THEWEALTHWISHER Financial Planning & Wealth Management

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THEWEALTHWISHER

RIGHT PLAN...RIGHT LIFE

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CHAPTER NAME PAGE NO.

Investing Lessons from Soccer World Cup

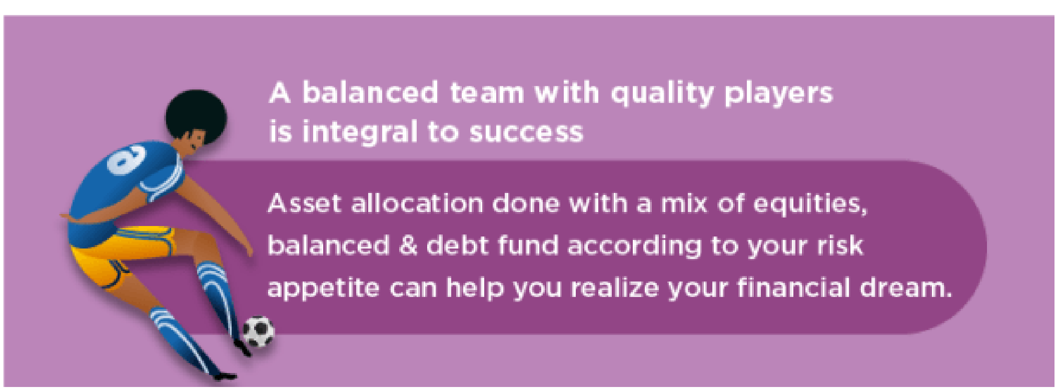
No one is an Asian or European or African when all our continents unite for one month and fight for World Cup Title in Soccer (We call it Football). The Soccer World cup in Russia has kicked off and really a treat for sports-loving followers. And, here I am who love personal finance too, mixing these two. Yes if you feel this greatest football event, it has many learnings for us too. So here are some – Investing Lessons from Soccer.

Do you know Russian Media has decided not to publish any “negative news” during this world cup? So high are the stakes for a country organizing it. For teams also, it’s a matter of national pride. The fans will not forgive or forget the moments.

For an [investor](#) & football fan, there are many investing lessons that soccer provides. Here are some points I would like to put before you:

Investing Lessons from Soccer World Cup

- A Balanced Team

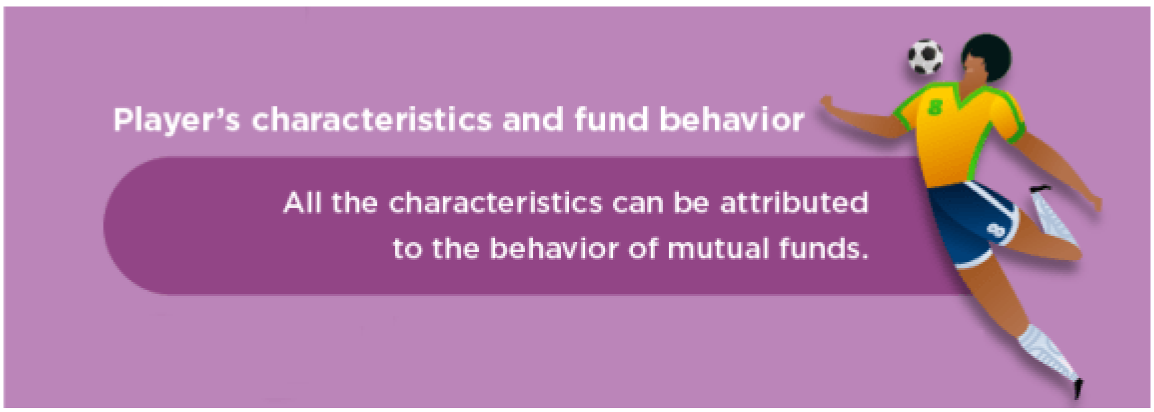


The balanced football team is one who has talented players covering all aspect of the game. They have defenders, mid-fielders, and strikers. The work is divided. Few players are move makers and few score goals for the team. Few just move to defend the opponent's moves.

In Investments also, you have strikers (Equity), Defenders (Debt) & Mid-fielders (like Balanced Funds or Gold). A [winning portfolio] is which balanced the team (risk).

Very seldom in football, we see a defender scoring goal, but they are equally important to defend moves made by the opponent team. In investment also, the [debt] may or may not beat inflation, but its presence helps in managing [risk], liquidity & rebalancing of the portfolio.

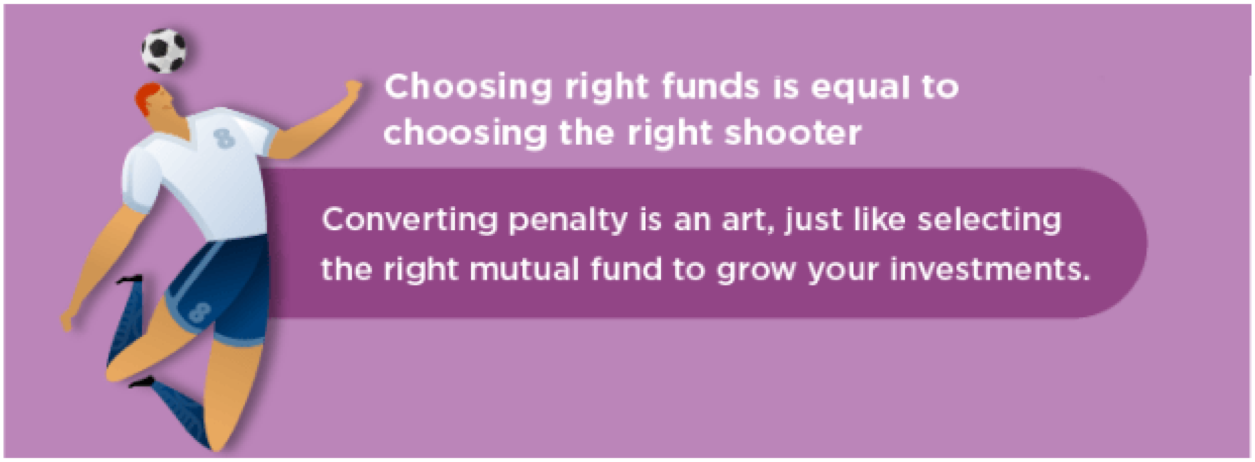
- Player Characteristics



Football is more popular at club levels. Many of these players play with each other at club levels, but for the world cup, they play against each other. This because they play for their national teams and honor the national duty. No one is a star when it comes to playing for the nation. They equally sweat with other players knowing that nation is expecting from them.

