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ICICIdirect MONEY MANAGER

An Investor Awareness Initiative from ICICIdirect Centre for Financial Learning

A guide to legacy planning.

ICICI direct
Centre for Financial Learning

MD's Desk

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There are decades where nothing happens and there are weeks where decades happen": this quote of Vladimir Lenin continues to capture the state of global financial markets and economy.

Globally, 6 weeks following mid Feb 2020 saw Covid-19 spread with a record death count triggering sharpest drawdown in financial markets (since 1929), led by equities & credit. This triggered a strong policy response from Central Banks (in the form or rate cuts & Quantitative easing) & Governments across the globe (in the form of Direct Cash transfers, Guarantees, Backstops and support for smaller businesses). This swift and well-coordinated fiscal & monetary policy response led to a sharp recovery in risk assets in 12 weeks ending June 30. For Quarter ended June 2020, equities rallied over 20% (US S&P registered the largest gain since 1998).

However, in the global landscape the tale of two disconnects continues, where the financial markets are indeed on a stable footing on the back of liquidity and policy backstops, economic recovery is still a distant dream. As per IMF, the GDP growth for 2020 will be -4.9%, which is the sharpest drawdown since the Great Depression. On a more constructive footing, as per US Federal reserve, the global market is expected to recover in a U-shaped manner. The road to recovery is estimated to be a long one - at least 2 years from now.

India, which has now the 3rd largest Covid-19 cases, is mirroring the global trend, wherein, after falling over 30% in Q4FY20, Nifty recovered over 20% in Q1FY21. However, on ground, owing to continued lockdowns in key cities, the IMF predicts a decline in India's GDP by 4.5% for CY2020 and growth of ~6% for CY2021.

Reserve Bank with its ultra-accommodative monetary policy and GoI with its strong fiscal response has revived the animal spirits of the Financial markets, and after helping the economy with survival capital (direct cash transfers, guarantees & moratoriums), it is now aiming for transmission of the lower rates and increased liquidity to the system at large. These efforts have started to yield results as green shoots of partial recovery are visible via parameters including increase in Railway freight traffic, Auto registration, power demand in the northern region, improved demand for petrol, increased diesel sales etc. And with unlock 2.0 in place from July, more activities are expected to resume and reverse migration back to cities is expected as well. This will augur well, pick in economic activity even further in Q2FY21, especially if the Covid-19 new cases start to plateau.

Indian equity markets have baked in this partial recovery already and have retraced over 65% of their losses, and are poised to consolidate with a positive bias if the economic activity continues to normalize. Year till date performance of Indian Equities clearly show a

preference for Quality franchises with strong Balance Sheets (such as FMCG) and Defensive Sector stocks like Pharma & IT. Additionally in May & June, recovery has become more broad-based with recovery also seen in Quality names from Auto & Banking.

Indian Fixed income market has also baked in lower for longer story into the yield curve. With short end outperforming long end, as the expectations of large issuance by GoI kept the long end sticky, it made the yield curve steeper in the process. RBI has taken cognizance of the negative effects of this steepness on transmission. It has announced an operational twist to purchase long-dated G-Secs with tenor between 7-13 years and sell short-dated G-Secs, maturing between Oct'20 and Apr'21 for INR 10,000 Crs each on July 2, 2020, to flatten the steep interest curve. The credit side continues to remain vulnerable to further shocks and best left untouched.

Gold in $ terms has delivered over 15% return in 1H2020 and in INR terms returns over 20%, as it was able to offer strong hedge to risk-on assets and abundant liquidity situation that the world is in. With the liquidity likely to slosh at higher levels in financial markets, the reflationary impulse furthered the case for continued allocation to gold as a hedge to risk-asset portfolio.

Hence, at current level, where the

- Equity is likely to remain range-bound (we expect 16% CAGR in EPS over Fy20-22 and PEG multiple of 1.2 implying a target of ~10500)
- Fixed income offers limited scope for Duration gains and clipping the coupon in AAA space remain the key play
- Gold provides good hedge in INR terms

Asset allocation strategies that look at a good mix of equity, fixed income and gold should be the building block for Investors looking to enter financial markets. Asset allocation becomes key, more so in the current scenario, where there is still a large data vacuum to accurately assess the level of damage caused by Covid-19 and the time it will take to the world to develop a vaccine for this pandemic. With the right asset allocation, an investor is best equipped to handle these unprecedented times, where higher volatility is the order of the day.

On personal finance, the importance of planning one's investments has become very crucial. Planning for an entity's wealth includes planning for the three different wealth phases viz. accumulation phase, preservation phase and distribution phase. The accumulation and preservation phase can be taken care of and are majorly well planned by savvy investors through asset allocation approach and tracking of investments. What needs to be a logical next step is Legacy Planning to plan for distribution or transfer of wealth to your loved ones. Like in all aspects of financial planning, a carefully planned and drafted legacy plan can entail smoother transmission of assets. At ICICI Securities, we have a dedicated Investment and Family Office team to assist you in your comprehensive legacy planning.

Our message continues to remain the same - 'Keep investing regularly and stay invested for your life goals.' Through this magazine and our website www.icicidirect.com we want to make an earnest attempt to partner with you in setting and achieving your financial goals. Allow us to serve you, by logging in to our website to reach out to us.

Our lives have mostly spent on building assets, thus it's our responsibility to take steps to protect our assets. The effective way to do so is through legacy planning. Legacy planning enables you to transfer your wealth according to your wishes through wills, trusts or power of attorney. It's a mechanism by which your estate is distributed among people you choose and in a manner you find fair. The practice ensures a hassle-free legal process, and also reduces family disputes.

So why doesn't a person draw up a will to make sure that the assets are passed on to the rightful person in an orderly manner? One answer could be the fact that there is a lack of awareness about eligibility and also what goes behind the process of legacy planning. We hope to put light on some of these questions through our magazine.

There is no specific age to create a legacy plan. Anyone who has some asset holding in his/her name should create one. The use of wills and trusts in the right manner enables you in building a legacy plan. In this issue, we highlight the importance of legacy planning and explain the criticality of creating a Will and other mechanisms like trusts to help you create a legacy plan.

The June edition of Money Manager also offers a comprehensive review and stock holdings of mutual funds recommended by our research team. The top two stock picks of the months are also selected by some of our finest research analysts. Further, if you wish to get clarity on different aspects of personal finance or any other money matter through Ask our Planner, you may write to us at moneymanager@icicisecurities.com. So stay updated, start investing, and keep reading to stay financially fit.

I would also like to draw your attention to our sections - Prime Numbers - with the inclusion of more data points and indicators - to let you have a comprehensive overview. So read on, stay updated, and involved.

Your magazine is now also available on www.magzter.com, a digital newsstand.

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I-Sec joins hands with Sensibull for derivative traders

ICICI Securities on 9th June tied-up with Sensibull, a third party derivatives strategy platform, to offer their advanced trading suggestions and strategies on the icicidirect platform. I-Sec customers can access Sensibull by logging in from icicidirect or Sensibull platforms. It comes at an introductory price of ₹970/month against the regular price of ₹1,300/month, it said in a release. Sensibull platform suggests a list of strategies based on a trader's market view and provides all essential information such as trade, strike prices, risk, profit and loss potential, among others. One can also compare different option strategies to find the right one, the release added.

Courtesy: Business Line

RBI to replace NHB rules with its own set as the new HFC regulator

As the new regulator of housing finance companies (HFCs), the Reserve Bank of India (RBI) on 18th June proposed to modify the rules governing these firms. The RBI took over the powers to regulate HFCs from the National Housing Bank (NHB) in August 2019. In the NHB regulations, according to the RBI, there was no formal definition of 'housing finance'. In a draft released on its website, the central bank set a formal definition for the same. Housing finance would now mean "financing, for purchase/ construction/ reconstruction/ renovation/ repairs of residential dwelling unit ..." for a whole host of functions that would include giving loans to companies and government agencies for employee housing finance projects." All other loans, including those given for furnishing dwelling units, loans given against mortgage of property for any purpose other than buying/ construction of a new dwelling unit or renovation of the existing dwelling unit, will be treated as non-housing loans," it said.

Courtesy: Business Standard

LIC IPO process kick-starts; FinMin sets the ball rolling on mega disinvestment

Kicking-off preparation of the mega Life Insurance Corporation of India (LIC) initial public offering, the Finance Ministry on 19th June invited bids from consulting firms, investment bankers, and financial institutions. The bids have been invited for advising the government on the proposed IPO which will see the government divest part of its stake. IPO of the massive insurance company may easily make it one of the top listed companies on the stock exchanges in terms of market capitalization. Earlier in her budget speech Finance Minister Sitharaman had announced that the government will sell a part of its holding in LIC through an initial public offering.

Courtesy: Financial Express

Maharashtra puts Chinese deals on hold, Yogi Adityanath's UP takes tough stand on imports from China

China is set to pay a heavy economic price after a violent clash with India at Galwan Valley, with chief minister Uddhav Thackeray-led Maharashtra already pausing three Chinese projects worth Rs 5,000 crore. Along with the Maharashtra government, Yogi Adityanath's Uttar Pradesh, and Manohar Lal Khattar's Haryana have also adopted a tough stance on imports from China, and have stepped up to boycott Chinese companies and products. The three deals put on hold in Maharashtra include projects with Hengli Engineering, PMI Electro Mobility Solutions JV with Photon, and Great Wall Motors, which were signed under the Magnetic Maharashtra 2.0 mission. Haryana may cancel contracts with Chinese firms in days to come, Uttar Pradesh may stop importing energy equipment from China, CAIT aims to mobilise Indian traders to boycott Chinese goods and 20,000 MSMEs in Noida to boycott Chinese products.

