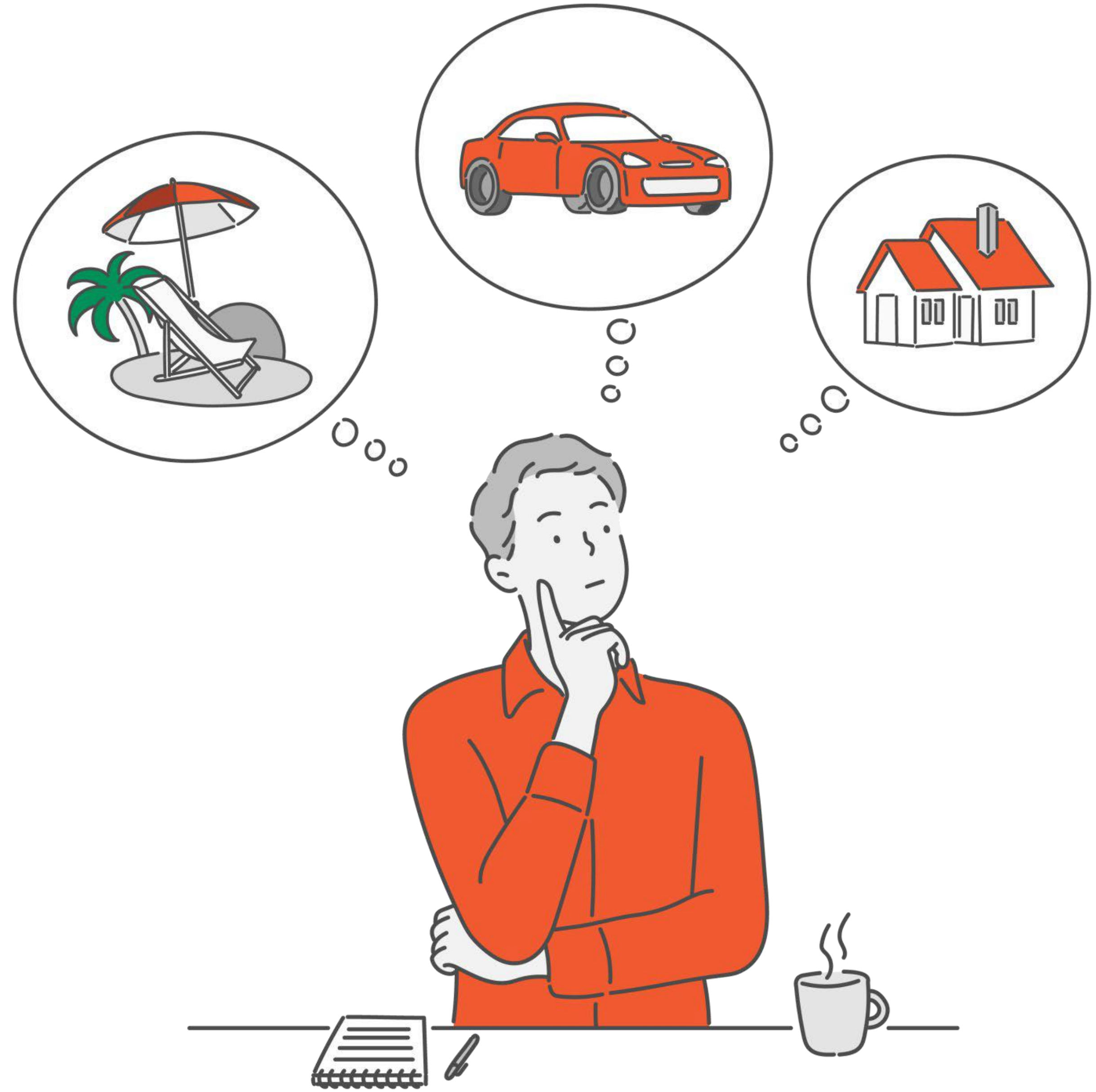
Introduction to Mutual Funds

Give wings to your

DREAMS



A bigger house, a better car, a foreign trip, daughter studying at Harvard …these are the things your dreams are made of…

Let us help you plan them!

By **SAVING** part of what you earn.
After all, a penny saved is a penny earned!

But just saving is not enough, save smartly…

Normal approach	Smart approach
Earn Rs1 lakh	Earn Rs1 lakh
Spend: ?	Save: Rs20,000
Save: ?	Spend: Rs80,000

Please note that these numbers are for illustration purpose only

...and save with a goal in mind

- Those who save for a purpose save faster than those who don't!

- So to save enough for a dream holiday, figure out how much you can save each month and start immediately

INVEST your savings

•Invest your savings in assets with a higher return potential

•As equities help you participate in the growth of a company directly, the potential returns are not limited or fixed as in the case of fixed income assets.

•However it is important to note that equities tend to be more volatile than fixed income assets

To make your savings work better, follow this checklist

1. Invest early

The age at which you start investing makes a huge difference

Name	Early Bird	Late Comer
Starts investing at	25 years	35 years
Sum invested per month	Rs 5,000	Rs 5,000
Total sum invested	Rs 6,00,000	Rs 15,00,000
Invested for a period of	10 years	25 years
Remained invested for	35 years	--
Rate of return*	12%	12%
Value at age of 60	Rs 1,95,53,363	Rs 93,94,233

