UTI Mutual Fund

LEARNING ABOUT SIPs MADE EASY

INDEX

INTRODUCTION

Just as little drops of water make the mighty ocean, every small investment contributes to making a large amount of wealth. And this is why Systematic Investment Plans in Mutual Funds are so preferable.

What are SIPs? How do they work? What are their advantages? - Such questions and many more will be answered in this eBook.

Happy reading!

LET'S CLEAR THE BASICS FIRST?
SIPs EXPLAINED!

A SIP is a mode of investing in Mutual Fund Schemes regularly. SIPs can be daily, weekly, fortnightly, monthly or quarterly. You get to invest a predetermined, fixed amount at predetermined intervals in Mutual Fund Schemes. When you start a SIP, your chosen SIP amount gets deducted from your bank account and gets invested in the Mutual Fund Scheme of your choice at chosen intervals.

Example

Say, Mr Smart started a monthly SIP of ₹2000 in Equity Funds on the 1st of January. So, let's say, even when he is having a good time in Maldives the next month, ₹2000 will still be transferred to his Mutual Fund investments from his bank account. This will happen every month until he stops it. What a smart way of investing for future trips and many more goals!

IS ₹2000 THE PRICE OF HIS SIP? LET'S FIND OUT!

Say, Mr Smart has ₹100 and wants to buy ball pens. The cost or value of each ball pen today is ₹10. Thus, he can have 10 ball pens with the money he possesses. However, when its cost rises to ₹20/pen, he can only have 5 ball pens.

Similarly, how many units of a Mutual Fund Scheme you can own depends on the Net Asset Value (NAV) of the Fund. This abbreviation is simply the value of each Mutual Fund unit.

Math time

$$\text{NAV} = \frac{\text{MARKET OR FAIR VALUE OF SCHEME'S INVESTMENTS + CURRENT ASSETS - CURRENT LIABILITIES AND PROVISION}}{\text{NO. OF UNITS OUTSTANDING UNDER SCHEME ON THE VALUATION DATE}}$$

Assets include the cumulative investments of the fund at the market value, amount of receivables, cash and cash equivalents, etc. Expenses include accrued expenses, management costs, outstanding payments, etc.

For Example

- TOTAL ASSETS: ₹20 CRORE
- TOTAL EXPENSES: ₹10 CRORE
- TOTAL NUMBER OF UNITS: 20 LAKH
- THUS, NAV = 20 CRORE -10 CRORE /20 LAKH = RS. 50/-UNIT

The NAV keeps changing from time to time. So, when your SIP amount gets credited to your Mutual Fund Scheme's bank account, units get allotted to you based on your amount and the Fund's NAV on that day. Thus, you will not get the same number of units every time.

EXAMPLE

Say, you want to invest ₹60,000 in a Mutual Fund Scheme. Let's see how the unit allotment works in the case of SIPs as well as a lump sum investment.

Month	SIP amount (₹)	NAV (₹)	Units allotted in the case of SIPs	Units allotted in the case of a lump sum investment
January	10,000	100	100	600
February	10,000	90.91	110	–
March	10,000	95.24	105	–
April	10,000	100	100	–
May	10,000	103	97.09	–
June	10,000	105	95.24	–
Total units			607.33	600

The above calculation is only for the purpose of illustration

As you can see, the NAV kept changing and so did the number of units allotted.

LUMP SUM VS SIPs
WHICH IS BETTER?

While you can invest at once if you have a good risk appetite and surplus funds at your disposal, choosing the SIP route offers several benefits. These are:

LIQUIDITY

One of the key benefit of investing in Mutual funds is liquidity, as you can redeem your accumulated units at any point in time, subject to applicable exit loads. Tax-saving mutual funds are an exception to this as they have a lock-in period of 3 years.

FINANCIAL DISCIPLINE

Regular saving and investing can keep you from irrational spending and, in turn, help you bring financial discipline in life.