Courtesy: Financial Express

Balrampur Chini – Best play in sugar space

Company Background

Balrampur Chini is second largest sugar company in India with 76,500 TCD (tonnes crushed per day) sugarcane capacity. It also have 520 KLD (kilolitres per day) and 228 MW co-generation (163 MW saleable) capacity. The company has commissioned 160 KLD distillery in January 2020 to leverage the opportunity of ethanol blending with petrol to 10% by 2022. With the 45-day lockdown in the country due to the Covid-19 outbreak, most industries would be impacted negatively by production halts, demand destruction & supply chain disruptions. However, we believe the impact on sugar industry would be limited to small decline in domestic sugar consumption & exports in FY21E. Sugar production continues even in these challenging times with production completed in early June. Sugar production is likely to be around 27 million tonnes (MT) against earlier estimate of 26 MT due to a marginal change in Maharashtra production and lower diversion towards Gur & Khandsari.

Investment Rationale

Sugar consumption to dip in lockdown period

The negative impact on demand front may be 1-1.5 MT (permanent consumption loss) with lower sale of carbonated drinks & ice creams in the lockdown period. Further, India's exports in current season may be 5 MT vs. earlier expectation of 5.5 MT mainly due a significant dip in global sugar prices from 15 cents/lb in February 2020 to 12 cents/lb currently. This would keep sugar inventory high at 11 MT on September 2020. This, along with expected higher production of 30 MT in next crushing season would need continuance of export incentives, higher diversion towards B heavy ethanol. We believe Exports incentives would continue even for next crushing season. Further, there is a possibility of MSP hike by ₹ 2 / kg. Balrampur with full by-product integration & lighter balance sheet would benefit from these measures.

Ethanol offtake remain strong after small dip during lockdown

Considering significant reduction in petrol consumption in lockdown period, OMC depots were full. Hence, there is no storage capacity for ethanol, which has resulted in 30% lower ethanol offtake in this period. We believe OMCs have increased ethanol offtake post lockdown period considering blending levels are still very low at 5-6%. Moreover, OMCs have re-negotiated contracts with sugar companies to supply ethanol to depots with sufficient storage.

Aggressive sugar exports, B heavy diversion to reduce inventory

With the aggressive sugar exports this year & expected continuation of exports in next season, we believe the company would be able to liquidate substantial sugar inventory in next six months. Moreover, the company would be able to divert considerable sugarcane towards B heavy molasses given the company has expanded distillery capacity by 160-KLD in January 2020. This would result in strong cash flow generation for next two years.

Valuation & Outlook

We believe Balrampur would generate strong cash flow over the next two years, which would lead to a significant reduction in working capital debt requirement. Moreover, it has kept payment to shareholders (dividend, buy backs) at 40% of earnings. Currently, the stock is trading at 1.2x & 1.1x FY20E & FY21E P/BV, respectively. We value the stock at 1.5x FY21 PBV with target price of ₹ 170.

₹ Crore	FY19	FY20	Fy21	Fy21
Net Sale(₹ Crore)	4,286	4,583	4,496	4,719
EBITDA (₹ Crore)	689	709	619	644
PAT (₹ Crore)	576	450	390	424
EPS	25.2	20.5	17.7	19.3

₹ Crore	FY19	FY20	Fy21	Fy21
PE (x)	5.1	6.3	7.3	6.7
P/B (x)	1.4	1.2	1.1	1.1
ROE(%)	27.2	19.3	15.7	15.7
RoCE(%)	27.2	19.3	15.7	15.7

Particulars	Amount
Market Capitalisation	₹ 3152 crore
Total Debt (₹ Crore)	₹ 1674 crore
Cash & Inv (₹ Crore)	₹ 4.9
EV	₹ 4820.6 crore
52week H/L ₹	₹ 195 / ₹ 69
Equity capital	₹ 22.0 crore
Face value ₹	₹ 1

Risk & Concerns

Diversion of ethanol blending programme

Though the government seems to be serious about its 10%, 20% ethanol blending programme, historically it has faced multiple issues like lack of capacity, lower feedstock availability, lower crude prices and OMC resistance to adopt 10% ethanol blending. Hence, any change in government policy can derail the EBP and negatively impact sugar millers. However, this looks unlikely as the government has approved a soft loan to 114 projects for increasing distillery capacity.

Significant increase in sugarcane prices

In 2010-12, the UP government disproportionally increased sugarcane prices, resulting in losses for most sugar mills in the state and, in turn, delay in payment to farmers. Any similar arbitrary increase in sugarcane prices could negatively impact cash flows of sugar companies in UP. In turn, this could delay payment to farmers and break the entire value chain. However, we believe state governments in the last five years have been concentrating on timely payments to farmers rather than any irrational increase in sugarcane prices. We believe sugarcane, by far, remains the most remunerative crop for farmers. Hence, timely payment remains their primary demand of farmers.

Sunset clause for sugar MSP

The concept of minimal selling price (MSP) for sugar was introduced in June 2018 mainly to curb the decline in sugar prices due to excess inventory in the system. This was done to control sugar prices in a sugar glut scenario till the industry expands sufficient distillery capacity to utilise excess sugarcane in the system. If the government decides to abolish MSP for sugar before dip in sugar inventory to 7-8 MT, then sugar prices could decline significantly below the cost of production. This could bring back cyclicity of the sector. However, we believe the government is unlikely to abolish this MSP as it would indirectly impact the payment to farmers. We believe more than 200 crore litre per year of distillery capacity would be commissioned in the next two years. This would rationalize inventory levels automatically while sunset clause for MSP till that time remains a highly unlikely proposition.

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Berger Paints India – Colourful growth story

Company Background:

Berger Paints India (BPIL) is the second largest paint company in India with a presence both in decorative and industrial segments. The decorative paint segment contributes ~80% to the topline while balance 20% is contributed by industrial paints. The company has 20 manufacturing plants worldwide (of which 14 are in India) with total capacity of ₹ 6.1 lakh metric tonnes (MT). BPIL has a diverse range of products under premium, budget (mid-range) and economic categories for interior and exterior applications. In terms of market share, Asian Paints is one of the largest decorative paint players in India with an organised market share of 53%. BPIL is the second largest decorative paint company with ~17% market share. BPIL gained market share through heavy expenditure on product development (average R&D expenses increased from 0.15% of sales in FY05-11 to average ~4% of sales in FY12-19), brand building exercise and expansion in dealer network (of ~28000) across India. Further, on the industrial front (contributes ~20% to topline) BPIL is present in protective coatings, automotive & general industrials and powder coatings. Further, it is the market leader in protective coatings, which contributes ~50% to its industrial paints revenue. In FY12-19, BPIL reported a strong financial performance with consolidated revenue, earning CAGR of ~11% and 16% to ₹ 6062 crore, ₹ 498 crore, respectively, supported by notable EBITDA margin expansion of 425 bps. Further, despite heavy capital expenditure (~₹ 2000 crore in FY12-19 for organic and inorganic growth), BPIL's balance sheet remained clean with strong return ratios and increased dividend payout

Investment Rationale

Long term growth drivers remain intact for paint players

We believe FY21E will be a challenging year for the paint industry with 100% revenue losses in April 2020 and a gradual recovery from May 2020 owing to the Covid-19 related shutdown. Our dealer check suggests a strong recovery in paint demand from H2FY21E supported by festive demand. We believe that barring a few hiccups, the long term growth story of decorative paint with shortening repainting cycle, rising aspirations and urbanisation level in India remains intact. We believe the paint industry will grow at 8% CAGR in FY19-22E led by decorative paints with ~9% CAGR (against ~12% CAGR in the last 10 years). We also believe top players would outperform industry growth by 100 bps supported by market share gains from the unorganised pie, which is holding ~30% of total market share.

Berger's focus on innovations drives product mix

Paint consumption by Indian households is undergoing a paradigm shift in terms of preference from limestone coatings to distemper and now premium range of emulsion. Over the years, Berger Paints has shifted its focus from economic products to premium emulsion by launching innovative products. This is evident from higher R&D expenditure (average R&D expenses increased from 0.15% of sales in FY05-11 to ~4% in FY12-19) and rising gross margin profile (up ~250 bps in FY12-19). The key innovative products of the company include: WeatherCoat Anti Dustt (a dust repellent coating for exterior), Kool & Seal (which reflect high energy infrared rays and help maintain room temperature), Easy Clean (An interior emulsion with cross linking polymer technology ensures stubborn stains can be cleaned easily).

Focus on expanding distribution reach

Indian paint distribution is highly underpenetrated with little over 1 lakh outlets compared to FMCG where distribution is done through over 1 million outlets. The difference is largely due to voluminous nature, slim dealer margin and high working capital requirements. Asian Paints covers ~60% of outlets (i.e. 60000) followed by Berger Paints with a dealer network of 28000 across India. With extensive distribution and cutting-edge marketing initiatives, Asian Paints is catering to a wide cross-section of customers with a comprehensive products basket across varied price points. Berger Paints is expanding its distribution network by 10-12% annually with nearly 85% coverage of tinting machines. We believe the gap of distribution between the leader and Berger Paints would shrink faster in the coming future given Berger's low base and its ability to launch strong product portfolios in domestic markets. The expansion in distribution would help continue to drive the growth of the company.

Despite near term challenges margin to remain intact

Berger Paints launched various innovative products (WeatherCoat Anti Dustt & Easy Clean) in the decorative paints category through a sharp increase in its R&D spend. Launch of premium products and favourable input prices drove gross margins up ~250 bps in FY12-19. With crude oil prices likely to remain low, we expect a further expansion in gross margin, thereby leading to an improvement in EBIDTDA margin by ~600 bps in FY19-22E.

