MUTUAL FUNDS Sahi Hai

An investor education initiative by LIC MUTUAL FUND

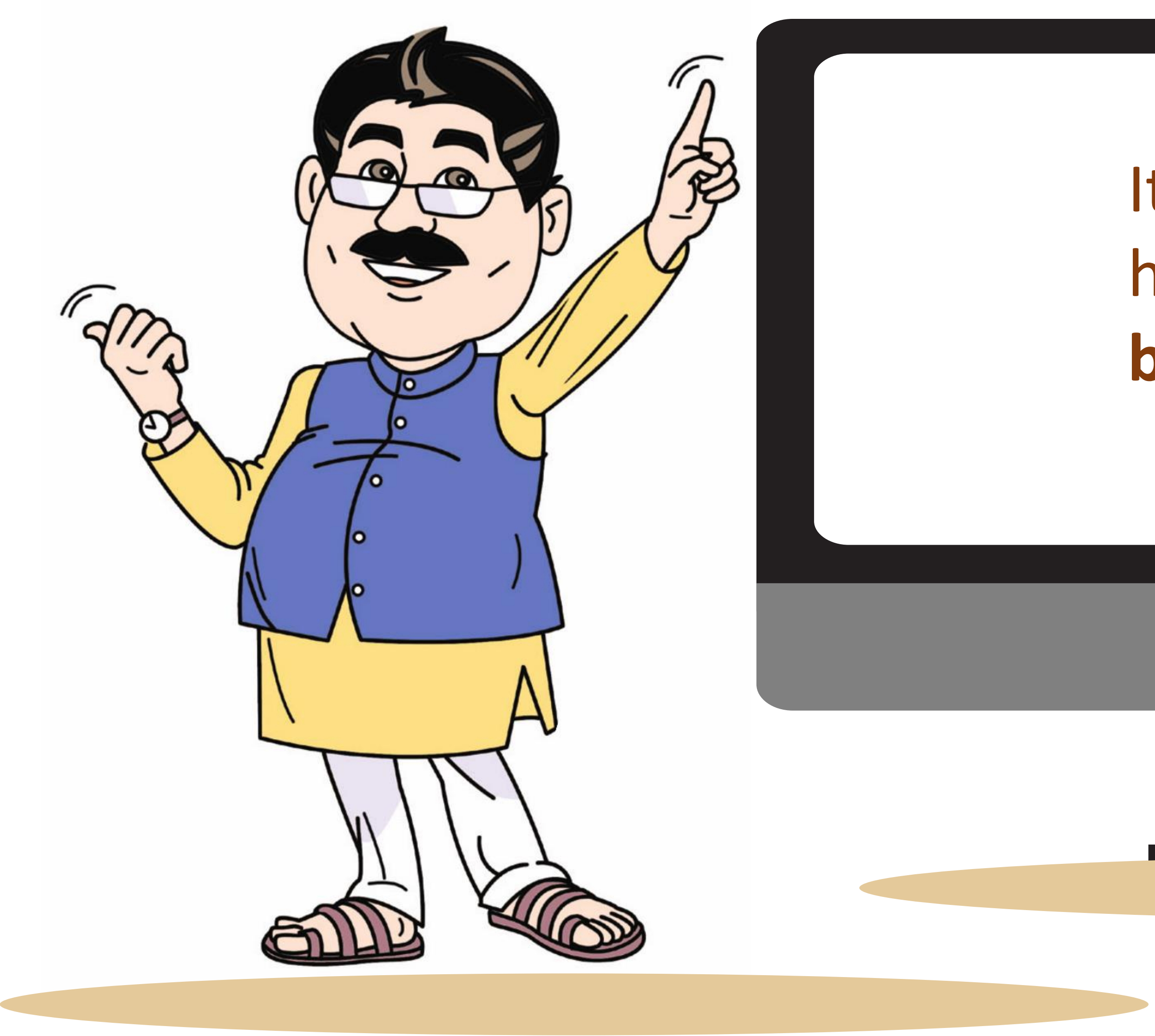
SIP STP SWP
Tools for smart investing

What's Inside-

An investor education initiative by LIC MUTUAL FUND

- Systematic Investment Plan (SIP) - It is not necessary that one has to "Start big" to "End big"
- Systematic Withdrawal Plan (SWP) – It can be used as a source of regular cash flow
- Systematic Transfer Plan (STP) - It is not difficult to invest a large sum "in volatile market"
- SIP/SWP/STP – Tax aspect
- SIP/SWP/STP – Effective retirement planning

Systematic Investment Plan (SIP): What is the basic mantra



It is not necessary that one has to “**Start big**” to “**End big**”

SIP: Your friend in need

An investor education initiative by LIC MUTUAL FUND

What is it

A disciplined way of investing in mutual funds and works on the basic principle of regular investment

What are the frequencies covered

SIP can be done on daily, weekly, monthly, and even quarterly basis

How does it work

It allows a person to invest a predetermined amount for a fixed interval in mutual funds. The amount will be automatically deducted from the bank account on a chosen date

What is the minimum Investment amount

It is not necessary to start the SIP with a large amount. It can be started with as low as ₹ 1000

SIP: Advantages

Discipline

It allows you to invest a fixed amount at regular intervals for a specified period which helps in building a portfolio

Rupee cost averaging

The average investment cost comes down because investor passes through all phases of the market

Lower transaction cost

Transaction cost for investment via SIP is far lower compared with investing directly in equities

Power of compounding

The longer one remains invested higher would be the returns

Convenience

Hassle-free mode of investment as amount gets debited automatically with NACH/ Auto Debit instructions

SIP: Inflation reduces value of money

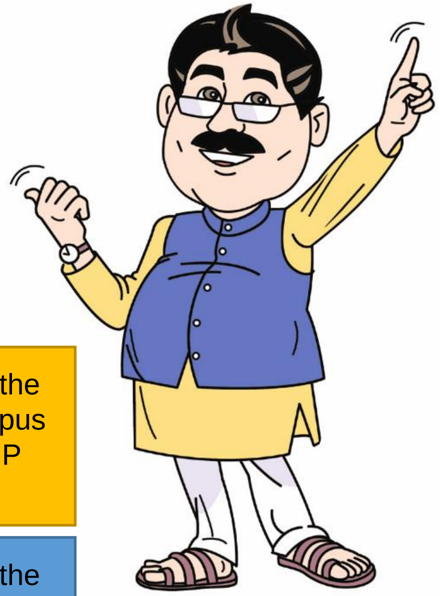
An investor education initiative by LIC MUTUAL FUND