POWER OF COMPOUNDING

When you invest regularly with a long-term perspective, you allow your money to compound and grow.

RUPEE COST AVERAGING

You invest during different market cycles. Thus, your investment cost gets averaged out over time.

The last two benefits seem unclear?

Relax! Read on!

POWER OF COMPOUNDING

Want to understand the power of compounding?

You have two options.

- Go to Shimla, get on the top of a slope, and throw a small snow ball and see what it turns into.
- Read below

Saving you the time, money and energy, here's what compounding means.

As per this concept, you not only earn returns on your principal investment but also earn returns on the returns that accrue on it. The power of compounding may help you turn a small sum into a large amount over time. Thus, you must start investing early, keep investing regularly and stay invested for a long time.

RUPEE COST **AVERAGING**

Markets keep fluctuating. When you invest through SIPs, you invest during different market cycles. SIPs accumulate more units at relatively lower costs in the bearish markets depending on the NAV, and then benefit from the eventual up move in the markets. This is known as rupee cost averaging.

Isn't SIP a good way of tackling market volatility? Oh yeah!

Takeaway

1. Every day is a good day to start a SIP. Thanks to rupee cost averaging, you need not time the market. With SIPs, time in the market is better than timing the market.

2. Continue your SIPs even during volatility. Markets are characterized by ups and downs. The key is to ignore the fluctuations and have a long-term investment perspective with a clear focus on your long-term goals.

HOW TO CHOOSE **THE RIGHT SIP AMOUNT?**

There is no one-size-fits-all when it comes to choosing the right SIP amount. You can decide on a sum based on your situation.

Before choosing your SIP amount, consider factors such as your income, expenses, liabilities, lifestyle, etc.

Another important thing to consider is your goals. Doesn't it make sense to invest as per your goals?

Not sure if you have enough money to set aside for SIPs?

Don't let your limited savings stop you from investing in Mutual Fund Schemes. You can start a SIP with an amount as low as ₹500*. That said, a higher amount may help you build wealth faster. Luckily, there is no upper limit for investing in SIPs. So, start with what you can and increase your SIP amount gradually.

*The minimum SIP amount may vary across AMCs or schemes. Please refer to Scheme Information Document of the respective scheme/s.

Goal based investing through SIPs

For Investment Goal Such As	With The Investment horizon of	And Your Risk Appetite Being	The Suitable Mutual Fund Scheme May be
Saving for Emergency	1-3 years	Low	Debt Fund
Planning for retirement	5 or more years	High	Equity Fund
Saving Tax	3 or more years	High	ELSS
Buying a house	3-5 years	Medium	Hybrid Fund

Different goals have different values and time frames. Thus, it makes sense to have a separate SIP for each target.

There are different types of Mutual Fund Schemes to suit different goals and investment tenures. For example, you can start a SIP in Debt Funds for your short-term goals, in Hybrid Funds for your medium-term goals and in Equity Funds for your long-term goals.

MUTUAL FUNDS HAVE TYPES AND SO DO SIPs.
HERE ARE THE MOST POPULAR ONES.

Step up or Top up SIP

You can increase your SIP amount by a fixed sum or % at specified intervals. You can opt for this if you expect annual increments. You can also look at step up SIPs if your loan is about to close and you know you will have extra money at your disposal. Simply put, this type of SIP helps you make better use of your savings.

Flexi SIP

You can increase or decrease your SIP amount as per your convenience. This becomes helpful when you face financials lows. Even with limited savings, you can stay invested and let your money compound.

Trigger SIP

You can set a trigger event for the Fund House to take actions. For example, you can set a trigger that if your investment makes a profit of ₹2 lakh, the fund house must exit the scheme. Such SIPs are more suitable for experienced investors who understand market movements better.

Perpetual SIP

Your SIP continues by default. It won't stop unless you decide to do it specifically. This is good because a long-term investment may help you beat volatility and create wealth.

These types further add to the flexibility of SIPs.

