

# **KOTAK FUNDS**

**Société d'Investissement à Capital Variable (SICAV)**

**R.C.S. Luxembourg B 131.576**

## **ANNUAL REPORT AND AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013**

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# KOTAK FUNDS

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# KOTAK FUNDS

## MANAGEMENT AND ADMINISTRATION

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### Directors

**Varadarajan Vishwanathan**

Director - Compliance and Money Laundering  
Reporting Officer  
Kotak Mahindra (UK) Limited  
London

**Jérôme Wigny**

Partner  
Elvinger, Hoss & Prussen  
Luxembourg

**Ruchit Puri**

Chief Executive Officer  
Kotak Mahindra (UK) Limited  
Singapore 048581

**Raj Pandit**

Independent Director  
26, Cedars Close  
London NW4 1TR  
United Kingdom

**Registered Office**

16, boulevard d'Avranches  
L-1160 Luxembourg  
Grand Duchy of Luxembourg

**Administrator, Registrar and Transfer Agent and Domiciliary Agent**

HSBC Securities Services (Luxembourg) S.A.  
16, boulevard d'Avranches  
L-1160 Luxembourg  
Grand Duchy of Luxembourg

**Investment Manager**

Kotak Mahindra (UK) Limited  
55, Baker Street  
London W1U 7EU  
United Kingdom

For the Mauritius Subsidiaries

Cim Fund Services Limited  
33, Edith Cavell Street,  
Port Louis,  
Mauritius

**Custodian**

HSBC Securities Services (Luxembourg) S.A.  
16, boulevard d'Avranches  
L-1160 Luxembourg  
Grand Duchy of Luxembourg

**Auditors**

KPMG Luxembourg S.à r.l.  
9, allée Scheffer  
L-2520 Luxembourg  
Grand Duchy of Luxembourg

**Management Company**

RBS (Luxembourg) S.A.  
33, rue de Gasperich  
L-5826 Hesperange  
Grand Duchy of Luxembourg

**Legal Advisers in Luxembourg**

Elvinger, Hoss & Prussen  
2, place Winston Churchill  
L-1340 Luxembourg  
Grand Duchy of Luxembourg

**Global Distributor**

Kotak Mahindra (UK) Limited  
55, Baker Street  
London W1U 7EU  
United Kingdom

**Legal Advisers in India**

Khaitan & Co  
One Indiabulls Centre  
13<sup>th</sup> Floor, Tower 1  
841 Senapati Bapat Mary  
Mumbai 400013  
India

# KOTAK FUNDS

## INVESTMENT OBJECTIVES

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### **Kotak Funds - Indian Multi Cap Fund (Merged into India Midcap Fund on 4 October 2013)**

The objective of the Sub-Fund was to achieve long term capital appreciation by primarily investing at least two thirds of its total assets in equity and equity linked securities of companies registered in India or deriving a significant portion of their business from India.

The Sub-Fund had an active fund management strategy with allocation to sectors and capitalisation bands varied according to the Investment Manager's view of the market. The Investment style was a mix of top down and bottom up research. The large cap stocks were predominantly researched on a top-down approach, while the research of mid cap stocks was predominantly bottom-up.

### **Kotak Funds - India Infrastructure and Realty Fund (Merged into India Growth Fund on 4 October 2013)**

The objective of the Sub-Fund was to achieve long term capital appreciation by primarily investing at least two thirds of its total assets in equity and equity linked securities of companies registered in India or deriving a significant portion of their business from India.

The Sub-Fund invested directly and/or indirectly in equity and equity-linked securities of companies that in the opinion of the Investment Manager were directly or indirectly involved in the infrastructure or real estate sectors in India.

### **Kotak Funds - India Growth Fund**

The objective of the Sub-Fund is to achieve long term capital appreciation by primarily investing at least two thirds of its total assets in equity and equity linked securities of companies registered in India or deriving a significant portion of their business from India.

The Sub-Fund will invest directly and/or indirectly in equity and equity-linked securities of companies that in the opinion of the Investment Manager have one or more of the following characteristics:

- i) Companies which are expected to sustain high growth due to their ability to create new markets, develop nascent business segments, operate successfully in niche segments with scale-up potential.
- ii) Companies expected to create and deliver long term value due to innovation and IPR development.
- iii) Companies with the potential for value unlocking in the medium to long term due to strategic sale, change in management, deregulation, economic legislation and reform.
- iv) Companies which are sectoral leaders and enjoy leadership in their respective segments.
- v) Companies which are strong asset plays.
- vi) Companies which are expected to witness operational and financial improvement due to positive swing in their business cycles.

# KOTAK FUNDS

## INVESTMENT OBJECTIVES (CONTINUED)

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### **Kotak Funds - India Midcap Fund**

The objective of the Sub-Fund is to achieve long term capital appreciation by primarily investing at least two thirds of its total assets in equity and equity linked securities of mid capitalisation companies registered in India or deriving a significant portion of their business from India.

The Sub-Fund will invest up to one third of its total assets temporarily in liquid assets, including money-market instruments having a residual maturity not exceeding twelve months and demand or time deposits.

### **Kotak Funds – India Fixed Income Fund (Launched on 17 December 2013)**

The objective of the Sub-Fund is to generate total returns by primarily investing in debt securities issued by the central or state governments of India or issued by companies of Indian origin or deriving a significant portion of their business in India.

The Sub-Fund will principally gain exposure to the following instruments:

- a) Debt securities issued by the Central and State Governments in India (including but not limited to coupon bearing bonds, zero coupon bonds and treasury bills).
- b) Debt securities issued by Indian governmental agencies and statutory bodies, which may or may not carry a Central/ State Government guarantee in India.
- c) Corporate debt securities denominated in INR and issued by companies of Indian origin or deriving a significant portion of their business from India (including but not limited to Commercial Paper (CPs), Non-Convertible Debentures (NCD's) and bonds including zero coupon bonds).
- d) Corporate debt securities denominated in currencies other than INR and issued by companies of Indian origin or deriving a significant portion of their business from India.
- e) Mutual funds domiciled in India and regulated by Securities and Exchange Board of India.

The Sub-Fund may invest more than 35% of its net asset value in debt securities issued and/or guaranteed by the Indian government in accordance with section III c) of the Investment Restrictions. If such limit of 35% is exceeded, section III f) of the Investment Restrictions will apply.

The Sub-Fund may on an ancillary basis, invest directly or indirectly in sovereign debt securities issued by developed world countries (including US treasury bills and bonds) denominated in any currency.

The Sub-Funds will not invest more than 10% of its assets in other UCIs.

# KOTAK FUNDS

## DIRECTORS' REPORT

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We are pleased to present you the Annual Report as at 31 December, 2013 of Kotak Funds.

### Update

Kotak Funds underwent some notable changes during the year. One of the key developments was the merger of India Infrastructure and Realty Fund with India Growth Fund and the Indian Multi Cap Fund with the India Midcap Fund. The decision was taken by directors after carefully considering the current economic scenario, the investment themes and the ability of these funds to attract future flows. This was also a major step towards rationalising the cost structure which the directors felt would benefit the shareholders in the long run.