In investments, it is important to have [goals] or reason to invest in front of you. Vague, directionless investing takes out the seriousness. This is one of the major reason, people commit mistakes as psychologically a little is at stake. Many think tax saving is investments or bank FD can help them fulfill retirement needs in long-term. Goals ensure a formal approach.

- Selection

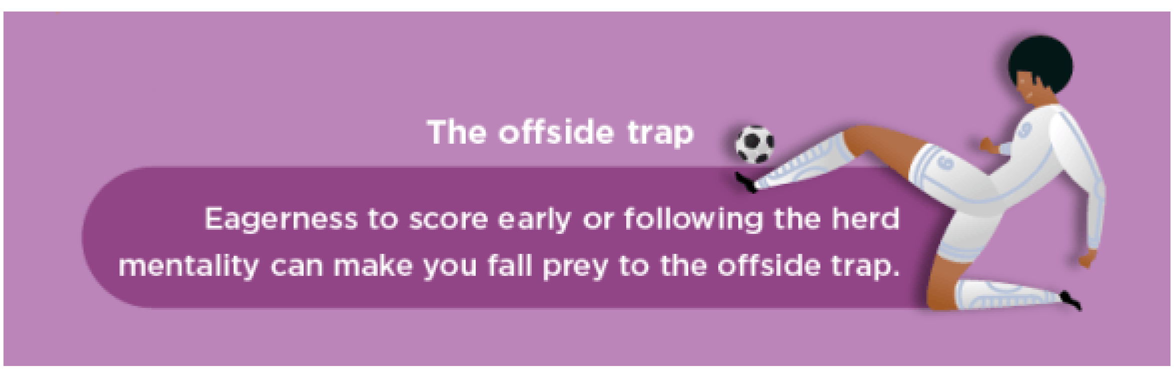


The football teams prepare for this event for years. They search the best talents both in the field & of the field. Even the masseuse or cook is very important. Key positions like Coach or midfielders are selected with great precision and they play a lot of conditioning matches.

In investments also, Advisor engaged with you should be selected very carefully. One must strive for a person of integrity & knowledge for your investment journey. The advisor helps you scoring penalties in investments. He helps you choose the best team and during match, he helps you identify the best mix. He is on sidelines but never seated. He is actually in everything that you are facing.

Another ***investing lessons*** is that it is also very important to select the right amount of different assets. The asset allocation is the most important thing. Then comes the individual securities. You must have a correct process.

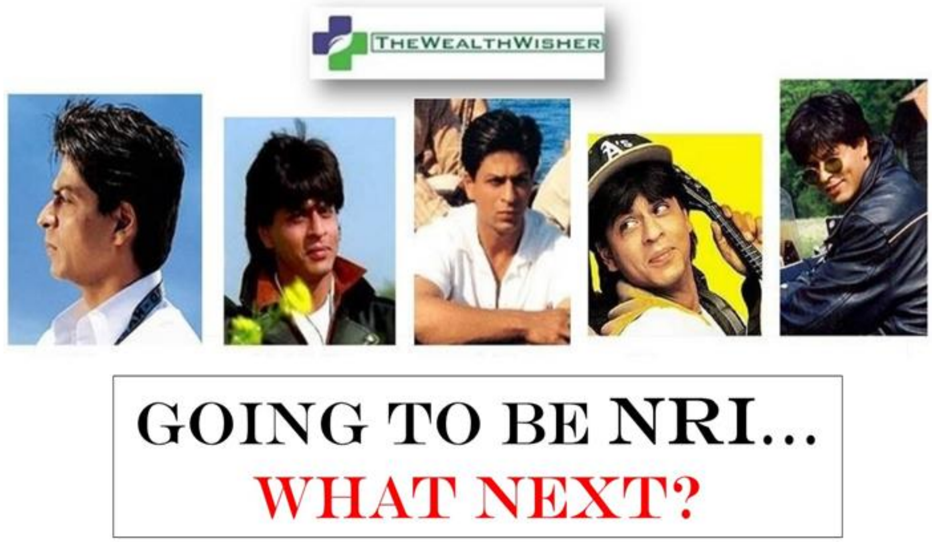
- The offside trap



Everyone is eager to score early or make the first move. But football is a game with referee watching the moves. He can award free kicks or transfer the ball possession. He can penalize for violation. One can be out if he is violating the spirit of the game.

In investments, we also want immediate results. We see past performance only and expects same to replicate every year. We churn portfolios when a small wind arrives. We follow herd mentality and often invest in dumb schemes. We are in a hurry to be successful.

Well, soccer is an interesting game and I am sure there are more Investing Lessons***.***



Becoming An NRI? Complete NRI Checklist Ebook

If you are planning to move out of India or you are working in a company and got an opportunity to work out of India than there are few things you need to plan before shifting abroad. This ebook is comprehensive *NRI checklist* of all the preparations you should make.

Financial & Personal… We are sharing an ebook which took one month to prepare, because we wanted to make a complete guide on ***NRI Checklist*** that one should know being an NRI.

We have covered NRI Banking, Investments, Equity, Mutual Funds, Insurance, PPF, NPS, Power of Attorney, Home Loan and even utilities like Gas & Mobile Phones.

