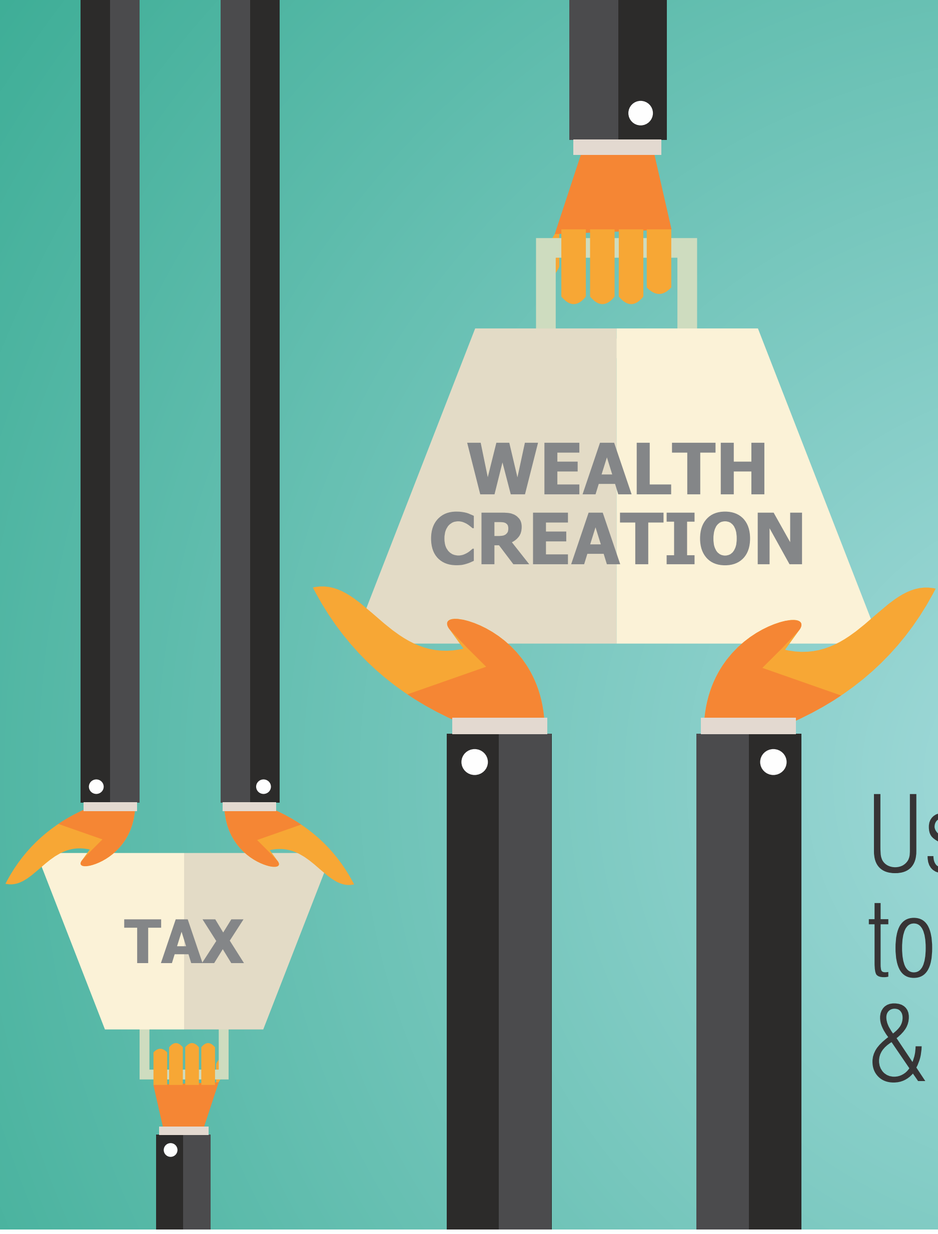


Mirae Asset Knowledge Academy
Profit from Knowledge

Use ELSS to grow wealth & save Tax

Come tax season and most Indians scurry towards traditional fixed income instruments. Unfortunately, these yield little or no Real Return (Return - Inflation). It's high time investors consider other available instruments which encourage goal-based savings. Equity linked savings scheme (ELSS) is a case in point; it allows you to benefit from the underlying asset class over the long term.