The year also saw the launch of a new Sub-Fund i.e India Fixed Income Fund focusing on generating returns from investment in Indian debt securities (Corporate and government). The Indian debt market has over the last few years opened up significantly to foreign investors and has since attracted considerable interest from foreign investors given the interest rate differential prevalent in India compared to other developed markets coupled with comfortable credit quality. The new Sub-Fund will provide an access to this exciting opportunity packaged within the globally acceptable UCITS framework.

The India Midcap Fund and the India Growth Fund continue to be authorized for sale in Luxembourg, Finland, Switzerland and United Kingdom while India Midcap Fund continues to be authorized for sale in Sweden also. The India Growth Fund has recently been authorised for sale in France as well while the new Sub-Fund was authorised for sale in Luxembourg and United Kingdom.

### Markets and Performance

2013 proved to be a challenging year for Indian economy. Rising fiscal deficit, current account deficit, and inflation along with a weak and uncertain global growth had its toll on India's GDP growth and currency. GDP growth touched its multiyear low with sub 5% growth for CY13 and currency depreciated by 13% to close at INR61.90 to a dollar after seeing an all-time low of INR68.36. However, despite these macro headwinds, corporate performance wasn't as bad as one would have thought and earnings is expected to grow by 6-7% for the year ending March 2014 and as these macro headwinds are ebbing, we are seeing renewed interest in the Indian market. In INR terms, the index closed the year near its all-time highs with NIFTY Index delivering a 6.76% return (though -5.33% in USD terms on the back of weaker INR).

Despite the weakening macro and currency, Foreign Institutional Investors (FII) kept faith in the Indian equity markets with flows remaining strong for 2013 at USD20.1bn (December FII inflow to the equity market stood at USD2.6bn). This is also remarkable considering big FII outflows in other Emerging markets due to fear of tapering. In addition, FII flow to the debt market turned positive in December, the first since May when the fear of tapering first emerged, though overall FII withdrew around USD8bn for 2013.

# KOTAK FUNDS

## DIRECTORS' REPORT (CONTINUED)

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### Markets and Performance (continued)

We see 2014 a year where FDI, M&A, exports and non-urban growth will be in focus. We see 2014 a year of transformation, both economically and politically. Specifically, we see macro headwinds coming off and some tailwinds emerging. Current account deficit has come to much more manageable levels though there are now worries on Fiscal deficit. Inflation after remain elevated for most part of the year has started to ease and is likely to soften further which may provide room to the central bank to have a more accommodative monetary policy to revive growth. While there are chances of the central bank to do one more rate hike (though chances are diminishing), we expect RBI to cut policy rates in later part of 2014. We see political changes in the next general elections which can also potentially be positive for the overall sentiment. Additionally, global growth has revived and the much feared "Taper" has thus far not had as much as impact as feared. We expect rupee to trade in the range of 60-65. On the back of continued buoyancy in the rural economy, export growth, and a possible accommodative policy in the later part of the year, we see GDP moving up, albeit gradually to above 5% in the coming year.

#### Kotak Funds – India Growth Fund

For the year ended 31 December 2013, Kotak Funds: India Growth Fund returned -4.08%^ and the Nifty Index returned -5.33% for the same period.

#### Kotak Funds – India Midcap Fund

Kotak Funds: India Midcap Fund yielded a return of -9.59%^ with the CNX Midcap Index returning -15.85% for the same period.

#### Kotak Funds – India Fixed Income Fund

This Sub-Fund was launched during second half of December 2013 and hence, the performance for the truncated short period may not be representative and meaningful.

*^ The performance mentioned for the sub-funds are for Class A USD Accumulation Shares and % returns mentioned above are in USD.*

The Board of Directors

22 January 2014



To the Shareholders of  
Kotak Funds  
16, boulevard d'Avranches  
L-1160, Luxembourg  
Grand Duchy of Luxembourg

## **REPORT OF THE RÉVISEUR D'ENTREPRISES AGRÉÉ**

Following our appointment by the Board of Directors of Kotak Funds (the "SICAV"), we have audited the accompanying consolidated financial statements of the SICAV and each of its subfunds, which comprise the consolidated statement of net assets and the consolidated schedule of investments as at 31 December 2013 and the consolidated statement of operations and the consolidated statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Board of Directors of the SICAV responsibility for the consolidated financial statements*

The Board of Directors of the SICAV is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the consolidated financial statements, and for such internal control as the Board of Directors of the SICAV determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Responsibility of the Réviseur d'Entreprises agréé*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the Commission de Surveillance du Secteur Financier. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgement of the Réviseur d'Entreprises agréé, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the Réviseur d'Entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors of the SICAV, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





*Opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Kotak Funds as at 31 December 2013 and of the consolidated results of its operations and changes in its net assets for the year then ended in accordance with the Luxembourg legal and regulatory requirements relating to the preparation of the consolidated financial statements.

*Other matter*

Supplementary information included in the annual report has been reviewed in the context of our mandate but has not been subject to specific audit procedures carried out in accordance with the standards described above. Consequently, we express no opinion on such information. However, we have no observation to make concerning such information in the context of the consolidated financial statements taken as a whole.

Luxembourg, 22 April 2014

KPMG Luxembourg S.à r.l.  
Cabinet de révision agréé

A handwritten signature in blue ink, appearing to read 'V. Chan Yin'.

V. Chan Yin

# KOTAK FUNDS

## CONSOLIDATED STATEMENT OF NET ASSETS AS AT 31 DECEMBER 2013

	NOTES	COMBINED USD	INDIA GROWTH FUND USD	INDIA MIDCAP FUND USD	INDIA FIXED INCOME FUND USD***
<b>Investments</b>					
Investments in securities at cost		90,334,273	59,310,189	25,486,178	5,537,906
Unrealised appreciation		4,626,237	2,478,399	2,112,649	35,189
Investments in securities at fair value	2.d	94,960,510	61,788,588	27,598,827	5,573,095
<b>Other Assets</b>					
Cash at bank		3,012,796	1,697,787	1,314,606	403
Receivable resulting from sales of securities		149,499	64,406	85,093	-
Unrealised appreciation on futures contracts	2.g,11	26,136	26,136	-	-
Due from shareholders		10,426	8,645	1,781	-
Sundry debtors and prepayments		382,756	253,621	8,144	120,991
		3,581,613	2,050,595	1,409,624	121,394
<b>Total Assets</b>		98,542,123	63,839,183	29,008,451	5,694,489
<b>Liabilities</b>					
Unrealised depreciation on futures contracts	2.g,11	20,336	16,517	3,819	-
Payable resulting from purchases of securities		448,382	30,922	417,460	-
Subscriptions received in advance from shareholders		112,495	52,091	60,404	-
Sundry creditors and accruals		766,817	525,875	233,501	7,441
<b>Total Liabilities</b>		1,348,030	625,405	715,184	7,441
<b>Net Assets</b>		97,194,093	63,213,778	28,293,267	5,687,048

\* Merged into India MidCap Fund on 4 October 2013

\*\* Merged into India Growth Fund on 4 October 2013

\*\*\* Launched on 17 December 2013

The accompanying notes form an integral part of these consolidated financial statements.