No need to read multiple articles or surf websites. We offer you a whole, detailed guide & actionable tips.

Lots of NRI's post their queries & issues on our website. We thought of collating the queries and provide a detailed structure for the readers. This list will surely save you from lots of worries and paperwork.

If you are an NRI or in the process of becoming one, you may have a question regarding:

- What to do with your **Bank Accounts**. Which one to open or close? What does RBI say on this?

- Can I remain **joint holder** with my spouse or mother's bank account or her **investments**?
- Should you be reviewing your **life insurance** or does it make sense to get fully insure and then move abroad?
- What to do with your Health Plan or **Mediclaim**? Will Indian Mediclaim Policy Help in a foreign land?
- What to do with existing **Mutual Funds**? Is there a problem for US or Canada NRIs?
- How to buy **shares** in India or what to do with existing shareholdings?
- Is **PPF** still relevant for NRIs? What to do with an old PPF account?
- Will my **MF taxation** change on ***NRI Investments***?
- Do I need **Aadhar**? What if I already have one?
- What about my existing **Home Loan**?
- What to do with **mobile phone** or **gas connection**?
- What about **NPS**? Can NRIs invest?
- How to create a **Power of Attorney**? Why is it required?
- What to do with existing **Credit Cards**?
- How and should I file **Income Tax Returns**?
- So we though – Answer all these questions and compile it in an e-book so that it could be shared over internet.

Presenting the E-book NRI Checklist

– A Comprehensive Guide For NRIs

- This e-book is also a compilation of "all the things required" before & during the time you are an NRI. Feel Free To Download this Free E-book from below link & share with your NRI friends and family members.

Ebook – An NRI Checklist

The Game of Expense Ratio

IPL just concluded and mutual fund lovers must have noticed the advertisement campaign of "Mutual Fund Sahi Hai". Do you wonder who pays for these advertisements? IPL is a costly medium to display your product. Well, the answer is YOU PAY for these. *Surprised*? But this is the outcome of a game called "expenses ratio" in mutual funds. Let's see details on the cost of investing in MFs – **Expense Ratio**.

Mutual fund investors full-time focus is on 'returns'. They do not consider the impact of cost and its correlation to returns. Expense ratio decides this cost.

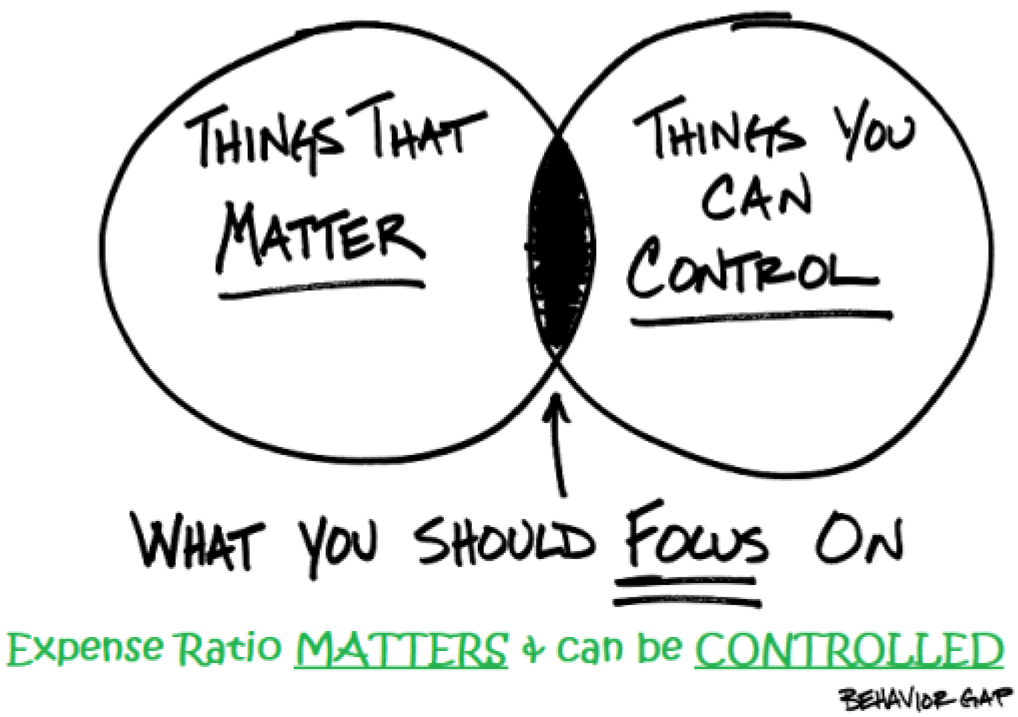
Savings from reduction in expense ratio (ER)

Suppose that a sum of ₹100,000 is invested. Gross return of mutual fund is taken to be 14%. Current expense ratio of regular plan is taken to be 2.39% and of direct plan is taken to be 1.45%.

	Saving (₹)			
	5 yrs	10 yrs	15 yrs	20 yrs
Regular plan if ER reduced by 25 bps	1,948	6,787	17,730	41,171
Regular plan if ER reduced by 50 bps	3,914	13,711	36,023	84,129
Direct plan if ER reduced by 25 bps	2,015	7,318	19,936	48,275
Direct plan if ER reduced by 50 bps	4,047	14,784	40,500	98,627

The expense ratio is as important as returns in a mutual fund, for the simple fact that higher expenses can eat your share of returns over the long run.

Also, ***expense ratio*** is a factor you can have a control over. You cannot control markets, but you can choose a fund from various funds with different expense ratio.



What is Expense Ratio of a Mutual Fund?

If you want to learn what constitutes expense ratio, the ways to understand is breaking them in the various heads.

