MUTUALFUNDS
Sahi Hai

Mutual Fund Kickstarter

Gear Up
To Meet Life's Any Need With
MUTUAL FUNDS

UTI Mutual Fund

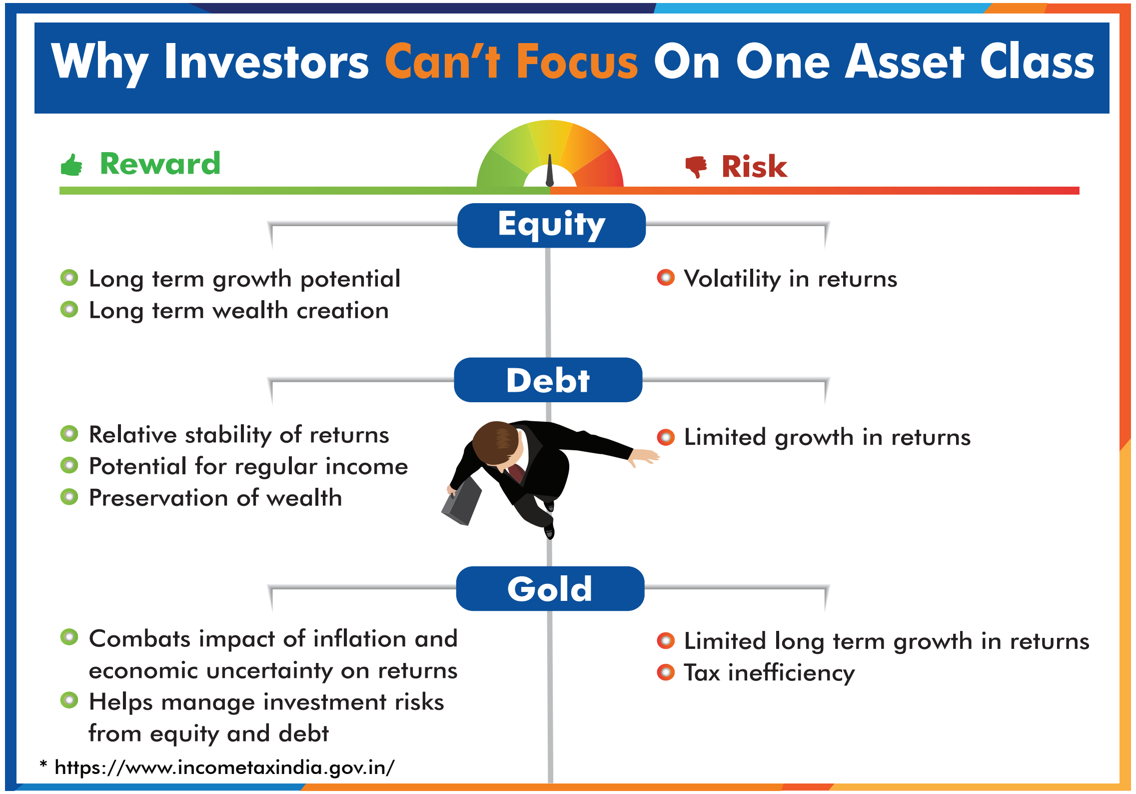
UTI SWATANTRA
An investor education initiative

Here is a simple quiz question. “What do you need to meet life’s major financial goals like children’s higher education and retirement?” You have got it right if your answer is ample savings. But that was the easier part. Here’s the challenging question, “How do you create ample savings for these needs that require substantial sums?” For an individual investor, getting the right answer involves quite some doing as this involves making the right investments over long periods. This is easier said than done.

Challenge of saving for future needs To save ample amounts, or creating wealth all by yourself, you need to track the fortunes of different investment categories and asset classes which have their own characteristics. This includes risks and tax treatment.

If all this looks like a stressful full-time job, you can relax, for there is help at hand in the form of mutual funds. They offer asset allocation funds that help you meet any specific need by helping you create wealth using the expertise of fund managers.

How asset allocation funds help Each asset class such as equity, debt or gold, provide returns for a certain level of risk. For instance, if equities have potential for growth and long term wealth creation, their returns can be volatile too. While debt provides relative stability, there are limitations in the growth possibilities. On the other hand, while gold is helpful when economic and other conditions adversely impact debt and equity, it has limitations like tax inefficiency.