Strong fundamentals justifies premium valuation; BUY

Berger Paints is likely to report revenue, earnings CAGR of 11%, 32%, respectively, in FY19-22E supported by elevated margins (backed by benign raw material prices) and lower corporate tax. Further, with the dominance of limited players and intact long term growth drivers, the premium valuation of the company is justified due to its robust fundamentals (strong distribution, debt free status and consistent positive CFO). We initiate coverage on the stock with a BUY rating and a target price of ₹ 595

₹ Crore	FY19	FY20	Fy21	Fy21
Revenues	6,062	6,504	6,754	8,314
EBITDA	882	1,085	1,276	1,721
PAT	497	685	814	1,148
EPS (₹)	5.1	7.1	8.4	11.8

₹ Crore	FY19	FY20	Fy21	Fy21
PE (x)	98.0	71.1	59.9	42.4
EV/EBITDA (x)	55.3	44.9	37.9	28.0
P/B (x)	19.7	18.3	14.9	12.3
ROE (%)	20.1	25.7	24.9	29.0
RoCE (%)	26.2	30.0	30.3	36.4

Particular	Amount
Market Capitalisation	₹ 48749 crore
Debt (FY19)	₹ 499.87 crore
Cash (FY19)	₹ 238.5 crore
EV	₹ 49010.6 crore
52 week H/L	₹ 597/ ₹ 300
Equity capital	₹ 97.1 crore
Face value (₹)	₹ 1.0

Key risks include

Reversal in raw material prices to limit margin expansion

Historically, paint companies have been one of the biggest beneficiaries of benign raw material prices resulting in significant gross margin expansion. For example, in FY12-17, crude oil prices dropped 57%, resulting in ~700 bps expansion in gross margin. We build in ~600 bps expansion in our gross margin estimate from FY19-22E considering the same level of drop in crude oil prices. However, a significant rebound in crude prices from current levels poses a significant risk to our gross margin estimates and, thus, on EBITDA margin of Berger Paints

Weak macro condition to weigh on GDP growth

Typically, paints volume growth is 1.5-2x of GDP growth. With slowing GDP (sharp downward revisions of GDP estimate for FY21E due to nationwide lockdown) there is downside risk to volume growth. Consumers may increasingly choose to postpone their repainting decision in such challenging conditions on fears of loss of income

Delay in revival of construction activity may weigh on decorative volume growth

Paint demand is considered to be highly discretionary in nature with volume offtake largely dependent on repainting demand. While repainting accounts for a major chunk of decorative paints sales at ~70% of industry demand, new construction accounts for ~30% of demand. A delay in revival of construction activity (launches of new projects) due to migration of labour on fear of a pandemic may also lead to longer than expected time for a recovery in repainting demand.

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A guide to legacy planning

We often witness, that people are ignorant or postpone their plans when it comes to legacy planning. Specific age is not the criteria for any uncertainty to occur; it could affect young individuals also. Many believe that the term 'legacy planning', 'estate planning' or 'will drafting' is for rich or retired individuals only, but every individual should be concerned about their assets and wealth.

In a way, each person owns an estate in some form or the other, such as a house, jewelry, vehicle, bank accounts, stocks, mutual funds, etc. Placing it in the right hands after you should be the utmost priority. This edition will help you understand the importance of legacy planning and the urgency to make a will, so read on for a better understanding…

Legacy planning

Legacy planning is a financial strategy that prepares people to bequeath their assets to their loved ones. It is more or less similar to estate planning and encompasses a greater part of planning and activities. Legacy planning involves personal effects such as family stories, accumulated wisdom and life lessons of your family. It is the process used for many purposes such as helping to preserve your assets for future use to transferring your wealth.

Why do you need a legacy plan?

Assume you are a sole earner and your family is completely dependent on you. If any unforeseen event occurs to you, would your family have easy access to your assets or would they have to go through any disputes or legal issues in court? Or if any relative tries to intervene in the financial matters? In situations, when you haven't prepared a will or trust or power of attorney, the transfer proceedings happen according to the Indian succession law.

Therefore, a legacy plan aims to enable your family to receive the complete ownership of the wealth smoothly through a will or trust. Legacy planning reduces the disputes caused in the distribution of wealth.

Benefits of legacy planning:

- Having all your wealth rightly transferred to the intended beneficiaries.
- Assigning guardians for your minor children
- Help reduce disputes and conflicts between family members
- Avoids delay and minimizes court intervention
- The individual and his family members - spouse, children are aware of the assets and liabilities

he/she holds.

Different documents to plan your legacy: -

- **Will drafting -** a will is a legal binding agreement that states who will receive the property after the owner's demise. The will could be written on a plain paper and any individual above the age of 18 could draft a will. The will has to be signed in the presence of two witnesses. A witness cannot be a part of the will as his purpose is to justify or is proof that the testator was of sound mind while drafting the will.

  Post the demise of the testator, as stated in the will the assets will be divided among the beneficiaries. Legally binding is not a compulsion, but if required, it could be executed under the court of law.

  Oral Will applies to soldiers, airmen employed in actual warfare, or a mariner at sea by him declaring his intention before two witnesses present at the same time. Such a Will, however, shall become null at the expiration of one month if the testator is still alive.

  A guardian is named in the will to look after your minor children after your demise. A child would attain a legal majority at the age of 18 unless a guardian was appointed during the minority of the child in which case, a child attains majority at the age of 21.

  If the guardian you choose is not an executor, the guardian would not have automatic access to the money that is left for your children. Instead, they would get funds to raise your children from the executor.

  When a will is not made, the law takes hold of the distribution.

Why do you need to draft a Will?

While we build our estate, we wish for financial protection for our loved ones and proper distribution of the wealth in our absence. The first question that comes to the mind is would there be disputes among the family members over the wealth in your absence? This will cause your family members in distress due to your unexpected death. An answer to that would be a Will that takes care of all these matters. Without a Will, the state is in charge of making decisions and according to the probate court; the choice may not be pleasant to your expectation. This complexity could be avoided only when a Will is drafted.

The best part of a Will is that you can make changes whenever you want until you are alive. A Will becomes a guide for your minor child as well.

What is the purpose of a Will?

It is a written legal statement that specifies the ownership of the wealth

to the spouse and children. The process of making a Will is relatively straightforward and inexpensive. It comes into action when you are incapacitated or physically unable to communicate. It serves various benefits such as disposition of property, i.e. personal property being distributed at the time of death. Acts as a guardian for the minor children, here the name is stated as to a caretaker. Many people appoint caregivers for their pets or domestic livestock and keep some portion of the funds for their care.

In situations of wrongful death, the Will contains a section where you need to name an estate executor. This individual will bring the wrongful death lawsuit on behalf of your heirs and family. If you wish to donate to a charitable trust or gift part of wealth to someone that can also be stated in the Will. Specific funeral wishes such as being buried or cremated and ceremony requests can also be stated in the Will.

In case of debt, the Will states a bank account that will be credited to pay off the debts. If there is money still in the bank after paying off debt the remaining will go to a charitable trust. If there is not enough cash to complete the dues, the Will can command to extract the dues from other funds or sell part of the property.

When should you draft a Will?

Very often, we think that Will is drafted before you near death or if you are having a big house or surplus wealth. You either tend to get lazy or are confident that the wealth will go to the family seamlessly. It is advisable for all the owners to draft a Will irrespective of your size of wealth.

There are different kinds of Will:

Conditional and Contingent Will - This kind of Will is based on the occurrence of a particular event or condition. An example could be, an individual taking a Will stating that the flat in Mumbai to be entitled to the son after the death of the testator only if the son becomes a lawyer. If the son plans to become a chartered accountant, he won't be entitled to the flat after his father's demise.

Joint Will - A joint Will consist of two or more people on a single legal document. The purpose of a joint will is to ensure that the remaining party will not change their mind regarding what happens to the property after the party dies.

Privileged or Oral Will - This Will is valid in law only by a solider employed, engaged in warfare, airman, or sailor at sea. The individual should be above 18 years and needs to dispose of his property by a Will. Here the Will could be in a written or verbal form, no need of attestation or a signature.

Holographic Will - the testator himself handwrites this type of Will. Some

states don't recognize the holographic Wills. States that allow this kind of Will needs proper documentation that can assure its validity. The proof that they require is the testator has written the Will, evidence that the testator was in his sound mind while writing the Will and the testators wish to distribute the property to its beneficiary, needs to be mentioned.

Mutual or Reciprocal Will - Here, two or more people make the Will whereby they bequeath (leave the property to someone) the property to each other. Such Wills may be revoked by any of the testators to make changes in the will. An example, a husband and a wife make a reciprocal Will bequeathing the property to each other.

Sham Will -It is a document where the testator entitles his whole wealth to the party. An example, a father entitles the whole wealth he owns in the name of the son until he becomes an engineer as per the father's wish.

Concurrent Will - This kind of will consists of making two or more wills based on convenience, where one Will would be on movable property and the other would be on immovable property. Such wills are treated as independent and Probate may be granted to one Will, unless there is any indication to the contrary. However, if both the Wills are property-based, probate would be applied on both the Wills.

Duplicate Will - The testator prepares a duplicate will, where the original lies in the bank locker. For the sake of safety, the duplicate will is prepared. The copy as well as original needs to be signed and attested to be valid. If the testator destroys a part of his custody, i.e. the will destroyed under his custody, both the Wills need to be revoked.

➲ **Power of Attorney**

Power of Attorney is a formal arrangement by which one person appoints another person to act on his behalf and in his name. This authority is given as a person incapable to take decisions on financial matters. It is an instrument in writing whereby one person, as principal, appoints another as his agent and confers authority to perform certain specified acts or kinds of act on behalf of the principal.

The parties in a power of attorney are principal or grantor – the person granting the power; and an agent or attorney – the person taking the responsibilities. It is also termed as an important document in estate planning. Thus, the agent gets the rights to execute contracts, deeds, cheques, mortgages, drafts, money orders, bonds, sale of securities, or shares of stocks. They also have the right to sign on documents such as insurance forms, tax returns, property documents and can accept the rent received.

The Power of Attorney does not mean that the agent owns any of principal's property. It allows the agent to make financial decisions when the principal cannot. The principal can withdraw a Power of Attorney whenever he wants as long as the principal is competent. Appointing someone as an agent does not mean that the principal gives up the right to manage his own affairs. Even if you own the financial affairs, in case of paying off your debts, you cannot use wealth as your assets to cover the outstanding debts.

