HDFC MUTUAL FUND
BHAROSA APNO KA

Monthly Musings

November 2021

HOW TO MAKE YOUR MONEY WORK – A YOUNGSTER'S GUIDE

Index

Message from Navneet

2021 has been a year like none other for Startups in India. During the year, till November itself, India added 38 Unicorns*. A startup company valued at more than $1 Billion is called a Unicorn. Thanks to the strong showing in 2021, India now has the third largest startup ecosystem in the world, only behind US and China. In fact, even the number of future Unicorns i.e. 'Gazelles' (potential to become an Unicorn in 2 years) and 'Cheetahs' (potential to become an Unicorn in 4 years) has been steadily increasing in India. While the Government's initiative of 'Startup India', launched in 2016, has added impetus to the startup ecosystem in India, India's Millennials and Zoomers /Gen Z have also done the heavy lifting when it comes to establishing India on the global stage in terms of innovation and entrepreneurship.

Mr. Navneet Munot,
MD & CEO, HDFC Asset Management Company Limited

Millennials and Zoomers are generally known to be more ambitious, meticulous, curious, risk tolerant and free- willed as compared to previous demographic cohorts – Zoomers even more than Millennials. They also prefer a more hands-on approach to anything that they do. These traits, along with their ingenuity, have contributed to the success of their entrepreneurial ambitions. While it's practically impossible for every fledgling idea to bloom into a startup and likewise, every startup, to become an Unicorn, these traits can go a long way in paving the path to financial freedom for the youth today - provided the ambitious, curious, risk tolerant approach is blended with a sound financial plan and oodles of patience.

It is often seen, that for this younger lot, having a 9 to 5 job is not a be-all and end-all. They want to have a side-hustle of some kind to supplement their salary income and eventually, help them lead the life of their dreams. This approach of having a second income has been vouched for by many. As Warren Buffet once said that one should never depend on a single income and make investment to create a second source. Millennials and Zoomers, with their relatively long investment horizon can indeed invest in Equity Mutual Funds - after consulting their financial advisors – and build such investment corpus which could help them achieve financial freedom in future. On the other hand, certain Debt Mutual Funds can be used to park some money for contingencies. This can act as a cushion of sorts, to tide over any short term financial hiccups that one may encounter when one's creative ideas are in a fledgling state or when one plans to quit a steady job to pursue entrepreneurial pursuits.

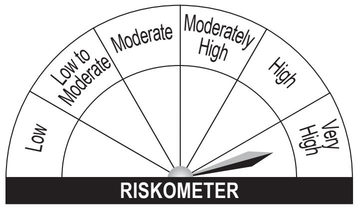
It is no secret that the spending habits of Millennials and Zoomers are vastly different from older demographic groups. For instance, Millennials are not averse to spending more on leisure and dining out. Charles Schwab's Modern Wealth Index for 2017 found out that 60% of Millennials will buy a cup of coffee costing more than $4, compared to 40% of Gen X-ers and 29% of Baby Boomers. However, Millennials are also up the curve when it comes to financial planning. 34% of Millennials polled had a written financial plan as compared to 21% of Gen X-ers and 18% of Baby Boomers. The same cannot be said of Zoomers though. Zoomers or Gen Z-ers seem to be adopting a riskier short term approach to managing personal finance. As per research (June 2021) from Barclays Smart Investor, many Zoomers are putting their savings at risk in a bid to get rich quickly. Almost half of such participants intended to invest for not even 5 years and over a fifth said that they were investing to take advantage of the market. Further, almost 30% of the Zoomers admitted to an increase in risk appetite over the last year. This increase in risk appetite and the desire to make a quick buck could be attributed to an element of recency bias which could have set in as first-time young investors may have had a favourable experience in the post pandemic market rally.