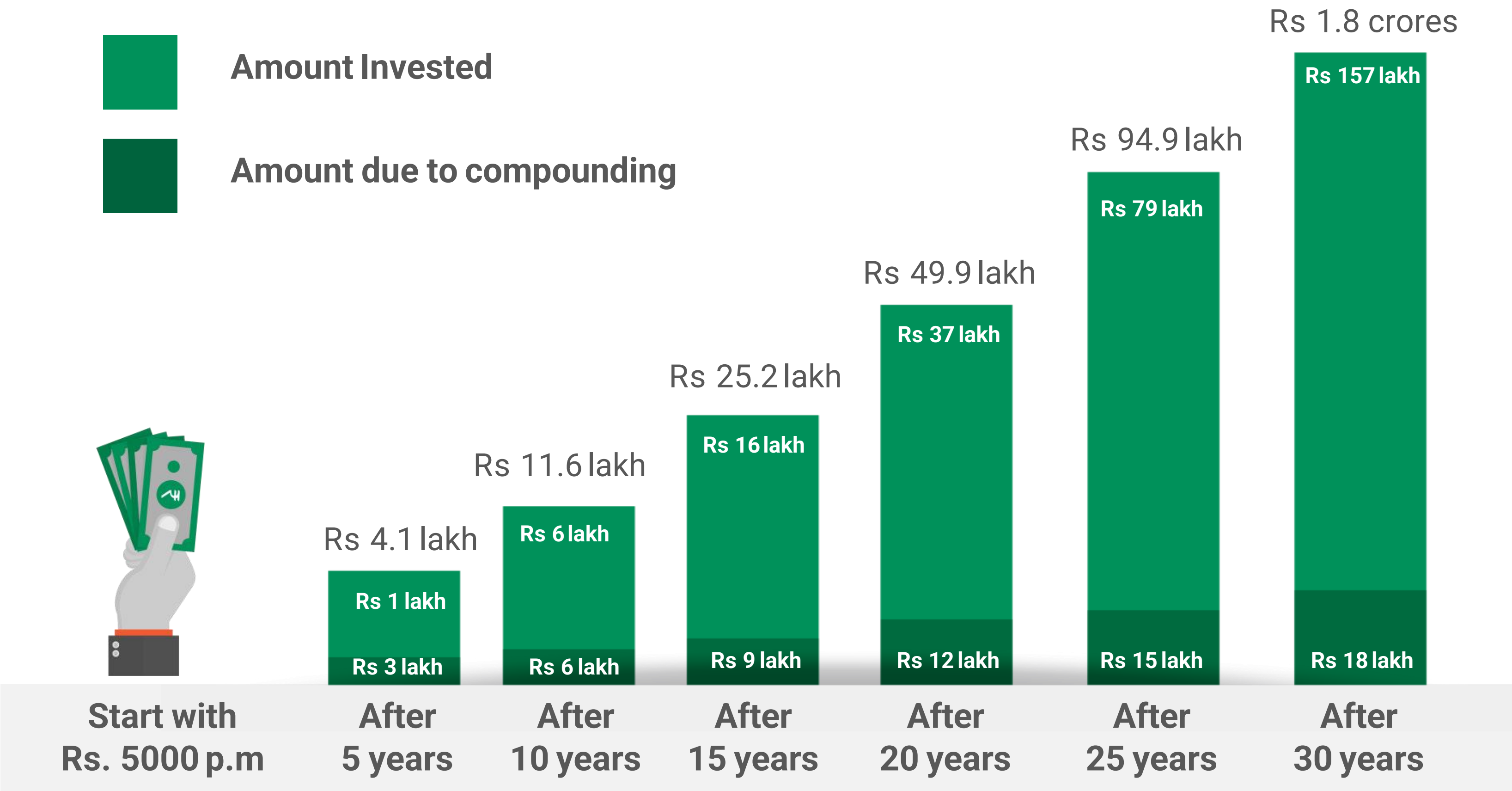
**returns are based on 5 years BSE Sensex Index returns (CAGR) rolled on a yearly basis for a period of 22 years (2000-2022)*

Early bird gets the worm!

Sharekhan
by BNP PARIBAS

2. Invest regularly

Monthly investment of even Rs 5,000 @ 12%* can grow into a big sum



Even a modest saving of Rs 5,000 invested at 12% every month can grow into a neat sum of Rs 1.8 crores in 30 years!

**returns are based on 5 years BSE Sensex Index returns (CAGR) rolled on a yearly basis for a period of 22 years (2000-2022)*

3. Invest for long term: Unlock compounding

- You unlock the power of compounding when you invest for the long-term
- With compounding, earnings on your investments start generating their own earnings
- The longer you stay invested the greater the impact of compounding

Impact of time and compounding on money invested for various periods at 12%* return rate