Imagine the cost of an ***MBA degree*** *five years from now!*

CHILD EDUCATION PLAN ILLUSTRATION	
Current Age	16
Age at time of taking Admission	23
Current Cost for Particular Education	1000000
Assumed Inflation in %	7
Rate of Return in %	15
Corpus Required at Time of Admission	Rs. 16,05,781
Current Provision - SIP	Rs. 0
Current Provision - OneTime	Rs. 0
Required Investment - SIP	Rs. 10,914
Required Investment - OneTime	Rs. 6,03,673

To achieve the required corpus through SIP mode

To achieve the required corpus by one time investment



Imagine the cost of a ***medical degree*** *eight years from now!*

CHILD EDUCATION PLAN ILLUSTRATION	
Current Age of your child	12
Age at time of taking Admission	23
Current Cost for Particular Education	1400000
Assumed Inflation in %	7
Rate of Return in %	15
Corpus Required at Time of Admission	Rs. 29,46,793
Current Provision - SIP	Rs. 0
Current Provision - OneTime	Rs. 0
Required Investment - SIP	Rs. 8,867
Required Investment - OneTime	Rs. 6,33,393

To achieve the required corpus through SIP mode

To achieve the required corpus by one time investment

Assumption: Rate of return is 15% p.a. and inflation rate is @ 7%.

SIP: Rupee cost averaging

- SIP eliminates the need for timing the investment
- It smoothens the impact of market volatility
- It allows the investor to buy more units at lower price
- The investor need not worry about how much to invest and when to invest

		SIP Investor		Lump-Sum Investor	
Month	Unit Price	Investment	Units Purchased	Investment	Units Purchased
1	106	1,000	9.43	12,000	113.21
2	95	1,000	10.53		
3	94	1,000	10.64		
4	104	1,000	9.62		
5	104	1,000	9.62		
6	90	1,000	11.11		
7	99	1,000	10.10		
8	101	1,000	9.90		
9	92	1,000	10.87		
10	90	1,000	11.11		
11	108	1,000	9.26		
12	108	1,000	9.26		

	SIP Investor	Lump-Sum Investor
Total Investment	12,000	12,000
Total units purchased	121.44	113.21
Average unit price	98.81	106
Value after 9 months	**13,115.70**	**12,226.42**
Difference	**889.28**	

At the end of 12 months, total units purchased under SIP mode will be 121.44 & cost per unit will be ₹ 98.81. Thus, the profit for an SIP investor from the above investment will amount to ₹ 889.28 (₹ 13,115.70 – ₹ 12,226.42)

Assumption: In first case, ₹ 1000 is invested every month for 12 months through SIP mode while in other ₹ 12,000 is invested as a lumpsum.

An investor education initiative by LIC MUTUAL FUND

SIP: Power of compounding

- Albert Einstein regarded Compound interest as the 8th wonder of the world
- He famously advised that those who understand its power, earn through it and those who do not, end up paying it