A sound financial plan and appropriate financial advice can go a long way in helping the younger lot achieve the financial freedom that they strive for. From a financial advisor's perspective too, understanding the shift in behavioural pattern across generations can help to provide the right advice to his/her clients. Against this backdrop, this edition of Monthly Musings sheds more light on financial planning for the younger generation of Millennials and Zoomers.

As you are aware, different generations have different behavioural patterns and a blend of people from different age-groups makes our society vibrant. Likewise, within equities, there are different market cap segments viz. Large Caps, Mid Caps & Small Caps and a blend of all 3 is needed to have a well-rounded portfolio that can perform across market cycles. In view of this, we recently launched the HDFC Multi Cap Fund, which provides a controlled exposure across market cap segments (Min 25% each in Large, Mid and Small Caps) and is a one-stop solution for diversification across Large, Mid & Small Caps. The Scheme opened for subscription on 23rd November 2021 and closes on 7th December 2021.

We hope you find this edition of Monthly Musings interesting. Happy Reading!!!

* As of 23rd November 2021
Note : Generally used periods of demographic cohorts as under
Baby Boomers – Born between 1946 to 1964, Gen X – Born between 1965 to 1980, Millennials – Born between 1981 to 1996, Gen Z/Zoomers – Born after 1996

Name of Scheme	This product is suitable for investors who are seeking*	Riskometer#
HDFC Multi Cap Fund An open-ended equity scheme investing across large cap, mid cap & small cap stocks.	• To generate long-term capital appreciation/ income • Investment in equity and equity related securities of large cap, mid cap and small cap companies.	 Investors understand that their principal will be at very high risk

*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.

#For latest Riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com

How to make your money work - A youngster's guide

Before initiating this discussion, we need to put into context how incredibly young India is. We keep hearing the word ‘Millennial’, referring to anyone born between 1980 and 1995. We also keep hearing the term “Generation Z”, Zoomers or “Gen Z”, who were born between mid-1990s and early 2010s. The older Gen Zers are already in their mid-20s, have significantly different overall upbringing as compared to the millennials. For instance, the Gen Zers have never seen a world without mobile phones and email. Smart phones, social media, online shopping and many other aspects of our life reshaped by technology in the recent past are among things Gen Z takes it for granted. And rightly so, as these are already part of our everyday life. What’s more important? Many of them have started earning money and are significantly altering the way products and services are sold in this country.

It is estimated that Millennials and Gen Z account for more than 60% of India’s population. Every business wants to cater to this group as they have the purchasing power to the extent no earlier generations did. A healthy flipside to the term ‘purchasing power’ is ‘savings power’, which brings us to the nucleus of our discussion – getting the basics right at a young age when it comes to financial planning. Today’s youngsters are also called the “now generation” as they demand everything as quickly as possible, which could be a dangerous thing when it comes to investing.

So, the discussion of financial planning for youngsters is a very important one.

The newfound financial freedom

A 22 year old who gets his first salary credit feels he is finally ‘free’ to to fulfil his aspirations. For him, this is the first instance of financial freedom, a liberty to go after things and experiences. Many choices have to be made. Where to spend, how much debt is okay, how much to save and so on. However, it must be noted, the term “Financial Freedom” means different things for different people. Let’s look at a few examples.
So, the discussion of financial planning for youngsters is a very important one.

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A fulfilment of a 30 year old saving enough money to pay down-payment for her dream house.

A 35 year old man who pre-pays his home loan to make his house debt-‘free’.

A confidence of a single mother who can save enough to educate her child.

The flexibility of a 45 year old to pursue different career options with the safety net of a big enough retirement corpus.

The relief of a parent whose daughter got a job placement through MBA campus.

For Disclaimers refer page 20

The list can go on. The key takeaways from these examples are that:

- There is no one definition of financial freedom as the idea of it differs from person to person and situation to situation.
- Attaining financial freedom gives us a high sense of fulfilment.
- And the most important lesson for youngsters is that, life is a long journey and there are more instances of financial freedom to be achieved after the first one.