# KOTAK FUNDS

## CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	COMBINED USD	INDIAN MULTI CAP FUND USD*	INDIA INFRASTRUCTURE AND REALTY FUND USD**	INDIA GROWTH FUND USD	INDIA MIDCAP FUND USD	INDIA FIXED INCOME FUND USD***
<b>Income</b>							
Dividend income	2.e	1,354,970	65,379	195,563	690,349	403,679	-
Other income		161,208	-	54,600	54,675	27,413	24,520
Total income		1,516,178	65,379	250,163	745,024	431,092	24,520
<b>Expenses</b>							
Management fees	3	1,929,012	35,579	266,361	1,036,067	589,487	1,518
Facilitation fees	4	167,344	-	24,713	142,631	-	-
Administration and custodian fees	5	218,332	31,085	39,179	85,651	61,236	1,181
Audit and professional fees		137,672	7,021	17,121	70,637	42,372	521
Management company fees	9	113,040	23,989	23,989	31,931	31,868	1,263
Subscription tax	6	47,607	1,807	4,496	27,610	13,674	20
Amortisation of formation expenses	2.j	7,229	-	7,229	-	-	-
Transaction costs	10	95,241	8,604	22,707	42,752	20,737	441
Directors' fees and expenses		35,680	3,970	5,609	15,251	10,664	186
Bank interest and charges		33,350	4,125	5,775	9,478	12,794	1,178
Other expenses		374,128	36,895	44,185	167,333	123,293	2,422
Total expenses		3,158,635	153,075	461,364	1,629,341	906,125	8,730
<b>Net (Loss)/Profit from Investments</b>		(1,642,457)	(87,696)	(211,201)	(884,317)	(475,033)	15,790
<b>Net (loss)/profit realised on:</b>							
- investments portfolio	2.d	(7,654,436)	(125,403)	(6,662,322)	(1,593,978)	727,267	-
- futures contracts	2.g	(285,629)	(4,376)	(200,146)	100,517	(181,624)	-
- foreign exchange transactions	2.c	(900,655)	(99,643)	(194,800)	(194,690)	(420,192)	8,670
<b>Net Realised (Loss)/Gain</b>		(8,840,720)	(229,422)	(7,057,268)	(1,688,151)	125,451	8,670
<b>Net change in unrealised (depreciation)/appreciation on:</b>							
- investment portfolio	2.d	(361,227)	(419,878)	3,839,956	(186,128)	(3,630,366)	35,189
- options	2.h	37,151	-	16,347	20,804	-	-
- futures contracts	2.g	(7,782)	-	964	(13,174)	4,428	-
<b>Net Change in Unrealised (Depreciation)/Appreciation</b>		(331,858)	(419,878)	3,857,267	(178,498)	(3,625,938)	35,189
<b>Results from Operations</b>		(10,815,035)	(736,996)	(3,411,202)	(2,750,966)	(3,975,520)	59,649

\* Merged into India MidCap Fund on 4 October 2013

\*\* Merged into India Growth Fund on 4 October 2013

\*\*\* Launched on 17 December 2013

The accompanying notes form an integral part of these consolidated financial statements.

# KOTAK FUNDS

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 31 DECEMBER 2013

	COMBINED USD	INDIAN MULTI CAP FUND USD*	INDIA INFRASTRUCTURE AND REALTY FUND USD**	INDIA GROWTH FUND USD	INDIA MIDCAP FUND USD	INDIA FIXED INCOME FUND USD***
Net Assets at beginning of the year	123,147,887	5,143,203	33,636,026	42,751,248	41,617,410	-
(Decrease)/Increase in Net Assets as a Result of Operations	(10,815,035)	(736,996)	(3,411,202)	(2,750,966)	(3,975,520)	59,649
<b>Capital Transactions</b>						
Subscriptions received	58,699,054	537,215	73,538	37,282,294	15,178,608	5,627,399
Redemptions paid	(73,784,737)	(4,943,422)	(30,298,362)	(14,068,798)	(24,474,155)	-
<b>Dividends and distributions</b>						
Dividends paid	(53,076)	-	-	-	(53,076)	-
Net (Decrease)/Increase in Net Assets as a Result of Capital Transactions	(15,138,759)	(4,406,207)	(30,224,824)	23,213,496	(9,348,623)	5,627,399
Total (Decrease)/Increase in Net Assets in the year	(25,953,794)	(5,143,203)	(33,636,026)	20,462,530	(13,324,143)	5,687,048
Net Assets at end of the year	97,194,093	-	-	63,213,778	28,293,267	5,687,048

\* Merged into India MidCap Fund on 4 October 2013

\*\* Merged into India Growth Fund on 4 October 2013

\*\*\* Launched on 17 December 2013

The accompanying notes form an integral part of these consolidated financial statements.

# KOTAK FUNDS

## STATISTICAL INFORMATION

		INDIAN MULTI CAP FUND USD*	INDIA INFRASTRUCTURE AND REALTY FUND USD**	INDIA GROWTH FUND USD	INDIA MIDCAP FUND USD	INDIA FIXED INCOME FUND USD***
Net asset value	31 December 2013	-	-	USD 63,213,778	USD 28,293,267	USD 5,687,048
	31 December 2012	USD 5,143,203	USD 33,636,026	USD 42,751,248	USD 41,617,410	-
	31 December 2011	USD 4,185,869	USD 35,996,961	USD 30,339,674	USD 53,575,418	-
Number of shares	31 December 2013					
	Class A Shares USD	-	-	6,110,175	2,430,566	-
	Class A Shares GBP	-	-	31,211	41,151	-
	Class I Shares USD	-	-	339,323	255,282	150,000
	Class A Distribution Shares GBP	-	-	1,319	7,981	-
	Class X Distribution Shares JPY	-	-	-	17,867	-
	Class I Shares EUR	-	-	-	2,278	300,000
	Class B Shares USD	-	-	-	21,577	-
	Class B Shares GBP	-	-	-	12,898	-
	Class B Shares EUR	-	-	-	3,375	-
	31 December 2012					
	Class A Shares USD	715,518	4,969,605	3,823,792	2,782,261	-
	Class A Shares GBP	41,989	7,137	33,006	18,746	-
	Class A Shares EUR	9,551	-	-	-	-
	Class I Shares USD	-	-	330,170	1,056,673	-
	Class A Distribution Shares GBP	2,511	3,237	274	1,003	-
	Class X Distribution Shares JPY	-	-	-	13,059	-
	Class I Shares EUR	-	-	-	2,278	-
	Class B Shares USD	-	-	-	11,491	-
	Class B Shares GBP	-	-	-	16,435	-
	Class B Shares EUR	-	-	-	10,613	-
	31 December 2011					
	Class A Shares USD	761,025	6,442,100	3,918,737	3,290,383	-
	Class A Shares GBP	40,130	5,846	24,255	6,949	-
	Class A Shares EUR	13,056	-	-	-	-
	Class I Shares USD	-	-	147,936	3,967,969	-
	Class A Distribution Shares GBP	2,485	3,790	-	-	-
	Class X Distribution Shares JPY	-	-	-	14,427	-
	Class I Shares EUR	-	-	-	2,278	-
Net asset value per share	31 December 2013					
	Class A Shares USD	-	-	USD 9.64	USD 9.33	-
	Class A Shares GBP	-	-	GBP 8.97	GBP 7.60	-
	Class I Shares USD	-	-	USD 11.24	USD 8.74	USD 10.11
	Class A Distribution Shares GBP	-	-	GBP 11.68	GBP 9.68	-
	Class X Distribution Shares JPY	-	-	-	JPY 13,123.72	-
	Class I Shares EUR	-	-	-	EUR 7.28	EUR 10.09
	Class B Shares USD	-	-	-	USD 11.09	-
	Class B Shares GBP	-	-	-	GBP 8.85	-
	Class B Shares EUR	-	-	-	EUR 9.73	-
	31 December 2012					
	Class A Shares USD	USD 6.25	USD 6.75	USD 10.05	USD 10.32	-
	Class A Shares GBP	GBP 7.81	GBP 6.35	GBP 9.54	GBP 8.58	-
	Class A Shares EUR	EUR 7.23	-	-	-	-
	Class I Shares USD	-	-	USD 11.59	USD 9.67	-
	Class A Distribution Shares GBP	GBP 11.83	GBP 7.68	GBP 12.42	GBP 10.93	-
	Class X Distribution Shares JPY	-	-	-	JPY 11,961.29	-
	Class I Shares EUR	-	-	-	EUR 8.39	-
	Class B Shares USD	-	-	-	USD 12.39	-
	Class B Shares GBP	-	-	-	GBP 10.09	-
	Class B Shares EUR	-	-	-	EUR 11.34	-
	31 December 2011					
	Class A Shares USD	USD 4.81	USD 5.57	USD 7.36	USD 7.43	-
	Class A Shares GBP	GBP 6.27	GBP 5.47	GBP 7.29	GBP 6.45	-
	Class A Shares EUR	EUR 5.68	-	-	-	-
	Class I Shares USD	-	-	USD 8.40	USD 6.96	-
	Class A Distribution Shares GBP	GBP 9.51	GBP 6.62	-	-	-
	Class X Distribution Shares JPY	-	-	-	JPY 7,583.31	-
	Class I Shares EUR	-	-	-	EUR 6.16	-