Types of Power of Attorney:

General power of attorney – a general power of attorney authorizes the agent to take all the duties and activities in the business as handled by the principal.

Special power of attorney – a special power of attorney has limited authority to only specified activity that can be carried out by the agent. There could be no power, authority towards sale, gift, or exchange of the property.

Durable power of attorney – a durable power of attorney enables the agent to take action based on the principal in situations when the principal is mentally or physically ill and is unable to make decisions. This document could come to effect immediately and could be revoked by the principal or at the death of the principal.

➲ **Trusts**

A trust is created is where the ownership of the assets is transferred from the owner to the trust. In simple words, it owns the cash, stocks, bonds, life insurance, or real estate of the testator. Trust handles the wealth of the owner while he is alive as well as after his death. The biggest advantage is that any property transferred to the Trust during your lifetime will pass directly to the beneficiaries; it does not need to go through a Probate court. It is a good way to take care of your minor children and helps in assisting your elderly parents.

Types of Trust:

Revocable trust – revocable trust is also termed as a living trust. It enables your assets to pass through without probate and allows you to control the assets during your lifetime. As its flexible, it can be dissolved based on your terms and conditions. A revocable trust becomes irrevocable, on the death of the grantor. You can be the trustee and retain your ownership rights, but make provisions for a successor trustee to take over the ownership in your absence.

Irrevocable trust – like a revocable trust, the irrevocable trust also enables your assets to pass through without probate, but post its execution the grantor will have no ownership on the assets. Therefore, after having the trust, the grantor will lose its control over the assets and the decision making over the assets. Thus, an

irrevocable trust cannot be altered, changed, modified or revoked after its creation.

Testamentary Trust – this kind of trust can be prepared through a will. A testamentary trust is a tool used for creating trust for your minor child. The assets in the testamentary trust could be subject to probate.

Charitable Trust – it is that trust that enables you to avoid and lower the imposition of estate taxes. This trust benefits a particular charity or the public in general.

➲ **Partition**

It is a judicial process that divides co-owned real estate among its owners. In simple words, the court decides how to divide the property amongst the joint tenants, tenants in common or coparceners.

➲ **Mutation**

Transferring ownership of the property in the others name, under the guidance of the municipal record. A mutation is done to keep a revenue record for the government. Here, when the property is muted the right owner of the property will be entitled to pay off the property taxes.

➲ **Gift**

Ilt is a voluntary transfer of assets from one person to the other without compensation or any consideration. In the case of a gift deed, the assets are transferred immediately. The person giving is said to be a donor and the one receiving is said to be donee. The gift could be any movable (cash, investments, vehicle, etc.) or immovable (land) property. If the donor wishes to change his mind and wants to claim ownership in the property, the gift deed cannot be revoked.

➲ **Joint owners**

Joint ownership is that legacy plan where on the death of the owner, the property is transferred to the surviving owner. Here, assets such as property, bank accounts, and investments can be owned jointly. In situations to the joint owner not able to pay off the bills, the family members, i.e. spouse or parents and children will take care of their finances. This is most likely used to reduce or avoid estate complications such as probate fees or estate administration. If something goes wrong, the deceased joint owner cannot own the joint property and does not become a part of the deceased joint owner's personal estate. That means the joint property will not be distributed as per the deceased person's Will.

➲ **Nomination**

During a legacy plan, the most important requirement is to register a nominee for your property, investments, and bank-related matters. A minor can be registered as a nominee but can claim the value after turning 18. The nomination is just a way to claim the value owned by the

deceased member. It is essential to keep a nominee or beneficiary registered or register during financial goals while you are alive, to avoid unnecessary trouble to your family.

➲ **Succession**

Succession means the person next after the predecessor or after the person who dies. That means if the father dies, his wealth will proceed to his wife or/ and children accordingly. If there is a Will made the document will state, the exact proportion to be distributed according to the deceased member's wish. Most individuals assume that succession planning is an option but it is a necessity.

What do you mean by Intestate?

When a will is not created, the distribution of the wealth of the deceased member goes according to the probate. It is also called as intestate and the proceedings happen, based on the set Acts. These Acts are different for few religions and the family will have to go according to those rules.

Indian Succession Act, 1925

This Act is divided into two categories, namely testamentary succession (written Will) and intestate succession (No Will). The law does not apply to a Hindu, Muhammadan, Buddhist, Sikh, or Jain.

Christian Succession Act

The Christians follow the Indian succession act, which is applicable in both testamentary and intestate succession. Indian Christians native of India come under this Act and for property matters. Domicile certificate of the dead individual is important.

Hindu Succession Act

The Indian Succession Acts, law related to testamentary succession is applicable for the Hindus. For the purpose when the Will is not drafted, they go according to the Hindu Succession Act, 1956. One of the most important features of Hindu Law is the Hindu Undivided Family (HUF) while considering the intestate succession. This Act applies to the whole of India except the State of Jammu and Kashmir.

Succession for Muslims

The Indian Succession Act does not apply for both testamentary succession and intestate succession because they follow the Quran. Hedaya or Fatawa Alamgiri is the authority that handles the subject of Wills for Muslims.

The following payment has to be made if the deceased member is a Muslim

- Funeral expenses and deathbed charges
- Wages due for services rendered to the deceased within three months just preceding his/her death by any laborer, artisan or domestic servant
- Expenses of obtaining probate or letters of administration or

succession certificate

- Legacies not exceeding one-third of what remains after all the above payments
- Remaining two-third should go to heirs as on intestacy.
- Other debts of the deceased according to the respective priorities (if any).

Succession for Jains

As per drafted Will, the Jain law goes according to the Indian Succession Act, whereas, in not drafting a Will the law goes according to Hindu Succession.

Succession for Buddhist

Buddhist law states that the owner with Will drafted come under the Indian Succession Act, whereas, it goes for Hindu Succession if the Will is not drafted.

Succession for Sikh

The Sikh follows the Jain and Buddhist law when it comes to Succession.

Probate

A probate is a copy of a Will certified under the seal of a court of competent jurisdiction with a grant of administration of your estate to the executors and is essentially a decree declaring the correctness and legality of your Will. It establishes the right of the beneficiary to the asset being inherited.

The court and executor pay off debts, file tax returns, and notify potential heirs during a probate. The process will last for months and generates legal and administrative expenses that erode your estate. Probate can be controlled and avoided by having a beneficiary in place and also use a trust which distributes the assets among the members. The trust will then ensure your loved ones get their inheritance faster and avoiding unnecessary fees.

Summing Up:

A Legacy planning done in advance keeps you assured that even after your death, you have kept a managed legacy for your loved ones. You are avoiding unnecessary hurdles and expenses that will be incurred, if there is no legacy plan. Even when you plan for the estate, it is always good to review in years as there could be an addition to your investments and family requirements too.

The views expressed in the article are personal views of the author and do not necessarily represent the views of ICICI Securities

Essentials of passing on your legacy

Mr. Rahul Parmar, Head-Investment & Family office, ICICI Securities, has shared his thoughts on legacy planning. He says, the primary goal of legacy planning is to ensure that the estate of an individual passes to the owner's intended beneficiaries, often including efficient succession planning and avoiding or minimizing court proceedings in succession matters. He further adds, stating that Legacy planning doesn't have anything to do with age or how much money or other assets someone has. You should get in the habit of reviewing it on a regular basis, annually if possible is what he suggests. Continue to read to know more…

Mr. Rahul Parmar,
Head-Investment & Family office,
ICICI Securities.

Q What is Legacy Planning and what is its importance? Is it different from writing a will, if so how? Please elaborate.

A Legacy planning may seem morbid and is often neglected exercise. As individuals, while we place lot of importance on asset creation, it is equally important to ensure protection, preservation and succession of wealth. A legacy plan is a comprehensive plan when compared to a will and encompasses making a will. A will may be a relatively simple document that sets forth your wishes regarding the distribution of property; it may also include instructions regarding the care of minor children. A legacy plan goes much further than a will. Not only does it deal with the distribution of assets and legacy wishes, but it may help you and your heirs pay substantially less in taxes, fees, and court costs.

The primary goal of legacy planning is to ensure that the legacy of an individual passes to the owner's intended beneficiaries, often including efficient succession planning and avoiding or minimizing court proceedings in succession matters. It helps you ensure Planning of harmonious succession and disposition of your legacy, protection of your legacy with your family's needs in mind, effective management of your legacy during and beyond your lifetime and preparing your legacy for unforeseen eventualities.

Q What is the ideal age to plan your legacy?

A Legacy planning doesn't have anything to do with age or how much

money or other assets someone has. Tomorrow isn't assured for anyone, regardless of their age. Therefore, it's important to conduct basic legacy planning no matter how old you are. One of the biggest estate-planning delays comes from a common misconception: that legacy planning is just for the wealthy. It's not.

One of the biggest risks of young people not doing legacy planning is that their assets might have to go through probate after they die. In this scenario, assets are distributed by the state rather than according to the wishes of the deceased, since the deceased person's wishes cannot be known. The probate process also exposes the details of investments and assets to the public.

Q How often must you review the legacy plan?

A You should get in the habit of reviewing it on a regular basis, annually if possible. When you look over your legacy plan, you should consider any life changes you've experienced recently, like a marriage or divorce, the birth of a child, or even moving to a new state. Any time you experience a significant change in your life, there's the likelihood that your legacy plan will be affected. So, when change happens, check with your legacy planning attorney and take the recommended action.

Q Most of us believe that nomination and joint ownership is a way of legacy planning? Is it true?

A Both these means are usually ineffective and legally disputable. It is important to know that nomination and joint ownership are both superseded by succession laws. Most family disputes have arisen owning to nomination / joint ownership being different individuals compared with legal heirs.

Q Which are some tools/ documents while doing legacy planning?

