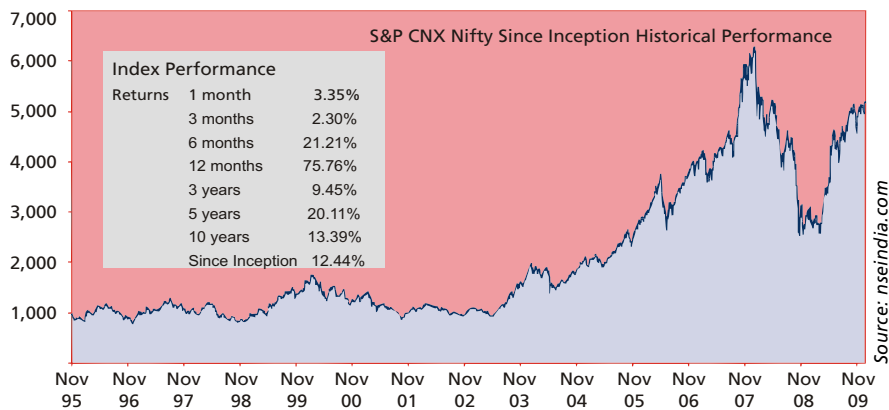
(* as on 31st Dec, 2009) Source: nseindia.com

Portfolio Characteristics (31st Dec 2009)

Number of Companies	50
Market Cap (in Rs. Cr.)	15,14,579
Company Size by Market Cap in Rs. Cr	
Average	30,292
Largest	1,92,316
Smallest	5,658
Median	17,772
P/E Ratio (x)	23.17
P/B Ratio (x)	3.65
Div. Yield (%)	0.95
%Weight Largest Company	12.70%
Top 10 Holdings (% Mkt Share)	56%

Source: nseindia.com

Index Performance (31st Dec 2009)



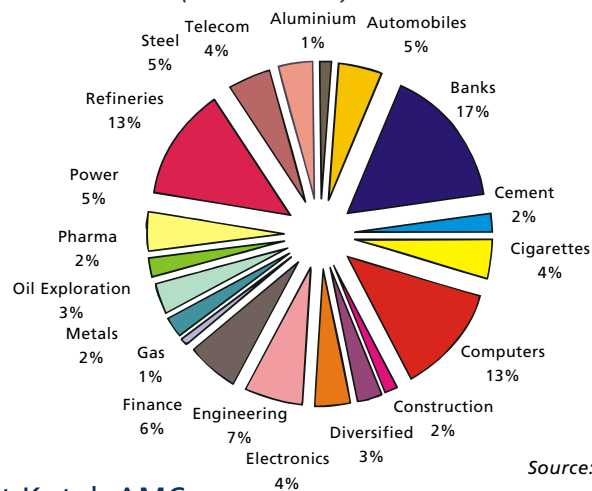
Rs 100000/- invested at launch (6th Nov, 1995) is now worth Rs 5,25,930/- (as on 31st Dec, 2009)
 Data as on 31st Dec, 2009, Returns less than 1 yr are absolute, over 1 yr are compounded annualised.
 Past performance may or may not be sustained in future & there no assurance whatsoever from anyone that the above return will be achieved.

Top 10 INDEX Constituents (31st Dec 2009)

Security Name	INDEX Weight (%)	Industry
Reliance Industries Ltd.	12.7	Refineries
Infosys Technologies Ltd.	8.22	Computer
ICICI Bank Ltd.	6.45	Banks
Larsen and Toubro Ltd.	6.65	Engineering
HDFC Ltd.	4.45	Finance
ITC Ltd.	4.27	Cigarettes
State Bank of India	3.86	Banks
HDFC Bank Ltd.	3.88	Banks
Bharti Airtel Ltd.	2.67	Telecom
ONGC	2.62	Oil

Source: nseindia.com

Sector Breakdown (31st Dec 2009)



Source: nseindia.com

About Kotak AMC

Kotak Mahindra Asset Management Company Limited (KMAMC) is a wholly owned subsidiary of Kotak Mahindra Bank Limited (KMBL). KMBL has over two decades of experience in financial services and services 6.4 million customers. KMBL has a market capitalisation of USD 6.06 billion*. KMAMC is the Asset Manager for Kotak Mahindra Mutual Fund (KMMF). It started operations in December 1998 and has over one million investors in various schemes. KMMF offers schemes catering to investors with varying risk - return profiles and was the first fund house in the country to launch a dedicated gilt scheme. KMAMC manages assets worth USD 8.86 billion*.