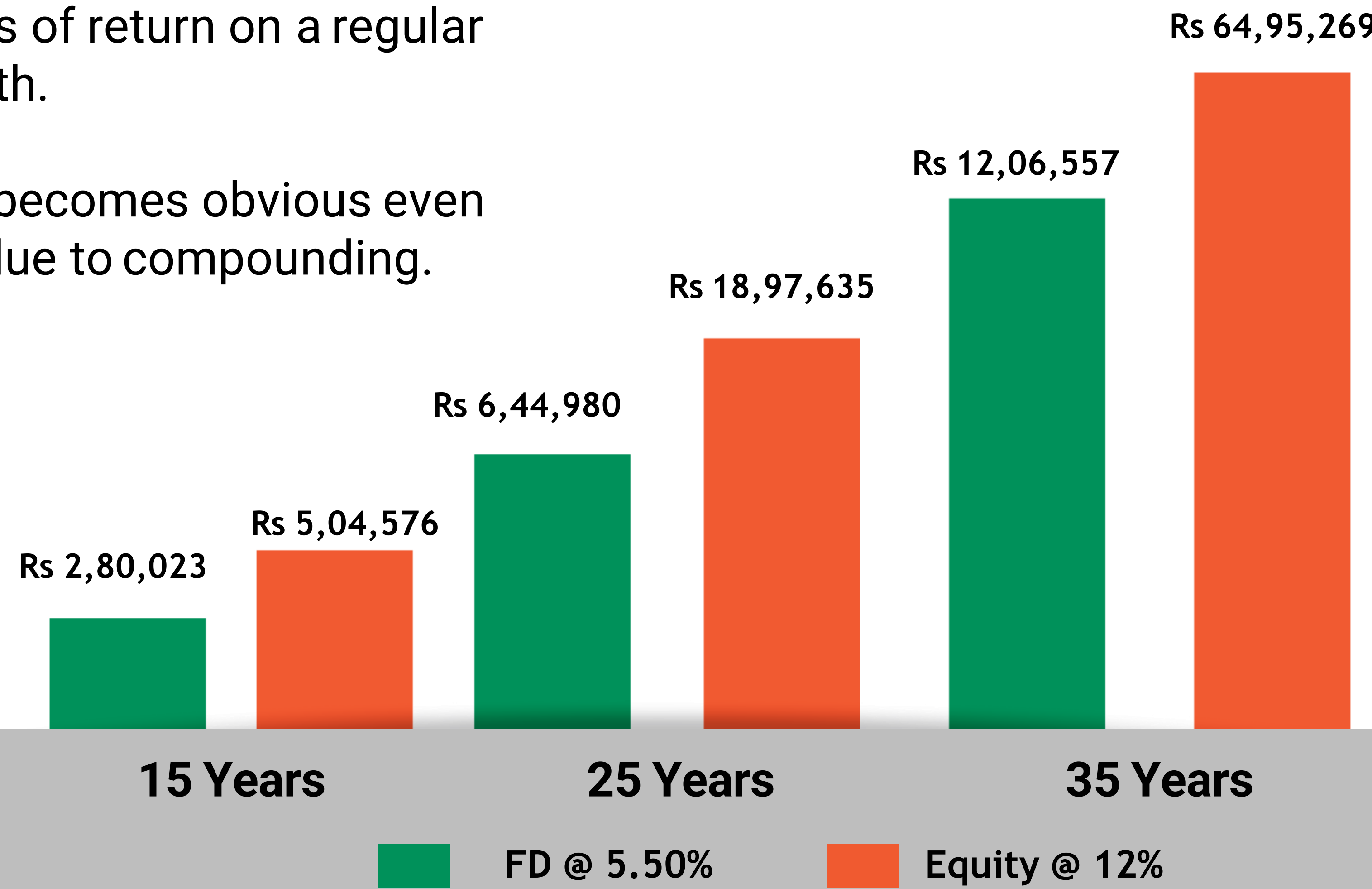
Amount invested (Rs)	Investment period	Rate of return	Maturity amount (Rs)
5,00,000	10 years	12%	15,52,924
5,00,000	20 years	12%	48,23,147
5,00,000	30 years	12%	1,49,79,961

**returns are based on 5 years BSE Sensex Index returns (CAGR) rolled on a yearly basis for a period of 22 years (2000-2022)*

Power of compounding at work

The impact of two different rates of return on a regular investment of Rs 1,000 per month.

The impact of the higher return becomes obvious even on a small investment amount due to compounding.



Equity returns are based on 5 years BSE Sensex Index returns (CAGR) rolled on a yearly basis for a period of 22 years (2000-2022), FD rates are indicative only

Sharekhan
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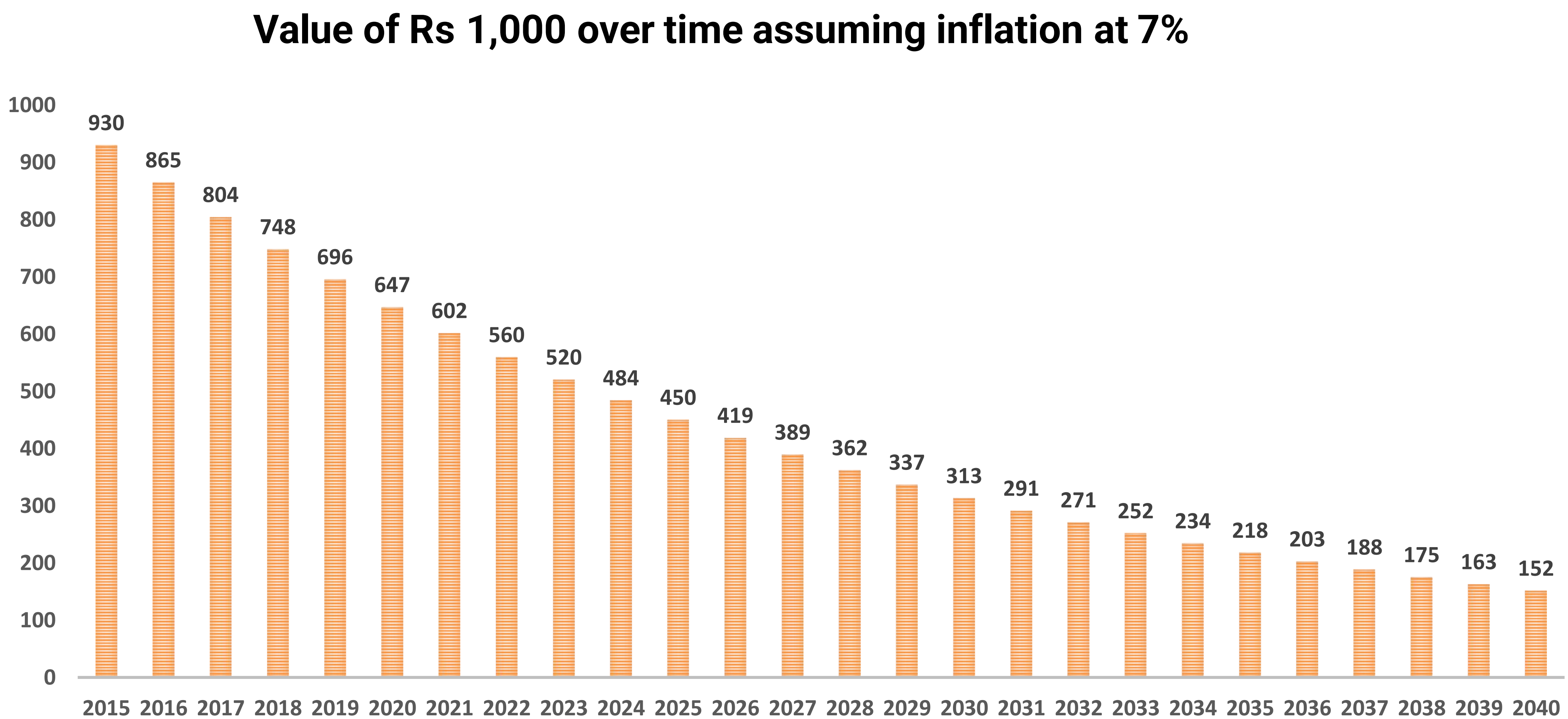
4. Invest in instruments that help you beat inflation