Different asset classes also perform differently in each year. Therefore, investing only in one asset class isn’t helpful to get the sustained growth for ample savings in the long term.

It is asset allocation, where investible money is allocated to different assets in a certain proportion taking into account risk and reward of investments that helps investors with less volatile returns. This, in turn, helps investors accumulate ample amount of long term savings.

Mutual funds also help investors with asset allocation through asset allocation funds. They harness the qualities of different asset classes to ensure that your money grows according to your specific needs and stage in life. According to experts, when investments among assets are dynamically managed, you make desirable progress towards ample savings in the long term.

Asset allocation funds not only diversify your investments in multiple asset classes but also do it according to market conditions. They typically invest in multiple asset classes such as equity, debt and gold, with some funds also investing in derivatives. In short, you get exposure to all the asset classes by investing in just one fund.

Asset allocation funds automatically manage asset allocation according to changes in the markets. For instance, if fund manager finds an opportunity in equities, the fund will cut its exposure in gold or debt and enhance its equity exposure.

Tax advantage Asset allocation funds also bring with them tax advantages. Here is an illustration. Two friends Mahesh and Milind invest for their financial goals. Mahesh decides to do asset allocation on his own and decides to invest in equity and debt funds. On the other hand, Milind opts for an asset allocation fund.

Mahesh opts for an allocation of 70% in equities in the form of equity funds and 30% in debt in the form of debt funds. Now, assume that his equity allocation falls to 50% of the initial value after a year. In order to keep the proportion of equity and debt the same, he needs to sell units equivalent to 20% of his debt fund investments and invest the proceeds in equity funds.

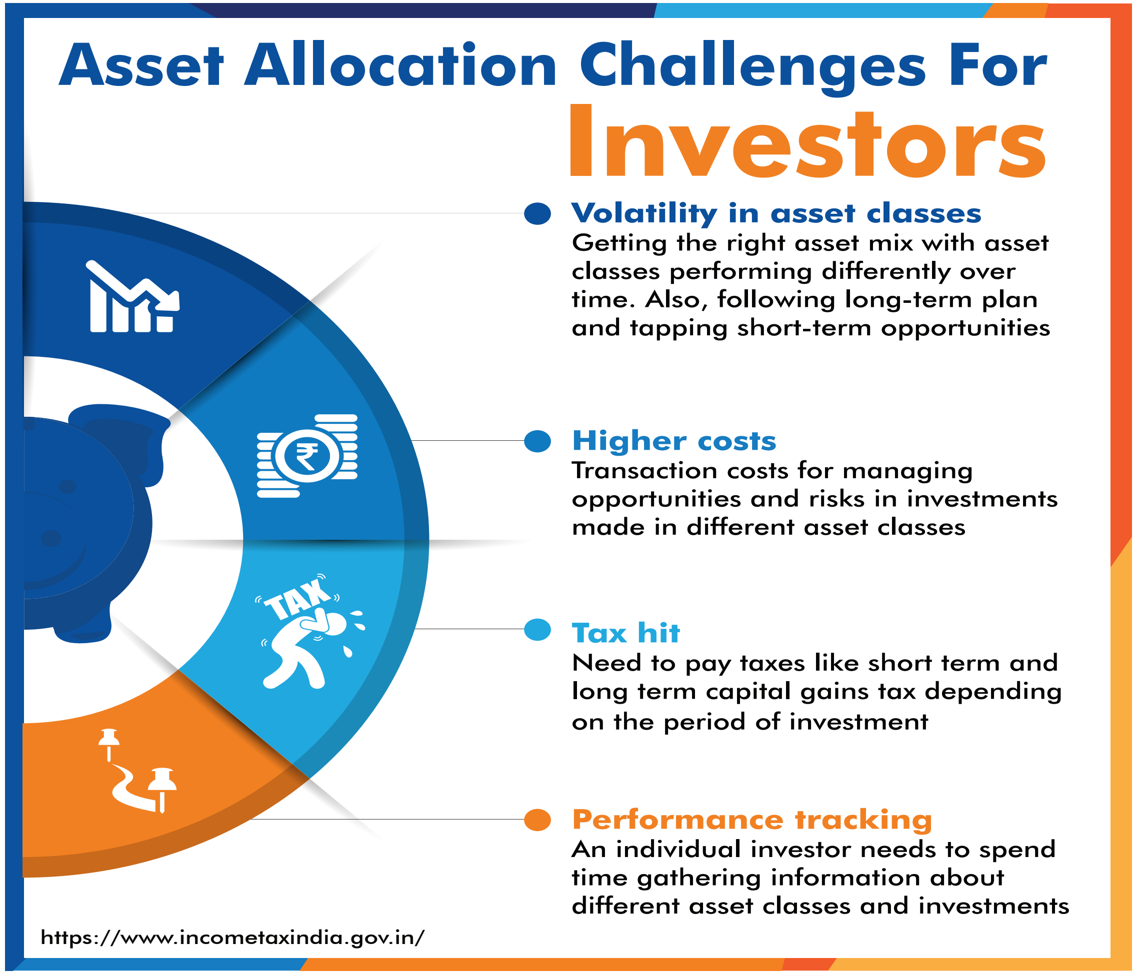
Due to the redemption of units, Mahesh needs to pay short term capital gains tax since the investment has been for less than 3 years. This means the capital gains are added to the income and taxed according to the tax slab. In contrast, Milind does not need to pay any tax since he has invested in an asset allocation fund.