*(Source: kotak.com & amfiindia.com) as on 31st Dec 2009. The numbers are converted using the Rupee- USD reference rate published by the Reserve Bank of India as on the respective dates.



Scheme Details

1. Investment Objective: The investment objective of the scheme is to provide returns before expenses that closely correspond to the total returns of the S&P CNX Nifty subject to tracking errors.

2. Type of Scheme: An open ended Exchange Traded Fund

3. Purchases During NFO: The minimum investment amount during the New Fund Offer is Rs.10,000/- and in multiples of Re. 1000. In case of investors opting to switch into the Scheme from existing Schemes/Plan/Options of the Fund during the NFO period, the minimum amount is Rs. 10,000/- and in multiples of Re. 0.01 thereof.

4. On going purchases directly from the Mutual Fund would be restricted to Authorized Participants provided the value of units to be purchased is in creation unit size.

Authorised Participants may buy the units on any business day of the scheme directly from the Mutual Fund by paying applicable transaction handling charges and cash component in cash and by depositing basket of securities comprising S&P CNX Nifty. Units may be allotted only realization of cheque where the full consideration for creation unit is paid by cheque and at the value at which the underlying stocks for the creation unit is purchased against that purchase request.

5. Creation unit size: Creation Unit is fixed number of units of the Scheme, which is exchanged for a basket of securities underlying the index called the Portfolio Deposit and a Cash Component equal to the value of 5,000 units of the Scheme. For redemption of units it is vice versa i.e. fixed number of units of Scheme are exchanged for Portfolio Deposit and Cash Component. The Portfolio Deposit and Cash Component will change from time to time. The creation unit size may be changed by the AMC at their discretion and the notice of the same shall be published on AMC's internet site.

6. The units would be listed on NSE to provide liquidity through secondary market. All categories of Investors may purchase the units through secondary market on any trading day. The AMC will appoint Authorised Participant(s) to provide liquidity in secondary market on an ongoing basis. The Authorised Participant(s) would offer daily two-way quote in the market.

Each unit of the Kotak Nifty ETF will be approximately equal to 1/10th of the value of S&P CNX Nifty.

Risk Factors

Standard Risk Factors

Investment in Mutual Fund Units involves investment risks such as trading volumes, settlement risk, liquidity risk, default risk including the possible loss of principal. As the price / value / interest rates of the securities in which the scheme invests fluctuates, the value of your investment in the scheme may go up or down. The value of investments may be affected, inter-alia, by changes in the market, interest rates, changes in credit rating, trading volumes, settlement periods and transfer procedures; the NAV is also exposed to Price/Interest-Rate Risk and Credit Risk and may be affected inter-alia, by government policy, volatility and liquidity in the money markets and pressure on the exchange rate of the rupee. Past performance of the Sponsor/AMC/Mutual Fund does not guarantee future performance of the scheme.

The name of the scheme does not in any manner indicate either the quality of the scheme or its future prospects and returns. The sponsor is not responsible or liable for any loss resulting from the operation of the scheme beyond the initial contribution of Rs.2,50,000 made by it towards setting up the Fund. The present scheme is not a guaranteed or assured return scheme.