The "Now Generation" Needs to Look into the Future – Focus on the Savings Rate

Instant gratification and investing do not go together. Investing is a game of patience played over one's lifetime. Wanting all good things, a trendy car, lavish vacations, latest gadgets, and wanting them 'right now' can be a dangerous combination that can hurt your finances very badly. It's simple to understand that if we spend all the money we make, there is no addition to our wealth. Practicing it is another matter. It is not a crime to want these good things and it is natural to conclude that the person driving a luxury car must be wealthy.

However, we should appreciate the perspective that wealth is what you don't see. As author Morgan Housel succinctly puts it, wealth is financial assets that haven't been converted to stuff you see. In other words, spending a million rupees on a car is the opposite of being a millionaire.

The emphasis is on the savings rate every month, which in most cases are the building blocks for achieving financial freedom as discussed above. We can buy many a stuff with money, but the most valuable thing money can buy is freedom or flexibility, for which keeping money with you is a prerequisite.

When Age is on Your Side, Start Early

This is no secret advice, but not a commonly followed one. If we ask a 22 year old who just received a Rs.25,000 pay check to invest Rs.1,000 a month for his own retirement, we are likely to find refusal. This is not surprising as retirement planning is probably is the last of his priority. However, a simple calculation tells us that it is extremely important for individual to saving as early as possible. Let's look into an illustration.

Raj starts an SIP of Rs.1000 at age 23 and continues it for 37 years till retirement. At an assumed cagr (per annum returns) of 10%, he is likely to have amassed a corpus of nearly Rs.47 lakh.

On the other hand, had he started the SIP of Rs.1000 at age 33 (a 10 year delay) and continued till age 60, he is likely to have a corpus of just under Rs. 17 lakh. Though it is just a hypothetical example, the illustration drives home the point of starting early when it comes to investing.

Time is the most important component in wealth creation, besides monthly savings rate and asset allocation.

There's no Get-Rich-Quick Solution – Asset allocation is the key

Younger investors are increasingly resorting to new age apps that have made transacting easier to participate in mutual funds, direct equities and even the riskier crypto assets. To begin with, it's great that youngsters are willing to take risks of greater magnitudes that the earlier generation. Remember, over Rs.140 lakh crore is parked in time deposits. That's a lot of money being invested in lower risk traditional FDs. A key question here is, are today's youngsters aware of the risks involved in say, venturing into cryptos or directly trading in stocks? As far as cryptos are concerned, the authorities have sounded us off of the 'clear and present danger' and to be cautious. The spike in interest for direct equities after recent trend of strong performance, also can lead to disappointment if the expectation is of a repeat of recent performance in future.

The iron rule when it comes long-term wealth creation is that 'there are no shortcuts to it'. There are very few armors that shield us from the vagaries of market risks, the most important one being "Asset Allocation". Being present is all asset classes like equity, debt and gold at all points in time, helps us reduce the uncertainties and eliminates the dependence of only one asset class to perform well. The other important aspect is the patience to hold the assets for a long term, a key advantage that younger investors have.

Solutions of the Previous Generation May be Inadequate

What applied to the previous generation is not entirely applicable to us in the present day and age. For instance, it made sense for investors to simply park most of their wealth in fixed deposits 30 years ago. The interest rates were high, and not many capital market products were available. The concept of equity investing was fairly new, low on transparency, unregulated and the risks were high and unknown. We are in 2021 and the world has changed.

Equity investing is made easy through mutual funds that brings along a diversified portfolio, professional management, convenience, systematic investing, transparency, comprehensive regulations, variety of products, solution based offerings with equities at the core and so on. More importantly, equity investing through mutual funds orients us to think long-term.

When you start investing at a young age, you are starting with a clean slate. How you write your investing story is in your hands. If you think you are not ready to begin the journey, it is ideal to take professional help.

Wish you all a great investing future!