A mutual fund typically has two types of expenses:

- One is non-recurring expenses that are incurred during the launch of a fund. These are amortized in parts (in a number of years in equal parts). These expenses are borne by the fund house and not charged to the investors.
- The second type is recurring expenses-fees and expenses charged for managing the scheme. It includes Fund Management (investment management), adviser's fees (Brokerage to the distributor), trustee fee, and marketing & selling expenses.

Expenses, identified as being direct expenses incurred to manage the fund, can be charged to the scheme. These expenses include:

- Investment management fees
- Marketing and selling expenses
- Fees of custodians
- Fees of registrar and transfer agents
- Audit fees
- Trustee fees
- Costs relating to investor communication
- Costs of statutory disclosure and advertisements

These expenses are calculated from the daily average net assets of the fund. So if a fund is charging 2%, it means every day, fees equivalent to 2% divided by Number of Working Days will be reduced from NAV.

The NAV of each day (working) is actually calculated after accounting for expenses and hence, borne by the investors.

What SEBI says on Expense Ratio

Under the existing norms prescribed by SEBI, mutual funds are allowed to charge a maximum recurring expense or total expenses ratio (TER) as mentioned in this table:

The limits for expenses charged to the fund are as per the following slabs:

- 2.5% on the first Rs 100 crore of net assets
- 2.25% on the next Rs 300 crore of net assets
- 2% on the next Rs 300 crore of net assets
- 1.75% on the balance net assets

Debt funds are required to charge 0.25% lower in each of the above slabs.
Index funds cannot charge more than 1.5% as recurring expense.

FoFs can charge Management fees + Scheme recurring expenses + expenses levied by underlying schemes not more than 2.50% of net assets.

SEBI guidelines further specify the limits of TER based on the size of the corpus.

But some funds especially small-cap funds or sectoral funds have expenses more than 2.5%. Why?

This is because, an additional 30 basis points (1%=100 Basis Points or BPS) can be charged by the mutual fund the top 30 cities, another 20 basis on other permissible expenses. So with all conditions met the expenses ratio can be as high as 3%!

Buck does not stop here. The MFs can also charge for the service tax on the management fee. Hence an equity fund with a corpus up to 100 crores may charge an expense ratio up to 3.3% !!!

What if your fund's expense ratio is more

While the higher expense ratio in some cases can be because of the lower corpus (less than 100 Cr).

You will love to read this too What are Exchange Traded Funds? Comparison with Mutual Funds - An Infographic

Small Cap Funds With Expense Ratio Above 2.5%	Inception Date	Latest AUM (In INR Cr	Expense Ratio
IDBI Small Cap Fund(G)	21-Jun-17	234.65	3.31
IDBI Midcap Fund(G)	25-Jan-17	287.30	3.28
Union Small Cap Fund(G)	10-Jun-14	339.50	2.77
Sahara Midcap Fund(G)	22-Dec-04	9.13	2.70
Sahara Star Value Fund(G)	29-Aug-09	0.53	2.70
Tata Mid Cap Growth Fund(G)	01-Jul-94	692.48	2.67
Invesco India Midcap Fund(G)	19-Apr-07	184.25	2.59
Sundaram Small Cap Fund(G)	15-Feb-05	1399.03	2.54

Data 30 April 2018

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Sectora/Thematic Funds With High Expense Ratio Above 2.75%	Inception Date	AUM(In Rs.Cr	Expense Ratio
Baroda Pioneer Banking & Fin Serv Fund(G)	22-Jun-12	39.98	3.00
Aditya Birla SL Digital India Fund(G)	15-Jan-00	134.75	2.94
Tata Digital India Fund-Reg(G)	28-Dec-15	111.56	2.91
Tata Resources & Energy Fund-Reg(G)	28-Dec-15	47.69	2.90
Tata Dividend Yield Fund(G)	22-Nov-04	313.93	2.87
Franklin India Technology Fund(G)	22-Aug-98	210.40	2.86
Mirae Asset Great Consumer Fund-Reg(G)	29-Mar-11	339.57	2.84
Tata India Pharma & Healthcare Fund-Reg(G)	28-Dec-15	143.81	2.84
DSPBR Natural Res & New Energy Fund-Reg(G)	25-Apr-08	443.32	2.82
BOI AXA Mfg & Infra Fund-Reg(G)	05-Mar-10	42.74	2.81
Sundaram Fin Serv Opp Fund(G)	10-Jun-08	148.60	2.76
Tata Ethical Fund(G)	24-May-96	517.86	2.76

Investors should be cautious while investing in close-ended funds. Many of them charge relatively higher expense ratios than their open-ended counterparts due to high amortization rates & brokerage.

EXPENSE RATIOS

	Min	Max	Average
Large-cap	1.9	3.3	2.5
Multi-cap	1.9	3.2	2.5
Mid-and small-cap	2.0	3.4	2.5
ETFs	0.05	1.5	0.3
Index funds	0.11	1.8	0.7

Source: Ace MF

Option – Go for Direct Mutual Funds

It is mandatory for a mutual fund to launch 'direct' options. Since there are no commissions to be paid to intermediaries under this route, the expense ratios of direct plans are notably lower than of 'regular' plans.

FUND CATEGORY	HIGHER RETURN (%)	GAINS BASED ON PORTFOLIO SIZE (₹) 10 LAKH	30 LAKH	50 LAKH
Equity: Diversified	4.08	40,800	1,22,400	2,04,000
Equity: Sector, thematic	4.17	41,700	1,25,100	2,08,500
Equity:Tax savings	3.91	39,100	1,17,300	1,95,500
Hybrid: Equity oriented	4.03	40,300	1,20,900	2,01,500
Hybrid: Monthly Income Plans*	3.37	33,700	1,01,100	1,68,500
Debt: Gilt	2.46	24,600	73,800	1,23,000
Debt: Income	2.60	26,000	78,000	1,30,000
Debt: Short-term debt	2.11	21,100	63,300	1,05,500
Debt: Liquid	0.50%	5,000	15,000	25,000

Note: The difference in the average returns of the direct and regular plans of each category has been used for calculations. *Debt-oriented conservative

Source: Value Research. Only schemes with AUM of at least ₹100 crore were considered.