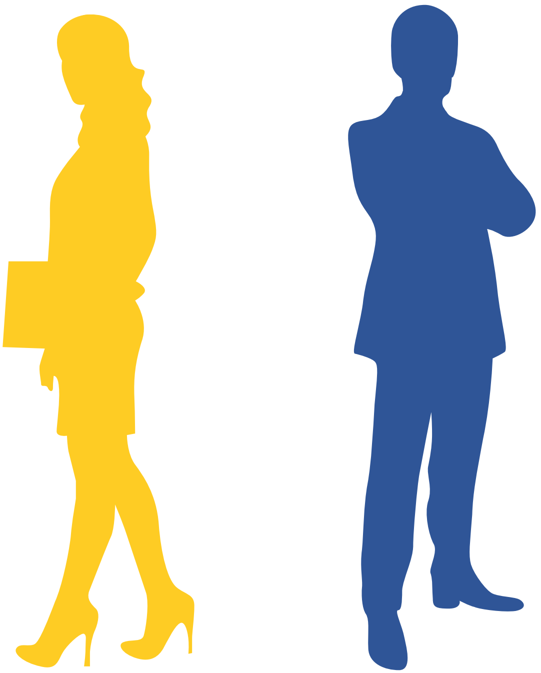
Amount Invested (per month) – ₹ 1,000

Time period – 30 years

Return – 12% pa

Total amount invested – ₹ 3,60,000

Maturity Value – ₹ **35.29 lakh**



Amount Invested (per month) – ₹ 1,000

Time period – 35 years

Return – 12% pa

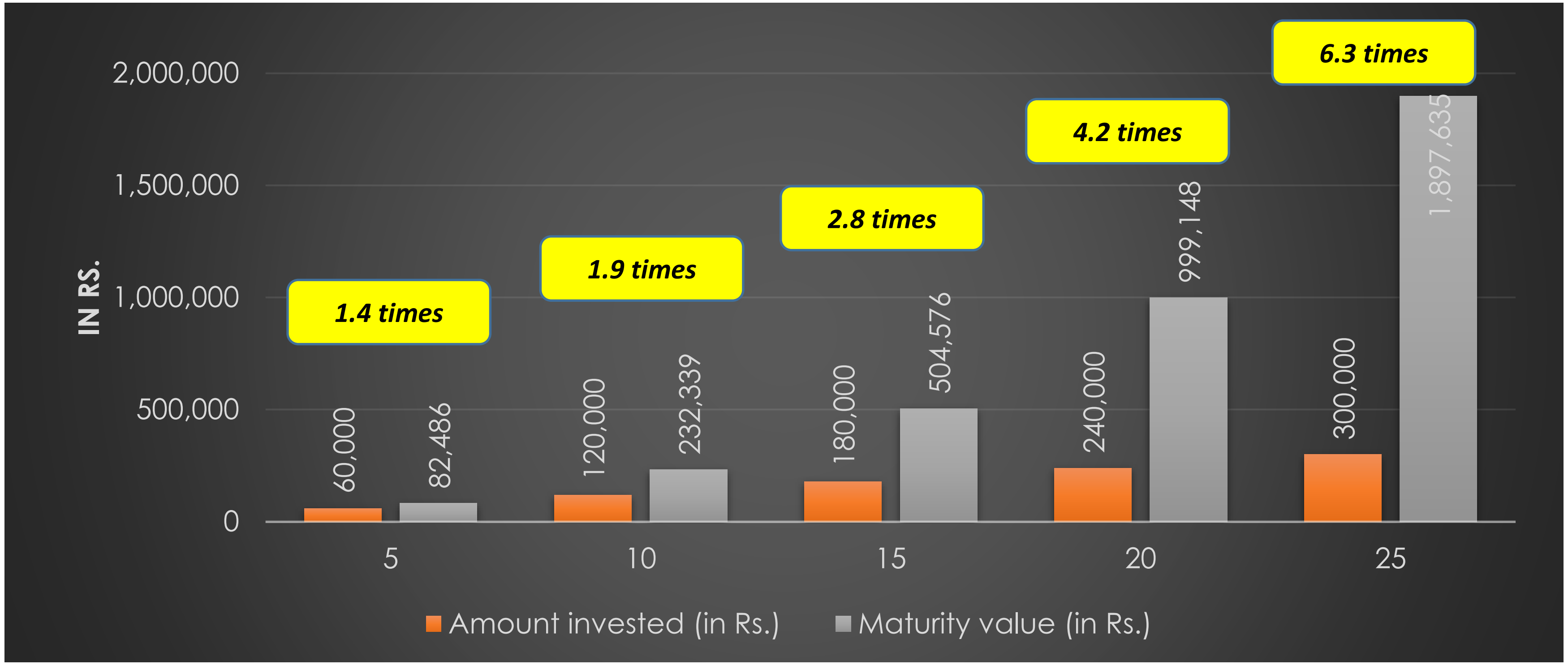
Total amount invested – ₹ 4,20,000

Maturity Value – ₹ **64.95 lakh**

Compounding is a true companion of an investor who is disciplined. It is superior to simple interest as it earns interest on interest

Assumption: Rate or return in either case is 12%. ₹ 1000 is invested every month. In the first case investment period if 30 years while in second it is 35 years

SIP: Start early to create a larger corpus



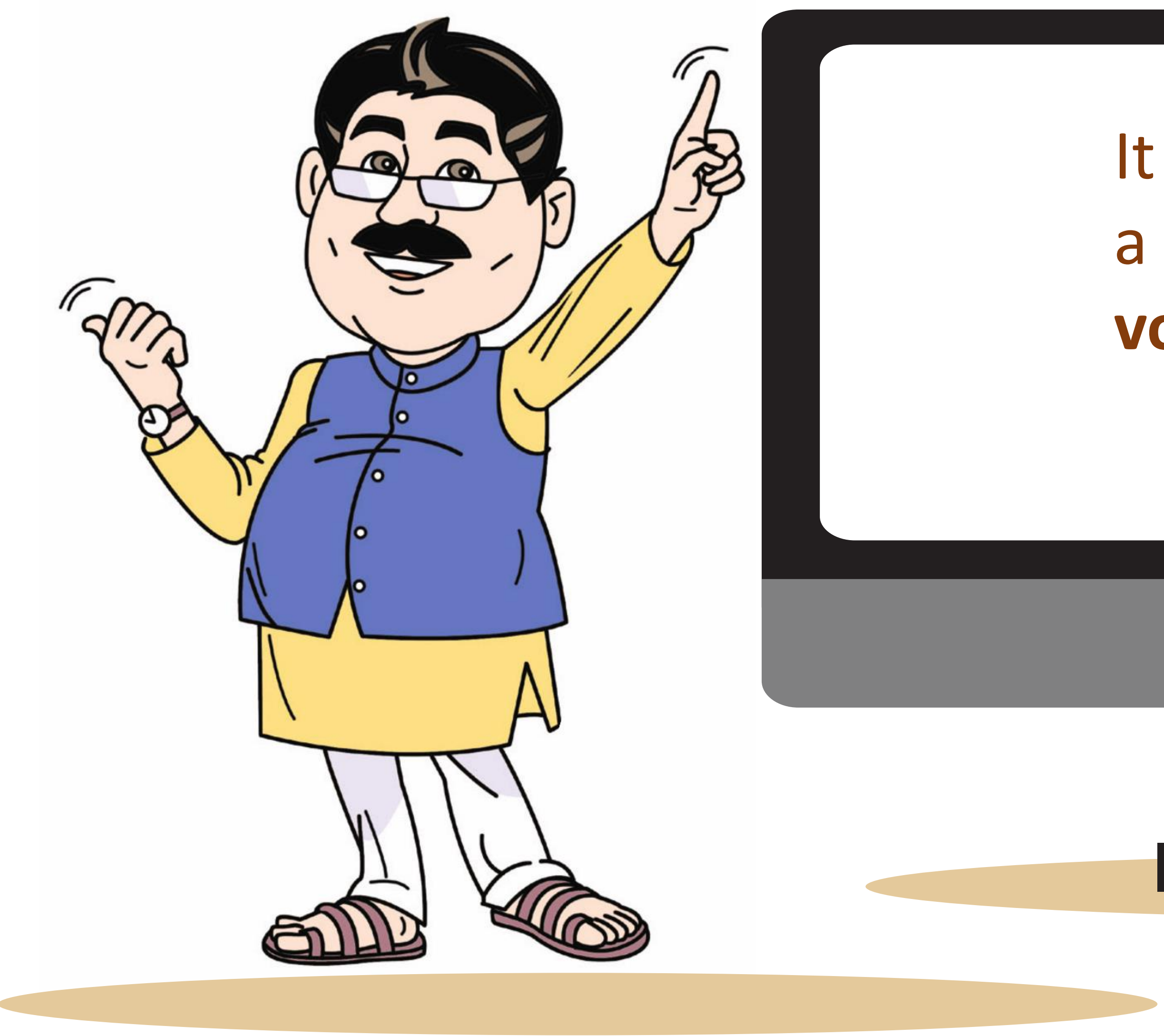
The table above shows the maturity values for the monthly SIP of ₹ 1,000 at 12% for different time periods.