Smart Choices

Use your credit power prudently

Millennials may be called as the 'now generation' or the 'instant gratification generation'. Be it the way they communicate / connect, order stuff online, plan a vacation, commute locally, etc. the waiting times have considerably reduced or even been eliminated, thanks to technology. Today's young generation or the 'digital natives' are used to getting things done with a click of a button.

Instant, simple, paperless and flexible – these are not merely adjectives, but are attributes sought by millennials when it comes to buying and availing most services and credit/loans/EMI options are no exception. Why wait till enough savings are accumulated when the stuff can be bought on EMI?

Of the various credit options, credit card typically offers interest free credit period in the range of 20 to 50 days which means a millennial who has a billing date of 4th of every month can spend on his card from 5th November to 4th of December and his payment date will be 24th December. Hence a purchase on 14th November will have a credit period of 40 days, if millennial pays on due date. But, if the millennial fails to pay on due date then the credit card company charges 3% - 4% on a monthly basis which translates into an annual interest of 36% - 48% and is an expensive form of financing. Millennials also have the option to withdraw cash from Credit Cards but then this again is expensive form of cash withdrawal.

A quick look at some of the credit options available along with their interest rates:

Products	Rate of Interest p.a.*
Credit Card – Cash Withdrawal	2.50% + 42.00%**
Credit Card	43.80%***
Home Loan	6.75%
Auto Loan	7.25%
Gold Loan	7.50%
Personal Loan	9.60%

*Source: https://sbi.co.in/web/interest-rates

** https://www.sbicard.com/en/personal/benefits/money-simplified/atm-cash.page

***https://www.sbicard.com/en/most-important-terms-and-conditions.page#:~:text=The %20current%20rate%20of%20finance,Payment%20Services%20Limited%20(SBICPSL)

In the last 10 years, number of credit card users grew from 176 lakh to 650 lakh which is a growth of 269% but at the same time period the value of transaction grew at 933%.

	Sep-11	Sep-21	Growth %
No. of Credit Cards	176 lakh	650 lakh	269%
No. of Transactions	258 lakh	1,852 lakh	619%
Value of Transactions (In Rs Lakh)	7,79,417	80,47,719	933%

Source: https://www.rbi.org.in/scripts/ATMView.aspx

People have started using credit cards more than ever before, with an increase in its issuance and attractive offers rolled out by vendors to encourage spending. Today you can choose a credit card depending upon nature of expenditure and save in terms of points, rewards or cashback. For example, if you are a frequent flier, you may opt for a card which provides Air Miles, or if you love driving or dining, choose a card which gives you cashback at fuel stations or restaurants respectively. For shopping though various websites, you may choose e-shopping credit cards for additional discounts/cashbacks. There are also credit cards which will convert your purchase into three equated monthly instalment (EMI) without charging any interest.

While it is handy to use the credit cards, one needs to exercise prudence. Imagine a situation, where you are not able to pay your dues i.e, you roll over your credit by paying minimum amount due and you keep rolling over every month and doing new purchases each month, then there are chances you may end up in a vicious circle of debt trap.

Millennials need to exercise discipline and control on spending habits and not overspend. They can wait for festive discount season to maximise the savings. As it is said do not save what is left after spending; instead spend what is left after saving.

Key Takeaways

- Smart usage - opt for a credit card as per your usage
- Encash/ redeem credit card points
- Do not rollover credit
- Wait for discount season

Millennials may also consider 50:30:20 rule i.e. allocate 50% of income for essentials expenses such as rent, bills, ration, etc, 30% for discretionary spending and 20% to savings for the future. For savings, Mutual Funds may help you to achieve your short/long term goals. Depending on your risk appetite and time horizon you may choose SIP or lumpsum investment in Equity or Debt oriented mutual fund products.

Disclaimer: Views expressed herein are for general purpose only and is not an investment advice. Readers before acting on any information herein should make his/her/their own investigation and seek appropriate professional advice.