Inflation at work

It erodes your income …..

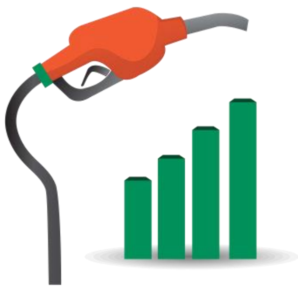
Rs. 500 Today
Monthly consumption of petrol of 10 litres per month @ Rs 50 totaling to Rs. 500 per month

Rs. 500 Today
Expense met out of the monthly interest income of Rs. 500, earned from your fixed deposit

Expense = Income

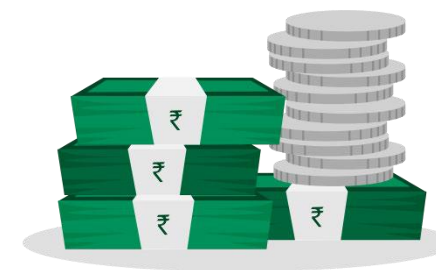
Inflation at work…….reducing your spending power

If rate of inflation is 10% during the year, then



Rs. 550
Monthly consumption of petrol of 10 litres per month @ Rs. 55 totaling to Rs. 550 per month

Rs. 500
Earnings has however remained unchanged at Rs.500



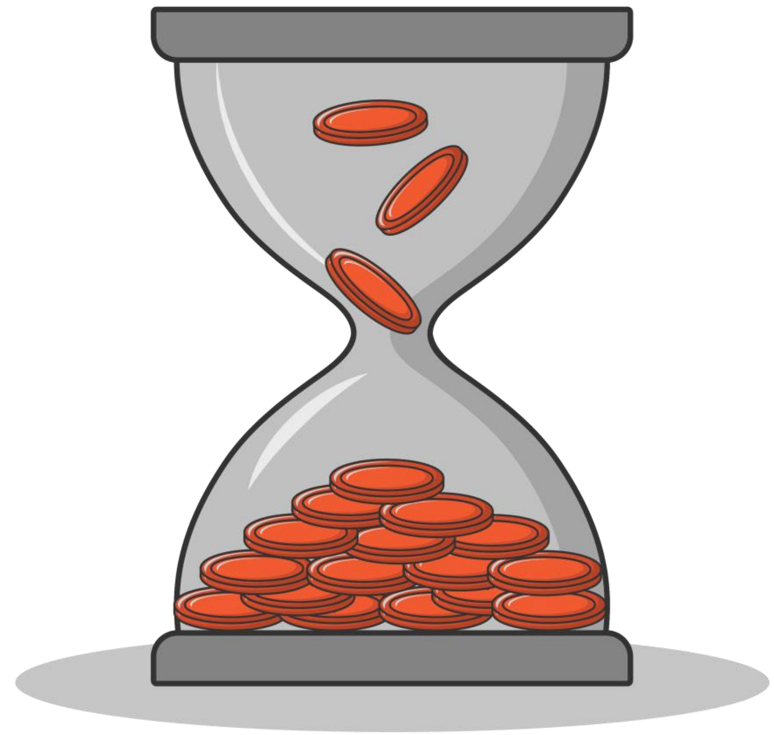
Now, Expense is more than Income

This example has been quoted from SEBI's presentation on Investment Avenues

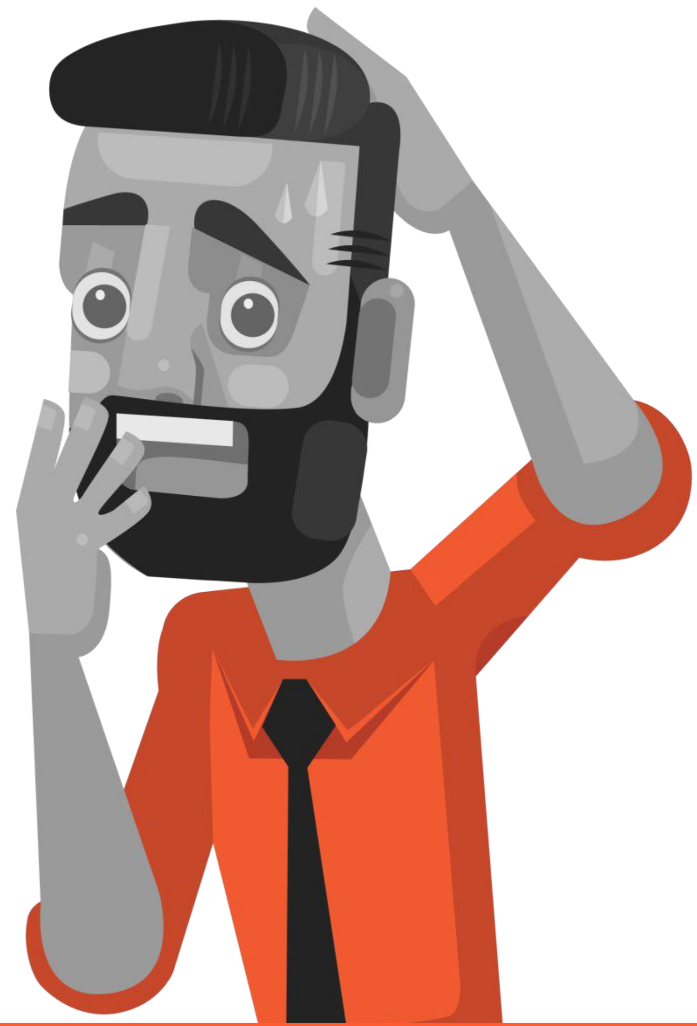
As time passes, the value of money decreases!