\* Merged into India MidCap Fund on 4 October 2013

\*\* Merged into India Growth Fund on 4 October 2013

\*\*\* Launched on 17 December 2013

The accompanying notes form an integral part of these consolidated financial statements.

# KOTAK FUNDS

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) INDIA GROWTH FUND 31 December 2013

Number of shares/ Nominal Value	Security	Fair Value USD	Fair Value as a percentage of Net Assets
<b>Long Positions</b>			
<b>Equities</b>			
<b>India</b>			
37,000	Aditya Birla	742,617	1.17
102,500	Amara Raja Batteries	556,237	0.88
218,250	Ambuja Cements	643,830	1.02
68,340	Axis Bank	1,434,383	2.27
30,160	Bajaj Auto	930,797	1.47
182,625	Bank of Baroda	1,904,089	3.01
55,000	Bata India	936,046	1.48
229,167	Bharat Petroleum	1,287,667	2.04
374,802	Bharti Airtel	1,999,134	3.16
61,000	Britannia Industries	906,980	1.43
150,000	Crompton Greaves	311,793	0.49
800,000	Dish TV	783,642	1.24
15,830	Dr. Reddy's Laboratories	648,019	1.03
132,736	Emami	1,016,272	1.61
50,081	Glenmark Pharmaceuticals	431,807	0.68
337,696	Gujarat Pipavav Port	344,699	0.55
33,906	HCL Technologies	691,389	1.09
394,000	HDFC Bank	4,237,110	6.70
150,612	Housing Development Finance	1,933,003	3.06
241,000	ICICI Bank	4,276,742	6.77
238,840	IndusInd Bank	1,622,844	2.57
96,880	Infosys Technologies	5,453,999	8.63
637,627	ITC	3,314,495	5.24
117,184	Larsen & Toubro	2,025,586	3.20
85,750	Lupin	1,257,734	1.99
49,970	Mahindra & Mahindra	762,027	1.21
106,000	Max India	370,048	0.59
7,597	Nestle India	648,983	1.03
170,000	Oil India	1,340,841	2.12
8,112	Oracle Financial Services	432,111	0.68
200,000	Prestige Estates Projects	524,743	0.83
243,245	Reliance Industries	3,516,909	5.56
219,450	Sesa Sterlite	715,775	1.13
11,947	Shree Cement	837,849	1.33
153,140	Sun Pharmaceuticals	1,403,503	2.22
43,552	Sunteck Realty	212,534	0.34
98,410	Tata Consultancy Services	3,452,281	5.46
542,479	Tata Motors 'A'	1,687,033	2.67
43,880	Tech Mahindra	1,302,488	2.06
274,863	The Ramco Cements Limited	850,346	1.35
56,000	Thermax	643,020	1.02
35,420	United Spirits	1,492,261	2.36
165,430	Yes Bank	989,117	1.56
205,000	Zee Entertainment	915,805	1.45
<b>Total Equities</b>		<b>61,788,588</b>	<b>97.75</b>
<b>Total Long Positions</b>		<b>61,788,588</b>	<b>97.75</b>
<b>Total Investments</b>		<b>61,788,588</b>	<b>97.75</b>
<b>Other Net Assets and Liabilities</b>		<b>1,425,190</b>	<b>2.25</b>
<b>Net Asset Value</b>		<b>63,213,778</b>	<b>100.00</b>

No schedule of investment changes has been included into the report. Such information is available upon request from HSBC Securities Services (Luxembourg) S.A., the Fund's Administrator.

The accompanying notes form an integral part of these consolidated financial statements.