Equity oriented fund advantage Asset allocation funds come in multiple variants such as equity-oriented asset allocation fund, debt-oriented asset allocation fund and multiple asset fund. Since long term needs such as child's higher education and retirement need substantial amounts of savings, it is equity oriented asset allocation funds that typically suits the best. Remember, over the long term i.e. periods of 8-10 years or more, equities typically provide returns higher than other assets like debt.

Growth with contained volatility Equity oriented asset allocation funds are essentially like balanced funds. Such funds work well for the new investors, as they allocate minimum 65 per cent assets in equities. The remaining part of the money is invested in debt and money market instruments, besides gold. This means that even while you get the opportunity to get access to the high growth of equity, you manage to contain its turbulence thanks to debt investments.

In terms of performance, balanced funds or equity-oriented funds, with equity investments of 65% or more, compare well with diversified equity funds. Even in a market downturn, they typically fall less than other categories of equity funds, with the debt component acting as a shock absorber.

Tax edge An important advantage associated with balanced funds or equity-oriented asset allocation funds, with equity investments of 65% or more, is that they are treated as equity investments for



taxation purposes. So, even if you exit the scheme after a year—which ideally you shouldn't—you pay only 10% long term capital gains tax on capital gains. The typically high growth in long term from equity equity-oriented investments ensures that this tax burden is easily manageable.

Flexibility of mode of investments One of the advantages of investing in mutual funds is that you can invest relatively small amounts regularly through systematic investment plan (SIP). It is no different when you invest for specific financial goals in asset allocation funds.

SIP convenience SIP is the preferred route for small investors as it frees them from the onerous task of tracking highs and lows of the market to make investments. Regular investments ensure that, over time, the average cost of buying the units falls since you are buying units both when markets are high and low.

SIPs in asset allocation funds are attractive for salaried employees who typically want to make regular investments for major goals like child's higher education and retirement. Of course, you can even invest lump sums like annual bonus too. If you get the lump sums at regular intervals, you can also regularly invest in such funds as well.

Investing through STP Lump sum investments should ideally be done through systematic transfer plan (STP). In an STP, you can transfer parts of a lump sum from one mutual fund scheme to another (within the same fund house) at regular intervals. Such a transfer averages the cost of purchase of units and mitigates market-related risks.

The investor can first park his funds in a liquid fund and then get it

How Asset Allocation Funds Provide a Complete Investment Solution

Asset allocation funds, especially equity-oriented ones, can help you meet major financial goals

1. **Manage risks**
Help manage risks associated with asset classes and combine assets to lower volatility of returns

2. **Convenience**
You don't need to spend time tracking markets and your investments

3. **Growth from equity-oriented funds**
Equity-oriented asset allocation funds typically provide long term growth even as debt and gold investments help manage volatility of returns

4. **Tax advantage**
Equity-oriented asset allocation funds invest 65% or more in equities and need to pay only 10% long term capital gains tax after 1 year

5. **Check on costs**
Thanks to fund managers, the costs of rebalancing the investment portfolio is typically reined in