Jargon De-jargonised

Blockchain

A Blockchain is a decentralized database that stores encrypted blocks of data, chaining them together to form a chronological single-source-of-truth for the data. Complicated right?

Let's simplify with the help of an example. Imagine making a payment or giving credit, if the proof of such a transaction is noted in a physical ledger, it could either be manipulated or at worst could be destroyed or misplaced. Blockchain technology solves such an issue – essentially acting as a digital ledger that simultaneously makes duplicate records of the transaction, encrypting them and spreading them across a decentralized network. In such a network, you can neither alter nor discard the recorded information.

A Blockchain setup is usually compared to a glass safe as it is both transparent as well as secure. Blockchain technology has many more use cases; ranging from execution of smart contracts to maintaining proof of ownership of tangible as well as intangible assets.

There is a misconception among people that cryptocurrency like Bitcoin and Blockchain are one and the same. However, this isn't true! Blockchain is not bitcoin; it is the underlying technology that enables bitcoin. It is like an engine which powers the vehicle.

There are different types of Blockchain, two prominent ones being:

An **Open Blockchain** - It is a public network that maintains an immutable record of transactions. Anyone can publish a transaction and participate in the network by adhering to a set of published rules.

A **Closed Blockchain** - It is a private network that maintains a shared record of transactions. The network is accessible only to those who have permission, and transactions can be edited by administrators. This can be used by corporations to create assets, add functionality and improve internal processes.

It shouldn't come as a surprise that Blockchain has attracted attention from both, the private and the public sector, thanks to its versatility and power to deliver digital transformation to businesses and governance.

For instance, it provides the opportunity to apply 100% transparency to supply chain processes – making them more accountable and credible.

For Disclaimers refer page 20

Blockchain offers companies in any industry an opportunity to be 100% transparent with their clients or customers. Blockchain also allows consumers to have more control over their own information, which leads to greater protection against fraud. Not to forget the cost saving benefit that Blockchain technology provides through smart contracts which technically eliminates the need for a third-party to execute the processes involved in a transaction.

Governments from all around the world are warming up to the idea of formulating their own Blockchain backed CBDC (Central Bank Digital Currency) to keep up with the disruption of cryptocurrencies. In many nations, central bankers see digital currencies as a way to keep their currency dominant. Once global central banks launch their own digital currencies, most private ones will disappear, according to Subhash Chandra Garg, former Finance Secretary of India.

In India, while the Center seeks to propose regulations with regards to cryptocurrency and Blockchain technology in the upcoming Winter Session of the Parliament, the RBI has expressed concerns from a macroeconomic and financial stability point of view. Yet, it plans to begin trials for an experimental digital rupee based on a Blockchain infrastructure in December of this year

To conclude, from legislative acceptance in El Salvador to a blanket ban in China, to mass democratization in India; it's needless to say that Cryptocurrency and by proximity Blockchain Technology have shaken the world and made us question the status quo. With fresh use-cases being developed every month and another new innovative crypto coin being minted every day, it's undeniably true that Blockchain technology is here to stay and disrupt.

Fund Focus

HDFC Small Cap Fund

HDFC Small Cap Fund ("the Scheme") is an open ended equity scheme which invests at least 65% of its total assets in Small Cap companies. The universe of 'Small Cap companies' consists of companies below 250th company in terms of full market capitalization. Large universe of small cap companies (1310 companies with market cap above Rs. 150 Crore*) provides ample opportunities for alpha generation.

Stock selection plays an extremely critical role as the universe of small caps is large and there is wide disparity of returns between different small cap companies. In view of this, a sound investment strategy is essential for investment in small caps. HDFC Small Cap Fund focuses on quality companies with sound financial strength and reasonable Return on Equity. The Scheme aims to invest at sensible valuations in companies trading at reasonable multiples (P/E, P/B, EV/EBITDA) and in companies with sustainable and understandable business model with good management quality.