Investors can opt for direct plans. If they want advisory, they can opt for Financial Planner or Advisors who charge fees. Even after fees, you can save a lot of money as compared to "Regular Plans".

Before I end, please make a note that the ***expense ratio should not be your only criteria for choosing a mutual fund***. Many other factors like consistent returns or management behind the funds are reasons critical to achieving your long-term financial goal.

How Much Cash to Hold in Your Portfolio?

You know last week in news it said: " Indian Forex Reserve is down by 1% due to increase in fuel bill". So a country is also concerned about its cash balance. We all know what happened in 1991 and how Dr. Manmohan Singh tackled the situation. So cash is really important in managing a household too. But have we thought about – **Role of Cash in Portfolio**? How much cash one should hold? Let's try to understand the importance & amount of cash one should be having.

Before discussing how much cash lets check why do investors hold cash?

We have interacted with hundreds of investors and found that they hold cash for simple 3 reasons:

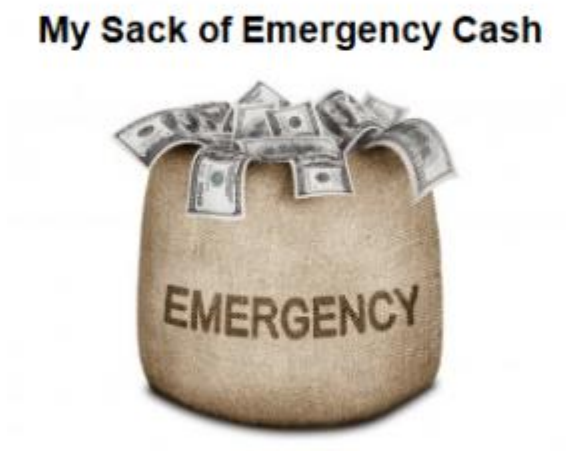
- **Emergency**
- **Opportunity**
- **Lack of usage (I don't know what to do with it?)**

Although holding cash to wait for some "right opportunity" may sound tempting, but how many of us are qualified to identify the so-called opportunity.

Cash as Contingency Planning

Investment Strategy focuses on the risk-return profile, balancing of debt and equity portions and managing risk. One portion of the portfolio which is cash is not given much attention, because seldom investors disclose cash levels.

Hence we (planners) come forward and ask how much cash you have presently? We also answer how much to hold for contingency.



For most people, the absolute minimum level of cash to keep in emergency fund amounts to six months of expenses. Contingency Fund not only manages your household during crisis time, it also helps you to keep your long-term investments intact.

We all know the suffering when we have to pull out money from retirement or children's education fund.

Considerations in Holding Cash

Some investors feel that holding cash is like holding a weapon – the option to take advantage of volatility in the market. This is a right approach.

So when the volatile stock market provides you an opportunity to buy good assets at bargain prices, you should have cash in hand to take advantage of market's irrationality.

But many times opportunities arise suddenly. How many of us have the courage to buy when markets correct 20% or more?

The **fear** makes the cash non-usable.

Don't you think instead of this one should invest regularly and **not accumulate cash in portfolio**? This can be done by SIPs.

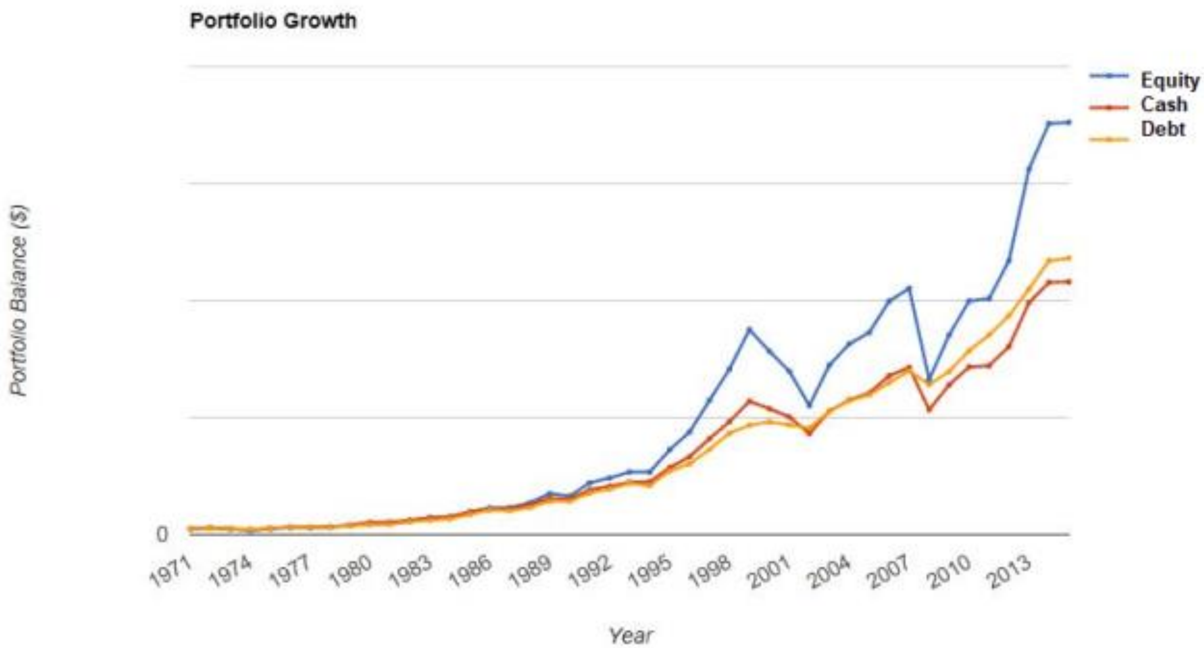
When you have a large sum, you should not rush to invest it but rather take sufficient time to plan a strategy. If you are not getting the desired level of correction, if appropriate, get into the market in a staggered way.