# KOTAK FUNDS

## CONSOLIDATED SCHEDULE OF INVESTMENTS (CONTINUED) INDIA MIDCAP FUND 31 December 2013

Number of shares/ Nominal Value	Security	Fair Value USD	Fair Value as a percentage of Net Assets
<b>Long Positions</b>			
<b>Equities</b>			
<b>India</b>			
39,322	Aditya Birla	789,222	2.79
58,496	AIA Engineering	451,975	1.60
59,217	Amara Raja Batteries	321,353	1.14
7,387	Apollo Hospitals Enterprise	112,912	0.40
296,400	Apollo Tyres	513,181	1.81
110,685	Aurobindo Pharma	702,195	2.48
13,978	Axis Bank	293,383	1.04
48,150	Bajaj Electricals	174,120	0.62
28,498	Bajaj Finance	727,800	2.57
22,000	Bank of Baroda	229,377	0.81
21,187	Bata India	360,582	1.28
55,568	Bharat Forge	294,416	1.04
80,074	Bharti Airtel	427,102	1.51
54,581	Britannia Industries	811,539	2.87
142,950	Century Textiles	724,031	2.56
73,346	Coromandel International	283,476	1.00
160,110	Crompton Greaves	332,808	1.18
78,065	D.B. Corporation Limited	371,816	1.31
189,636	Dabur India	521,747	1.84
31,115	Divis Laboratories	613,772	2.17
72,304	Emami	553,584	1.96
176,273	Exide Industries	350,462	1.24
534,385	Federal Bank	725,419	2.56
49,693	Glenmark Pharmaceuticals	428,461	1.51
43,905	Great Eastern Shipping	225,460	0.80
134,472	Greaves Cotton	146,165	0.52
40,040	Hathway Cable And Datacom	183,496	0.65
178,341	Hindustan Zinc	381,649	1.35
19,000	ICICI Bank	337,171	1.19
67,556	IL&FS Transportation Network	152,862	0.54
139,851	Indoco Remedies Limited	308,541	1.09
92,827	IndusInd Bank	630,731	2.23
5,031	Infosys Technologies	283,227	1.00
83,000	ING Vysya Bank	821,005	2.90
120,000	JK Lakshmi Cement	153,595	0.54
229,701	Kalpataru Power Transmission	332,776	1.18
100,304	Kpit Cummins Infosys	277,668	0.98
28,684	Lupin	420,721	1.49
56,446	Mahindra & Mahindra Financial Services	292,322	1.03
282,384	Motherson Sumi Systems	832,339	2.94
47,406	Oil India	373,905	1.32
10,640	Oracle Financial Services	566,773	2.00
107,971	Oriental Bank of Commerce	399,076	1.41
32,128	Persistent Systems	507,429	1.79
164,379	Prestige Estates Projects	431,284	1.52
114,641	Rallis India	330,040	1.17
119,642	Raymond	545,013	1.93
353,736	Sadbhav Engineering	517,327	1.83
7,648	Shree Cement	536,358	1.90
26,408	Siemens	282,842	1.00
20,000	Solar Industries India	291,411	1.03
31,645	Styrolution ABS India	214,584	0.76
27,989	Suntech Realty	136,586	0.48
51,048	Sun TV Network	313,547	1.11
65,700	Supreme Industries	451,027	1.59
91,700	Tata Communications	457,789	1.62
276,859	Tata Global Beverage	717,456	2.54
19,390	Tech Mahindra	575,553	2.03
330,000	Texmaco Rail & Engineering	230,514	0.82
107,927	The Ramco Cements Limited	333,895	1.18
41,170	Thermax	472,734	1.67
12,380	United Spirits	521,575	1.84
104,800	Volta	196,428	0.69
16,602	VST Industries	466,050	1.65
90,409	Yes Bank	540,562	1.91
65,947	Zee Entertainment	294,608	1.04
<b>Total Equities</b>		<b>27,598,827</b>	<b>97.55</b>
<b>Total Long Positions</b>		<b>27,598,827</b>	<b>97.55</b>
<b>Total Investments</b>		<b>27,598,827</b>	<b>97.55</b>
<b>Other Net Assets and Liabilities</b>		<b>694,440</b>	<b>2.45</b>
<b>Net Asset Value</b>		<b>28,293,267</b>	<b>100.00</b>

No schedule of investment changes has been included into the report. Such information is available upon request from HSBC Securities Services (Luxembourg) S.A., the Fund's Administrator.

The accompanying notes form an integral part of these consolidated financial statements.

# KOTAK FUNDS

## CONSOLIDATED SCHEDULE OF INVESTMENTS INDIA FIXED INCOME FUND (LAUNCHED ON 17 DECEMBER 2013) 31 December 2013

Number of shares/ Nominal Value	Security	Fair Value USD	Fair Value as a percentage of Net Assets
<b>Long Positions</b>			
<b>Mutual Fund</b>			
<b>India</b>			
3,091	Kotak Liquid Plan "A"	127,044	2.23
<b>Total Equities</b>		<b>127,044</b>	<b>2.23</b>
<b>Debt Instruments</b>			
<b>India</b>			
17,000,000	Export Import 9.7% 21/11/2018	275,779	4.85
35,000,000	HDB Financial 8.54% 03/06/2016	544,918	9.58
35,000,000	IDFC Limited 8.49% 06/05/2016	551,359	9.69
38,500,000	India 8.12% 10/12/2020	592,660	10.42
21,000,000	India Gov 8.83% 25/11/2023	339,402	5.97
35,000,000	India Rep 7.16% 20/05/2023	497,205	8.74
27,500,000	Karnataka 9.39% 04/12/2023	452,345	7.96
35,000,000	LIC Housing Fin 8.4% 11/06/2018	536,116	9.43
31,500,000	Maharashtra 9.39% 20/11/2023	518,389	9.12
17,000,000	Rural Elect 9.38% 06/11/2018	271,812	4.78
31,500,000	Tamil Nadu 9.39% 20/11/2023	518,389	9.12
21,000,000	Tamil Nadu 9.49% 18/12/2023	347,677	6.11
<b>Total Debt Instruments</b>		<b>5,446,051</b>	<b>95.77</b>
<b>Total Long Positions</b>		<b>5,573,095</b>	<b>98.00</b>
<b>Total Investments</b>		<b>5,573,095</b>	<b>98.00</b>
<b>Other Net Assets and Liabilities</b>		<b>113,953</b>	<b>2.00</b>
<b>Net Asset Value</b>		<b>5,687,048</b>	<b>100.00</b>

No schedule of investment changes has been included into the report. Such information is available upon request from HSBC Securities Services (Luxembourg) S.A., the Fund's Administrator.

The accompanying notes form an integral part of these consolidated financial statements.



# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

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### 1. General information

Kotak Funds (the 'Company' or the 'Fund') is an investment company organised as a Société Anonyme under the laws of the Grand Duchy of Luxembourg and is qualified as a Société d'Investissement à Capital Variable (SICAV). The Company, incorporated on 12 September 2007, is registered under Part I of the Luxembourg Law of 17 December 2010 regarding undertakings for collective investment.

The Company offers investors the choice between several classes of shares (each a "class") in a number of Sub-funds. As at 31 December 2013, the Company was composed of the following Sub-funds:

- Kotak Funds - India Growth Fund;
- Kotak Funds - India Midcap Fund;
- Kotak Funds - India Fixed Income Fund (Launched on 17 December 2013).

As at 20 June 2013, the Board of Directors decided to merge, with effect as of 4 October 2013: Kotak Funds - Indian Multi Cap Fund into Kotak Funds - India Midcap Fund  
Kotak Funds - India Infrastructure and Realty Fund into Kotak Funds - India Growth Fund

The exchange ratios of merger are disclosed below:

#### **Kotak Funds - Indian Multi Cap Fund**

Class A shares USD	0.6508354
Class A shares GBP	0.9780046
Class A Distribution shares GBP	1.1630598

#### **Kotak Funds – India Infrastructure and Realty Fund**

Class A shares USD	0.52595598
Class A shares GBP	0.52143760
Class A Distribution shares GBP	0.48406100

The following share classes were in issue as at 31 December 2013:

- (i) Class A shares which are available to all investors.
- (ii) Class I and Class J shares which are reserved to institutional investors in the meaning of article 174 of the Luxembourg Law of 17 December 2010. The Class J shares is only available in India Midcap Fund.
- (iii) Class B shares which are available to investors who at the time the relevant subscription order is received are customers of certain distributors appointed by the Global Distributor specifically for the purpose of distributing the Class B shares. The class is only available in the India Infrastructure and Realty Fund, India Growth Fund and India Midcap Fund.
- (iv) Class X shares which are only available in certain jurisdictions and shall be offered at the discretion of the Global Distributor.
- (v) Class C Shares may be offered in certain limited circumstances for distribution in certain countries and through certain distributors or sub-distributors who in the opinion of the Global Distributor, is wholly or partially impacted by the UK Retail Distribution Review.

The main objective of the Sub-Funds is to invest in sufficiently liquid transferable securities and other eligible assets in order to provide returns for investors.