The more time one spends in the market, the maturity value of the investment increases proportionately. As the graph suggests, for a 5-year SIP, the final value is **1.4** times of the principal invested. Whereas it is **6.3** times for a period of 25 years

Assumption: Rate of return in this case is assumed to be 12%

SIPs have been one of the best investment strategies to reap long-term equity investment gains

Systematic Transfer Plan (STP): What is the basic mantra



It is not that difficult to invest a large corpus even “**in a volatile market**”

STP: Understanding the basics

An investor education initiative by LIC MUTUAL FUND

What is it

STP refers to Systematic Transfer Plan whereby an investor is able to invest lump sum amount in a scheme and regularly transfer a fixed or variable amount into another scheme

How does it work

An investor invests a lump sum amount in one scheme, usually a low-risk fund, and regularly transfers a pre-defined amount into another scheme for long-term wealth creation

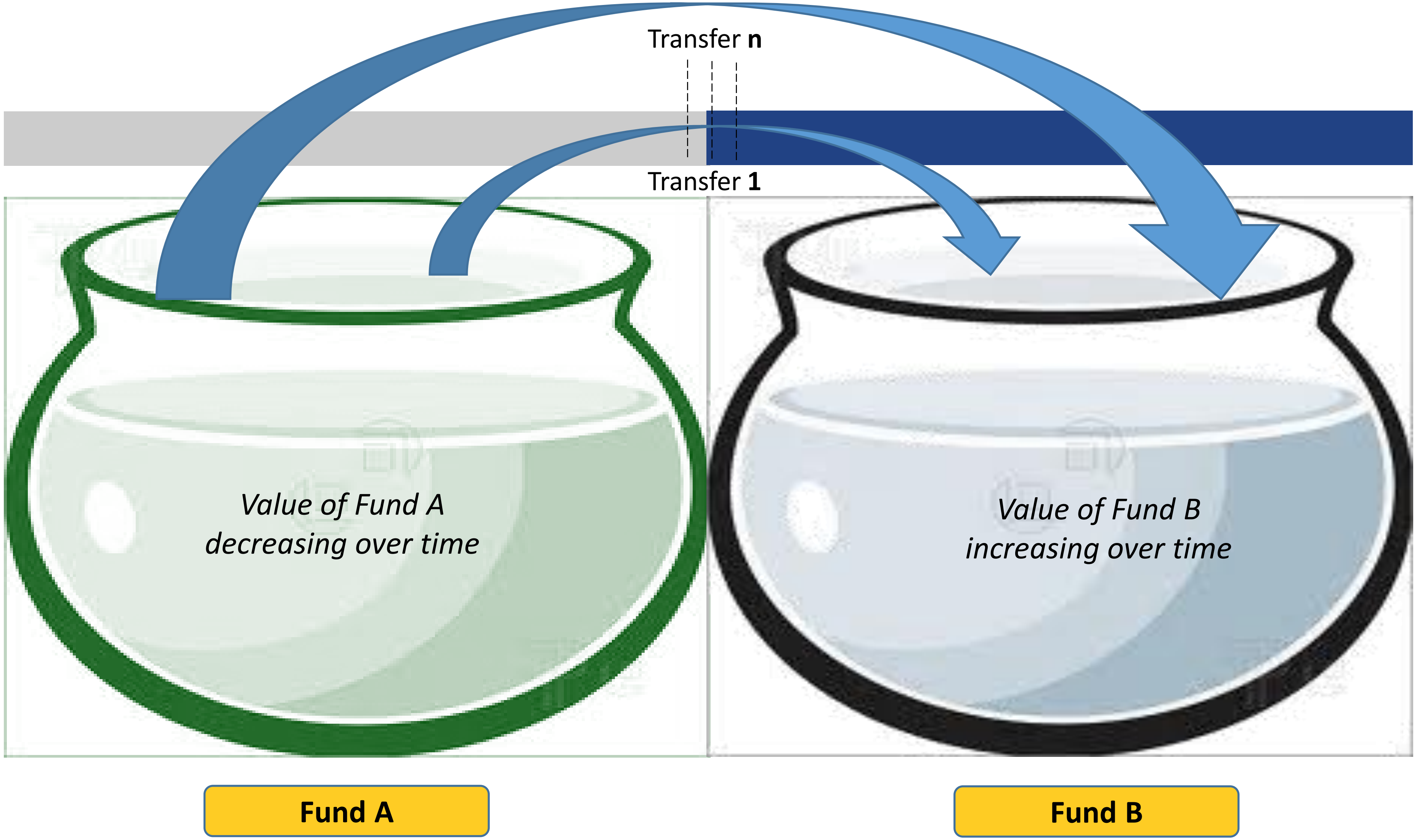
When does it make sense

When markets are volatile it makes sense to start an STP from debt to equity fund instead of doing an one time investment in an equity oriented fund

What should be kept in mind

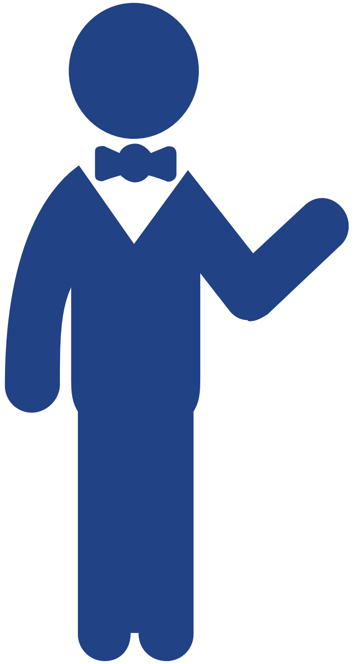
It is a risk mitigation strategy and thus the objective is not to maximize profit but to optimize returns