- This means that the value of Rs 1000 you have today is higher than its value five years from now, **even if there is no inflation**.
- This is because we prefer consumption today to consumption in future which is uncertain.
- If you invest Rs 1,000 today at 5% per annum, you would receive Rs 1,050 after a year.

Rs 1,000 today equals Rs 1,050 received after a year or its value one year hence.



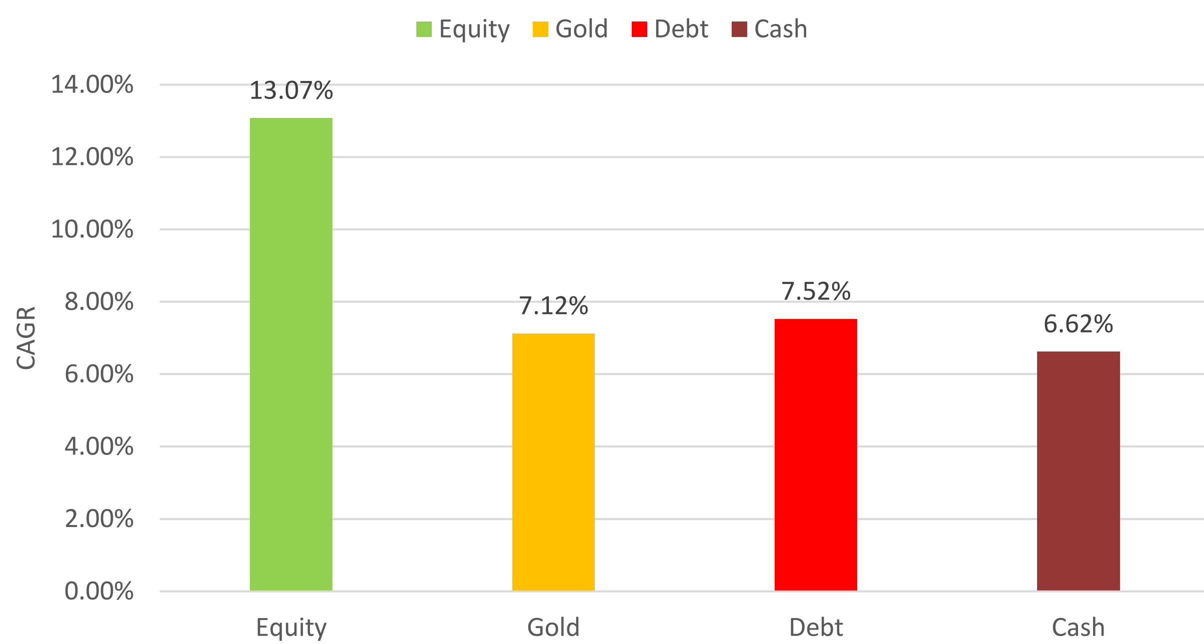
So, how do you fight this monster?



Don’t panic!

- Investing early, regularly and for the long term are decisions in your control
- You don’t need to change your lifestyle dramatically to achieve this
- Aim to invest in products that offer at least inflation-beating returns
- Understand that to create wealth faster, you will need to take additional risk

Move beyond fixed deposits



Asset class performance between 2013 and 2023*

Returns from term deposits barely cover inflation.