The Company has incorporated Indian Multi Cap Fund (Mauritius) Limited ("the Multi Cap Mauritius Subsidiary") on 3 August 2007, India Infrastructure & Realty Fund (Mauritius) Ltd ("the Infrastructure and Realty Mauritius Subsidiary") on 14 September 2009, India Bluechip (Mauritius) Ltd ("the Bluechip Subsidiary") on 14 December 2009, India Midcap (Mauritius) Ltd ("the Midcap Subsidiary") on 19 April 2010 and K Debt (Mauritius) Limited ("the Debt Subsidiary") on 27 September 2013 as wholly-owned subsidiaries.

The Multi Cap Mauritius Subsidiary and the Infrastructure and Realty Mauritius Subsidiary were transferred to the Midcap Fund and India Growth Fund respectively when the Indian Multi Cap Fund and India Infrastructure and Realty Fund were merged into these sub-funds. These two subsidiaries have been liquidated on 27 December 2013.

# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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### 1. General information (continued)

The subsidiaries hold a substantial proportion of the assets of the Sub-Funds. The subsidiaries have received a tax residence certificate from the Director General of Mauritius Revenue Authority, on which basis the subsidiaries should be entitled to appropriate relief under the India/Mauritius Double Tax Treaty.

As wholly-owned subsidiaries of the Company all assets and liabilities, income and expenses of the subsidiaries are consolidated in the statements of net assets and operations of the respective Sub-Funds. All investments held by the subsidiaries are disclosed in the accounts of the Sub-Funds.

### 2. Summary of significant accounting policies

#### a) Accounting convention

The consolidated financial statements have been prepared in accordance with Luxembourg generally accepted accounting principles applicable to investment funds.

#### b) Financial statements

Financial statements are presented for each Sub-Fund in the base currency of the Sub-Fund and the consolidated statements of net assets, operations and changes in net assets are presented in USD, based on the exchange rate ruling at the date of these consolidated financial statements.

#### c) Foreign currency translation

Assets and liabilities in currencies other than the Sub-Funds' base currency have been translated into that currency at exchange rates ruling at the date of these consolidated financial statements. Transactions occurring during the year in currencies other than the base currency are translated at rates of exchange ruling at the transaction dates. The exchange rates applicable as at 31 December 2013 are:

USD/GBP	=	0.6048
USD/EUR	=	0.7257
USD/INR	=	61.9157
USD/JPY	=	104.9098

#### d) Investments

Securities listed on Regulated Markets, which operate regularly and are recognized and open to the public, are valued at the last available price of the main market for the relevant security.

Securities listed on the Indian stock exchanges are valued at the closing price on the National Stock Exchange failing which the closing price on the Stock Exchange, Mumbai (BSE) failing which the closing price on any other exchange whereat the security is traded shall be considered.

Securities not listed on Regulated Markets, which operate regularly and are recognized and open to the public, are valued on the basis of their last available price.

In the event that extraordinary circumstances render such a valuation impracticable or inadequate, the Directors may, at their discretion, prudently and in good faith follow other methods of valuation to be used if they consider such method of valuation better reflects the value and is in accordance with good accounting practice in order to achieve a fair valuation of the assets of the Company.

Gains or losses arising on the disposal of investments are calculated by reference to the net sales proceeds and the average cost attributable to those investments.

# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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### 2. Summary of significant accounting policies (continued)

#### e) Income and expenses

Dividends arising on the Company's equity investments are credited to the consolidated statement of operations when the security is quoted ex-dividend, net of withholding taxes where applicable. Interest income is recognised as the interest accrues (taking into account the effective yield on the asset) unless recoverability is in doubt. Where the Company incurs an expense which relates to any particular Sub-Fund or to any action taken in connection with a particular Sub-Fund, such liability shall be allocated to the relevant Sub-Fund. In the case where any expense of the Company cannot be considered as being attributable to a particular Sub-Fund, such expense shall be allocated to all the Sub-Funds pro rata to their NAV's or in such other ways that the Directors deem equitable.

Notwithstanding the provisions of the preceding paragraph, all liabilities of the Company, whatever Sub-Fund they are attributable to, shall, unless otherwise agreed upon with the creditors, be binding upon the Company as a whole.

#### f) Forward foreign exchange contracts

The Company may enter into forward foreign exchange contracts, into call or put options on currencies to hedge against exposures to foreign currency fluctuations. The carrying value of these contracts is the gain or loss that would be realised if the position were closed out on the valuation date, and is recorded as an unrealised gain or loss. Upon the closing of the contract, the gain or loss is recorded in the net realised gain or loss on foreign exchange. As at 31 December 2013, there was no open forward foreign exchange contract.

#### g) Futures contracts

Financial futures contracts are valued at the exchange quoted settlement price. Initial margin deposits are made upon entering into the contracts and can be either in cash or securities. During the year the contracts are open, changes in the value of the contracts are recognised as unrealised gains and losses by "marking-to-market" on a daily basis to reflect the market value of the contracts at the end of each business day's trading. Variation margin payments are made or received, depending upon whether losses or gains are incurred. When a contract is closed, the Sub-Fund records a realised gain or loss equal to the difference between the proceeds from, or cost of, the closing transaction and the initial cost of the contract.

#### h) Option contracts

Premiums received on issued options are recorded as liabilities and premiums paid on the purchase of options are recorded as assets in the consolidated statement of net assets. Option contracts outstanding as at 31 December 2013 are valued at the last known price on the stock exchanges or regulated markets. Realised and change in unrealised gains and losses are recorded in the consolidated statement of operations. As at 31 December 2013, there was no open option contracts.

#### i) Dividends payable

Within each Sub-Fund, there may be created different Classes which are entitled to regular dividend payments ("Distribution Shares") or with earnings reinvested ("Accumulation Shares"). If a dividend is declared by the Company, it will be paid to each Shareholder concerned in the currency of the relevant Sub-Fund or Class. During the year ended 31 December 2013, the Fund distributed the following dividends:

<b>India Midcap Fund</b>	<b>Ex Date</b>	<b>Pay date</b>	<b>Rate per share</b>
Class X Distribution shares JPY	11 February 2013	12 February 2013 and 19 February 2013	USD 0.82
Class X Distribution shares JPY	10 May 2013	13 May 2013 and 21 May 2013	USD 1.008

# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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### 2. Summary of significant accounting policies (continued)

#### j) Formation expenses

Formation expenses are amortised on a straight line basis over 5 years from the date on which the Company/Sub-Funds commenced business. Formation expenses include initial set-up costs, registration fees and related legal fees.

#### k) Dilution adjustment

The Board may implement a dilution adjustment for subscriptions and redemptions of shares of a sub-fund on a subscription and/or redemption day in order to mitigate the dilutive effect such transactions may have on such sub-fund. The dilution adjustment will be recorded in the relevant sub-fund's NAV and becomes part of the relevant sub-fund's NAV. The dilution adjustment is a percentage adjustment applied to each share class in a sub-fund on a dealing day determined on the basis of estimates of any effective dealing, other costs and fiscal charges that the Board of Directors believes are appropriate to take into account in respect of that sub-fund. The Board of Directors will apply the dilution adjustment if the existing shareholders (in case of subscriptions) or remaining shareholders (in case of redemptions) might otherwise be adversely affected. As the dilution adjustment for each sub-fund will be calculated by reference to the costs of the dealing spread, which can vary with market conditions, the amount of dilution adjustment can vary over time.