STP: Typical approach



STP: Types and when it can be used

- Fixed STP
- Capital appreciation STP

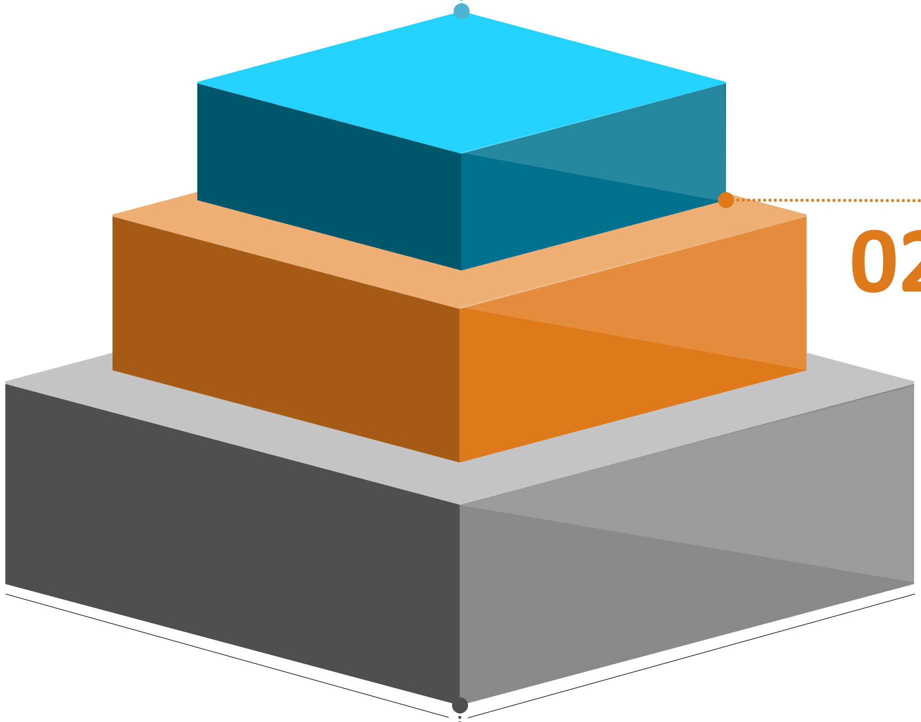


- *In fixed mode, the systematic transfer amount remains consistent*
- *Irrespective of the overall market conditions, a fixed amount is invested in the second fund*
- *This mode is normally used when investment is transferred from low-risk debt to equity funds*

- *In capital appreciation mode, the initial lump sum amount that is invested say in a debt fund remains consistent*
- *The capital appreciation part is transferred to the second fund say an equity fund*
- *This strategy works for the conservative investor who wants to protect the capital and take some risk with the returns*

Both the strategies can be used by the investor depending upon the requirement

STP: Final thoughts



01 Risk mitigation strategy

Systematic transfer plan is a risk mitigation strategy which will protect the investor from any adverse loss but also cap the returns to some extent

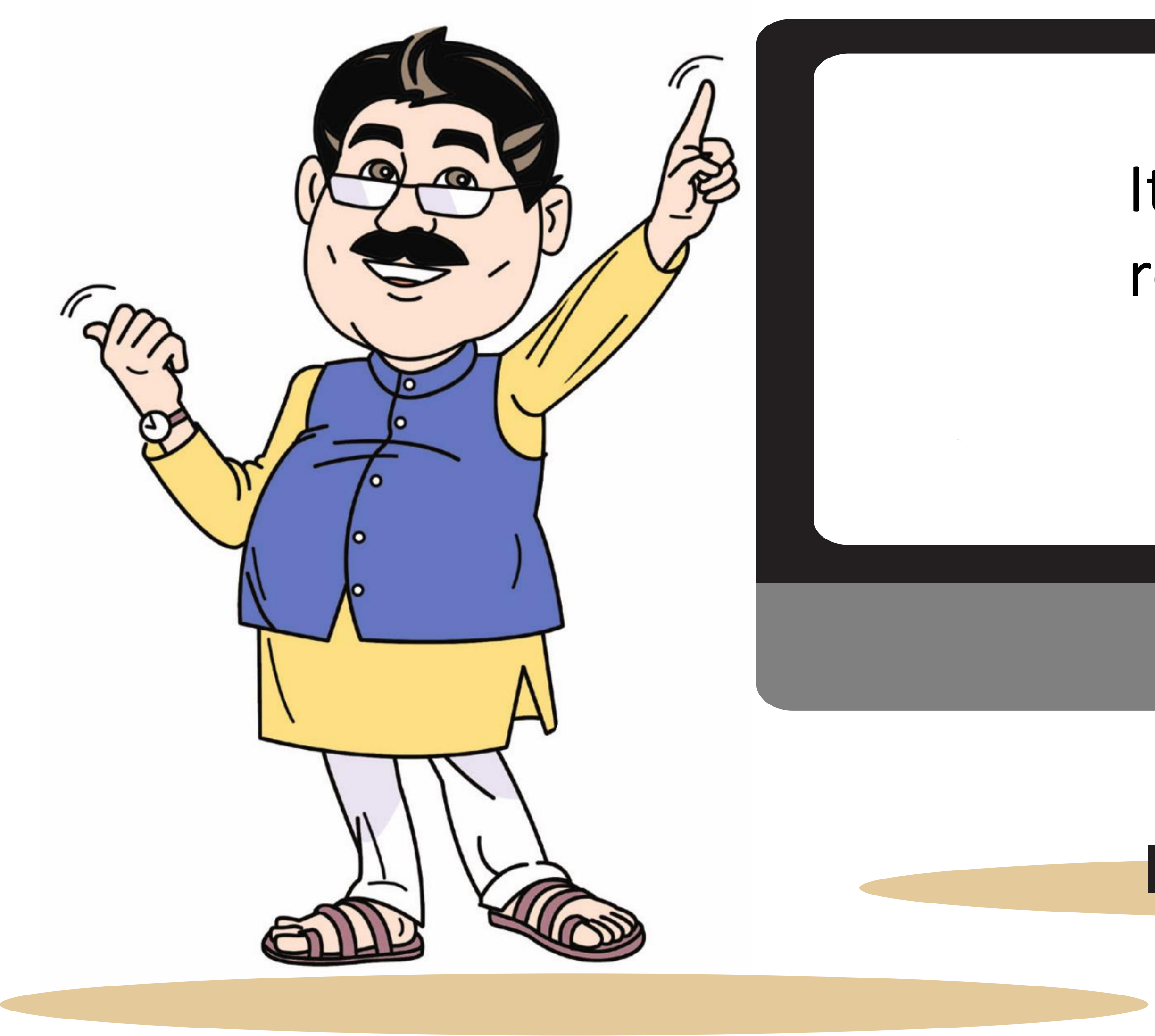
02 Disciplined investing

STP like SIP will only yield the desired result if the investor remains committed to the objective and does not break the investment based on short-term market movement

