FUNDSINDIA

IN-DEPTH PORTFOLIO REVIEW

29th May 2019

At FundsIndia, we strive to deliver our best to identify and recommend the financial products that suit an investor. When it comes to investments in a financial product, the most important factors are Returns, Risk and Taxation. Accounting these three factors before investing, will help an investor to create substantial wealth.

We summarize your Existing Asset Allocation report are as follows:

Financial Assets	Asset Class	Allocation Report	Present value (Rs.)
Mutual Funds	Equity	10.64%	300,000
Fixed Deposits	Debt	46.10%	1,300,000
PPF/EPF/NPS	Debt	24.82%	700,000
Insurance Policy	Debt	17.73%	500,000
Gold	Debt	0.71%	20,000
Total		**100.00%**	**2,820,000**

Asset Wise Allocation Report:

Current Asset Allocation Report		
Asset class	**Allocation (%)**	**Amount (Rs.)**
Equity	10.64%	300,000
Debt	89.36%	2,520,000
Total	**100.00%**	**2,820,000**

Existing allocation in Equity and Equity related instruments stands at 10.64% and Debt Funds and Debt related instruments stands at 89.36%.

Our view about your Existing Portfolio:

Currently your portfolio is conservative and has low risk instruments, based on the assets that have been disclosed to us. Generally, conservative portfolio is advised in a distribution phase of a retirement plan or any other financial goals that has to be met in a time frame of less than 3 years.

Our Recommendations:

We strongly advise to Re - balance your existing investments by increasing the equity allocation to 65% and Remaining 35% in debt funds; and invest the monthly future cash flows with an asset allocation of 80% in Equity funds and 20% in Debt funds.

Since all your financial goals are for long term, it is advisable to hold a long-term portfolio which generates double digit returns.

Revised Allocation - Asset wise:

Financial Assets	Asset Class	Allocation Report	Present value (Rs.)
Mutual Funds	Equity	63.83%	1,800,000
Debt Funds	Debt	10.64%	300,000
PPF/EPF/NPS	Debt	24.82%	700,000
Gold	Debt	0.71%	20,000
Total		**100.00%**	**2,820,000**

Revised Asset Allocation Report:

Current Asset Allocation report		
Asset class	**Allocation (%)**	**Amount**
Equity	63.83%	1,800,000
Debt	36.17%	1,020,000
Total	**100.00%**	**2,820,000**

Comparison of Portfolio growth: Existing portfolio vs Revised Portfolio

Please find the below table which will help us to understand how the revised portfolio might perform compared to the existing portfolio, over a period of 5 years, 10 years, 15 years and 20 years, considering the equity funds are assumed to deliver a return of 12% per annum and debt funds are assumed to deliver 7% per annum.

Illustration: Portfolio Growth – Existing portfolio vs Revised Portfolio

Asset class	Present Investments	*Existing Portfolio value at the end of			
		5 years	10 years	15 years	20 years
Equity Funds	300,000	528,703	931,754	1,642,070	2,893,888
Debt Funds	2,520,000	3,534,430	4,957,221	6,952,759	9,751,605
Total	**2,820,000**	**4,063,133**	**5,888,976**	**8,594,829**	**12,645,493**

Asset class	Present Investments	*Revised Portfolio value at the end of			
		5 years	10 years	15 years	20 years
Equity Funds	1,800,000	3,172,215	5,590,527	9,852,418	17,363,328
Debt Funds	1,020,000	1,430,603	2,006,494	2,814,212	3,947,078
Total	**2,820,000**	**4,602,818**	**7,597,021**	**12,666,631**	**21,310,406**

Net difference in Portfolio Growth	539,685	1,708,045	4,071,801	8,664,913

*Equity returns assumed as 12% per annum & Debt funds at 7% per annum.

Points to be noted from the above table:

- Revised asset allocation helps us to accumulate more wealth of Rs. 86.65 crores compared to the existing asset allocation, over a period of 20 years.
- In Revised asset allocation: Corpus invested in equity has the potential to grow more, as it tends to participate in the economic growth. Whereas in existing asset allocation, there is no such opportunity, since the corpus has been invested in fixed instruments that deliver single digit returns.
- If the assets are to be re-balanced as per our recommendations, then your Financial goals can be achieved before its stipulated time frame giving you a stress-free financial space.

Risk:

In reality, Risk is inherited in all investments, but the degree of risk varies from low, medium and high. It is not possible to avoid the Risk, but it can be mitigated by proper investment planning.

Generally, when investing, Risk has to be evaluated based upon the holding period. Investing in high risk instruments for short term goals and investing in low risk instruments for long term goals will always impact the wealth creation. So before investing, we need to keep the holding period in mind and also understand the risk that is associated with the investments.

