DID YOU KNOW?

YOU CAN MANAGE YOUR MONEY BETTER WITH MUTUAL FUNDS.

An investor education initiative by

Birla Sun Life
Mutual Fund

Did you know?

Value of Rs.1 lakh can reduce to Rs.97,418 in one year.

You work hard to earn your money. It helps to meet your monthly expenses and the rest, you put away in a savings account for safekeeping. This way, you can easily access your money if you come across any unplanned expenses.

Keeping some money aside is a good habit, but by keeping a substantially large sum in a savings bank account, you may be actually losing the value of your money (as illustrated on the next page). Why? Because it is getting eroded by inflation…

Increase in prices i.e. inflation is responsible for reducing the value of the rupee. For instance, Rs. 100 could have bought you movie tickets and popcorn for an entire family of four in the 1990s. Today, for the same outing you may have to spend more than Rs. 1,000.

Plus, depending on your income level, you have to pay tax on the interest that you earn on your savings bank account which can further reduce your returns.

Therefore, you need to look for investment avenues that help you fight inflation.

COST OF MONEY BEING IDLE

Rs 1 lakh in savings account

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Interest earned in 1 year: Rs. 3500 (@ 3.5% p.a.)

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Total: Rs. 1,03,500

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Tax on Interest: Rs. 1081.50 (@ 30.9%)

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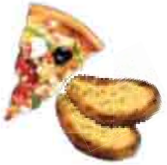
Impact of Inflation: Rs. 5000 (assumed @ 5% p.a.)



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Value at end of 1 year: Rs. 97,418

The above workings are for illustration purposes only and are based on prevailing taxation laws. Tax liability of 30.9% is calculated assuming individual investor falls in the top income tax slab of 30% & includes applicable cess. In case of individual nature of tax implications, Investors are further advised to consult their tax advisor before making investments. Source for savings a/c interest of 3.5% p.a. is www.rbi.org.in

PLEASE NOTE: Inflation rate of 5% p.a. is an internal assumption. The actual average annual inflation rate is 6.03% for last 5 years from 2004 to 2008 based on WPI (source: http://eaindustry.nic.in).

Benefits of savings solutions from mutual funds:

- **Make Inflation work in your favour:** Inflation affects your returns from any investment including mutual funds. But, in case of savings solutions, you can use it to your advantage – through indexation – which can help you reduce the amount on which you have to pay tax. You can benefit from indexation, if investing for more than 1 year. Please consult your tax advisor on how to take advantage of indexation.

- **Aim to preserve your money:** These schemes generally invest in instruments like bonds of reputed Indian companies and securities (bonds) issued by the government of India which are considered relatively safe.

- **Aim to provide Liquidity:** If you need to withdraw your money, all you have to do is submit a redemption slip and your money is normally credited to your bank account within one working day. You may also opt for an online redemption facility offered by many fund houses for added convenience.

- **Tax-efficient returns:** You can earn returns in the form of monthly / quarterly dividends which are completely tax-free in your hands.
  A dividend distribution tax of 14.1625% is applicable and is deducted by the fund house.

There are various savings solutions available depending on the time period that you would like to invest for:

a. 1 day to 3 months
b. 3 to 6 months
c. 6 months to 1 year
d. 1 year +

The Financial Solution (Savings Solution) stated above is ONLY for highlighting the many advantages perceived from investments in Mutual Funds but does not in any manner, indicate or imply, either the quality of any particular Scheme or guarantee any specific performance/returns.

Your income may be taxed.
What if your second income wasn't?

What would you do if you had a second income every month? That too, if it were tax free in your hands?

You may want to do things which you may be putting off for a while… may be send your children for music classes, take your family out for dinner more often or have your home painted. If you are retired, the extra money can help you maintain your lifestyle in the face of rising prices.

An extra monthly income can come from conventional options like Fixed Deposits (FDs) and Post Office Monthly Income Schemes (PO MIS), but, the monthly income that you receive may be fully taxable.