03 Understanding the asset classes and overall markets

The investor should also understand the asset classes to some extent and where they currently stand. When the equity market is at its peak, it would be unwise to transfer the fund from debt to equity, similarly when the markets are close to their multi-year lows, it would be counter productive to transfer the funds from equity to debt

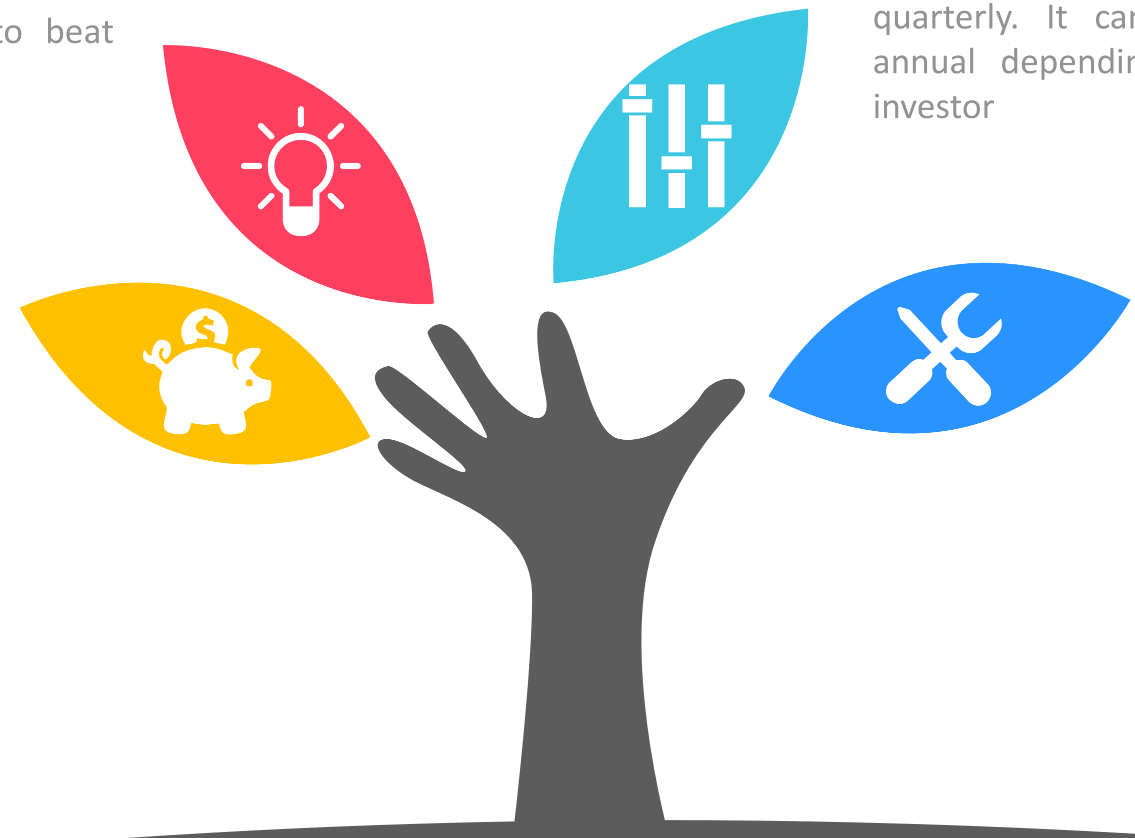
Systematic Withdrawal Plan (SWP): What is the basic mantra



It can be used as a source of regular cash flow

SWP: Understanding the basics

An investor education initiative by LIC MUTUAL FUND



What is it

It is technically the reverse of SIP wherein one invests a lump sum at the beginning and withdraws a fixed amount at regular intervals to generate regular cash flow. It can be started in equity, debt or hybrid funds

How does it work

The mechanism is just like SIP. An investor needs to instruct the asset management company (AMC) to redeem units on a predetermined date and credit a fixed sum into the bank account. The fund’s value and number of units will reduce to the extent of each withdrawal