Further to understand the risk in Equity mutual funds, we have considered a fund called ICICI Prudential Blue Chip – (G). It is a large cap fund which has a consistent track record and has delivered better returns than its benchmark and has generated better alpha returns.

Let's take a look at the ICICI Prudential Blue Chip – (G) portfolio details and its top 10 holdings as on 30th April 2019.

Total number of Holdings in Portfolio – 58 | Other Holdings – 15 | Overall allocation in top 10 stocks is 44%

Top 10 Holdings in the Portfolio

Holdings	% Portfolio Weight
HDFC bank Ltd	7.65
ICICI Bank Ltd	6.34
Infosys Ltd	5.77
ITC Ltd	4.01
NTPC Ltd	3.82
Axis Bank Ltd	3.64
HDFC Ltd	3.5
SBI Life ins Co Ltd.	3.08
L&T Ltd	3.03
Bharti Airtel Ltd	2.84

The above table, helps us to understand how the fund managers have effectively mitigated the risk, even if one of the stock's value becomes zero out of the top 10 holdings, the maximum and minimum impact on the portfolio is just 7.65% & 2.84% respectively and in Parallel, if other stocks grow by 10% to 15% annually, the portfolio will generate real returns overcoming the losses incurred.

Mutual funds are the only product where you will be passively investing but your investments will be actively managed. Whereas it's not the same case in any other asset class.

Taxation:

In Investments, taxation plays a vital role, because what we earn doesn't determine the actual income earned, rather the one which we acquire after taxes does. So, it is recommended to invest in a tax efficient product.

Below table will summarize the taxation of different asset classes.

Comparison on Asset growth rate and taxation for multiple assets*^						
Particulars	**Asset class**					
	Fixed deposits	**Debt funds^**	**Equity Mutual funds^**	**PPF**	**Real Estate**	**Gold**
Risk	Low	Low to High	High	Low	Moderate to High	High
Investment amount	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Interest / YTM /Growth rate	8.50%	8.50%	14.16%	8.00%	5.60%	8.26%
Holding period	10	10	10	10	10	10
Future value or maturity amount	4,521,967	4,521,967	7,519,165	4,317,850	3,448,809	4,422,932
Profit or interest earned	2,521,967	2,521,967	5,519,165	2,317,850	1,448,809	2,422,932
Indexation factor*/Basic exemption limit**	-	2,960,489	100,000		2,960,489	2,960,489
Profit/Interest considered for tax	2,000,000	1,561,478	5,419,165	2,317,850	488,321	1,462,443
Tax payable	600,000	312,296	541,916	0	97,664	292,489
Net Gain post Tax	1,400,000	2,209,671	4,877,248	2,317,850	1,351,145	2,130,443
Tentative earnings against FD's investment		**809,671**	**3,477,248**	**917,850**	**-48,855**	**730,443**

* Indexation factor considered as 4% per annum based on previous CII data.

** Long term equity gains are exempted up to Rs. 1 Lakhs

^Equity funds considered is ICICI Prudential Bluechip - (G) and Debt funds in Ultra short-term category.

*^ Returns are considered as on 01st June 2019 closing.

Real Estate: Chennai – Thoraipakkam (Chennai)	01-Oct-14	5,684	4.25 (Yrs.)	5.6% (P.A)
	31-Dec-18	7,165		
	*** Source: from magicbricks.com			
Gold Price	01-Jan-09	14,500	10.5 (yrs.)	8.26% (P.A)
	28-May-19	32,080		

Our scheme recommendations are as follows,

Scheme Name	Category	Rating	3year Returns	5year Returns	Since Inception	Lumpsum Amount	Sip amount
ICICI Pru Blue-chip Fund(G)	Equity - Large cap Fund	5 Star	14.29%	12.45%	14.26%	400,000	15,000
Kotak Standard Multicap Fund(G)	Equity - Multi cap Fund	5 Star	16.38%	16.66%	14.37%	400,000	15,000
Mirae Asset Large Cap Fund-Reg(G)	Equity - Large cap fund	5 Star	16.62%	16.09%	16.01%	400,000	10,000
HDFC Mid-Cap Opportunities Fund(G)	Equity - Midcap Fund	4 Star	13.04%	16.03%	15.40%	300,000	12,000
Franklin India Ultra-Short Bond Fund-Super Inst(G)	Debt - Ultrashort Fund	5 Star	9.68%	8.90%	9.22%	100,000	7,000
Kotak Liquid Funds - Reg - (G)	Debt - Liquid funds	3 star	7.07%	7.63%	7.44%	200,000	6,000
Total						1,800,000	65,000

We hope that this will help you to take an effective decision with your investments.

With
Thanks & Regards,
FundsIndia
Financial Planning Desk