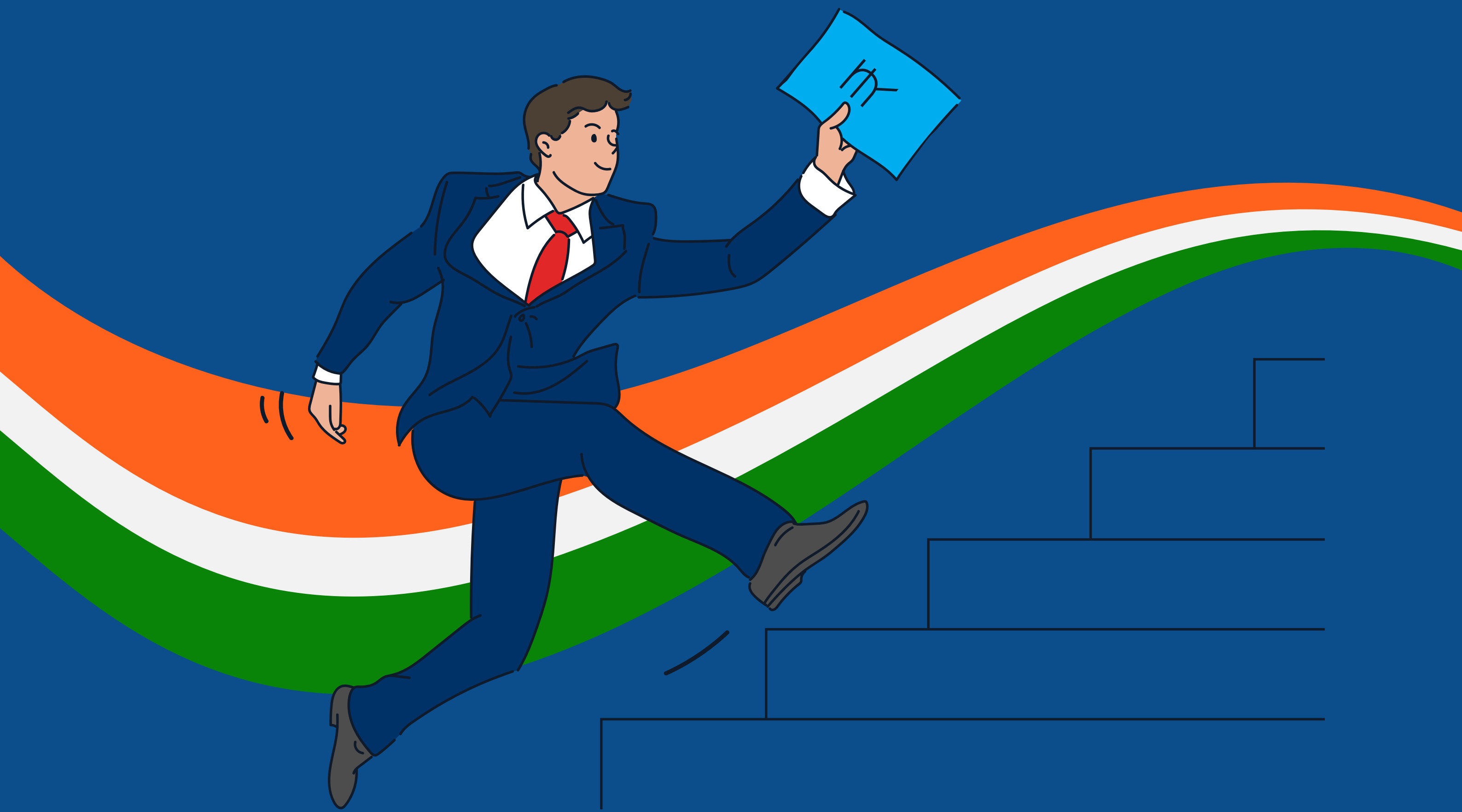
Monthly Musings

August 2022

An Independence Day special



Have you begun your journey towards financial freedom?