Note: Not all AMCs offer all types of SIPs.

HOW TO CHOOSE
A SIP?

You will have to consider two categories of aspects:

01. Individual aspects

- Financial goals
- Financial state
- Risk appetite
- Investment tenure

02. Fund-related aspects

- Past performance
- Fund manager's track record
- Expense ratio
- Exit load
- Taxation on redemption

HOW TO START A SIP?

Here's how to get started with SIPs

- Identify your financial goals and investment objective.
- Decide on your asset allocation and investment horizon according to your risk-return appetite.
- Select the suitable fund category
  - Equity Fund
  - Debt Fund
  - Hybrid Fund
- Complete your KYC (Know Your Customer) procedure.
  - For eKYC (Online), keep the following ready.
    You can also complete your eKYC via Aadhar number.
    - Identity proof: Self-attested PAN copy
    - Image of your signature on plain paper
    - Aadhaar Number.
- Once, you're through with the KYC process, choose the suitable Mutual Fund scheme for your goal from the selected category/fund.
- Determine your SIP frequency, date and amount.
- Submit the application form after completing the details.
- And you are done!

UNDERSTANDING THE KYC PROCESS

As the name suggests,
KYC or Know Your Customer helps the Fund House establish your identity.

KYC is a one-time process that you must complete mandatorily before investing in Mutual Funds. For the same, you must submit your PAN card and any one identity proof and address proof such as your voter card. Simply put, KYC is your passport to investments. It can help you achieve your dreams via Mutual Funds.

Again, you can complete this offline too
but e-KYC is much more convenient. Here's what you need to do:

STEP 1

Visit the website of the Fund House

STEP 2

Download the e-KYC form

STEP 3

Upload the duly filled form along with your documents, cancelled cheque, and image of your signature on a plain paper

STEP 4

Keep your phone, laptop or any other device handy for photo and video verification.

Your task will become quicker, if you opt for Aadhaar-based e-KYC. Your credentials will be validated by sending an OTP to your mobile number that is registered for your Aadhaar.

To become KYC-compliant, scan this QR code.

MISTAKES TO AVOID **WHILE STARTING A SIP**

Timing the market

SIPs invest across market movements and help you average out your cost. Thus, you need not wait for the 'right time' to start a SIP.

Stopping SIPs in volatile markets

For the reason stated above, instead of panicking you must believe in the potential of markets, focus on your long-term goals and stay invested.

Not choosing a suitable amount

Choosing a significantly high amount may be unwise if you are unsure of your finances in the long run. Go for an amount that you can invest comfortably and gradually increase the amount.

Not linking SIP to your goals

Random investments do little or no good. Have a SIP for each goal and keep chasing it.

Not reviewing your SIP

Periodic portfolio reviews can help you gauge the performance of your investment and, in turn, help you ensure that you are on the right financial track.

Not keeping the SIP date near the pay day

Choosing a date far away from your pay day may lead to the failure of SIP payments.

WILL THE MUTUAL FUND INVESTMENT BE CANCELLED IF **A SIP PAYMENT IS MISSED?**

Missed the payment once? **No problem!**

Missed the payment twice? **No problem, again!**

Missed the payment thrice? **Uh oh! Problem!**

If you miss three consecutive SIP payments, only then your SIP will stand cancelled. However, you must check with your bank if they penalise you for dishonouring the payment even once.

BUT, BUT, BUT.....

If you are unable to continue your SIP, that doesn't necessarily mean you will have to miss your payments or discontinue it. You can simply pause your SIP and avoid penalties or cancellation. Once your finances are better, you can restart the same SIP.

CAN SIPs BE WITHDRAWN AT ANY TIME?

You must understand two things here:

- Lock-in period
- Exit load

Lock-in period

If a Mutual Fund Scheme has a lock-in period, it means you cannot withdraw your investments before that tenure ends.

Exit load

Certain mutual fund schemes may have an exit structure, wherein if an investor withdraws the investment before the stipulated exit period, then such redemption may attract an exit load.