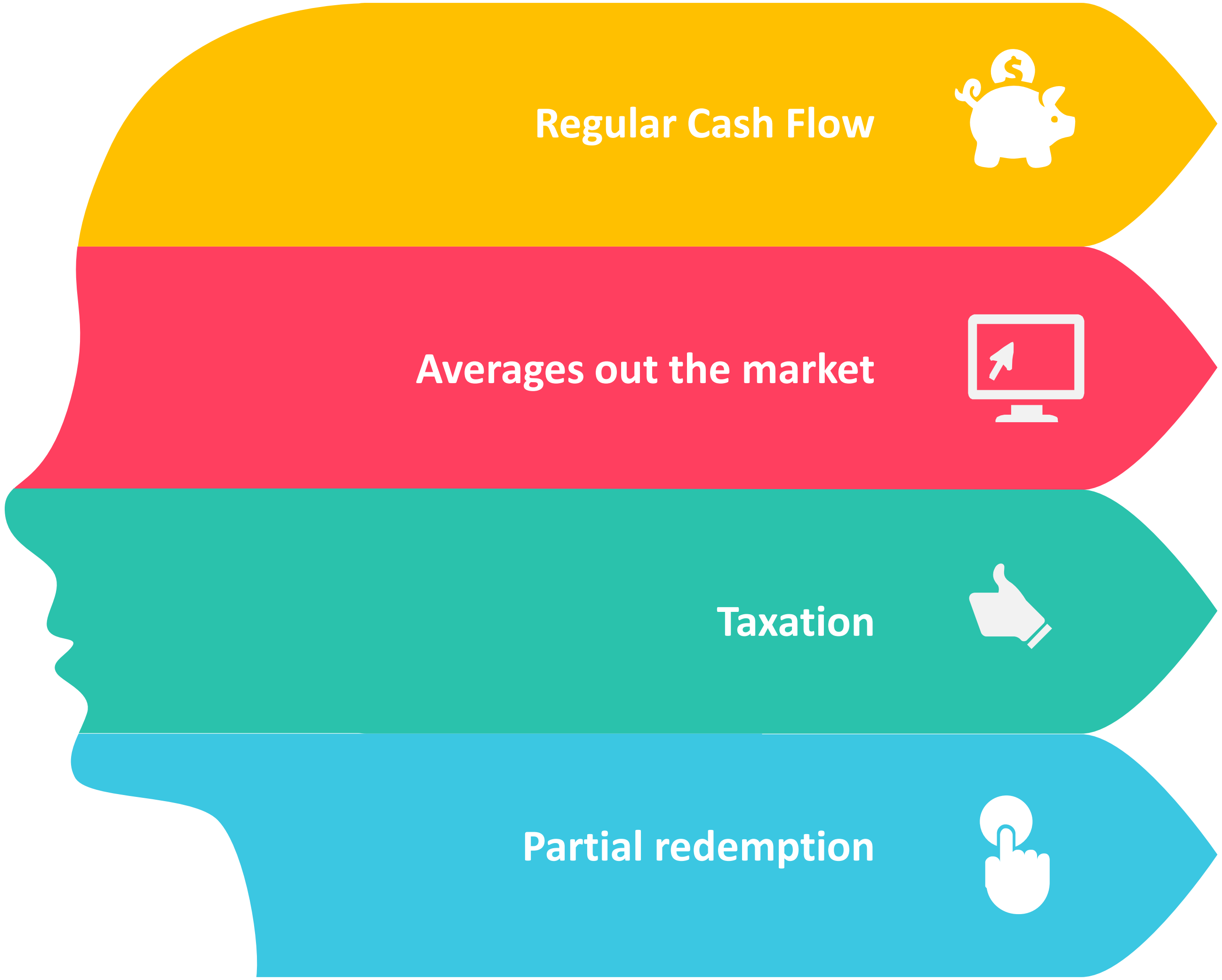
What is the frequency of payouts

The frequency is generally monthly or quarterly. It can also be semi-annual or annual depending upon the need of the investor

What should one keep in mind

The investor should try to Increase the withdrawal amount every year to beat inflation

SWP: Advantages



It provides regular cash flow to the investor. It is very effective financial tool for those looking for fixed source of income every month, like elderly citizens

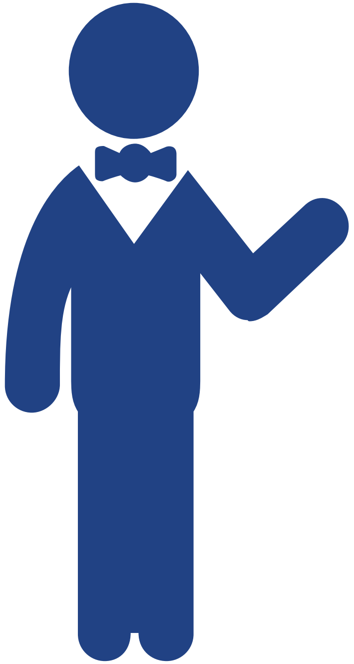
Rupee cost averaging helps the investor in SWP plan as well. In a rising market, the investor takes advantage of the averaging out with each redemption

Withdrawal through SWP route is taxable @ 15% incase of short term capital gain and Nil incase of long term capital gain if the capital gain amount is less than Rs. 1 lakh per financial year.

SWP does not require redemption of entire investment and investor can take care of his/her financial need by partial redemption every month systematically without doing any paperwork

SWP: Types and when it can be used

- Fixed SWP
- Capital appreciation SWP



- *In fixed mode, the systematic withdrawal amount remains consistent*
- *Irrespective of the overall market conditions, a fixed amount is credited in the bank account*
- *This mode is important when steady flow of income is the requirement*

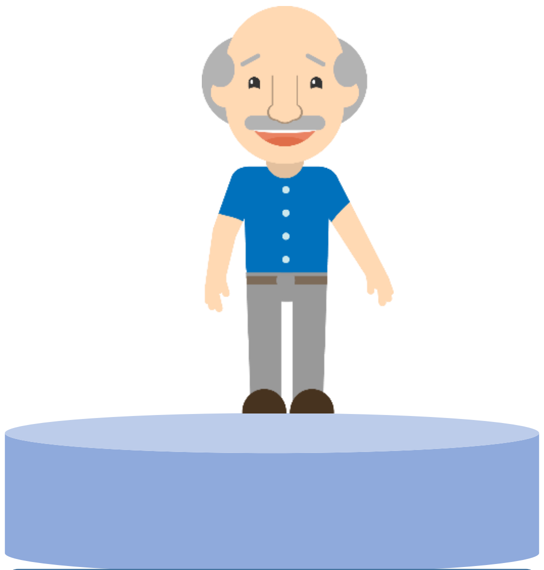
- *In capital appreciation mode, the initial lump sum amount remains consistent*
- *The payout is the capital appreciation that is made due to the performance of the fund*
- *Since the payout depends upon the market, this mode is important when the initial corpus is more important then the monthly flow of income*

Both the strategies can be used by the investor depending upon requirement

SWP: Effective usage in different scenario

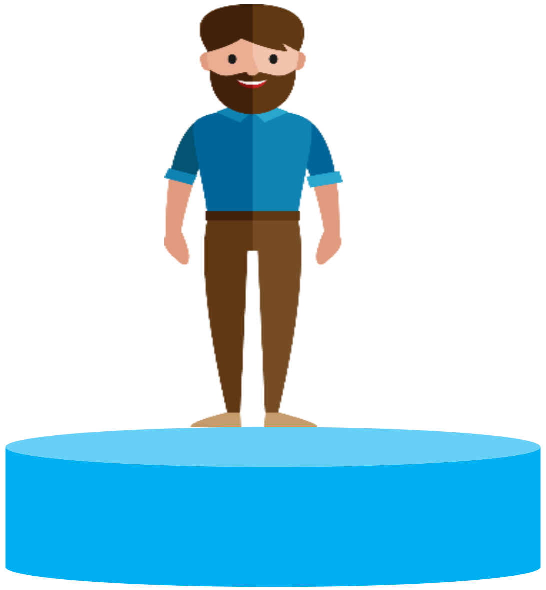
Start-up

- Everyone wants to be an entrepreneur. But before quitting job, regular source of income is very important
- SWP is idle for this and one can invest in debt mutual fund