A Below are stated some of the tools/ documents in legacy planning

a.**Will:** The will is standard document in most legacy plans. It elaborates how you want your assets to be distributed after your lifetime. It's also the best place to name guardians for your children. When the deceased has died testate i.e. leaving behind a Will, then the legal heirs/ executor must apply for, and obtain, a Probate from the High Court (there is separate law for Muslims). In case the deceased has died intestate, i.e. without a Will, then the relevant personal laws by which the deceased was governed at the time of his death will apply; and the legal heirs will have to apply for, and obtain, Letter of Administration for the management and distribution of estate of the deceased (and at times,

Succession Certificate for any specific asset).

b.**Trust:** Establishing a trust is a great way to mitigate some or all of the estate taxes that would otherwise be owed upon your death. A trust allows a person to transfer legal title of his or her property to another person while they're still alive, potentially saving thousands in taxes. A trust also gives the trustee (the person acting on behalf of the decedent) the authority to distribute assets immediately to the beneficiaries based on the terms of the trust. No court is involved, so there are no probate fees and no public record of the value of the estate.

c.**Durable power of attorney:** This document appoints a trusted person on your behalf for financial and legal matters.

d.**Healthcare proxy:** This document appoints someone you trust to make medical decisions for you when you no longer can.

Q. Why is it important to appoint an expert to draft an legacy plan?

A. Legacy planning is more than just drawing up some documents. A well planned and drafted plan can help you navigate through complex situations. Detailing the will and trust details can save a lot of time and effort, incase of adverse incidents. An expert will collect all information on your assets and aid amicable distribution within the family or joint families incase of family businesses. Also, in case of change needed to your legacy plan they will highlight and do the same. At the time of execution too, they will handhold your loved ones and ensure distribution happens in the manner mentioned by you.

When in doubt, ask us.

Q. I have ICICI demat account for long time now, but bit confused now rest to capital gains. I have read lot of Tax reckoner but all give different versions. I was a Seafarer for long time hence maintained NRI account, I had invested some amount into HDFC hybrid Debt fund in 2010 and redeemed the amount in May 2020, after reading Tax reckoner from various mutual fund companies it is bit confusing, the fund was kept for over three years hence it is LTCG, now for NRI's Listed and unlisted comes into picture whether the proceeds from this fund are eligible for Indexation or not, at hands of NRI. From my understanding This fund is Debit fund of HDFC, now although not listed the units are purchased on NSE, I suppose. so I was taking it to be Debit, and listed fund so indexation has to be considered.

- Moraes James

A. For NRIs, there's a differentiation in long-term capital gain taxation in non-equity schemes between listed and unlisted schemes. Among debt mutual funds, mostly closed-ended schemes / fixed maturity plans (FMPs) get listed on the exchange and the long-term capital gain taxation on these listed schemes will be 20% with indexation. For other debt mutual funds, which are unlisted, mostly open-ended schemes, the long-term capital gain taxation will be 10% without indexation. The scheme mentioned by you, HDFC Hybrid Debt Fund, is an open-ended fund and hence likely to be unlisted, in which case the applicable long term capital gain taxation rate would be 10% without indexation. The entire tax amount will be deducted at source itself for NRIs. You may check your mutual fund statement to know the tax deduction made at source to understand if the scheme is listed or unlisted.

Q. I have Life stage pension policy (started in 2009). Now, it is going to vest in March 2021. Now, I came to know that 1/3amount is non-taxable and remaining taxable according to my tax slab rate. My yearly premium is 1,00,000INR. My question is

1. My agent is telling that to divert entire amount to other policy and in that case it will not be taxed, is it true?

2. My age is 49Years and I am in 30 percent tax slab rate. Is it beneficial if I extend the policy for next few years?

3. If I choose for annuity with 2/3rd amount, annuity will be taxed at 30percent, is it correct?

4. Any tax relief, if in case I purchase some other pension plan of same company/ otherwise company with the 2/3rd amount. Kindly suggest me.

- Sarangapani.K

A. Being a pension policy, on maturity, only a maximum of 1/3rd of the maturity amount can be withdrawn as lumpsum and the same is exempt from tax. The remaining 2/3rd amount will be converted into annuity and will be added to your income in the year of receipt and taxed as per your highest income slab. Generally, post retirement, one's taxable income comes down and accordingly the income may not be taxed at the highest possible slab. Hence, opting for annuity post retirement is beneficial. This annuity income if invested further under any of the investment avenues offering tax benefit as per the Income Tax Act during that time would offer tax exemption on that income.

If you do not require the annuity now, you may postpone your vesting date (i.e. date from when you start receiving annuity); however, you may not be able to continue paying premium, as the premium paying term would have been over. However, the accumulated funds, would remain invested in the fund(s) chosen by you. You would have to intimate the postponement of vesting date to your insurance company atleast one month before the original vesting date.

However, if you surrender the policy before its maturity, then the entire surrender proceeds shall be added to your income and taxed as per the income slab, if you have claimed any deduction on the premiums paid for the policy. However, if deduction was not claimed for the premiums paid, then the accumulated gains (Surrender Value less Total Premiums Paid) will be added to your income and taxed as per the tax slab. Here, surrender value would refer the entire fund value, after deducting surrender charges, if any. This would be applicable, irrespective of the end use of the amount received, including buying a new policy.

Q. I am a retired individual, aged 62 years, who has maximum allocation in fixed income segment. Should I reallocate my amounts in equity segment or be on hold? Please state your views.

- Jatin Kumar

A. Generally, it's better to have atleast 20-30% of your investments

into equity post retirement, as it can help in appreciating your investments in the longer run and such portion can be utilized in the later stages of your retired llife.

If you have locked your fixed income investments into higher interest rates, you may continue to hold on to them for now, as these would continue to provide higher interest. If you have any of your fixed income investments maturing now or you have invested into instruments at lower interest rates, you can consider moving some of them into large cap equity mutual funds in a staggered manner.

Please note to move only that portion of money which you do not require regular income from, for your current needs. The investments into equity funds are meant for long term capital appreciation and not for generating immediate regular income.

Q. I am 35 years old and salaried. I have few funds available with me and I wish to utilize that fund in purchasing a car. In the current situation, is it wise enough to purchase or should I wait until everything comes back to normal? Please also advise me, as I was thinking of taking a car loan and saving that funds for any emergency. What do you suggest?

- Melinda Rodrigues

A. Given that interest rates are at a low point, you can consider buying the car through a loan, provided you have a regular stream of income to pay the EMIs. If you do not have any funds specifically earmarked for emergency, you can park a portion of this amount towards the same and invest into arbitrage funds, which can give you a decent return and would be tax efficient than debt mutual funds. The remaining amount can be invested for your long term goals into equity mutual funds in a staggered manner, if you do not require the funds for now.

Q. I have purchased bond security and used it as collateral for loan. Now that I want to transfer the bond as a gift to a relative. What happens to my loan collateral?

- Joey Gomes

A. When you apply for a loan by using your existing asset(s) as collateral, a lien is created against these asset(s) which will remain till the time all outstanding liabilities & charges have been paid off. A lien gives lender the right to liquidate the security if the borrower does not discharge his obligations (timely payment, adhering to margin call etc.). In this case, a lien is created on your bond security. The ownership of the

security remains in your name and you are entitled to receive any income accrued from the security i.e. interest payouts. But you cannot transact or transfer the asset before releasing the lien.

The lien can be removed once you pay off the outstanding loan balance by informing the lender. Partial holdings shall be freed in case of part payments. Alternatively, you can request the lender to swap the collateral wherein you provide another asset to the lender to create a lien on, which allows you to transfer your existing bond security. However, this may mean that the amount of loan sanctioned to you will change depending on the nature of security.

Q. Subject: Tax liabilities on insurance premiums

We were proposing to take money back insurance policies for some key managers - Employer-Employee Insurance Scheme. However, our Tax adviser informs us that if we (the Company) pay any premiums on such a policy where the insured is an employee; then, the concerned employee will have to pay tax on the premium (i.e. the premium amount will have to be added to that employee's taxable income as a perquisite. Most of our employees are already in the 20%+ tax bracket and are objecting on this ground. Kindly clarify and if such premium is not tax-liable, kindly cite any references that may support such a view.

- Sanjay Mukerji

A. The life insurance premium paid by an employer to insure specific employees individually, will be considered as perquisite in the hands of such employees and would be taxed.

Do you also have similar queries to ask our experts? Write to us at:moneymanager@icicisecurities.com.

Investing in Sovereign Gold Bonds (SGBs)

Sovereign Gold Bonds

Reserve Bank of India (RBI) through its notification on April 13, 2020, announced the launch of Sovereign Gold Bonds (SGBs) 2020-21. These bonds will be issued in six tranches from April 2020 to September 2020. The discount of Rs. 50/gram will be available for investors applying online and making payment using digital modes. Investors will get additional interest at the rate of 2.50% per annum on the nominal amount. They will continue to have full exposure to gold prices to the extent of amount deposited.

SGBs offer a good alternative to take exposure to gold as it offers additional interest. There are no annual recurring expenses and capital gains arising on redemption of the sovereign gold bond scheme would be exempt from tax. If these bonds are sold in the secondary market before maturity, capital gains arising on such transaction will taxed @ of 20% with indexation if sold on or after three years and would be subject to marginal tax rate if sold before three years.