As of 31st October 2021, the Scheme had 86% of Total Assets in Small Cap companies with ~2% being Large Caps and ~7% in Mid Caps. The Scheme maintains a relatively well diversified portfolio (62 stocks as of 31st October 2021) with top 5 holdings accounting for ~24% of Total Assets and top 10 holdings accounting for ~38% of Total Assets.

Sector allocation of the Scheme is primarily a function of stock selection. Portfolio overweight/ underweight vs benchmark is controlled to manage portfolio risk by the Fund Manager. As of 31st October 2021, Top 5 Sectors in terms of weightage in the portfolio were Software, Industrial Products, Consumer Durables, Consumer Non-Durables and Banks.

It is worth noting that while small caps may have potential to generate higher returns as compared to other market cap segments, they are relatively more volatile. Further, there is wide disparity in returns of different small cap companies as company-specific factors play a significant role. In view of this, stock selection becomes extremely critical and it is prudent to leverage on experience of a professional fund manager by investing in a Small Cap Fund. HDFC Small Cap Fund with a track record of 13 years presents a viable avenue for investors looking for small cap exposure in their portfolios.

Investors could consider SIP (Systematic Investment Plan) route for investment in HDFC Small Cap Fund to bring in financial discipline, eliminate the need to time markets and benefit from Rupee cost averaging (purchasing more units at lower NAV and fewer units at higher NAV).

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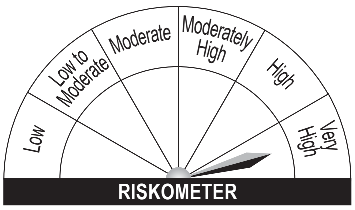
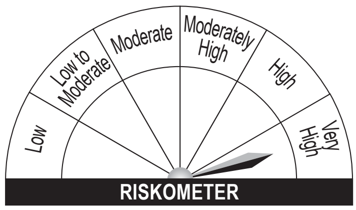
An SIP of Rs 10,000@ per month in HDFC Small Cap Fund, since inception of the Scheme would have resulted in investment value of Rs 64.26 Lakhs (Cost of investment: Rs 16.3 Lakhs) at 18.5% CAGR ^.

HDFC Small Cap Fund may present a viable avenue for millennial investors considering the fact that millennials may have a longer investment horizon and volatility of returns from investment in small caps may reduce with longer time frames.

@ Assuming Rs. 10,000 invested systematically on the first Business Day of every month since inception till 31st October 2021. Inception date : 3rd April, 2008. ^ As on 31st October 2021 Past performance may or may not be sustained in the future. HDFC AMC/ HDFC MF is not guaranteeing any returns on investments. For complete performance details, click here.

Name of Scheme	Riskometer of Benchmark	#Riskometer of Scheme
HDFC Small Cap Fund An open ended equity scheme predominantly investing in small cap stocks • To generate long-term capital appreciation / income • Investment predominantly in Small-Cap companies	**NIFTY Smallcap 100 (Total Returns Index)**  	 Investors understand that their principal will be at very high risk
*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.		

#For latest Riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com

Tête-à-Tête

HDFC MUTUAL FUND
BHAROSA APNO KA

ARE CRYPTOS TO BE CONSIDERED AS AN ASSET CLASS?

When it comes to allocating investments into various asset classes, we conventionally consider equities, fixed income, gold and real estate. Now, there is a relatively new 'wannabe' entrant trying to making it to that list – crypto currencies, backed by the path breaking 'blockchain' technology. It's hard to miss the advertisements on TV and other media, with celebrities screaming to take an exposure into the "next big thing". Understandably, the investor interest, especially among youngsters, has increased multifold in the recent past.