Scheme Specific Risk:

The Scheme is subject to the principal risks described below. Some or all of these risks may adversely affect Scheme's NAV, trading price, yield, total return and/or its ability to meet its objectives. The NAV of the units is closely related to the value of stocks that form a part of the benchmark index. The value of this will react to stock market movements and may result in changes in the NAV of units under the scheme. There could also be movements in the scheme's NAV due to changes in interest rates, macro economic and political developments and over longer periods during market downturns

Liquidity Risk: Trading in Kotak Nifty ETF may be halted due to market conditions or for reasons that in the view of the Exchange Authorities or SEBI, trading in Kotak Nifty ETF is not advisable. There could also be trading halts caused by extraordinary market volatility and pursuant to NSE/BSE and SEBI circuit filter rules. There can be no assurance that the requirements of the exchange necessary to maintain the listing of the Kotak Nifty ETF will continue to be met or will remain unchanged. **Regulatory Risk:** Any changes in trading regulations by the stock exchange (s) or SEBI may affect the ability of Authorised Participant to arbitrage resulting into wider premium/ discount to NAV.

Market Risk: The market in general could under perform returns from the securities or other asset classes. The Scheme is a passively managed scheme and provides exposure to the benchmark and tracks its performance and yield as closely as possible to the benchmark index. The Scheme's performance may be affected by a general price decline in the stock markets. The Scheme invests in the stocks comprising the index regardless of their investment merit. The Mutual Fund does not attempt to take defensive positions in declining markets. ETF being a passive investment tool does not carry risk of active fund management. An ETF will perform well when the index it tracks is making gains, but it may not perform well when that index is falling. An actively managed mutual fund manager, on the other hand, can tailor portfolio holdings which is beyond the mandate of an ETF. In the event of the scheme investing in more than 10% of the paid up capital of any company whose shares are included in the S&P CNX Nifty, the scheme attracts the provisions of SEBI Takeover Regulations and therefore may not be able to accept further subscriptions. The performance of the S&P CNX Nifty will have a direct bearing on the performance of the scheme. Hence any composition change made by the index service provider in terms of weightage or stocks selection will have an impact on the scheme. Though Kotak Nifty ETF is proposed to be listed on the stock exchange, there is no assurance that an active secondary market will develop or be maintained. For a retail investor in less than basket size, exchange quotes may not always be available. Since ETFs are passively managed, the risk associated with a particular ETF corresponds closely to the risk of the asset subclass the fund is tracking. Tracking error may have an impact on the performance of the scheme. However KMAMC will endeavour to keep the tracking error as low as possible. Investors may note that even though this is an open-ended scheme, they will have to buy or sell units of the scheme on the stock exchanges where these units are listed for liquidity at the market price, subject to the rules and regulations of the exchange. Buying and selling units on stock exchange requires the investor to engage the services of a broker and are subject to payment of margins as required by the stock exchange/broker, payment of brokerage, securities transactions tax and such other costs. The market price of ETF units, like any other listed security, is largely dependent on two factors, viz., (1) the intrinsic value of the unit (or NAV), and (2) demand and supply of units in the market. Sizeable demand or supply of the units in Exchange may lead to market price of the units to quote at premium or discount to NAV. However since the eligible investors can transact with the AMC for units beyond the creation unit size there should not be a significant variance from the NAV. Hence the price of ETF is less likely to hold significant variance (large premium or discount) from the latest declared NAV all the time. **Capital Gains Impact:** Investors who trade in Kotak Nifty ETF may be subject to Long Term Capital Gains or Short Term Capital Gains. Investors are requested to consult their tax / legal consultants before investing in the scheme. The units will be issued only in demat form through depositories. The records of the depository are final with respect to the number of units available to the credit of unit holder. Settlement of trades, repurchase of units by the mutual fund depends up on the confirmations to be received from depository (ies) on which the mutual fund has no control.

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) carefully before investing.

It is to be distinctly understood that the permission given by NSE should not in any way be deemed or construed that the Scheme Information Document has been cleared or approved by NSE nor does it certify the correctness or completeness of any of the contents of the Draft Scheme Information Document. The investors are advised to refer to the Scheme Information Document for the full text of the Disclaimer clause of NSE.

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