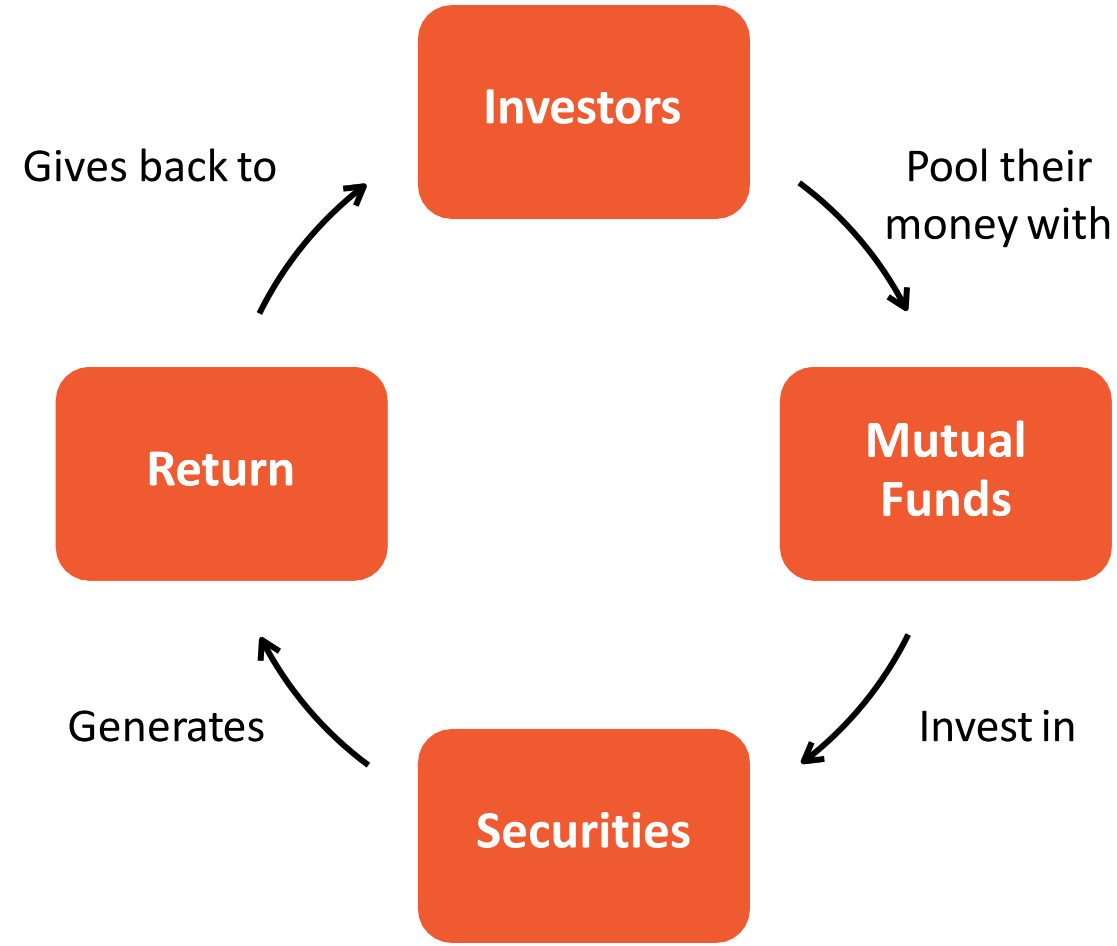
You can beat inflation by investing in other asset classes!

**2023 data is until Oct 31, 2023*
Source: Equity is represented by Nifty 50 TRI, Debt is represented by Nifty Short Duration Index, Cash is represented by ICRA Liquid Funds Index and Gold – ICRA

Access all these asset classes through Mutual Funds

What is a Mutual Fund?

- A mutual fund is a pool of money managed by a Fund Manager.
- It collects money from a number of investors and invests it in securities (stocks and bonds primarily)
- The gains are distributed amongst investors by calculating a scheme's Net Asset Value (NAV)



What is NAV?

Let us explain NAV with an example
There is a box of 12 chocolates costing Rs 40 and the shopkeeper only sells by the box.

Four friends decide to buy the same, but they have only Rs10 each

So the friends then decide to pool in Rs10 each and buy the box of 12 chocolates.

Now based on their contribution, they each receive 3 chocolates or 3 units.

If equated with Mutual Funds, NAV will be:

Total amount divided by the total number of chocolates: 40/12 = 3.33.

Advantages of investing through mutual funds

- **Professional management of your money -** your investments are managed by a full time fund manager

- **Instant diversification –** a mutual fund helps diversify your risk vis-a-vis holding a single security or asset

•**Low cost –** as a mutual fund has many investors, the cost is spread over a larger portfolio with the applicable benefits of scale.

•**Well regulated and transparent -** mutual funds are regulated by SEBI and AMFI . As an investor you have access to NAVs, returns and portfolio information as the AMC is mandated to do so.

- **Liquidity –** most open ended mutual funds offer liquidity through the redemption process

•**Access to markets -** some securities in the debt market like government securities, money market instruments require a higher minimum subscription as well as additional infrastructure for participating. Through a mutual fund, you can get access to securities which otherwise may not available be to an individual investor.

- **Tax benefits –** Equity Linked Savings Schemes (Type of MF) are granted a tax benefit under Section 80C.

Achieve instant diversification

Top 10 Holdings of a Mutual Fund

Equity	Sector Name	Market Value	% of net Assets	CMP
ICICI Bank Ltd.	Financial Services	2896.06	9.08	933.00
HDFC Bank Ltd.	Financial Services	2790.99	8.75	1484.50
Bajaj Finance Ltd.	Financial Services	2741.24	8.60	7403.00
Avenue Supermarts Ltd.	Retail	1835.38	5.76	3650.00
Tata Consultancy Services Ltd.	Information Technology	1804.92	5.66	3351.00
Reliance Industries Ltd.	Oil, Gas & Consumable Fuels	1487.67	4.67	2319.00
Infosys Ltd.	Information Technology	1414.76	4.44	1388.00
Larsen & Toubro Ltd.	Construction	1414.01	4.43	2918.90
Ultratech Cement Ltd.	Cement	960.56	3.01	8525.00
Mahindra & Mahindra Ltd.	Automotive	960.24	3.01	1470.00

To buy even 1 stock of each of these 10 companies you will need Rs 33,000!

** Data as of 29-Sept-23*
Source: ICRA

Few types of equity mutual funds*

•**Large-cap:** Funds which invest a minimum of 80% of their corpus in companies with large market capitalization are called large cap funds. Large Cap is defined as 1st -100th company in terms of full market capitalization

•**Mid-cap:** Funds which invest predominantly in mid cap stocks (min of 65%) are termed as mid cap funds. The proportion of investments between midcap and small cap may vary across funds. Mid Cap is defined as 101st -250th company in terms of full market capitalization.