When you are invested in an asset class that has had a big run-up in prices, you might take some risk off the table by converting some of your investment to cash. This is called re-balancing. This may have tax implications & it may leave you with cash in hand undecided where to reinvest.

Optimum Cash Levels – How Much Cash To Hold?

Optimum Cash Levels – How Much Cash To Hold?

Your financial planner may help you decide the level of cash you should hold for emergencies. It could be 3 months or more depending on factors like **age, job security, family composition & existing liquid assets.**



The answer to question how much **cash holding** also depends upon the age of the individual. While cash holding of 5-10% of total financial assets is sufficient for a young family, retired people should keep a higher percentage, say 10-15% of their financial assets in cash. This will help to meet recurring expenditure or any medical emergencies.

Holding cash carries its own **costs** as well. Cash does not earn any interest, except for that lying in saving account deposits or liquid funds. Inflation eats into the purchasing power of idle cash.

Another drawback of holding cash is the opportunity cost of earning more returns in the equity or long-term debt market.

Cash & Timing the market

Studies have proved that by timing the market more often investors miss the best days and hence earning significantly less than what they could have earned by staying invested.

Reasons are – **Most investors get out when it's too late and wait way too long to get back in.**They lose compounding and missing out on gains.

What is ignored is the fact that the Sensex (out of 37 calendar years)

- Has delivered a CAGR of 16.06% as on October 2017, since its inception in 1980.
- Has given positive returns / risen 73% of the times.
- Has given more than 8% return (average fixed income rate which becomes a hurdle rate for equities) 59% of the times.
- Has fallen only 19% of times (7/37) more than 15% p.a.

So Why Timing?

Investors need to understand the difference between buying specific assets that are attractively valued after a dip, and timing the market as a whole. Holding cash in order to wait for that right opportunity may sound tempting but it is extremely difficult to implement in the real market scenarios.

Even experienced mutual fund managers are known for taking wrong calls every now and then. In such a case, it is advisable to maintain only as much cash as is necessary for emergency situations.

Investors should first decide his broad financial asset allocation among equities, debt, and cash depending on his risk-return profile and liquidity requirements. He should at intervals keep reviewing his portfolio and re-balance it.

Hope now you know the benefits and trade-off of holding cash. Also you must be able to know how much cash is optimum?

Hence we recommend financial planning because it takes care of all your assets and cash is one of them.

BSBD Account : A No-Frill Easy Way to Do Banking

Did you notice that now, for unused or dormant bank accounts, no more we receive message mentioning that we have negative balance figure like “credit balance of -973 Rs”. This is because now banks have a category of savings account called the BSBD Account or Basic Savings Bank Deposit Account. So now dormant accounts with no transactions are moved to this category. Let’s see today what is BSBD Bank Account?

It is really ironic that we live in a world where wealth is distributed evenly. What some of us spend on appetizers, many families lives on it for an entire week. The best way to tackle poverty is to bring people to financial inclusion. They should be attached to education, sanitation, opportunities & of course financial means.

What is BSBD Account?

RBI had advised all banks in November 2005 to make available a basic banking, 'no-frills' account either with 'nil' or very low minimum balance as well as charges that would make such accounts accessible to vast sections of the population.

Basic idea was to bring every individual person to close to the banking system. The fear of minimum charges or accumulating charges should be removed from minds of the account holders.

In addition to that to make banking facilities in a more uniform way, it was decided by RBI that to modify the guidelines on opening of basic banking 'no-frills' accounts. Keeping that in mind, in RBI circular RBI/2012-13/164 DBOD.No. Leg. C.35/09.07.005/2012-13 dated August 10, 2012 banks are directed to offer a 'Basic Savings Bank Deposit Account'.

Please note: ALL BANKS OFFER BSBD SAVINGS ACCOUNT. This includes all Public Sector Banks, Private & Foreign banks like Citibank or HSBC.

Basic Saving Bank Deposit Account (BSBD Account) is a normal saving bank account which is available to every individual with no or minimal charges.

There are no age, income or amount criteria to open a BSBD Account. It's to note that the holder of a BSBD Account can't maintain any other saving bank deposit account in that bank.

If that person has an existing bank account in that bank than he/she has to close it within 30 days from the date of opening of a Basic Saving Bank Deposit account.

Requirements to open a BSBD Account

As mentioned earlier that there are no age, income or amount criteria to open a Basic Saving Bank Deposit Account but as per RBI an individual need to follow the Know Your Customer (KYC) and Anti Money Laundering (AML) guidelines issued time to time. An applicant must need to present a valid identity & address proof in original at the time of opening a BSBD Account.

BSBD Account Features

- NO requirement of minimum balance.
- Upper balance – no cap.
- Initial deposit while opening the account is not required.
- Free ATM Cum Debit Card (generally a Rupay Card is provided. But few banks offer Visa/Mastercard)
- Free Passbook.
- Maximum 4 withdrawal transactions are allowed per month via ATM or withdrawal form available at branch and transaction through another mode including RTGS, NEFT, Clearing, Transfer, Internet Debits, Standing Instructions, EMI, etc.
- No further withdrawals are allowed in a whole
- Free Receipt/ credit of money through electronic payment channels like NEFT/RTGS
- Free Deposit/ collection of cheques drawn by Central/State Government
- The account can be open with joint applicant also.
- No charge on non-operative/activation of an inoperative

Above mentioned facilities are free in a Basic Saving Bank Deposit Account.

However, the decision to allow services beyond the minimum prescribed has been left to the discretion of the banks who can either offer additional services free of charge or make pricing structure for additional value-added services.

These value-added services must be charged with the consent of client on a reasonable and transparent basis. Such pricing structure for **value added services** or prescribe minimum balance requirements should be displayed prominently and also informed to the customers at the time of account opening.