HDFC MUTUAL FUND
BHAROSA APNO KA

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Message from Navneet

It's that time of the year again when 'freedom' is the buzz word in India–and rightly so. For those of you who are tech savvy, a quick look at internet search trends over the years shows how usage of the word 'freedom' in web searches witnesses a sharp spike in the days leading up to India's Independence Day.

While our long struggle for freedom from British colonialism makes us value it even more, not a lot of thought goes into freedom of another sort – the financial one. Quite often, the importance of financial freedom is realised only during a financial crisis or an inability to meet one's financial goals. Now, what counts as financial freedom may vary from one person to another. Broadly speaking, feeling in control of one's finances, not having to live from one pay check to another, being debt-free etc. can count as financial freedom. One of the reasons, many Indian households fall short of their financial goals is on account of their lack of understanding about difference between saving and investing.

This often-ignored difference between saving and investing has meant that wealth creation journey of Indian households has not reached its true potential. In view of this, last year, on the occasion of India's 75th Independence Day, HDFC MF launched a mega Investment Awareness Program (IAP) viz. '#BarniSeAzadi'. This campaign talked about how Indians have traditionally saved money in Barnis, lockers, etc. and why there is a need to let money grow freely in instruments like Mutual Funds. To this effect, with the able support of our branches, we conducted ~ 400 IAPs around the country. We do realize that this campaign is just the beginning of our ongoing endeavour to create awareness about financial inclusion and financial freedom.

Lastly, as India completes 75 years of Independence on 15th August 2022 and with freedom being the talk of the town, this edition of our Monthly Musings puts the spotlight on '**financial freedom**' and suggests ways and means to set you on the path to achieve it.

Hope you find it informative and interesting!

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

Cover Story

What does Financial Freedom mean to you?

This Independence Day is a special one as we are celebrating 75 years of freedom. 'Freedom' is defined as state of being free with an absence of necessity, coercion or constrain in choice or action. From a personal finance point of view, there is no single definition of 'freedom'.

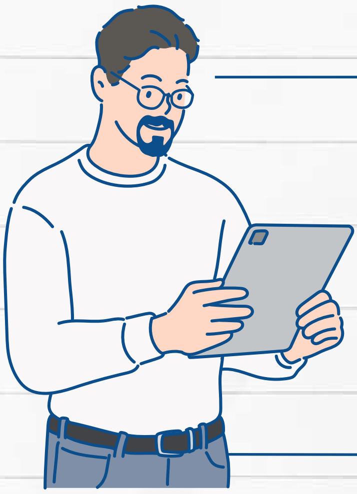
The term "Financial Freedom" means different things for different people. Let's look at a few examples.

The first salary credit

- Mohan, a 23 year old gets his first salary credit
- Feels 'on top of the world'
- Liberty to go after his aspirations

My dream house

- Shruti is 30 years old and has saved enough for the down payment of her dream house
- Achieves a sense of fulfillment
- Freedom to design her own house as per her choice.



Switching career paths

- John is now 45 years old and has built a reasonably big enough retirement corpus
- Satisfaction of a secure future ahead
- Flexibility to pursue different career options

Daughter's MBA campus placement

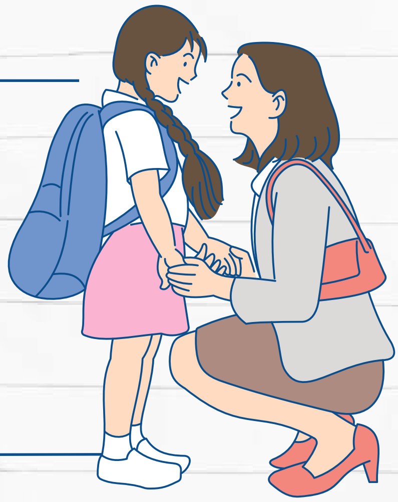
- Rajendra's daughter got placed through MBA campus
- Relief after years of frugal living to ensure daughter's education
- Freedom to go after his own aspirations during retired life

Going debt-free

- Aadesh, a 35 year old, pre-pays home loan to make his house debt-'free'
- Debt-free means stress-free
- Free from the EMI burden, Aadesh can start accumulating to build a corpus for the future

Single mother saves enough

- Asha, a single mother is able to save enough monthly to educate her child
- Confidence to face future challenges
- Her child goes to a school of choice



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.
- Achieving financial freedom gives us a sense of fulfilment.