In the case of SIPs, each instalment will be treated as a separate investment. Thus, each instalment will have a different holding period when you redeem your investments. So the exit load will be calculated accordingly.

Say, you start a monthly SIP of ₹1000 on the 1st of January, 2021 and redeem it on the 17th of January, 2022. In this case, only your first instalment will complete one year and, thus, not attract any exit load. However, the remaining instalments will be subject to an exit load as their holding period was less than a year. Typically, equity funds charge an exit load for the investment withdrawn before 1-year.

You may note that redemptions made from mutual funds are always on first in first out (FIFO) basis wherein units bought first are redeemed first.

YOUR SIP WILL ALSO **BE SUBJECT TO TAXES!**

The taxation of your SIP will depend on:

- The type of Mutual Fund Scheme
- The holding period

Mutual Fund Schemes are either taxed as Equity Funds or Debt Funds.

TAXATION OF EQUITY FUNDS*

Realised gains on Equity Mutual Funds for the units held for a year or less are considered Short-term Capital Gains and are taxed at 15% plus applicable cess and surcharge. Realised gains on Equity Mutual Funds for the units held for more than a year are classified as Long-term Capital Gains. If these gains are less than ₹1 lakh/year, you can enjoy them tax-free. If these gains exceed ₹1 lakh/year, they will be taxed at 10% plus applicable cess and surcharge.

TAXATION OF DEBT FUNDS*

Realised gains on Debt Mutual Funds are added to your income and taxed as per your slab rate.

Note: For the purpose of taxation, each SIP instalment will be treated as a separate investment and the holding period will apply accordingly. Tax applicability only at redemption /switch-outs

*Taxation as per prevailing tax-laws. Please contact your finance /tax advisor before investing.

KNOW THE OTHER TWO FAMOUS **ABBREVIATIONS IN THE MUTUAL FUND INDUSTRY**

Let's understand the difference.

Particulars	SIP	SWP	STP
Full form	Systematic Investment Plan	Systematic Withdrawal Plan	Systematic Transfer Plan
Meaning	It allows you to invest a fixed amount in Mutual Fund Schemes at regular intervals	It allows you to withdraw a fixed amount from your existing Mutual Fund investments at regular intervals	It allows you to transfer funds from one Mutual Fund Scheme to another of the same Fund House
Purpose	Helps become financially disciplined and spread investments	Helps create a secondary source of inflow	Helps rebalance portfolio

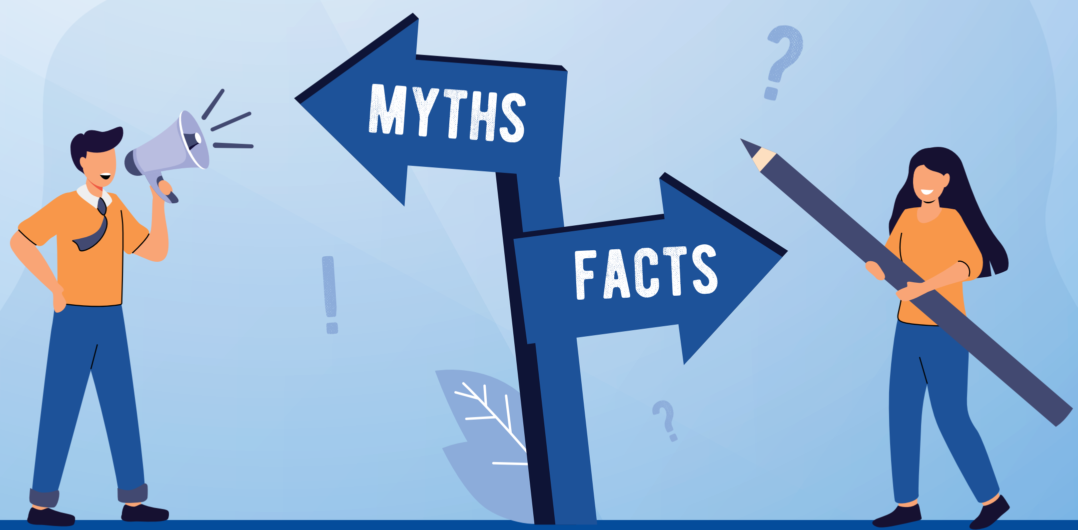
DIFFERENCES ARE CLEAR.
LET'S BUST SOME MYTHS NOW?