Offering such additional facilities should be non-discretionary, non-discriminatory and transparent to all Basic Savings Bank Deposit Account customers. However such **accounts enjoying additional facilities will not be treated as BSBD Account.**

So now if you have a bank account you do not want to close you can convert them to BSBD Account.

The same account gets converted on request so you don't have to change account details.

Hope you liked this information on BSBD Account. This will surely help you mitigate penalties paid to banks.

What Is Offer Document & KIM? Should You Read Before Investing?

All Mutual Fund advertisements ends with "Read the offer document carefully before investing". But have you read one? Are you sure your agent/advisor has read one? Well, Offer document & KIM are tough & non-fiction reads. So many of us do not bother to go through offer document & KIM before investing. Let see in details the contents and importance of OD & KIM.

Just as you compare the features of a Mobile Phone you wish to buy, it is essential to read the ***Offer Document & KIM*** before you invest your hard-earned money.

We often read what interests us like a magazine, a novel, or it may be just newspapers. But when it comes to investing, even reading portions of the SID (Scheme Information Document) or Offer Document & KIM (Key Information Memorandum) will help you make an appropriate investment decision.

So let us understand each of these areas or portions of the Offer Document & KIM in detail.

Mutual Fund Offer Document & KIM

Let's start with OD. Offer document or a prospectus from a mutual fund house is a document offering its scheme(s)to the public for investing.

Offer document consists of two parts i.e. **Statement of Additional Information (SAI)** and**Scheme Information Document (SID)**.

SAI contains all statutory information of the Mutual Fund house like its sponsor, offices, team etc.

SID carries important information about the scheme such as their investment objective, asset allocation pattern, investment strategies, the risk involved, benchmark indices for the respective scheme, who will manage the scheme and fees & expenses; amongst a host of others for making an informed investment decision.

Both SID and SAI are prepared in the format prescribed by SEBI. These are submitted to SEBI and approved by them.

Some important section you should look for

Asset Allocation: This section indicates how a particular mutual fund scheme will allocate its assets (such as equity, debt, and gold) under normal market conditions. It also provides a range is provided indicating the minimum and maximum exposure to the respective asset classes.

The Investment Strategy: The investment strategy explains the approach the mutual fund scheme would adopt while selecting the instruments(equity, debt or gold) for investment. The investment strategy reflects the processes and systems followed by the fund house as a whole.

Offer Document

- Investors get to know the details of any New Fund or Existing Fund through the Offer Document.
- Information like the nature of the scheme, its investment objectives and term, are the core of the scheme. Such vital aspects of the scheme are referred to as its "fundamental attributes".
- The disclosures in the Offer Document are as prescribed by SEBI.
- Offer document has 2 parts :
  - SID
  - SAI

Benchmark: It is vital to know how a particular mutual fund scheme benchmarks its performance. Essentially, a benchmark is selected so that the suitable constituents of the same are structured in the portfolio of the respective mutual fund scheme as well.

Risk factors: Risk as you may be aware, hampers the value of your investment in the mutual fund scheme. So you should be aware of the risk involved and evaluate whether you are willing to take risks. Broadly the risks involved in mutual fund investing are Liquidity Risk, Default Risk, Settlement Risk, Interest Rate Risk, Re-investment risk, Economic Risk, Currency Risk, and Political Risk etc.

Past Performance: Offer document of the respective schemes would also contain details about their past performances over various time frames. Past performance can be guidance while making an investment decision, but should not be solely relied upon, as past performance cannot be an indication of future performance.

Fees & Expenses: Net returns from a particular scheme is directly proportional to the fees and expenses charged by the fund house. As the mutual fund house has the objective of making money for you, and it also makes money by charging levies (like exit loads), switching charges and fund management fees. The charges and fees are deducted from the respective scheme's NAV and thus we should look for a mutual fund scheme which has lower fees and expense ratio.

Investment Options: The most common investment options available under a mutual fund scheme are Growth and Dividend – and under the Dividend option you have two sub-options namely, the Dividend Pay-out option and Dividend Reinvestment Option. You have different modes of investing, namely: lump sum Investment as well as SIP (Systematic Investment Plan)and STP (Systematic Transfer Plans).

Contents of a SID

- Table of Contents
- Highlights
- Introduction
- Risk Factors
- Scheme-specific
  - Provisions regarding minimum no. of investors in the scheme
  - Any other special considerations
  - Definitions
  - Due Diligence Certificate (issued by the AMC)
- Information about the scheme
- Units and Offer
- Fees & Expenses
- Rights of Unit-holders
- Penalties, Litigation etc.

Investor Grievance: Every fund has to disclose the status of investor grievances in the Statement of Additional Information. The mutual fund house has to reveal the number of queries and complaints received & solved in what duration. This information shows investors, how proactive and responsive a fund can be towards investor grievances.

Penalties & pending litigation: Every fund has to disclose the penalty imposed on the mutual fund house or the fund sponsor for any economic offense or violation of any securities laws in the SID.

So, reading such aspects in the offer document will help you judge the credibility of the fund house you are looking to trust with your hard-earned money.

Key Information Memorandum

Meaning: The Key Information Memorandum (also known as KIM) is the abridged (summary) form of the scheme information document (SID) serving the cause of investors by mentioning the key sections of the offer document.

Securities and Exchange Board of India (SEBI) has provided a standard format for disclosures. KIM needs to be updated at least once a year. As per SEBI regulations, every application form needs to be accompanied by the KIM.

Contents of the Key Information Memorandum

- Details of the Mutual Fund and AMC- the name of the mutual fund, its Trustees, and the AMC

- Scheme Details – the name of the scheme, its investment objective, issue date, inception date, the risk profile of the scheme, benchmark index, Fund managers name etc.
- Minimum Investment Details Plans and Options offered by the Scheme
- Performance of the Scheme- Compared to its benchmark index over last 1 year, 3 years, 5 years and since inception
- Loads and Recurring Expenses
- Contact details of the Registrar and Transfer Agent (RTA)
- Comparison of existing schemes managed by the fund house
- Reading offer document & KIM is not as tough as it may seem. Once you read first one or two, it becomes a routine.