### 3. Management fees

Kotak Mahindra (UK) Limited as Investment Manager is entitled to receive fees from the Company in respect of their respective investment management services. The management fees are calculated based on a certain percentage per annum of the net asset values of the various Sub-Funds.

The percentages of management fees at 4 October 2013 are as follows:

#### **Kotak Funds - Indian Multi Cap Fund**

Class A: 1.50%\* Class I: 0.75% Class X: 1.00% Class C: 0.75%

#### **Kotak Funds – India Infrastructure and Realty Fund**

Class A: 2.00% Class I: 1.00% Class B: 2.00% Class X: 1.00% Class C: 1.00%

The percentages of management fees at 31 December 2013 are as follows:

#### **Kotak Funds - India Growth Fund**

Class A: 2.00% Class I: 1.00% Class B: 2.00% Class X: 1.00% Class C: 1.00%

#### **Kotak Funds - India Midcap Fund**

Class A: 2.00% Class I: 2.00% Class B: 2.00% Class X: 1.00%\* Class J: 1.00% Class C: 1.00%

#### **Kotak Funds - India Fixed Income Fund**

Class A: 1.20% Class I: 0.75% Class C: 0.75%

\*The Investment Manager has agreed with the Fund to contractually waive 0.50% of the management fees on behalf of Class A of the Indian Multi Cap Sub-Fund with effect 1 July 2010 and 0.25% of the management fees on behalf of Class X of the India Midcap Sub-Fund since the launch of the Class.

Management fees, for the year ended 31 December 2013 amounted to USD 35,579 for the Indian Multi Cap Fund, USD 266,361 for the India Infrastructure and Realty Fund, USD 1,036,067 for the India Growth Fund, USD 589,487 for the India Midcap Fund and USD 1,518 for the India Fixed Income Fund are disclosed in the consolidated statement of operations.

# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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### 4. Facilitation fees

The Investment Manager will receive a facilitation fee in respect of each of the Classes, payable for each security transaction executed, which is not exceeding 0.50% of the transaction value.

The Investment Manager had agreed with the Fund to contractually waive the entire Facilitation Charges that the Investment Manager is entitled to receive on behalf of the Indian Multi Cap Fund, and such waiver has been in effect since 8 August 2008. The Facilitation Charges for the Indian Multi Cap Fund still remains waived until further notice.

The Facilitation Charges for India Midcap Fund have been waived with effect from 3 January 2011 until further notice. The Facilitation fees for India Infrastructure and Realty Fund and India Growth Fund have been waived with effect from 30 April 2013 until further notice.

Facilitation fees for the year ended 31 December 2013 amounted to USD 24,713 for the India Infrastructure and Realty Fund and USD 142,631 for the India Growth Fund and are disclosed in the consolidated statement of operations.

### 5. Administration and custodian fees

HSBC Securities Services (Luxembourg) S.A., as administrator and custodian is entitled to receive from the Fund fees payable monthly based on the average Net asset value of each Sub-Fund. These fees are as follows:

	<b>Administration fee rate</b>	<b>Depository fee rate</b>	<b>Custodian fee rate</b>
USD 0 – USD 250,000,000	0.050%	0.010%	0.030%
USD 250,000,000 – USD 500,000,000	0.040%	0.010%	0.025%
Above USD 500,000,000	0.030%	0.010%	0.020%

Administration and custody fees are subject to a minimum annual fee of EUR 15,000 (USD 20,669).

The fee based on the average Net asset value of each Sub-Fund is disclosed separately in the consolidated statement of operations.

The Administrator of the subsidiaries, Cim Fund Services Limited, is entitled to the following fees per annum:

- (i) For administration, registrar and company secretary services: USD 10,000 p.a. for NAV up to USD 20 million, USD 20,000 p.a. for NAV up to USD 50 million and USD 30,000 p.a. for NAV above USD 50 million.
- (ii) For services relating to the preparation and filing of annual tax returns in Mauritius: USD 1,000.
- (iii) For services relating to the tax residency certificate: USD 500.
- (iv) For directorship: USD 2,000 per director.

### 6. Subscription tax

Under current law and practice, the Company is not liable to Luxembourg taxes on income or capital gains. The Fund is liable in Luxembourg to a reduced tax (taxe d'abonnement) of 0.01% per annum of its Net assets (excluding Net assets represented by investments in other Luxembourg collective investment undertakings) as all shares of the Company are owned by Institutional Investors.

Interest and dividend income, and gains on securities, may be subject to non-recoverable withholding taxes deducted at source in the countries of origin.

# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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### 7. Taxation

The Company invests in India through wholly owned Mauritian subsidiaries (the 'Subsidiaries') and the Company expects to obtain benefits under the double taxation treaty between Mauritius and India. To obtain benefits under the double taxation treaty the Subsidiaries have to meet certain tests and conditions, including the establishment of Mauritius tax residence and related requirements. The Subsidiaries have obtained a tax residence certification from the Mauritian authorities.

A Mauritian Fund which is tax resident in Mauritius under the treaty but has no branch or permanent establishment in India, will not be subject to capital gains tax in India on the sales of securities.

No Mauritian capital gain tax is payable on profit arising from sale of securities, and any dividends and redemption proceeds paid by the Company to its shareholders will be exempt in Mauritius from any withholding tax.

The Subsidiaries are private companies limited by Shares incorporated under the Mauritius Companies Act 2001. They were registered in Mauritius on 14 December 2009, 19 April 2010 and 27 September 2013 respectively for the India Growth Sub-Fund, India Midcap Sub-Fund and India Fixed Income Sub-Fund.

The Subsidiaries are liable to pay income tax on their net income at a rate of 15%. The Subsidiaries are however entitled to a tax credit equivalent to the higher of actual foreign tax suffered and 80% of Mauritius tax payable in respect of their foreign source income tax thus reducing the maximum effective tax rate to 3%.

The foregoing is based on current interpretation and practice and is subject to any future changes in Indian or Mauritius tax laws and in the tax treaty between India and Mauritius.

### 8. Directors' expenses

In addition to directors' fees, directors are entitled to be reimbursed for reasonable traveling, hotel and other incidental expenses in respect of attending meetings of the Directors or General Meetings of the Fund. Total directors' fees incurred during the year amount to USD 35,680.

### 9. Management company fee

On 12 September 2007, the Management Company, RBS (Luxembourg) S.A. was appointed in order to meet the requirements of the UCITS III (Undertakings for Collective Investment in Transferable Securities) Directive 85/611/EEC of 20 December 1985.

The Management Company is responsible on a day-to-day basis, under the supervision of the Directors of the Company, for providing administration, marketing and investment management services in respect of all Sub-Funds of the Company.

The Management Company delegates its investment management duties to Kotak Mahindra (UK) Limited, the investment manager of the assets of the Fund.

HSBC Securities Services (Luxembourg) S.A. has been appointed to perform central administration duties for the Company pursuant to a delegation of such duties to it by the Management Company.

RBS (Luxembourg) S.A. is entitled for the provision of the Management Company services rendered to the Fund, to receive a fee not exceeding 0.05% of the net asset value of the Sub-Funds per annum. The fee payable is subject to a minimum annual fee of EUR 24,000 (USD 33,071).

## KOTAK FUNDS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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#### 10. Transaction costs

Transaction costs comprise broker costs and transaction related costs.