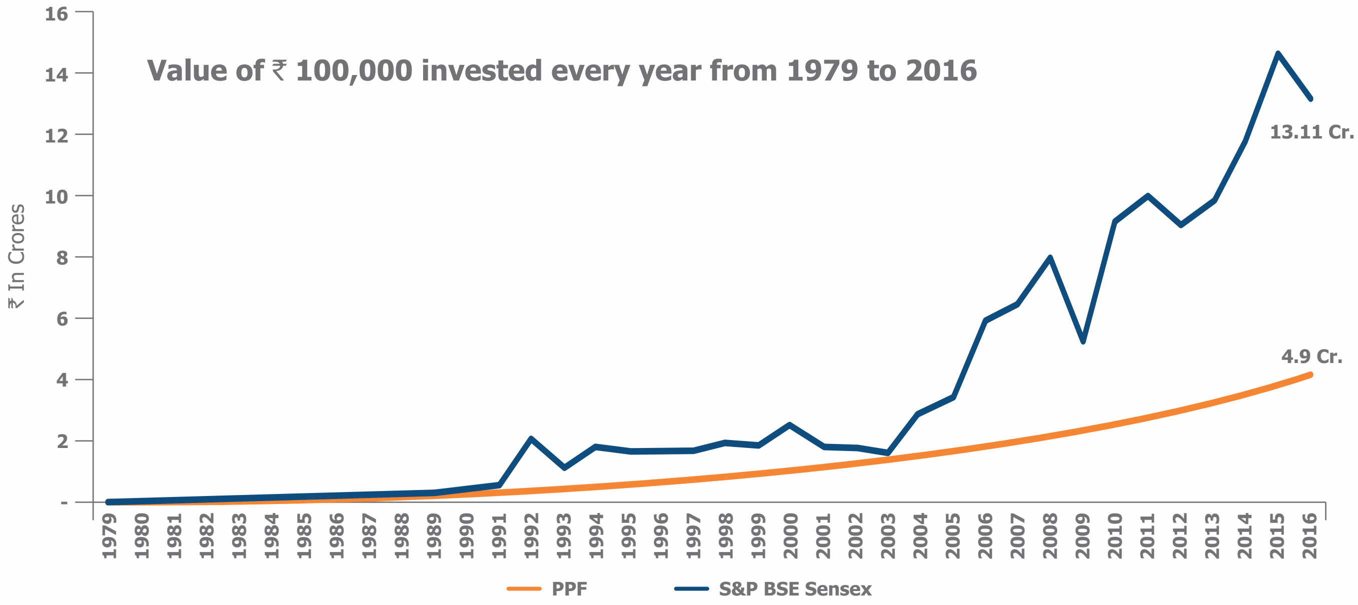
Tax saving options

Under Section 80C, the maximum investment / deduction limit is Rs. 1,50,000. Below mentioned are the tax saving options

i. ELSS offered by mutual funds
ii. ULIPs offered by insurance companies & premium paid towards traditional life insurance plans
iii. Traditional fixed income instruments - PPF, NSC, five-year bank Fixed Deposits (FDs), Employee Provident Fund (EPF), Sukanya Samriddhi Account Deposit Scheme
iv. Pension plans such as NPS
v. Housing loan - repayment of house loan principal

Investment Option	Lock-in Period	Return CAGR Per annum (as on 30th Sep'16)	Tax Status on Returns
Public Provident Fund	15 Years	8.10%	Tax Free
National Savings Fund	5 Years	8.10%	Taxable
Bank Tax Saving Fixed Deposits	5 Years	7.0%	Taxable
Equity Linked Saving Scheme*	**3 Years**	**24.9%**	**Tax Free**

Past performance may or may not be sustained in future. *Average 3 years return of ELSS funds represented by CRISIL – AMFI ELSS Fund Performance Index[2].