Let's delve deeper.

Financial Freedom is about Striking a Balance

Let's take example of the life of two individuals, one of them is a workaholic and wishes to retire at the age of 40. He understands the need for financial security after retiring and is willing to work hard for it. However, he is too focused on his objectives that he completely forgets to 'enjoy the present'. In contrast, his girlfriend believes in 'seizing the moment and living life to the fullest'. She has no worries of the future and is too focused on the present.

From a financial planning point of the view, these two individuals may be classified as extremes, and a more prudent approach lies somewhere in between the two. While the decision as to how much to spend and how much to save now is a matter of personal choice, it is ideal to strike a balance between present and the future. Every one of us with a disposable income, after spending on essentials, need to decide the split between discretionary spending and investing for future.

Financial Freedom is about keeping the Options Open

Which situation would you prefer?

A. Owning a Rs.40 lakh car	B. Owning Rs.40 lakh

There is no right answer to this question. However, consequences of opting for these choices differ. With money we have the option to spend till we actually spend it. The irony is that the moment you buy the car, you look 'rich', but you are exactly Rs.40 lakh 'poorer'. In other words, when we buy something we are giving away the 'options' or the 'financial freedom'. This brings to the question of spending on 'needs' Vs 'wants'.

Needs Vs Wants –
How to prioritize your spending?

The recent Covid-19 pandemic situation taught us a clear lesson as to what are the essentials we need to live. During the lockdown, there were very little avenues to spend on our wants. Many of us realized that the spending on wants far overshadowed that of on needs.

Illustrative table on Needs and Wants

Needs	Wants
Monthly expenses like rent/EMI, groceries, school fees, utility bills, car servicing, insurance, medical, etc.	Vacations, eating out, an upgrade to a better car that can be delayed, latest gadgets, etc.
Cannot avoid them	Can be prudent while spending on wants

Sometimes, the line that distinguishes 'wants' from 'needs' is blurred. Spending on your lifestyle to be categorized into 'needs' or 'wants' can be difficult. For instance, person A may term entertainment expenses as 'needs' and person B as 'wants'. Since these are personal choices, one needs to have clear understanding as per their choice and a monthly budget for spending on 'wants'.

Can we quantify the money required to achieve Financial Freedom

While there is no single definition of 'Financial Freedom', a simple definition would be to have enough money (savings and investments) to lead a good life (needs and wants of the family). But, many of us are not aware as to how much money is sufficient enough. This is the approximate amount of money that might be required to allow an individual to retire today and gain financial freedom.

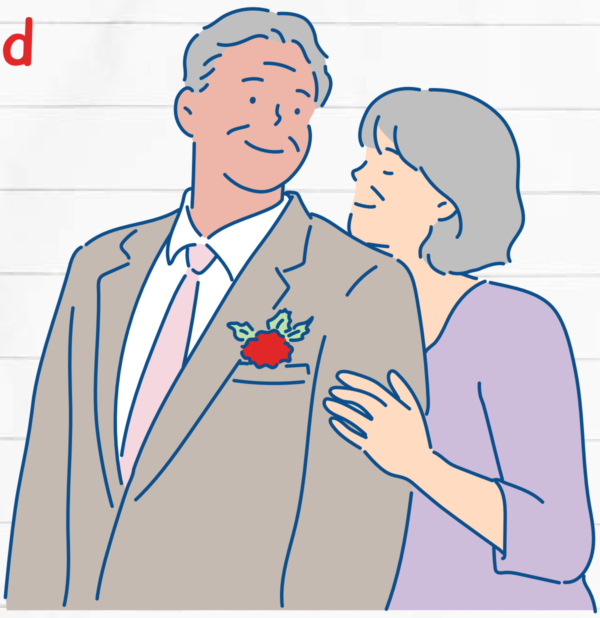
A few things to keep in mind while assessing the amount of money for Financial Freedom:

- Current monthly expenses of the family (needs)
- Your current lifestyle and the estimate amount of money you will require to upgrade it (wants)
- Dreams you want to achieve in your retired life. (this may also include future needs)
- Your current wealth (your cushion)
- Expected inflation (your enemy)
- Expected returns from your investments (your friend)

Since there are multiple factors to consider, it is ideal that you consult with an investment expert to better understand your route to financial freedom.