On the contrary, Regular income solutions offered by mutual funds have certain benefits like:

- **They aim to preserve your money & provide regular income:** These schemes generally invest in instruments like bonds of reputed Indian companies and securities (bonds) issued by the government of India which are considered relatively safe in order to generate regular income for you.
- **They aim to fight Inflation:** A small part is invested in equity i.e. stocks of Indian companies to help you stay ahead of inflation.
- **Tax-efficient Returns:** You may opt for a monthly dividend option where, in addition to the growth of your invested amount, a portion of the same comes to you as monthly income which is given in the form of dividends. These dividends are completely tax-free in your hands!

A dividend distribution tax of 14.1625% is applicable and is deducted by the fund house.

Features	Regular Income Solutions	Fixed Deposits (FD)	Post Office Monthly Income Schemes (PO MIS)
Tax on monthly income	No	Yes	Yes
Lock-in Period	No	No	1 year
Rate of return	Varies for different schemes	6% p.a.	8% p.a.
Exit load / Penalty on premature withdrawal	Varies for different schemes from 0.25% to 1% if withdrawn between 7 days to 15 months	1% if withdrawn **anytime** before maturity	2% - 1st yr to 3rd yr 1% - 4th yr to 6th yr

Data Source: For FD, 6% p.a. for 1 yr to less than 2 yrs from State bank of India effective from 9/11/09, www.sbi.co.in. For PO MIS, 8% p.a., www.indiapost.gov.in. For Regular Income solutions, MFI Explorer data as on 11/03/10; Loads are subject to change as per the decision of individual fund house.

Wherever mentioned, Monthly Income / Second Income / Monthly Dividend is not assured and is subject to availability of distributable surplus. The Financial Solution (Regular Income Solution) stated above is ONLY for highlighting the many advantages perceived from investments in Mutual Funds but does not in any manner, indicate or imply, either the quality of any particular Scheme or guarantee any specific performance/returns. Investors are requested to consult their tax advisor before investing for individual nature of tax benefit

Attractive returns. Low lock-in period. Tax-free dividends.

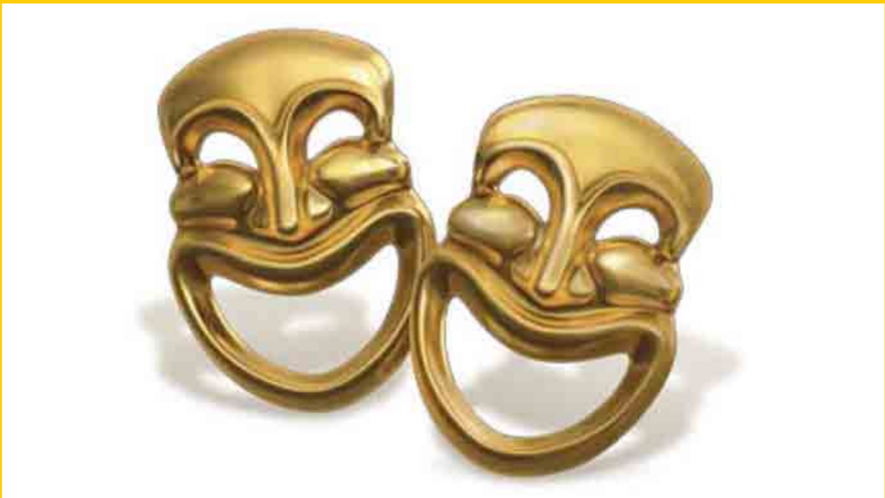
Why save taxes with anything other than ELSS?

You try to make the most of the tax saving avenues available, one of them being section 80C of the Income Tax Act, 1961. These investments include PPF, NSC and bank deposits. While these come with tax-benefits, the returns are moderate and in some cases, taxable! Apart from this, your money may be locked-in for 3 to 6 years.

Tax saving solutions from mutual funds like Equity Linked Savings Schemes (ELSS) help reduce your tax burden and at the same time, aim to grow your money through equity investments.

