

Scheme Facts

Structure

An open ended scheme investing in arbitrage opportunities

Month end AUM* (as on 31st Oct 2019)

₹16,197.95 crs

Monthly Average AUM*

₹16,114.12 crs

NAV (as on 31st Oct 2019)

Growth	₹27.4184
Direct Growth	₹28.3531
Fortnightly Dividend	₹23.0994
Direct Fortnightly Dividend	₹23.5742
Bimonthly Dividend	₹20.0811
Direct Bimonthly Dividend	₹20.2848
Monthly Dividend	₹10.7108
Direct Monthly Dividend	₹11.0732

Launch Date

29th September 2005

Benchmark

Nifty 50 Arbitrage Index
(w.e.f 1st October 2016)

Min. Initial Inv.

₹5000

Additional Inv.

₹1000 & in multiples of ₹1

Standard Deviation[^]

0.47%

Beta[^]

0.45

Sharpe[^]

1.71

Portfolio Turnover

322.41%

*Source: MFI Explorer.

[^] as on 31st October, 2019. Source: ICRA MFI Explorer.

Load Structure

Entry Load: Nil

Exit Load:

I) For redemptions/switch outs (including SIP/STP) within 30 days from the date of allotment of units, irrespective of the amount of investment: 0.25%

II) For redemptions/switch outs (including SIP/STP) after 30 days from the date of allotment of units, irrespective of the amount of investment: Nil

Note - Any exit load charged (net off Goods and Services Tax, if any) shall be credited back to the Scheme.

Units issued on reinvestment of dividends shall not be subject to entry and exit load.

About Kotak Equity Arbitrage Fund

- Enter into simultaneous transactions of a long position in cash and exactly off-setting short position in futures
- Equity position is completely hedged at trade initiation.
- Towards the expiry or before the expiry of the derivatives contract, the positions are reversed or rolled over (if spread is available for next month)

Equity Market Brief

- Post the Finance Minister statement on reduction in corporate taxes, Indian markets staged a significant recovery, with corporate earnings finally getting support, after seeing a spate of downgrades.
- However, the wholesale market, sentiment and perception to stressed corporate groups, promoter pledges, NBFC especially Home Finance Companies continue to be elevated and in a risk-off mode.
- While near term uncertainty induces volatility in asset prices, in the long run, wealth creation in equities is a function as how businesses can profitably grow over their cost of capital sustainably. Given the long-range of reforms introduced, we believe longer-term prospects of Indian equities is quite encouraging and we would advise investors to benefit from such induced volatility.
- Time in the market is more important than timing the market - recently, markets volatility has moved up and investors can benefit from this volatility by focusing on disciplined investing and asset allocation.

Portfolio Action

The roll spread (annualized) on the arbitrage book is approximately 5.4%. The allocation to Equity arbitrage trades has been in line with last month to approximately 66%. The rest 34% of corpus is invested in FDs, debt and money market instruments. The FDs, debt and money market instruments offer a better return and should move the final return of the scheme higher.

Average arbitrage spreads have improved from 5.1% last month to 5.4% this month, on the back of aggressive long rolls by the AIF, Domestic and the retail participants. The key factor contributing to the expansion of arbitrage spreads has been the improvement in equity market. Nifty was up by 2.6% for the October expiry.

October month's fund returns were higher than what we had stated earlier on account of the below reasons:

- Dividend: TCS gave a special dividend of 2% which was not anticipated by the market thereby resulting in extra returns.
- Market Volatility: Higher volatility in markets provides opportunity to unwind arbitrage trades where spread has compressed and reinvest the proceeds in better returning arbitrage trades. This adds to the overall portfolio return.

All the stocks in futures universe are physically settled now, thereby eliminating the risk of VWAP. On the last day of October series, market-wide rollovers stood at 91% (vs. average rollovers of 87% seen in last three series) and stock futures rollovers stood at 94% (vs. average rollovers of 92% seen in last three series), thereby showcasing the aggression of long rollers to carry their longs.

The improvement in arbitrage spreads may sustain if the following conditions hold:

- Indian equity market sentiment remains buoyant. As markets recover, FI, HNI and Retail investors increase participation in F&O segment to take leveraged long bets. This increases the spread for Short rollers like arbitrage funds.
- Major events like GDP growth numbers, US- China trade talks among others can lead to higher market volatility, thereby giving an opportunity to unwind trades where spreads are compressed and deploying the same in other better avenues.
- The INR hedging cost and consequently, NDF spreads remains elevated. In the current expiry, NDF cost moved up from 36 bps to 40 bps during the expiry week.
- The corpus of the industry doesn't show a big spike suddenly. Gradual increases in the corpus are easier to absorb into the market but sudden gush of inflows leads to all participants chasing the same arbitrage opportunities and thereby putting pressure on the spreads. It also gives an idea to the investors who are long on futures that the arbitrageurs are keen to deploy the money and they try to keep the roll spreads lower.

On the debt side, we continue to run a conservative portfolio as far as credit and duration are concerned.