Benefits of SGBs:

- Additional interest of 2.5%
- Tax efficient
- Cost effective and safe

Issue Details

Issue Details	
Offer Period	Subscription **opens on July 6,2020 and closes on July 10,2020**
Issue Price	Nominal value of the Bonds shall be fixed in Indian Rupees on the basis of simple average of closing price of gold of 999 purity published by the India Bullion and Jewellers Association Limited for the last three business days of the week preceding the subscription period. The issue price of the Gold Bonds will be Rs. 50 per gram less than the nominal value to those investors applying online and the payment against the application is paid through digital mode. The Nominal value and issue price of the current tranche would be notified by RBI on Friday evening.
Maturity	8 years with exit option from 5th year to be exercised on the interest payment dates. These bonds shall be traded on exchanges.
Subscription Limit	Minimum 1 grams of gold, Maximum- 4000 grams (4kgs) of gold per person in a fiscal year (April- March). Available in units of one gram of gold & multiples thereof.
Taxation	Capital gain tax arising on redemption of SGBs to an individual has been exempted. If sold in secondary market before maturity, capital gains will taxed of 20% with indexation if sold on or after 3 years and would be subject to marginal tax rate if sold before 3 year.
Interest	2.50% fixed per annum payable semi-annually

Source: RBI

Six tranches from April 2020 to September 2020

Sr. No	Tranche	Date of Subscription	Date of Issuance
1	2020-21 Series I	April 20 to April 24, 2020	28-Apr-20
2	2020-21 Series II	May 11 to May 15 , 2020	19-May-20
3	2020-21 Series III	June 08 to June 12, 2020	16-Jun-20
4	2020-21 Series IV	July 06 to July 10, 2020	14-Jul-20
5	2020-21 Series V	August 03 to August 07, 2020	11-Aug-20
6	2020-21 Series VI	August 31 to September 04, 2020	8-Sep-20

Gold is the best way to hold US dollar asset in the portfolio. Future US dollar requirement also necessitates gold requirement for an Indian investor's portfolio. US dollar may be required for financial goals like children's study in a global management or other institute, foreign vacation, buying any foreign asset in future, etc. Gold is the best way to own a dollar asset as all other asset classes like overseas funds, gold mining companies, etc, have higher underlying volatility. Sovereign gold offers one of the best way to hold gold if interment liquidity is not in consideration.

Gold is traditionally seen as a safe investment in times of political or economic turbulence. The yellow metal usually does well during geopolitical turmoil and the current crisis over Korea's nuclear capability has boosted the prospects of the yellow metal. Crises such as wars, which have a negative impact on prices of most asset classes, have a positive impact on gold prices since the demand for gold goes up as a safe haven for parking funds.

These are golden days for gold. In 2019, its price surged almost 20% in dollar terms. If 2019 ended well for the metal, then 2020 has started even better. This week, the price of gold hit its highest level in seven years, climbing to around US$1700 ounce.

An unprecedented lockdown of many cities around the world to prevent the spread of Covid-19 and its all-encompassing impact on the global economy has sent capital markets into a tailspin. Consequently, central bankers across the world have resorted to unprecedented monetary policies from cutting interest rates to near zero level to massive quantitative easing. The uncertain impact of the Covid-19 on global economy resulted into a sharp fall in equity markets, commodity markets along with depreciating currencies has led investors to scout for relatively stable asset class. Accordingly, in the currently never before seen uncertainty and risk aversion environment, gold seems to be an appropriately placed asset class for global investors.

Relatively safe haven asset like US treasuries have already rallied significantly with negative yielding debt increasing. Simultaneously, with very low bond yields elsewhere, expected returns from bond markets have reduced significantly. With major global central bankers already lowering rates significantly, further scope for a reduction in rates is either not there or very limited. This limits expected bond returns, going forward. Accordingly, gold may become an attractive and more effective diversification compared to bonds, resulting in a higher portfolio allocation.

For Indian investors, gold has been an effective asset class from a diversification perspective as apart from global price movement, rupee depreciation has helped it deliver better returns. Holding some portion of the portfolio in gold provides effective diversification.

Performance of Gold globally so far:

Gold is traditionally seen as a safe investment in times of political or economic turbulence. The yellow metal usually does well during geopolitical turmoil and the current crisis over Korea's nuclear capability has boosted the prospects of the yellow metal. Crises such as wars, which have a negative impact on prices of most asset classes, have a positive impact on gold prices since the demand for gold goes up as a safe haven for parking funds.

The current Covid-19 virus outbreak is likely to boost safe haven demand for gold as seen earlier during major global geopolitical or other events. However, gold has not just seen higher buying interest during periods like current market turmoil. It has been a long term performing asset class, especially in the Indian context. Annualised long term return since 1970s in US$ terms is ~3.3%. However, during similar periods, the return in Indian rupee terms is around 8.8%. The return difference can be explained through the rupee depreciation against the US dollar, which is at around 4.0% during the same period in the last 40-50 years. Even the inflation differential between the US and India is around similar levels of around 4.0%.

Exhibit 1: In US dollar terms, long term performance marked by periodic performance, long consolidation

Source: Bloomberg

Accentuated economic growth concerns due to Covid-19 makes preference for gold stronger

Economic growth is likely to be significantly impacted by the current lockdown due to rising Covid-19 threat on human life. To counter dwindling growth, global central bankers have cut interest rates aggressively. Gold and interest rates traditionally have a negative correlation. It is not guaranteed but usually gold prices go up when interest rates go down and down when rates go up. The reasoning behind this is that higher interest rates mean higher opportunity costs of holding non-interest bearing assets, such as precious metals, making them relatively less attractive. Basically, gold pays neither dividends nor interest. Thus, it is relatively expensive to hold in the portfolio when real interest rates are high and relatively cheap when real interest rates are low. In other words, the higher interest rates are, higher are carrying costs.

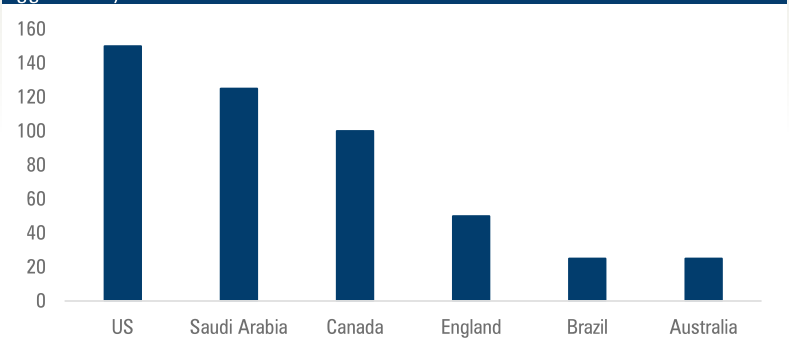
However, the relationship is not linear. Gold prices tend to increase significantly only during periods of negative real interest rates. This is because negative interest rates, i.e. the situation when the inflation rate is higher than the nominal interest rate (the rate which is actually paid), means that creditors are losing money. Therefore, they are more prone to buy gold, even though it does not bear interest or dividends. In other words, gold then reclaims its traditional role as money and a store of wealth, which will at least keep pace with inflation to preserve the purchasing power of the capital while bonds guarantee a real loss at negative real interest rates.

Interest rates are different for every nation, with varying impact upon their economies and the price of gold in those countries. Rates in the US have a greater influence than most and because gold is predominantly traded in US dollars, its interest rates have a significant impact on gold price.

Currently, where around 25% of developed market sovereign debt is trading with negative nominal rates and, once adjusted for inflation, a significantly higher amount trades with negative real rates, the opportunity cost of gold almost goes away, even providing what can be seen as a positive "cost of carry" relative to sovereign bonds.

Gold prices have responded to the surge in negative real-yielding debt, as evidenced by the strong positive correlation between the amount of debt and price of gold over the past four years. To some degree, this illustrates the erosion of confidence in fiat currencies related to monetary intervention. Exhibit 3: Since start of CY20, almost all major central bankers have cut rates aggressively.

Exhibit 3: Since start of CY20, almost all major central bankers have cut rates aggressively

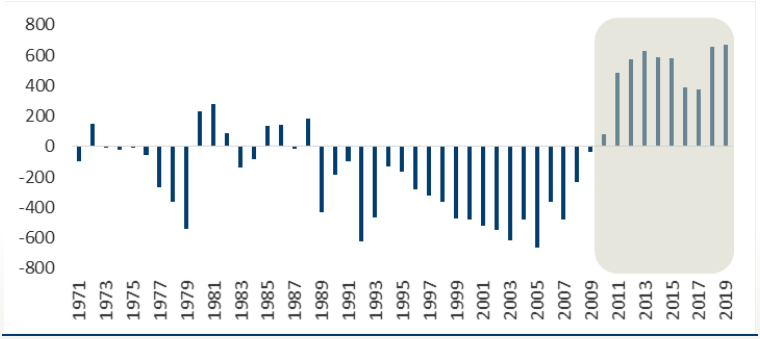


Source: Bloomberg

Central bank buying gold to diversify their holdings

Global central banks are looking to diversify their holdings by adding gold to their corpus. Predominantly, US treasuries are believed to be a larger proportion of their holdings. Central banks accumulated over 668 tonnes in gold purchases in CY19, more than 2018's record numbers of 652 tonnes. Heightened geopolitical and economic uncertainty throughout the year increasingly drove central banks to diversify their reserves and re-focus their attention on the principal objective of investing in safe and liquid assets. Central banks have bought significant amount of gold in the last two years. Central bank net purchases crossed 650 tonnes in 2018, 74% higher than 2017. In 2019, gold buying by central banks continued and reached another all-time levels of 668 tonnes. The last two years have seen the highest level of annual net purchases since the suspension of dollar convertibility into gold in 1971. These institutions now hold nearly 35,000 tonnes of gold.

Exhibit 4: Global central banks have increasingly bought gold in last few years



Source: World Gold Council

In the present situation, one gets the opportunity to invest in gold through Sovereign Gold Bonds and Gold ETFs. Below mentioned extracts of these investments will help you understand better.

Gold ETFs

Holdings of gold by global exchange-traded funds are at a record high as investors sought safety from recent weakness in equities and worries about the Covid-19 virus hurting the global economy. Global goldbacked ETFs (gold ETFs) witnessed net inflows of US$23 billion or 298 tonnes in January-March 2020 quarter taking holdings to a new all-time high of 3,185 tonnes. Assets under management (AUM) rose to a record high at US$157 billion at the end of February 2020.