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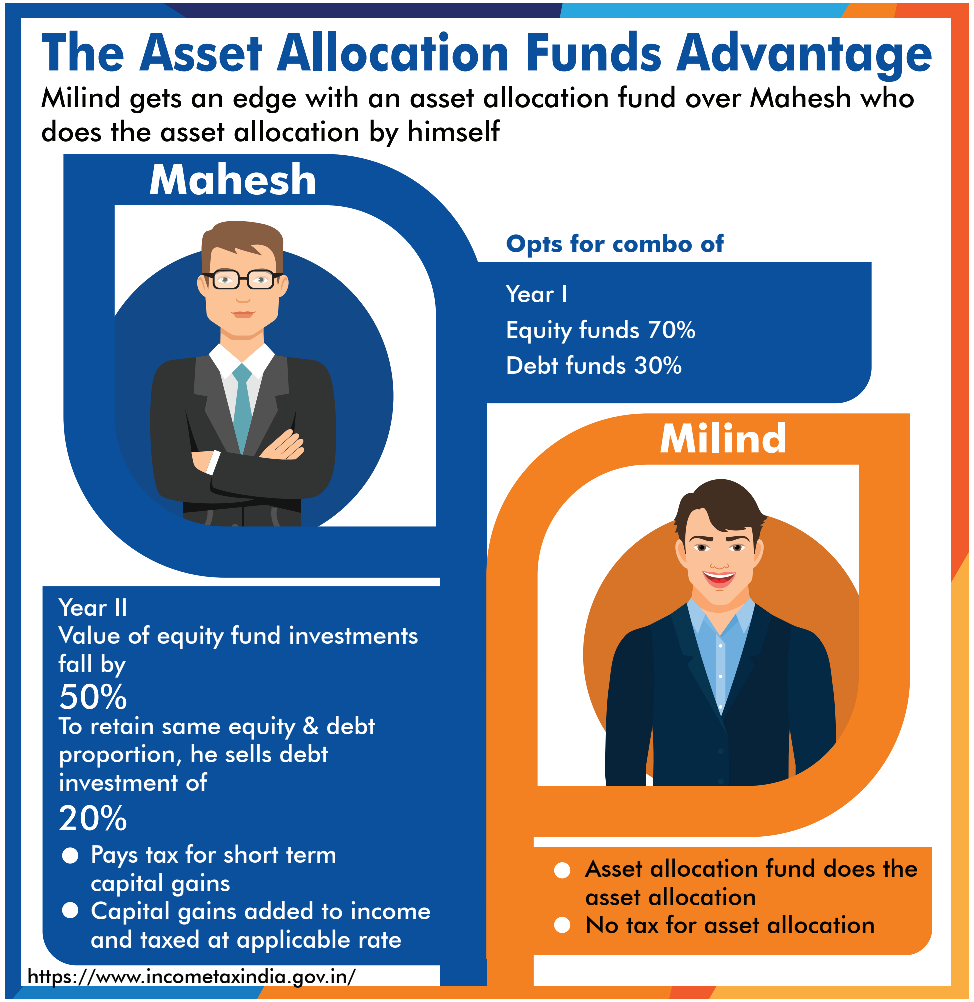
transferred to a scheme (in this case an asset allocation fund) at regular intervals. STP works well for investors who have a large sum of money to invest and want to invest over a period of time.

Ease of using money One of the advantages of investing in mutual funds like asset allocation funds is that you can make provisions of making lump sum as well as regular payments when the requirement arises. Here, you can opt for lump sum or regular payments depending on the need, whether it is for child's higher education or retirement. Thus, you can pay both one-time charges and regular tuition expenses for your child's college from the same mutual fund investment. The same is true for meeting requirements in retirement.

You can also choose between one-time withdrawals and a systematic withdrawal plan (SWP). Under one-time withdrawal option, you get the all amount at one go. However, under SWP you get a fixed amount on a predefined date, even as the remaining amount remains invested and keeps growing.

To sum up, meeting major financial goals may appear formidable. However, asset allocation funds can help meet challenges as they attempt to provide returns, while focussing on containing risks related to individual asset classes. Then, there are other virtues of mutual funds like tax advantages and convenience of investing and receiving maturity proceeds. In short, mutual funds can gear you up to help you meet life's any need.



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