First and foremost, the crypto world is unregulated, not just in India, but globally too. Further, there is no underlying value for a crypto currency, unlike equity or debt. There could also be infinite supply of new varieties of crypto currencies. Since there are no disclosure rules, how much of these 'assets' are held by Indian investors is unknown. While we have repeatedly heard from global policymakers about the potential threats of crypto currencies, most countries have allowed them to flourish. Recently the RBI Governor expressed concerns on potential risks in crypto followed by a meeting led by the Prime Minister, raising expectations of possible regulations in this space. Back to the big question – can cryptos be considered as an asset class? As per public available information, the total value of all crypto currencies globally is about USD 3 bn, which is less than 3% of global value of all equities. So, from a size perspective, cryptos are still too small to be considered for formal asset allocation. Besides, it would be prudent to wait for regulations before taking a plunge.

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Games Section

Answer the following question to test your knowledge:

Q1. What is the first step in creating a budget?

- (A) Calculate how much money you spend
- (B) Calculate how much money you like to donate to charity
- (C) Calculate how much money you owe others
- (D) Calculate how much money you earn

Q2. Medical care is an example of_____

- (A) Need
- (B) Want

Q3. does the 50/30/20 rule of thumb for budgeting allocate your income?

- (A) 50% Needs, 30% Wants, 20% Savings & Debt Repayment
- (B) 50% Wants, 30% Needs, 20% Savings & Debt Repayment
- (C) 50% Savings & Debt Repayment, 30% Wants, 20% Needs
- (D) 50% Needs, 30% Savings & Debt Repayment, 20% Wants

Q4. When making a budget, a person's needs should come before their wants.

- (A) True
- (B) False

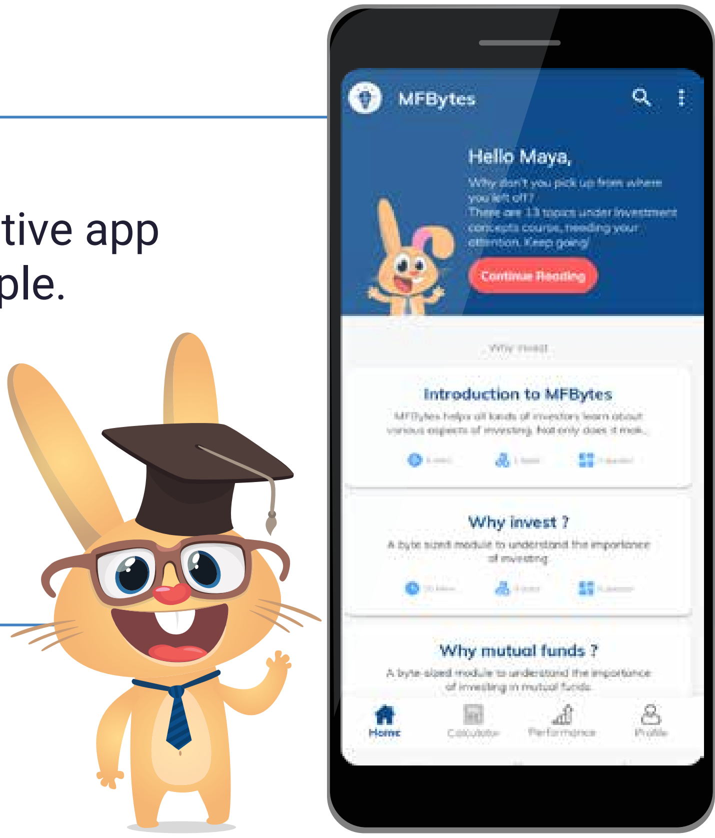
Solutions: 1=D, 2=A, 3=A, 4=A

For Disclaimers refer page 20

HDFC MFBytes

This interactive and informative app makes learning fun and simple.

With this app, you can learn about Mutual Fund investments on-the-go.



Things you can learn through the app

- Why invest
- Why mutual funds
- How to invest through mutual funds
- Goal based investing
- How to save tax
- Understanding risk
- Investment concepts
- Smart investing

Click here to learn about Smart investing

For KYC, change of address, investor complaints redressal, etc. visit - https://www.hdfcfund.com/information/key-know-how

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Thank You

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