Gold ETFs witnessed a sharp rise triggered by flight to safety amid the Covid-19 pandemic that hit the world economy hard. Gold ETF/gold fund are the best way to own gold in liquid form. Nippon India ETF Gold BEES and ICICI Pru Gold ETF are better placed in terms of highest AUMs and lower denomination in terms of NAV.

Exhibit 5: Gold backed ETF holdings reach new highs

Source: World Gold Council

1. Nippon India ETF GOLD BEES

Objective:

The Scheme employs an investment approach designed to track the performance of physical gold. It seeks to achieve this goal by investing in physical gold and gold related securities.

NAV as on May 29, 2020: ₹ 41.5293

Performance of Nippon India ETF Gold BeES as on 29/05/2020

Particulars	1 Year CAGR %	3 Year CAGR %	5 Year CAGR %	Since Inceptio
Nippon India ETF Gold BeES	46.03	16.33	10.57	11.83
B: Domestic Prices of Gold	47.45	17.53	11.59	12.92
AB: N.A.	N.A.	N.A.	N.A.	N.A.
Value of ₹10000 Invested				
Nippon India ETF Gold BeES	14,588	15,735	16,536	43,911
B: Domestic Prices of Gold	14,729	16,229	17,310	49,927
AB: N.A.	N.A.	N.A.	N.A.	N.A.
Inception Date: Mar 8, 2007				
B - Benchmark | AB - Additional Benchmark				
Fund Manager: Mehul Dama (Since Nov 6, 2018)				

Source: Nippon India Mutual Fund

PERFORMANCE OF OTHER OPEN ENDED SCHEMES MANAGED BY FUND MANAGER: Mehul Dama

Scheme Name/s	CAGR %					
	1 Year Return		3 Years Return		5 Years Return	
	Scheme	Benchmark	Scheme	Benchmark	Scheme	Benchmark
Top 3						
Nippon India Gold Savings Fund#	44.21	47.45	15.56	17.53	9.94	11.59
Nippon India ETF Shariah BeES*	-3.08	-2.96	3.43	3.56	7.03	7.06
Nippon India ETF Consumption*	-6.91	-6.03	2.51	3.72	5.27	6.45
Bottom 3						
Nippon India ETF Infra BeES*	-19.72	-18.62	0.04	1.23	2.62	3.93
Nippon India ETF Nifty Midcap 150	-21.11	-20.72	N.A.	N.A.	N.A.	N.A.
Nippon India ETF PSU Bank BeES*	-65.41	-65.31	-31.83	-31.5	-20.37	-19.99

Source: Nippon India Mutual Fund

You can view the performance and know more about this ETF on the following link:
https://www.nipponindiamf.com/FundsAndPerformance/Pages/NipponIndia-ETF-Gold-BeES.aspx

2. ICICI Pru Gold ETF

Objective:

Gold funds provide returns closely in-line with the return provided by the price of gold.

Fund Manager: Manish Banthia (since 17th September 2012

NAV movement:

Trailing Returns (%)

	YTD	1-Day	1-W	1-M	3-M	6-M	1-Y	3-Y	5-Y	7-Y	10-Y
Fund	21.26	0.67	1.8	0.97	17.05	25.18	38.91	16.83	10.79	7.31	--
Domestic Price of Gold	21.5	-0.05	0.1	0.32	18.06	25.69	44.3	18.1	11.76	7.81	--
Commodities: Gold	22.02	0.74	1.76	1.07	17.21	25.58	39.71	17.15	10.91	7.25	--
Rank within category	21	17	16	17	12	19	16	19	18	11	--
Number of funds in category	21	21	21	21	21	21	21	21	21	21	6

As on 22-Jun-2020

Risk Measure (%)

	Mean	Std Dev	Sharpe	Sortino	Beta	Alpha
Fund	15.43	11.98	0.84	1.43	0.99	-1.23
Domestic Price of Gold	16.78	12.09	0.94	1.62	--	--
Commodities: Gold	15.83	12.08	0.87	1.57	0.96	-0.49
Rank within category	16	9	16	21	15	21
Number of funds in category	21	21	21	21	21	21

The Risk Measures have been calculated using calendar month returns for the last three years.
As on 31-May-2020
Source: Value Research

You can view the performance and know more about this ETF on the following link: https://www.valueresearchonline.com/funds/11347/icici-prudential-gold-exchange-traded-fund#discrete-period-graph

This Month on iCommunity

Your voice matters! Voice your opinions on: CoVid19 panic - Exit or a buying opportunity?

Join the discussion : https://community.icicidirect.com/

Quiz of the week: In which year was the Sensex - the country's first equity index, launched?

Fun, addictive, challenging, online polls. Join thousands of players in a brain teaser that combines your financial knowledge for one's financial well-being. What's more? Participate in the Quiz: Learn, grow and have fun!

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Q & A Forum – Trending question of the month

Find support for your Financial journey online. Quick reply, in-depth expertise, and everything in between: The ICICIdirect community has it all. The ICICIdirect community will unlock your curiosity and unleash the expert in you. From market updates to Research advice, there are lots of ways to take your skills to the next level. Few questions asked by users on the iCommunity:

a) Based on the charts, my understanding is that nifty migh re-test 9850 in near future. What are your views?

b) What is withheld amount in eatm facility?

c) I have added few stocks in the cloud, how many days it is available in cloud for selling?

What is iCommunity? iCommunity is ICICIdirect's interactive platform where one can answer and get answered as well. With extensive range of forums, events & discussions iCommunity serves as an opportunity to learn more about financial world.

Our indicative large-cap equity model portfolio is delivering returns (inclusive of dividends) of 112.3% till date (as on May 31st, 2020) since its inception (June 21st, 2011) vis-à-vis the benchmark index (S&P BSE Sensex) return of 81.6% during the same period, a performance of 30.7. This validates our thesis of selecting companies with sound business fundamentals that forms the core theme of our portfolio. We have revised stocks in our midcap portfolio. It continues to perform, delivering 183.6% (inclusive of dividends) till date (as on May 31st, 2020) vis-à-vis the benchmark index (CNX Midcap) return of 69.8%, a performance of 113.8. Our consistent performance demonstrates our superior stock picking ability as markets aligned to our view of favourable risk reward, good franchisee vs. reward-at-any-risk businesses.

We have always suggested the SIP mode of investment and still find a lot of merit in it as the preferred mode of deployment given the market conditions and volatility associated since the inception of the portfolio. We highlight that the SIP return of our portfolio has consistently outperformed the indices.

Following the same pace and opportunities in the market, our latest portfolio (large caps) remains overweight on BFSI sector – HDFC Bank (10%), HDFC Limited (9%), Axis Bank (6%) Bajaj Finance (6%) and SBI (6%). We have made fresh changes to our large cap and mid cap portfolio. Petronet LNG is the latest addition to the large-cap portfolio, given 5% weightage. Please note Gail Ltd has been removed from the large-cap and diversified model portfolio. In mid-cap portfolio, Manappuram Finance, KSB Pumps, Radico Khaitan, Team Lease Services, Balkrishna Industries are the latest addition, all given 6% weightage. Please note Indian Bank, Kalpataru Power Transmission, Tata Chemicals, First Source Solutions, Bharat Forge have been removed from the mid-cap and diversified model portfolio.

Our consistent outperformance is reflective of our stringent process of identifying quality businesses with good franchisee offering superior risk-reward opportunities. Some key performers of our portfolio are Bajaj Finance, HDFC Bank and TCS while Natco Pharma and Bajaj Finserv have delivered good returns in the midcap portfolio.

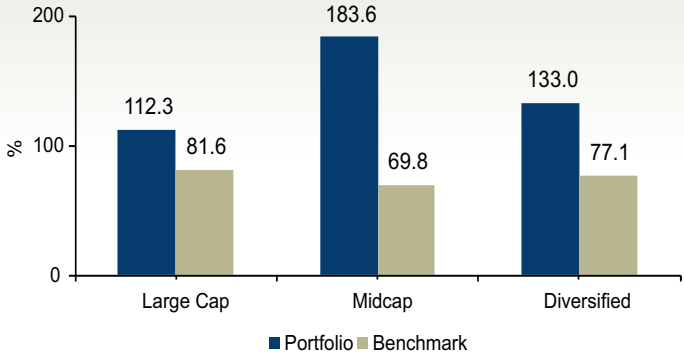
Our large cap portfolio remains unchanged while we made fresh changes to our midcap portfolio. On the midcap side, we introduce Reliance Nippon Life Asset Management, which is the fifth largest mutual fund with total MF AUM of Rs.202500 crores. In addition, the company has developed a strong distribution network and possesses a high brand recognition in the asset management space. The second addition is Mahanagar Gas, which is one of India's largest players in city gas distribution (CGD) business. The company is poised to capture the benefits of the large and growing market amidst a low penetration.

Timely resolution of key NPA accounts through swift insolvency proceedings is likely to help alleviate the current pain in the banking sector. Despite key challenges, we continue to remain positive on the BFSI sector with a high allocation.