They also have various advantages over traditional tax-saving investments like:

- **Low lock-in period:** Your money is locked-in for just 3 years, as against the much longer lock-in periods in other options.
- **Potential to earn dividends:** While your money is locked-in for 3 years, you may opt for the dividend option and can receive returns in the form of tax-free dividends during this time. This feature is unique only to tax saving solutions from mutual funds.
- **Earn market linked returns:** Since investments are made in stocks of Indian companies, the value of your investment moves with the stock market. Although it comes with market related risks, your money is diversified i.e. spread out across stocks of multiple companies and is being monitored by an investment expert with an aim to minimize such risks.



- **Tax-free returns:** When you withdraw your investment after 3 years, the returns are totally tax free. Yes, you save taxes on both, your initial investment and also on the returns.

Comparing various tax-saving options

Instrument Type	Lock-in period (years)	Rate of return	Tax status on returns	Maximum investment (Rs)	Potential for dividend
Public Provident Fund (PPF)	5	8%	Tax-free	Rs. 70,000	No
National Savings Certificate (NSC)	6	8%	Taxable	Rs. 1,00,000	No
Bank Fixed Deposits	5	7.25% pa	Taxable	Rs. 1,00,000	No
Equity Linked Saving Schemes (ELSS)	3	Market linked	Tax-free	Rs. 1,00,000	Yes

Data Source: For PPF: Partial withdrawals are allowed from 6th financial yr, however full amount can be withdrawn after 15 yrs, source: www.indiapost.gov.in. For NSC: source: www.indiapost.gov.in. For Bank FDs: 7.25% p.a. for 5 yrs to less than 8 yrs from State bank of India effective from 9/11/09, www.sbi.co.in.

The Financial Solution (Tax Saving Solution) stated above is ONLY for highlighting the many advantages perceived from investments in Mutual Funds but does not in any manner, indicate or imply, either the quality of any particular Scheme or guarantee any specific performance/returns. Tax deduction available u/s 80C of the Income Tax Act, 1961 is subject to conditions specified therein. Investors are requested to consult their tax advisor before investing for individual nature of tax benefits.

1% more every year =

24% more returns after 30 years thanks to compounding

You save a part of your income every month to build wealth for your future needs like down-payment for a house or car, child's education or building your retirement corpus.

But saving is only half the job done. You also need to invest wisely to make your money grow. And the returns you earn on your investment are equally important.

Compounding is nothing but extracting even that last bit of return from your money. Simply put, it is earning a return on the return.

For example, if you invest Rs. 10,000 and you get 10% p.a. as returns, you earn Rs. 1000 as interest at the end of the year. The next year, you earn 10% not only your invested amount (Rs. 10,000) but also on Rs. 1000; hence the interest you earn will be Rs. 1100. When you let this happen for years together, your savings start growing much more.

Growth of Rs. 10,000 invested at 10% p.a. compounded annually.

Year	Interest earned	Total value of investment
1	1000	11000
2	1100	12100
3	1210	13310
10	2358	25937
20	6116	67275

1% more returns makes a huge difference

Getting even 1% more every year makes a big difference, because of the magic of compounding.

Consider this example. Rs. 5000 is invested every month in 2 similar investments. One investment gives a return of 10% p.a. while the other gives 11% p.a. At the end of 30 yrs the 2nd investment makes 24% more money than the first investment!!!

As you know, regular investments are a good habit, but it is equally important where you invest. Out of the various investment options like equity, gold, savings a/c, PPF, FD, it is Equity that has proven to create wealth over and above others, provided one invests for the long term.

For example, if you had invested a fixed amount on the 1st of every month for the last 15 yrs (1st April 1994 to 1st February 2010), your returns across various asset classes would have been as follows:

Investment Option	Fixed Deposits (FD)	Gold	BSE Sensex
% Returns	9.37%	14.65%	15.60%

Computation: Internal. Source for Interest rates: For Fixed Deposits: Reserve B ank of India archives, www.rbi.org.in from 1st April 1994 to 30th April 2009. State Bank of India, www.sbi.co.in, from 1-May 09 to 28 Feb 10. For BSE Sensex: www.bseindia.com. For Gold: Bloomberg. The above rate of returns are for the purpose of better understanding only and do not indicate a promise /guarantee of the same returns being sustained in the future.

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