HDFC Retirement Savings Fund
A vehicle you can consider to achieve financial freedom

If a sufficient enough retirement corpus can give you financial freedom, you may need to plan for it years in advance. Regular and habitual investments, preferably though SIPs, into HDFC Retirement Savings Fund could enable you to embrace retired life with confidence. You can choose between 3 plans depending on your age and risk profiles:



- ✓ Equity Plan
- ✓ Hybrid Equity Plan
- ✓ Hybrid Debt Plan

Investments in the scheme qualify for benefits U/s 80 C of the Income Tax Act, 1961. Trying to achieve financial freedom without planning is like appearing for an exam without preparation and hoping to score good marks. So start your SIP today in HDFC Retirement Savings Fund.

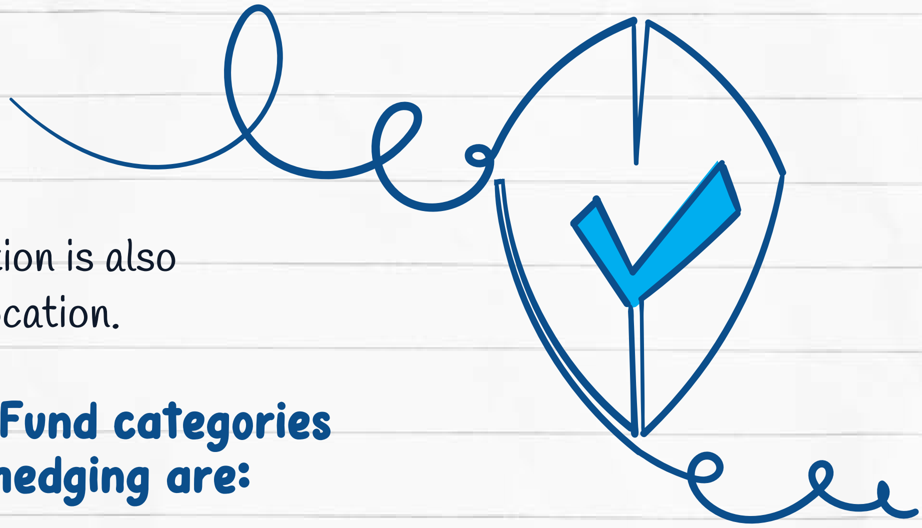
Jargon Dejargonised

Hedging

Hedging is somewhat similar to Insurance against unforeseen circumstances which may have financial consequences. For example, a car insurance is hedge against car theft, accident and other risks. A medical insurance is hedge against medical emergencies. Similarly, in investments, hedging is a risk management tool to protect investment portfolio from an unforeseen event during market volatility

In the context of mutual funds in India, the most common form of hedging is through 'arbitrage exposure'. Arbitrage is an investment strategy to buy and sell simultaneously an asset in different exchange/market to take advantage of price difference and generate risk free profit. For example, simultaneous trades are executed with a click on price difference of a stock between cash and future market to generate risk free profit.

Mutual Fund Schemes use hedging through Arbitrage to reduce risk in the Equity Portfolio. Mutual fund schemes having hedged and unhedged equity allocation more than 65% is classified as an equity oriented scheme.



Unhedged equity allocation is also known as net equity allocation.

Some of the Mutual Fund categories that commonly use hedging are:

- **Arbitrage Funds -**
  Open ended schemes investing in arbitrage opportunities

- **Equity Savings Funds -**
  Open ended schemes investing in equity, arbitrage and debt

- **Multi-Asset Allocation Funds -**
  Open ended schemes investing in equity and equity related instruments, debt & money market instruments and gold related instruments.

- **Balanced Advantage Funds -**
  Open ended balanced advantage fund (Normally it is a mix of equity and debt instruments).

For instance, HDFC Equity Savings Fund invests in Unhedged Equity (15%-40%), arbitrage opportunities (25%-75%) and debt instruments (10%-35%). As on 30th July 2022, the fund had total equity exposure of 67.3%, out of which the hedged equity exposure accounted for 29.51%@.