Broker costs include commissions and stock exchange taxes and arise on purchases and sales of investments during the year under review. Those costs are included with the cost of investments purchased and deducted from the proceeds received on sales of investments.

The transaction related costs include transaction costs on securities and on futures.

Total transaction costs paid by the Sub-funds during the year are as follows:

Sub-fund	Currency	Broker costs	Transaction related costs (Bank commission)	Total
		USD	USD	USD
Indian Multi Cap Fund	USD	22,913	8,604	31,517
Indian Infrastructure and Realty Fund	USD	103,599	22,707	126,306
India Growth Fund	USD	317,075	42,752	359,827
India Midcap Fund	USD	173,312	20,737	194,049
India Fixed Income Fund	USD	15,167	441	15,608

## KOTAK FUNDS

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

#### 11. Futures

The following futures contracts were open as at 31 December 2013:

##### India Growth Fund

Description	Maturity date	Number of contracts	Commitment	Cost	Market value	Unrealised appreciation
			USD	USD	USD	USD
Power Grid Corporation of India	31 January 2014	56	364,132	339,513	364,132	24,619
Power Grid Corporation	28 February 2014	6	38,820	37,303	38,820	1,517
<b>Unrealised appreciation on futures contracts</b>						<b>26,136</b>

##### India Growth Fund

Description	Maturity date	Number of contracts	Commitment	Cost	Market value	Unrealised depreciation
			USD	USD	USD	USD
Axis Bank Limited	31 January 2014	28	147,748	148,189	147,748	(441)
Crompton Greaves	31 January 2014	37	310,385	324,537	310,385	(14,152)
Lupin Limited	31 January 2014	50	185,009	186,933	185,009	(1,924)
<b>Unrealised depreciation on futures contracts</b>						<b>(16,517)</b>

##### India MidCap Fund

Description	Maturity date	Number of contracts	Commitment	Cost	Market value	Unrealised depreciation
			USD	USD	USD	USD
Lupin Limited	31 January 2014	64	236,811	240,630	236,811	(3,819)
<b>Unrealised depreciation on futures contracts</b>						<b>(3,819)</b>

All of the above futures contracts are listed. The counterparty of all the futures contracts is Kotak Mahindra Bank Ltd.



# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

### 12. Risk transparency disclosures

The Board of Directors has decided to implement the following methodology to calculate the global exposure for each of the below mentioned Sub-funds.

Sub-fund	Methodology applied for measuring the Global Exposure
India Growth Fund	Commitment approach
India Midcap Fund	Commitment approach
India Fixed Income Fund	Commitment approach

### 13. Total Expense Ratio (TER)

The Total Expense Ratio has been computed by the Administrator as required per the Swiss Funds & Asset Management Association (SFAMA) guidelines on the calculation and disclosure of the TER and Portfolio Turnover Ratio (PTR).

The expense ratio statistic is the following for the year under review:

	2013
Kotak Funds – India Growth Fund (USD)	
Class A shares USD	2.90%
Class A shares GBP	2.95%
Class A Distribution shares GBP	2.90%
Class I shares USD	1.89%
Kotak Funds – India Midcap Fund (USD)	
Class I shares EUR	2.77%
Class I shares USD	2.76%
Class A shares USD	2.82%
Class A shares GBP	2.83%
Class A Distribution shares GBP	2.91%
Class B shares USD	3.84%
Class B shares GBP	3.82%
Class B shares EUR	3.78%
Class X Distribution shares JPY	1.57%
Kotak Funds – India Fixed Income Fund (USD)	
Class I shares EUR	1.20%
Class I shares USD	1.20%

The TER were not calculated for the absorbed sub-funds India Infrastructure and Realty Fund and Indian Multi Cap Fund.

# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

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### 14. Portfolio Turnover Ratio (PTR)

The Portfolio Turnover Ratio has been computed by the Administrator, using the methods described in the SFAMA guidelines on the calculation and publication of TER and PTR of 16 May 2008 (version of 12 August 2008):

$$\text{Turnover} = [(\text{Total 1} - \text{Total 2})/M] * 100$$

Where:

Total 1 = Total of securities transactions during the relevant year = X + Y, where X = purchase of securities and Y = sales of securities;

Total 2 = Total of transactions in shares of the Sub-Fund during the relevant year = S + T, where S = subscriptions of shares of the Sub-Fund and T = redemptions of shares of the Sub-Fund;

M = average net assets of the Sub-Fund.

The portfolio turnover statistic is the following for the year under review:

	<b>Portfolio Turnover Ratio for the year (expressed in %)</b>
Kotak Funds – India Growth Fund (USD)	127%
Kotak Funds – India Midcap Fund (USD)	89%
Kotak Funds – India Fixed Income Fund (USD)	-2%

The PTR were not calculated for the absorbed sub-funds India Infrastructure and Realty Fund and Indian Multi Cap Fund.

# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

### 15. Performance YTD (expressed in the currency of the Sub-Fund)

	December 2013	December 2012	December 2011
Kotak Funds – Indian Multi Cap Fund (USD)			
Class A shares USD	-	29.89%	(38.41%)
Class A shares GBP	-	24.43%	(38.35%)
Class A shares EUR	-	27.29%	(36.32%)
Class I shares USD	-	-	-
Class I shares USD	-	-	(14.59%)
Class A Distribution shares GBP	-	24.43%	(38.33%)
Kotak Funds – India Infrastructure and Realty Fund (USD)			
Class A shares USD	-	21.02%	(47.37%)
Class A shares GBP	-	16.09%	(47.50%)
Class A Distribution shares GBP*	-	15.95%	(33.80%)
* Since 4 March 2011			
Kotak Funds – India Growth Fund (USD)			
Class A shares USD	(4.08%)	36.57%	(37.20%)
Class A shares GBP	(5.97%)	30.88%	(37.26%)
Class I shares USD*	(3.02%)	38.00%	(16.00%)
Class A Distribution shares GBP**	(5.96%)	24.16%	-
* Since 13 October 2011			
** Since 24 May 2012			

# KOTAK FUNDS

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013 (CONTINUED)

### 15. Performance YTD (expressed in the currency of the Sub-Fund) (continued)

	December 2013	December 2012	December 2011
Kotak Funds – India Midcap Fund (USD)			
Class I shares EUR	(13.23%)	36.17%	(39.96%)
Class I shares USD	(9.62%)	38.88%	(39.95%)
Class A shares USD	(9.59%)	38.91%	(39.98%)
Class A shares GBP	(11.42%)	32.98%	(39.94%)
Class X Distribution shares JPY^	9.72%	57.73%	(24.17%)
Class A Distribution shares GBP^^	(11.44%)	9.33%	-
Class B shares USD^^^	(10.49%)	23.89%	-
Class B shares GBP^^^^	(12.29%)	0.93%	-
Class B shares EUR^^^^^	(14.20%)	13.37%	-

^ Since 5 September 2011

^^ Since 24 September 2012

^^^ Since 26 July 2012

^^^^ Since 4 October 2012

^^^^^ Since 3 August 2012

Kotak Funds – India Fixed Income Fund (USD)\*

Class I shares EUR*	0.90%	-	-
Class I shares USD*	1.10%	-	-

\* Since 17 December 2013

Disclaimer:

Past performance is no indication of current or future performance.

The performance data do not take account of the commissions and costs incurred on the issue and redemption of shares.