If your left palm is itchy, you are about to get wealthy – Myth or fact? Who knows!

But what we do know is that the following things about SIPs are nothing but myths:

	MYTH	FACT
#1	SIP can't be modified midway	You can modify your SIP by filling and submitting the online SIP modification form.
#2	SIP is for big investors	You can start a SIP with as low as ₹500*
#3	SIP can only be done for Equity Funds	SIPs can help tackle the volatility associated with Equities. But you can start SIPs in Debt Funds & Hybrid funds too.
#4	SIPs should be avoided during bull phase	Bull or bear, invest without fear. You need not time the market with SIPs.

*The minimum SIP amount may vary across AMCs or schemes. Please refer to Scheme Information Document of the respective schemes.



TEST WHAT YOU READ SO FAR – QUIZ TIME!

Now that you know so much about SIPs,
how about testing your knowledge before you leave? They are easy ones, we promise!

1. What is the full form of SIP?

- A: Systematic Investing Plan
- B: Systematic Investment Plan
- C: System Investing Plan
- D: System Investment Plan

2. What is the minimum SIP amount usually?

- A: ₹500
- B: ₹50
- C: ₹550
- D: ₹5000

3. Which of the following is an advantage of SIP?

- A: Power of compounding
- B: Low investment amount
- C: Rupee cost averaging
- D: All of the above

4. Which of the following is not a type of SIP?

- A: Perpetual SIP
- B: Trigger SIP
- C: Step up SIP
- D: Open SIP

5. What is the upper limit for SIPs?

- A: ₹2 lakh/year
- B: ₹2 lakh/month
- C: No limit
- D: ₹1.5 lakh annually

Answers: 1 - B 2 - A 3 - D 4 - D 5 - C

DISCLAIMER

To know about the KYC documentary requirements and procedure for change of address, phone number, bank details, etc. please visit https://www.utimf.com/servicerequest/kyc. Please deal with only registered Mutual funds, details of which can be verified on the SEBI website under "Intermediaries/market Infrastructure Institutions". All complaints regarding UTI Mutual Fund can be directed towards service@uti.co.in and/or visit www.scores.gov.in (SEBI SCORES portal). This material is part of Investor Education and awareness initiative of UTI Mutual Fund.

SIP is a feature offered for disciplined investment of a certain amount on a pre-decided date in a specific mutual fund scheme, regularly over a period of time.

Calculation on goal calculator is for illustration purpose only and not an indication of the performance of any schemes. Calculation is based on assumed rate of return and actual return may vary. Performance may or may not be sustained in future.

Investors should not treat the information on taxation as any advice relating to legal, taxation, investment or any other matter and also in view of the individual nature of the implications, are strongly advised to consult their tax/ legal consultant with respect to the tax implications arising out of their participation in the Schemes or otherwise.

Equity Linked Savings Scheme (ELSS) is an open-ended equity linked saving scheme with a statutory lock in of 3 years and tax benefit. Minimum investment in equity & equity related instruments - 80% of total assets (in accordance with Equity Linked Saving Scheme, 2005 notified by Ministry of Finance). As per the present tax laws, eligible investors (Individual/HUF) are entitled to deduction from their gross total income, of the amount invested in equity linked saving scheme (ELSS) upto ₹1,50,000/- (along with other prescribed investments) under Section 80C of the Income Tax Act, 1961. Subject to prevailing tax laws.

UTI SWATANTRA®

An investor education initiative

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