Investors depending upon the risk appetite may choose lower volatility schemes.

@For complete portfolio, refer website: www.hdfcfund.com

Smart Choices

SWP
A Smart Choice for Monthly Cash Flows

For most individuals, financial freedom would be to attain an investible corpus; which when invested, can help one meet their monthly expenses post retirement in the form of interest from fixed saving instruments, dividends from shares or systematic withdrawal plan from a mutual fund scheme.

Investing the corpus in fixed saving instruments may not be the ideal choice given the tax treatment of interest and the low interest rates on FDs. Also, in a rising interest rate scenario, it is often seen that interest on bank deposits are repriced with a lag, thus losing out on higher interest income and in some cases, investors may even end up earning negative real returns. Also, changing interest rate scenario in the economy can also lead to volatility in the monthly cash flows post retirement (in case of FDs), which may not be feasible for one's sunset years.

Relying on dividend income from shares may be a good option only if one has the time and expertise to research about companies, sectors and their fundamentals.

On the other hand, Systematic Withdrawal Plan (SWP) in a mutual fund scheme could be an option for retail investors.

What is SWP?

SWP is a facility that allows investors to withdraw a fixed amount from a mutual fund scheme on periodic basis. SWP option is usually opted by investors who have periodic expenses and are dependent on their investments to meet their monthly/quarterly expenses.

How to plan an SWP for an investor who is some years away from his/her retirement?

An investor can start a Systematic Investment Plan (SIP) for long term (depending upon the number of years to retirement) and then opt for SWP for say next 20 years i.e. post retirement phase. Considering their monthly cashflow requirement, investors can choose the withdrawal option. Below table gives the snapshot of how SIP and SWP works for different scenarios:

Illustration	SIP of "X" amount for 10 years and SWP of "2X" for the next 20 years	SIP of "X" amount for 15 years and SWP of "4X" for the next 20 years	SIP of "X" amount for 20 years and SWP of "9X" for the next 20 years	SIP of "X" amount for 25 years and SWP of "18X" for the next 20 years
Monthly SIP amount	₹5,000	₹5,000	₹5,000	₹5,000
SIP tenure in years	10	15	20	25
Assumed annual rate of return	12%	12%	12%	12%
Total amount invested through SIP	₹6,00,000	₹9,00,000	₹12,00,000	₹15,00,000
Value at the end of SIP	₹11,61,695	₹25,22,880	₹49,95,740	₹94,88,175

SWP starts after the completion of SIP investment

Monthly SWP amount	₹10,000	₹20,000	₹45,000	₹90,000
SWP tenure in Years	20	20	20	20
Total SWP amount (A)	₹24,00,000	₹48,00,000	₹1,08,00,000	₹2,16,00,000
Remaining Value of Corpus after End of SWP Years (B)	₹27,61,276	₹76,95,498	₹98,99,870	₹1,43,17,477

Total Value of folio after end of 30 years of SIP and SWP (A+B)	₹51,61,276	₹1,24,95,498	₹2,06,99,870	₹3,59,17,477