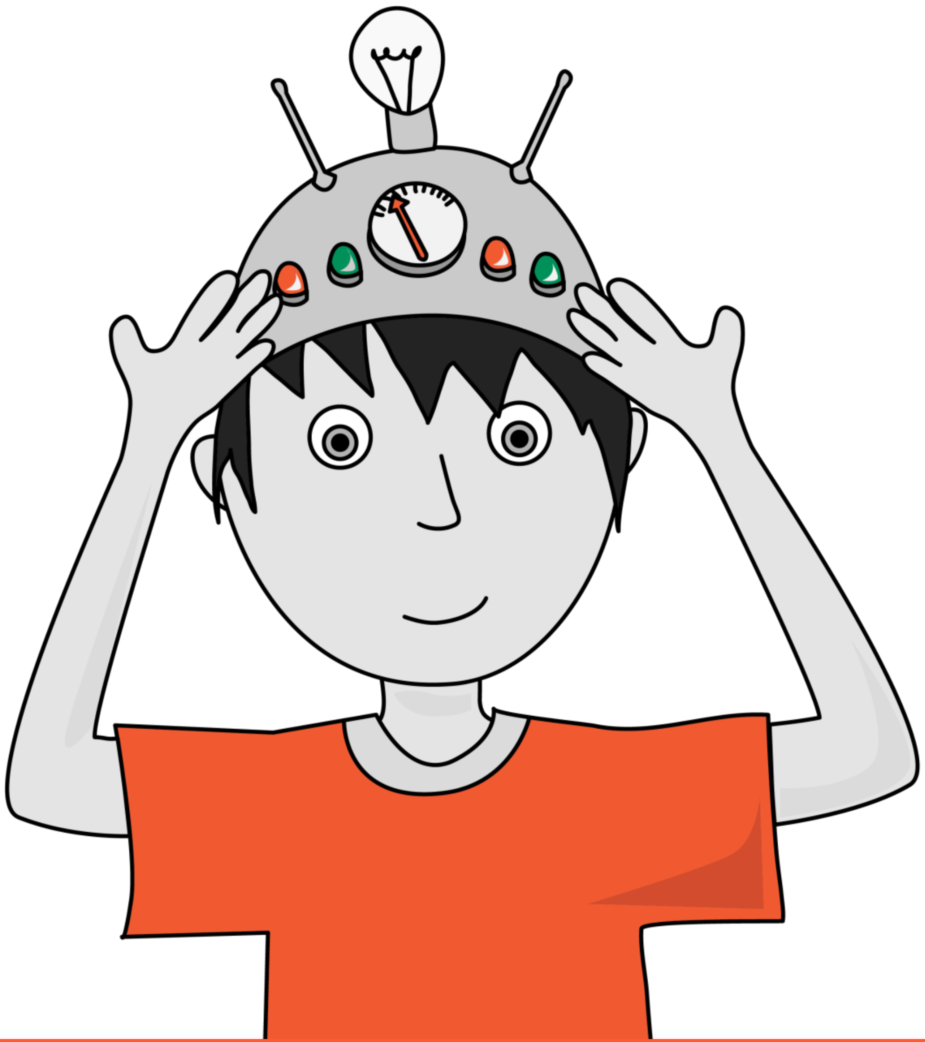
•**Small Cap:** Funds which invest a minimum of 65% of their total assets in small-cap stocks. These funds have a high potential for growth but also carry a high amount of risk. They are usually recommended for investors with higher risk tolerance.

•**Multi-cap:** These are diversified mutual funds which invest in stocks across large, mid or small company stocks. These funds change their market cap exposure in line with market movement.

•**ELSS:** is a type of diversified equity mutual fund which is qualified for tax exemption under section 80C of the Income Tax Act, and offers the twin-advantage of capital appreciation and tax benefits. They have a lock-in period of three years.

•**Balanced Hybrid Fund:** A balanced fund is a mutual fund that generally keeps between 40-60 allocation of total assets to equities and debt instruments.