Dividend History

Date	CUM Dividend NAV	Dividend (₹ per unit)
Oct-29-19	10.7421	0.0376
Sep-23-19	10.7162	0.0311
Aug-26-19	10.7480	0.0601
Jul-22-19	10.7326	0.0511
Jun-24-19	10.7429	0.0551
May-27-19	10.7734	0.0691
Apr-24-19	10.7577	0.0593
Mar-25-19	10.7311	0.0328
Feb-25-19	10.7223	0.0359

Fortnightly Plan - Dividend Option

Oct-29-19	23.0694	0.0293
Sep-23-19	23.0813	0.0398
Aug-26-19	23.0680	0.0280
Aug-13-19	23.1082	0.0637
Jul-29-19	23.0981	0.0548
Jul-15-19	23.1167	0.0713
Jul-01-19	23.0798	0.0387
Jun-17-19	23.0816	0.0403
May-20-19	23.0974	0.0544
Apr-22-19	23.1379	0.0904
Apr-08-19	23.0751	0.0349
Mar-25-19	23.0926	0.0505
Mar-11-19	23.0848	0.0436
Feb-25-19	23.0816	0.0408
Feb-11-19	23.0705	0.0310
Jan-28-19	23.1021	0.0590
Jan-14-19	23.0753	0.0353
Dec-17-18	23.0771	0.0370
Dec-03-18	23.0829	0.0421

Bimonthly Plan - Dividend Option

Sep-23-19	20.1243	0.1643
Jul-22-19	20.1521	0.1991
May-27-19	20.2374	0.2404
Mar-25-19	20.1088	0.1287

About Kotak Mutual Fund

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. KMBL has a market capitalization of 3007.002bn (as on, 31st October, 2019). KMAMC is the Asset Manager for Kotak Mahindra Mutual Fund (KMMF). It started operations in December 1998. 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 ₹1,71,800.53cr as on 31st October, 2019.

* The numbers are converted using the Rupee- USD reference rate published by the Reserve Bank of India as on the respective dates.

To know more

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Visit - assetmanagement.kotak.com
Email - mutual@kotak.com

Disclaimer

Kotak Equity Arbitrage Fund An open ended scheme investing in arbitrage opportunities
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.

Mutual Fund investments are subject to market risks, read all scheme related documents carefully. Scheme Information Document (SID) and Statement of Additional Information (SAI) available on mutualfund.kotak.com

Sector Allocation as on 31st October, 2019

TREP & Term Deposits & Rev.Repo	16.72%
Finance	10.56%
Banks	8.79%
Petroleum Products	7.30%
Consumer Non Durables	7.29%
Unrated	6.92%
Software	6.89%
Commercial Paper (CP)/Certificate of Deposits (CD)	4.72%
Pharmaceuticals	3.55%
Cement	3.48%
REST	23.78%

Top 10 Companies as on 31st October, 2019

Reliance Industries Ltd.	Petroleum Products	4.85%
HDFC Ltd.	Finance	4.83%
ITC Ltd.	Consumer Non Durables	3.18%
Axis Bank Ltd	Banks	2.56%
Infosys Ltd.	Software	2.20%
Grasim Industries Ltd.	Cement	1.78%
Tech Mahindra Ltd.	Software	1.75%
Tata Consultancy Services Ltd.	Software	1.56%
ICICI Bank Ltd.	Banks	1.54%
Bharat Petroleum Corporation Ltd.	Petroleum Products	1.39%

Kotak Equity Arbitrage Fund* Performance (%) as on 31st October, 2019

Date	Scheme Returns (%) ^	Nifty 50 Arbitrage Index # (%)*	Alpha	Nifty 50 TRI ## (%)*	Current Value of Standard Investment of ₹10000 in the		
					Scheme # (₹)	Benchmark # (₹)	Additional Benchmark ## (₹)
Kotak Equity Arbitrage Fund							
Since Inception	7.42	NA	NA	12.73	27,418	NA	54,155
Last 1 Year	6.26	6.53	-0.28	15.93	10,626	10,653	11,593
Last 3 Years	6.21	5.26	0.95	12.66	11,986	11,668	14,313
Last 5 Years	6.58	6.09	0.50	8.76	13,758	13,441	15,218

Scheme Inception date is 29/09/2005. Mr. Rukun Tarachandani has been managing the fund since 09/05/2019. Mr. Hiten Shah has been managing the fund since 03/10/2019.

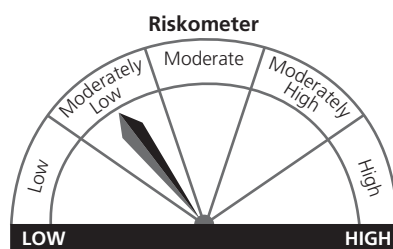
Different plans have different expense structure. The performance details provided herein are of regular plan.

^Past performance may or may not be sustained in future. *All payouts during the period have been reinvested in the units of the scheme at the then prevailing NAV. Returns >= 1 year: CAGR (Compounded Annualised Growth Rate). N.A stands for data not available. Note: Point to Point (PTP) Returns in INR shows the value of ₹10,000/- investment made at inception. Source: ICRA MFI Explorer. # Name of Scheme Benchmark. ## Name of Additional Benchmark.

*TRI – Total Return Index

With effect from 1st February 2018, we are comparing the performances of the funds with the total return variant of the benchmark instead of the price return variant.

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Investors understand that their principal will be at moderately low risk

This product is suitable for investors who are seeking*:

- Income from arbitrage opportunities in the equity market
- Investment in arbitrage opportunities in the cash & derivatives segment of the equity market.

* Investors should consult their financial advisors if in doubt about whether the product is suitable for them.