SWP - Systematic Withdrawal Plan, SIP - Systematic Investment Plan

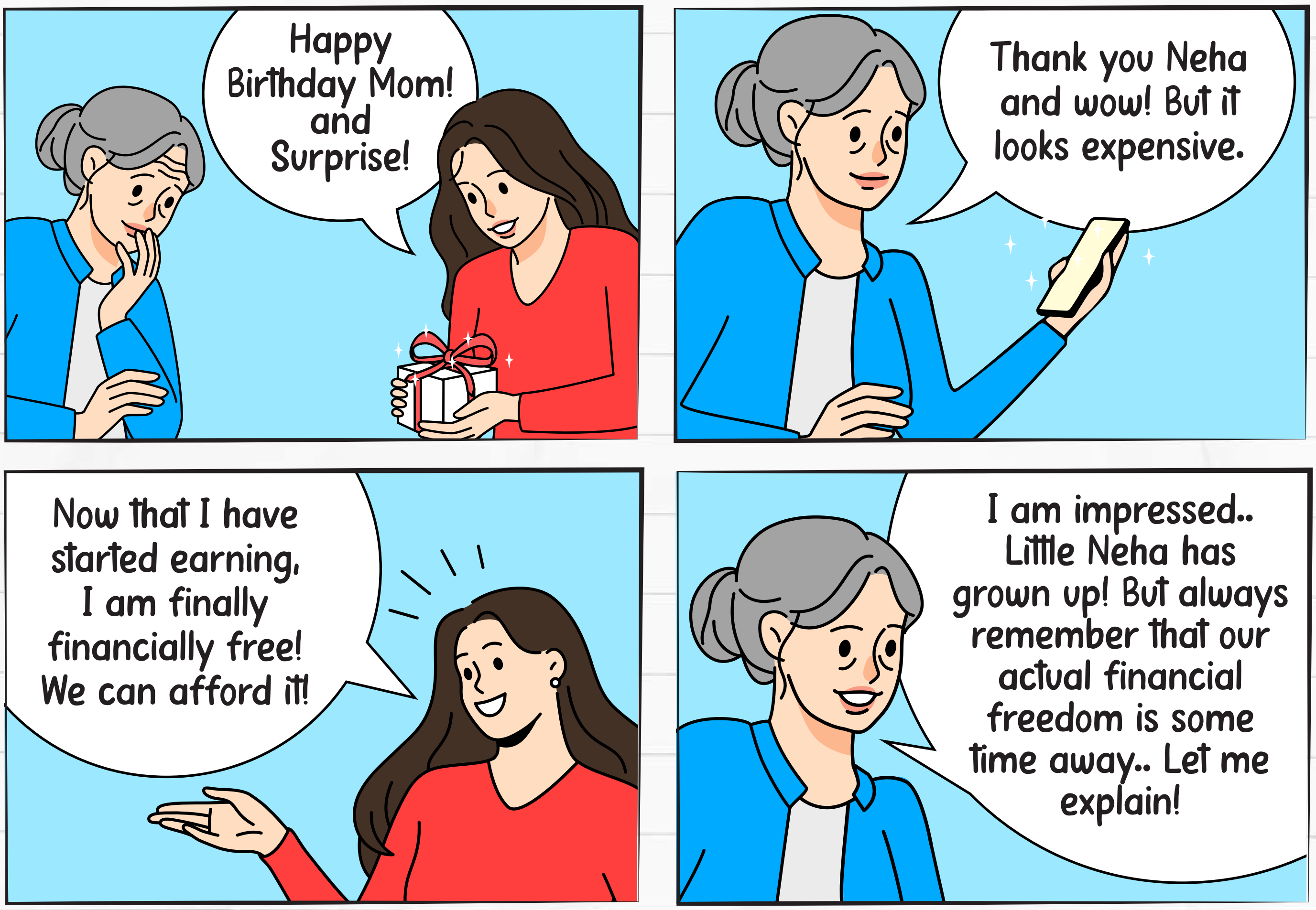
Disclaimer: This illustration is made available to you as a self-help tool for your independent use. It is not guaranteeing or promising or forecasting any returns. The illustration is not sufficient and should not be used for the development or implementation of an investment strategy or does not have regard to specific investment objectives, financial situation and the particular needs of any specific person who may use this illustration. HDFC AMC/ HDFC Mutual Fund/ Sponsors and their affiliates are not liable for any financial decisions arising out of the use of this illustration and also they do not take the responsibility, liability, for any error/omission or inaccuracy or for any losses sufffered nor understake the authenticity of the figures calculated on the basis of this illustration. The user before acting on any information herein should make his/her/their own investigation and see appropriate professional advice and shall alone be fully responsible/liable for any decision taken on the basis of information contained herein. In view of individual nature of tax consequences each investor is advised to consult his/her own professional tax adviser.
Exit load and tax consequences have not been considered in the above illustration.

How to plan an SWP for an investor who has just retired or about to retire?