Retirement Planning

- Investment in a debt oriented mutual fund along with other instruments like bank FD
- Regular payouts to supplement regular income



Investment Strategy

- Bonus or one time payout can be invested in a liquid or ultra short term mutual fund
- This amount can then be used for the next six or 12 months

SIP SWP STP: Taxation

Investment Type	Comment	Description
SIP	Every installment considered as fresh investment	▪ Each investment has to be held for at least 12 months to be eligible for LTCG benefits

SWP	Investment is actually redeemed at particular interval	▪ If the amount is withdrawn from Debt mutual fund -
		  ▪ Investment is held for <3 year, tax as per the investor's tax slab
		  ▪ Investment is held for > 3 year, 10% without indexation and 20% with indexation
		▪ If the amount is withdrawn from Equity mutual fund -
		  ▪ LTCG is NIL* if investment is held for > 1 year

STP	Investment moving from debt mutual fund to equity mutual fund	▪ If the source fund is Debt mutual fund -
		  ▪ Investment is held for <3 year, tax as per the investor's tax slab
		  ▪ Investment is held for > 3 year, 10% without indexation and 20% with indexation
		▪ If the source fund is Equity mutual fund -
		  ▪ LTCG is NIL* if investment is held for > 1 year

* Income-tax at the rate of 10% (without indexation benefit) to be levied on long-term capital gains exceeding Rs. 1 lakh provided transfer of such units is subject to STT plus applicable charges.

SIP SWP STP: Retirement Planning

An investor education initiative by LIC MUTUAL FUND

Using SIP/STP/SWP effectively for retirement planning

Post-Retirement

SWP

- Post retirement, the entire retirement corpus is in debt mutual fund due to the STP option
- Instead of redeeming the entire corpus at one go, the retired individual can withdraw amount equivalent to their household needs through **SWP** option
- **SWP** allows regular income during retirement through regular withdrawal and also some returns as the balanced corpus remains invested in debt mutual fund

Near-Retirement

STP

- Investments done in equity mutual funds should be transferred systematically into debt mutual funds when retirement approaches
- It is necessary to reduce risk and can easily be done through **STP**
- Through **STP,** predefined amount will be transferred from equity scheme to debt scheme of the same fund house

Smart Investor

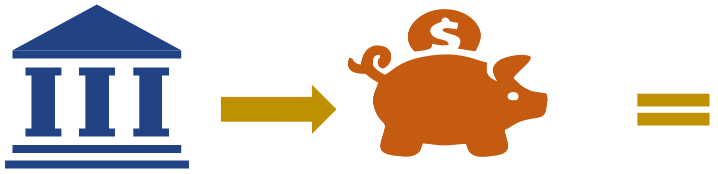
Pre-Retirement

SIP

- Start investment in equities early through **SIP**
- Starting early will help in accumulating retirement corpus with lower monthly investment
- **SIP** gives benefit from market volatility and accounts for “rupee cost averaging”

SIP SWP STP: Recap

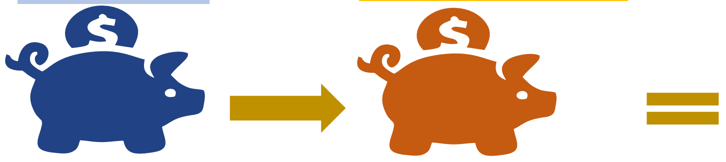
An investor education initiative by LIC MUTUAL FUND



Bank | Mutual Fund

SIP

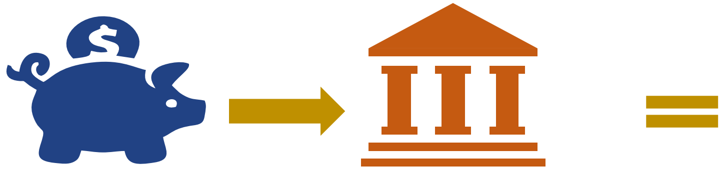
In **Systematic Investment Plan**, a fixed sum of money is debited from one's bank account at a predefined frequency (weekly, bi-monthly, monthly etc.) and invested in a mutual fund



Source Scheme | Target Scheme

STP

In **Systematic Transfer Plan**, a fixed sum of money is transferred from source mutual fund (where the amount is already invested upfront) to target mutual fund at predefined frequency on a specified date



Mutual Fund | Bank

SWP

In **Systematic Withdrawal Plan**, a fixed sum of money is withdrawn from one's mutual fund statement at a predefined frequency (normally monthly)

Advantages

SIP
- ✓ Rupee cost averaging
- ✓ Compounding
- ✓ Allows regular investment

SWP
- ✓ Works well in both rising and falling market conditions
- ✓ Meets short term objective

STP
- ✓ Rupee cost averaging in rising market
- ✓ Helps in retirement planning

An investor education initiative by

LIC MUTUAL FUND


Thank You

"Visit here https://licmf.info/KYCredressal to learn more about KYC requirements, SEBI Registered Mutual Funds and Grievance redressal."

Statutory Details Sponsor: Life Insurance Corporation of India.
Investment manager: LIC Mutual Fund Asset Management Ltd. CIN: U67190MH1994PLC077858

For further details, please refer to the Scheme Information Document, Statement of Additional Information & Key Information Memorandum cum Application forms, available on our website www.licmf.com and at the official points of acceptance of LIC Mutual Fund Asset Management Ltd.

LIC Mutual Fund Asset Management Ltd.
Investment Managers to LIC Mutual Fund
Industrial Assurance Building, 4th Floor,
Opp. Churchgate Station, Mumbai - 400020

For more details, contact:

Connect with us: /LICMutual /LICMutual /company/LICMutual 1800-258-5678 www.licmf.com

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.