**As per new MF Categories by SEBI*

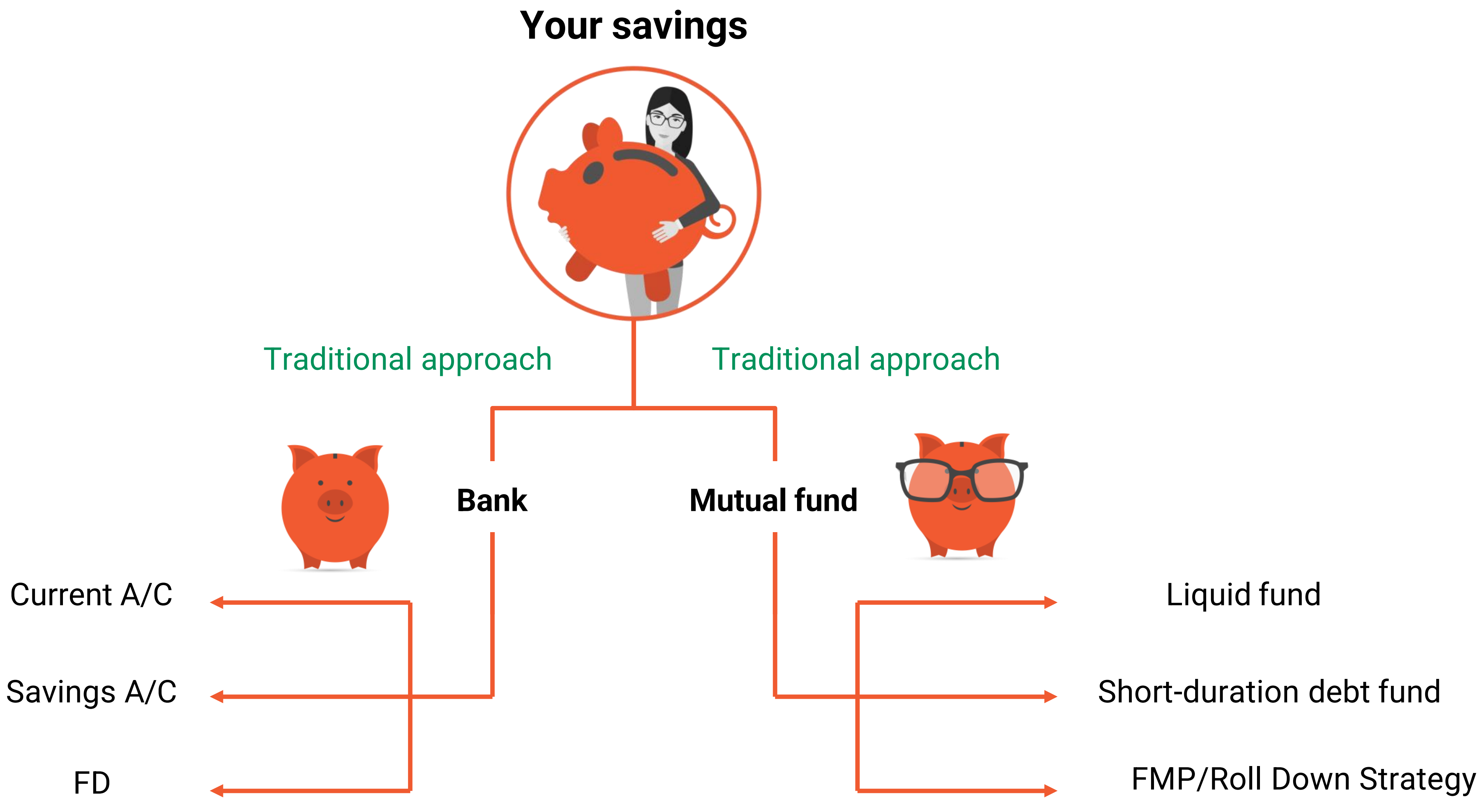


Tip of the day

If equity markets are too volatile for you, then you should consider investing in debt funds

Debt funds are less volatile than equity funds and offer the opportunity to earn returns higher than bank deposits

Debt funds are a smarter alternative to bank products



Few types of debt mutual funds you can invest in*

•**Liquid Fund:** They invest in instruments with a maturity of 91 days, i.e in liquid funds your money is invested in short-term market instruments such as treasury bills, government securities and securities that hold least amount of risk.

•**Ultra short-Duration:** Funds that have a maturity between 3 months and 6 months. This category is between liquid and short duration funds in terms of portfolio maturity

•**Short Duration Fund:** These are income funds that have a maturity between 1 and 3 years. Certificate of deposit, corporate paper and government paper are all examples of Short-term funds.

•**Long Duration Fund:** An open ended debt scheme investing in debt and money market instruments such that the maturity of the portfolio is greater than 7 years.

•**Gilt Fund**: Gilt funds are mutual funds that invest a minimum of 80% its total assets in government securities across maturity. These are preferred by credit risk averse investors who wish to invest in government bonds.

**As per new MF Categories by SEBI*

Tax Rates for Mutual Fund Investors as per the Finance Bill, 2023

	Individual/HUF$	Domestic Company@	NRI$
Equity Oriented Schemes LTCG : Units held more than 12 months STCG : Units held for 12 months or less			
Long Term Capital Gains	10%*	10%*	10%*
Short Term Capital Gains	15%	15%	15%
Other than Equity Oriented Schemes LTCG : Units held more than 36 months STCG : Units held for 36 months or less			
Long Term Capital Gains	20%&	20%&	Listed - 20%& Unlisted -10%***
Short Term Capital Gains	30%^	30%/25%/22%/15%	30%^

*Income-tax at the rate of 10% (without indexation benefit and foreign exchange fluctuation) to be levied on long-term capital gains exceeding Rs. 1 lakh provided transfer of such units is subject to Securities Transaction Tax ('STT').

$ Surcharge to be levied at:
37% on base tax where specified income** exceeds Rs. 5 crore; ; 25% where specified income** exceeds Rs. 2 crore but does not exceed Rs. 5 crore; ; 15% where total income exceeds Rs. 1 crore but does not exceed Rs. 2 crore; and ; 10% where total income exceeds Rs. 50 lakhs but does not exceed Rs. 1 crore
In case total income includes income by way of dividend on shares and short-term capital gains on units of equity oriented mutual fund schemes and long-term capital gains on mutual fund schemes, the rate of surcharge on the said type of income not to exceed 15%. In case investor is opting for 'New Regime' the rate of surcharge not to exceed 25%

** Specified income – Total income excluding income by way of dividend on shares and short-term capital gains on units of equity oriented mutual fund schemes and long-term capital gains on mutual fund schemes. Further, Health and Education Cess to be levied at the rate of 4% on aggregate of base tax and surcharge.

@ Surcharge at 7% on base tax is applicable where total income of domestic corporate unit holders exceeds Rs 1 crore but does not exceed 10 crores and at 12% where total income exceeds 10 crores. Further, "Health and Education Cess" to be levied at the rate of 4% on aggregate of base tax and surcharge.

& After providing indexation.

*** Without indexation.

^ Assuming the investor falls into highest tax bracket.

Kindly confirm with professional tax consultants before investing

Tax Rates for Mutual Fund Investors as per the Finance Bill, 2023

Tax deductible at source under the Act (Applicable to NRI Investors) #		
	Short term capital gains $	**Long term capital gains$**
Equity oriented schemes	15%	10%*
Other than equity-oriented schemes	30%^	10%*** (for unlisted) & 20%& (for listed)

Short term/ long term capital gain tax (along with applicable Surcharge and Health and Education Cess) will be deducted at the time of redemption of units in case of NRI investors.

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So, how do you start investing in Mutual Funds?

Have some savings?

Invest lump sum in existing Goals to reach them faster

Invest regularly through SIP

Start SIP for main goals (retirement, house, marriage)

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