An individual who is nearing retirement can invest the corpus in a mutual fund scheme depending upon risk appetite and then opt for SWP. While opting for SWP, one has to specify the withdrawal amount. For example, if your initial corpus is Rs 1 cr and your monthly requirement is Rs 75,000; you can choose to withdraw that amount which works out to a withdrawal rate of 9% per annum. One needs to wisely choose the rate of withdrawal as an amount that is much higher than the rate of return of the scheme can result in depletion of corpus over a period of time*. Thus, just attaining the corpus for retirement may not help you achieve financial freedom, opting for the right investment and withdrawal option will likely get you there.

* This should not be considered as investment advice. Investors are advised to consult their financial advisor to before taking decision on withdrawal rates.

Tete-a-tete



Why Start Early to Prepare For Your Ultimate Financial Freedom

It's normal for youngsters at the start of their career to feel financially free. Viewing that special SMS with the information of the long-awaited first pay credit in the bank account is a special moment in everyone's life. After years of frugal living with pocket money, the first ever salary credit is the first instance of freedom to go after many things money can buy. There are so many things to spend on like gifts to parents, partying with friends, buying the latest gadgets, etc. Saving for retirement is probably the last thing on the mind.

However, all one needs is a start, no matter how it is. The first step towards long term financial freedom could be taken with a simple SIP. SIP is a great way to inculcate the habit of saving right from time of first pay credit. An SIP into HDFC Top 100 Fund, with its diversified exposure to large cap stocks, could be ideal for first time young investors to start their long term investment journey.

A smart way to learn about Mutual Fund investments

HDFC MFBytes

Your one-stop knowledge hub for your Mutual Fund needs
Explore the app today and learn more about Mutual Funds through fun activities!

Things you can learn through the app

1. Investment concepts
2. How to save tax
3. Goal based investing

...and much more!

Click here to know about why you should invest early

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

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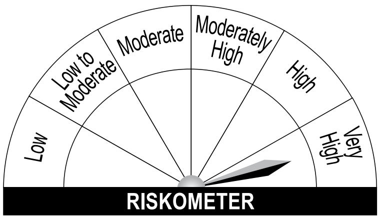
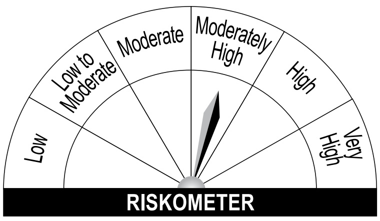
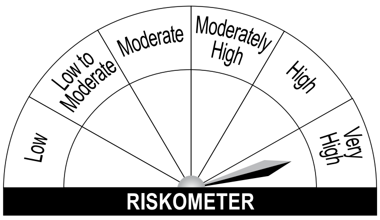
Name of Scheme / Investment Plan	This product is suitable for investors who are seeking*:	SCHEME RISKOMETER#
HDFC Retirement Savings Fund- Equity Plan An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier).	• A corpus to provide for pension in the form of income to the extent of the redemption value of their holding after the age of 60 years • Investment predominantly in equity and equity related instruments.	 Investors understand that their principal will be at very high risk
HDFC Retirement Savings Fund- Hybrid-Equity Plan An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier).	• A corpus to provide for pension in the form of income to the extent of the redemption value of their holding after the age of 60 years. • Investment predominantly in equity and equity related instruments & balance in debt and money market instruments.	
HDFC Retirement Savings Fund- Hybrid-Debt Plan An open ended retirement solution oriented scheme having a lock-in of 5 years or till retirement age (whichever is earlier).	• A corpus to provide for pension in the form of income to the extent of the redemption value of their holding after the age of 60 years. • Investment predominantly in debt and money market instruments & balance in equity and equity related instruments.	 Investors understand that their principal will be at moderately high risk
HDFC Equity Savings Fund An open ended scheme investing in equity, arbitrage and debt.	• Capital appreciation while generating income over medium to long term • Provide capital appreciation and income distribution to the investors by using equity and equity related instruments, arbitrage opportunities, and investments in debt and money market instruments	
HDFC Top 100 Fund An open ended equity scheme predominantly investing in large cap stocks.	• To generate long-term capital appreciation / income • Investment predominantly in Large-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

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Azadi Ka Amrit Mahotsav

Happy Independence Day

Thank You

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