Voluntary Provident Fund – A Good Choice in Fixed Income

Very few instruments have “fixed rate” & “tax-free” tag associated with them. Considering last year when rates in fixed deposits were at lowest and debt funds being highly volatile, **Voluntary Provident Fund** is an ideal choice for debt investments. Let’s see the details.

The advantage of investing in voluntary provident fund lies in the fact that now there are very few investments in the debt category that continue to give very attractive returns. We all know Debt & Equity go hand in hand and asset allocation is the key to balance risk and make good returns.

VPF is an add-on to the existing Employees Provident Fund (EPF).

Voluntary Provident Fund(VPF) has seen the least cut in rates in recent times. The EPF and the extension VPF are also highly tax-efficient and safe.

Voluntary Provident Fund Details

VPS is only for salaried employees having [PPF](#) deduction. Someone who already has an EPF or GPF deduction of 12% of your basic and dearness allowance can avail VPF.

In [EPF](#) the employer matches the contribution with a similar amount. The rule says you cannot increase your EPF. But you can increase your contribution voluntarily and the employer will not contribute anything on this.

You can invest up to 100% of your basic and dearness allowances in the VPF. The VPF will earn the same rate as the EPF and accumulates in your EPF account.

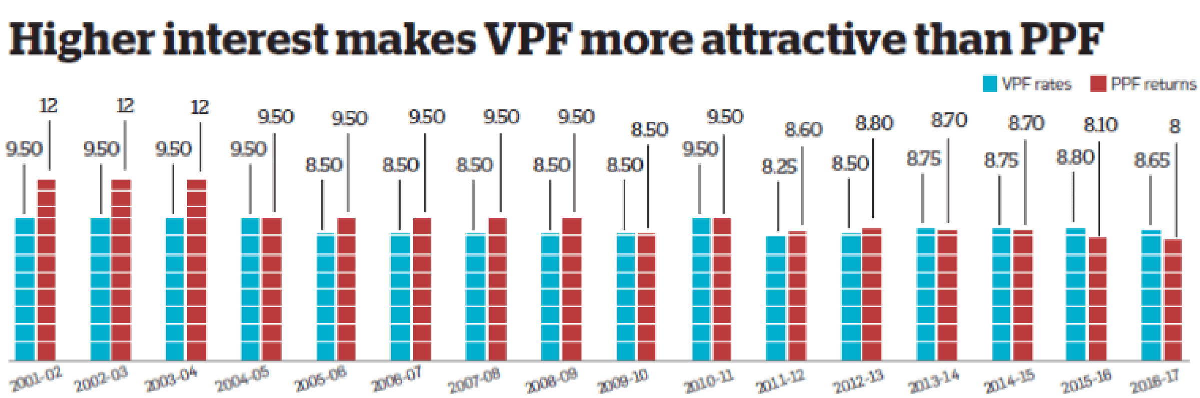
As discussed employer will only contribute 12%. Beyond that it is called VPF and employer is not bound to contribute anything on this contribution.

VPF is nothing but your contribution to EPF above 12% limit.

The VPF is invested in the same manner as EPF. In fact, it is the same fund. For subscribers rules pertaining to the EPF-including lockin, withdrawal, [loans](#), and taxation also apply to the VPF.

Why Voluntary Provident Fund or VPF?

The key attraction of VPF Is the high rate it enjoys like EPF.



Employee Provident Fund Organization (EPFO) has fixed the rate on EPF balances for 2017-18 at 8.65%. For 2018-19 EPFO has recommended for 8.55%.

The other major advantages of EPF and VPF is safety. They are as safe as the rates are guaranteed by the government through Ministry of Labour.

The third reason is tax benefit.

You get benefit under Sec 80C on contributions. Also, interest earned is exempt from tax, and so is the maturity amount –that is, these investments come under the Exempt-Exempt-Exempt (EEE) category.

If you compare it with bank FD now, the FD rates for 3 years are around 7%. The interest is taxable with the only exemption of Rs 10000 per year (Rs 50K for Senior Citizens).

Some more points before you start investing in Voluntary Provident Fund

The investments in VPF is covered under Section 80C (up to the overall limit of rupees 1.5 lakh a year)

You can invest more than this limit, but will not get the initial tax break. The interest earned and the corpus though will continue to be exempt from tax. The maximum amount that you can invest is 100% of Basic & DA.

The rates on EPF and VPF change every year and are fixed by the EPFO Department.

Also with the EPFO gradually increasing exposure to equity investments (15% now with a proposal to increase to 50%) the returns may increase in future and lose their correlation with debt instruments.

Process of investing in VPF

The process or paperwork for investing in the VPF is very simple. You only have to inform your employer about the additional amount you want to contribute to the VPF. The amount will get deducted from your monthly pay.

Some employers allow employees to enroll for VPF and make changes to the amount contributed on a monthly basis others allow this once or a few times in a year.

Should you invest?

My question is- are you looking for Debt Investment under your asset allocation for long-term goals like retirement?

Yes, it's good debt investments but doesn't go overboard with your VPF allocation if you don't need it. We try to bend towards "fixed", but one must invest strictly as per his asset allocation.

Contribution to VPF reduces your monthly take-home pay to that extent. There is no point investing heavily if your monthly budget suffers.

An investment portfolio should have a good mix of debt, equity and other investments. Equity investments in a well-managed mutual fund portfolio have potential to deliver much superior returns in long term.

Hope now you know the ***concept of voluntary provident fund, its benefits, and other details***.

Please let us know regarding your views and avail or services.

Seek Professional
Help Of An
Investment Advisor

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