Name of the company	Model Portfolio		
	Largecap (%)	Midcap (%)	Diversified (%)
Largecap Stocks			
Mahindra & Mahindra (M&M)	4.0		2.8
HDFC Bank	10.0		7.0
Axis Bank	6.0		4.2
HDFC Limited	9.0		6.3
Bajaj Finance	6.0		4.2
State Bank of India	8.0		5.6
Larsen & Toubro	6.0		4.2
UltraTech Cement	4.0		2.8
Dabur India	5.0		3.5
Marico	4.0		2.8
ITC	6.0		4.2
Nestle India	4.0		2.8
Tata Consultancy Services	6.0		4.2
Tech Mahindra Limited	6.0		4.2
Hindustan Zinc	6.0		4.2
Petronet LNG	5.0		3.5
Divis Laboratories	5.0		3.5
Total	100.0		
Largecap share in diversified			70.0

Name of the company	Model Portfolio		
	Largecap (%)	Midcap (%)	Diversified (%)
Midcap Stocks			
Balkrishna Industries		6.0	1.8
Bajaj Finserve		8.0	2.4
Manappuram Finance		6.0	1.8
AIA Engineering		6.0	1.8
KSB Pumps		6.0	1.8
Ramco Cement		6.0	1.8
Kansai Nerolac		6.0	1.8
Pidilite Industries		6.0	1.8
Radico Khaitan		6.0	1.8
Bata India		6.0	1.8
Brigade Enterprises		6.0	1.8
Reliance Nippon Life Asset Management		6.0	1.8
Team Lease Services		6.0	1.8
Container Corporation of India		6.0	1.8
Syngene International		8.0	2.4
Mahanagar Gas Ltd		6.0	1.8
Total		100.0	
Midcap share in diversified			**30**
TOTAL			**100.0**

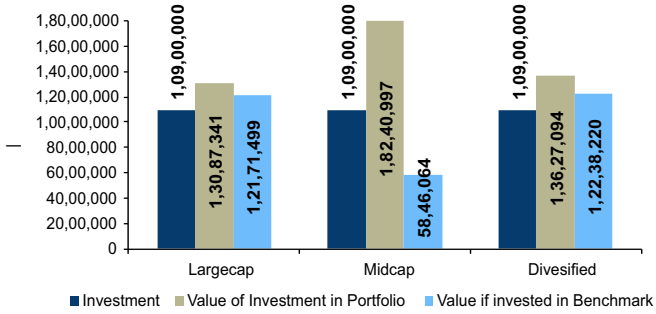
Performance so far since inception*



*Returns (in %) as on May 31st, 2020

Large-cap Portfolio Benchmark: BSE Sensex; Mid-cap Portfolio Benchmark: CNX Midcap; Diversified Portfolio Benchmark: Combination of BSE Sensex and CNX Midcap

Value of Rs 1,00,000 invested via SIP at end of every month



Start date of SIP: June 30, 2011; *Value as on May 31st, 2020

1. A Privileged or Oral Will is valid to everyone. True or False?
2. In parties to power of attorney _____ is the person granting the power; and _____ is the person taking the responsibilities.
3. A _____ Will consist of two or more people on a single legal document.
4. The person next after the predecessor or after the person who dies is said to be?
5. Indian succession act is divided into two categories, namely _____ succession and _____ succession.
6. When a Will is not made, it is termed as?
7. A _____ is a copy of a Will certified under the seal of a court of jurisdiction

Note: You may send in your answers at: moneymanager@icicisecurities.com. The answers will be published in our next edition. The names of the earliest all correct entries will be published too. So jog your grey cells and be quick to send in your entries.

Correct answers for the May 2020 Quiz is:

1. Which sectors has remained resilient in the recent market turmoil caused by panic on the spread of Covid-19? - **Pharma**
2. Insurance companies have tie-ups with various networks of hospitals, through **Third Party Administrator (TPA)** they directly settle the bills with the hospital
3. An additional insurance benefit that enhances and expands the coverage as per your requirement and at an effective cost? - **Riders**
4. One needs to complete **24** hours of hospitalization, to claim the policy.
5. It is the purest and the most affordable form of insurance? –**Term Insurance**
6. In health insurance, no claim bonus proposes two benefits that is increased **sum assured** and low **premiums**.

Congratulations to our winner for providing correct answers!

Raja Mahendra Pratap

Equity Markets

Domestic Equity Indices			
	29-May-20	30-Apr-19	Change (%)
CNX Nifty	9580.0	9859.9	-2.8%
CNX Midcap	13273.0	13502.0	-1.7%
S&P BSE Sensex	32424.1	33717.6	-3.8%
S&P BSE 100	9697.9	9951.3	-2.5%
S&P BSE 200	4040.4	4140.4	-2.4%
S&P BSE 500	12414.9	12721.0	-2.4%

Global Equity Indices			
	31-May-20	30-Apr-20	Change(%)
Dow Jones	25,383.1	24,345.7	4.3%
S&P 500	3,044.3	2,912.4	4.5%
Nasdaq	9,489.9	8,889.6	6.8%
FTSE	6,076.6	5,901.2	3.0%
DAX	11,586.9	10,861.6	6.7%
CAC 40	4,695.4	4,572.2	2.7%
Nikkei	21,877.9	20,193.7	8.3%
Hang Seng	22,961.5	24,643.6	-6.8%
Shanghai Composite	2,852.4	2,860.1	-0.3%
Taiwan Weighted	10,942.2	10,992.1	-0.5%
Straits Times	2,510.8	2,624.2	-4.3%

Sectoral Indices			
	29-May-20	30-Apr-19	Change (%)
S&P BSE Auto	18,161.2	18,485.0	-1.8%
S&P BSE Bankex	35,289.4	36,671.5	-3.8%
S&P BSE FMCG	17,462.1	16,943.9	3.1%
S&P BSE Healthcare	13,957.0	13,429.1	3.9%
S&P BSE Metals	9,494.1	10,428.2	-9.0%
S&P BSE Oil & Gas	13,923.7	14,744.8	-5.6%
S&P BSE Power	1,899.3	1,926.3	-1.4%
S&P BSE Realty	2,526.2	2,280.5	10.8%
S&P BSE Teck	7,911.8	7,717.6	2.5%

Volatility Index (VIX)			
		29-May-20	30-Apr-19
VIX		30.22	33.99

Debt Markets

Government Securities Yield (in %)	May-20	Apr-19	Change (bps)
10 year	5.76	6.11	-35
5 year	5.43	5.73	-30
3 year	4.58	4.73	-15
1 year	3.82	4.08	-26

Note : Data not available on Bloomberg for 1 year G-sec yield as of October 31

Corporate Bond Yields (in %)	May-20	Apr-19	Change (bps)
AAA 10 year	7.56	7.63	-7
AAA 5 year	7.00	7.22	-22
AAA 3 year	6.81	6.75	6
AAA 1 year	6.20	6.20	0
AA 10 year	7.92	8.13	-21
AA 5 year	7.12	7.43	-31
AA 3 year	6.82	7.12	-30
AA 1 year	6.43	6.71	-28

Commercial Paper (in %)	May-20	Apr-19	Change (bps)
12 Months			0
6 Months			0
3 Months			0
1 Month			0

Note : Data not available on Bloomberg for 3,6 and 12 month CP post 1/15/19 and for 1 month CP post 3/27/18

T-Bills Yields (in %)	May-20	Apr-19	Change (bps)
91D TB			0
182D TB			0
364D TB			0

Note : Data not available on Bloomberg for 3,6 and 12 month Tbill post 3/28/18

10-year benchmark yields (%) across countries			
Countries	**31-May-20**	**30-Apr-20**	**Change in bps**
US	0.653	0.639	1
UK	0.184	0.231	(5)
Japan	0.005	(0.030)	4
Spain	0.559	0.718	(16)
Germany	(0.447)	(0.586)	14
France	(0.079)	(0.113)	3
Italy	1.476	1.763	(29)
Brazil	NA	NA	NA
China	2.693	2.516	18
India	5.762	6.108	(35)

MF Investment	May-20	Apr-19	FY20
Equity	5109	-7965	91977
Debt	11500	-9609	426669

FII Investment	May-20	Apr-19	Fy20
Equity	13000	-309	-7201
Debt	-20507	-12009	-56616

Macro-economic Indicators

Consumer price index (CPI)				
Items	**Weights(%)**	**Mar-20**	**Apr-20**	**May-20**
Food&bev.	45.86	7.82		
Pan,tob& intox.	2.38	4.71		
Cloth & Foot	6.53	2.11		
Housing	10.07	4.23		
Fuel & light	6.84	6.59		
Misc.	28.31	4.43		
CPI	100	5.91		

Wholesale price index (WPI)				
		Month		
	Weights	Mar-20	Apr-20	May-20
WPI	100.0	1.0		-3.2
Primary Articles	22.6	3.7	-0.8	-0.9
Fuel & Power	13.2	-1.8	-10.1	-15.9
Manufactured Goods	64.2	0.3		-0.4

**WPI numbers are based on new series with 2011-12 as the base year*

Index of industrial production (IIP) Sector-wise growth rate (%)				
Categories	28-Feb-20	31-Jan-20	31-Dec-19	Weight(%)
Mining	-0.4	2.7	7.5	14.4
Manufacturing	-3.1	2.2	3.5	77.6
Electricity	-4.2	3.5	7.4	8.0
Overall	-2.8	2.4	4.4	100.0

**IIP numbers are based on new series with 2011-12 as the base year'*

Currencies and Commodities

Currencies				
	31-May-20	30-Apr-20	Change (%)	Status
USDINR	75.6	75.1	0.7%	Depreciated
EURINR	83.9	81.6	2.8%	Depreciated
GBPINR	93.0	93.6	-0.6%	Appreciated
AUDINR	50.3	49.1	2.4%	Depreciated
CHFINR	78.5	77.3	1.6%	Depreciated
JPYINR	0.7	0.7	-0.3%	Appreciated
CNYINR	10.6	10.6	-0.3%	Appreciated

Commodities			
	31-May-20	30-Apr-20	Change (%)
Crude ($/barrel)	35.3	25.3	39.8%
Gold ($/ounce)	1,730.3	1,686.5	2.6%

Mutual Funds: Category Average Returns

Equity Funds Returns (in %)					
	Multicap	Midcap	Large Cap	Small cap	ELSS
6 months	-17.99	-16.27	-18.73	-22.13	-19.20
1 year	-17.07	-15.39	-16.31	-27.28	-19.37
3 year	-2.16	-2.92	-0.77	-10.14	-2.54
5 year	3.05	2.53	2.92	0.70	3.05

Returns as on June 30, 2020

Debt Funds Returns (in %)				
	Liquid	Debt ST	Ultra ST	Debt LT
6 months	4.97	6.02	5.83	17.34
1 year	5.45	4.20	6.26	15.38
3 years	6.50	5.49	6.24	9.50

Returns as on June 30, 2020