Source: Bloomberg & www.ppfaccount.in, 1st April 2016. The above graph shows valuation of investment in PPF & S&P BSE Sensex from 1979 to 2016. Rs 1,00,000 has been invested every year on 1st April (or next business day) in PPF and S&P BSE Sensex. Past performance may or may not be sustained in future and is no guarantee of future results.

ELSS - an apt avenue to save tax and benefit from equities over long term

Within the instruments available for saving tax under Section 80C of Income Tax, ELSS offers dual advantage – wealth creation from equities over the long term and tax saving. For instance, the average three-year return (minimum holding period among the tax saving instruments to claim tax rebate) for ELSS funds[2] is nearly 25%, which means Rs 1.5 lakh invested would have grown to average Rs 2.92 lakh in rupee terms.

Only 3 years lock-in period

Save up to ₹ 46,350* in taxes

Wealth creation potential

Dividend declared (if any) is tax-free*

*Subject to provisions of current income tax ACT 1961.

The following table shows minimum returns from these funds have increased from nearly -11% for three-year holding period to nearly 10% for 10 years. The average return of the funds in this category are nearly 25% for 3 years & nearly 20% for 10 years, showing the wealth creation potential of the funds in this category. Also volatility (standard deviation) reduced and risk-adjusted measure (represented by Sharpe ratio) improved with increase in the holding period. The chance of earning returns over 15% increased sharply to 79% in 10 years, suggesting probability to earn higher returns in the long term.

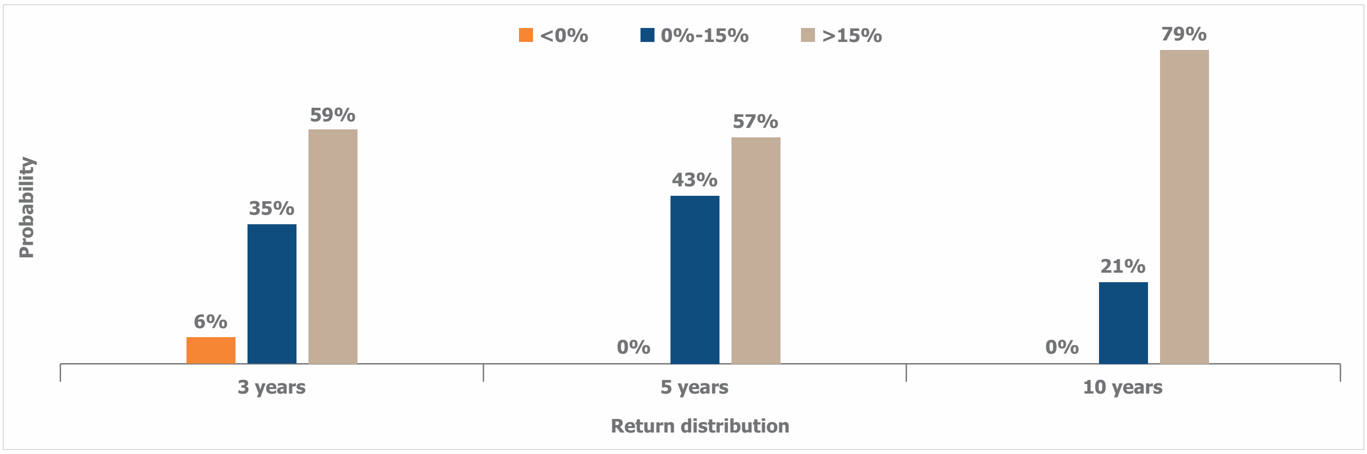
Risks and returns

ELSS funds	3 years	5 years	10 years
Returns			
Average	24.93%	21.50%	20.35%
Maximum (Best case scenario)	86.34%	59.04%	28.98%
Minimum (Worst case scenario)	-10.60%	0.66%	9.94%
Risk parameters			
Standard deviation	21.03%	15.29%	5.08%
Sharpe ratio	0.91	1.04	2.90

Returns and risk parameters are annualised calculated on a daily rolling basis since 2001 for all holding period. ELSS funds represented by CRISIL – AMFI ELSS Fund Performance Index. Data as of October 2016. Past performance may or may not be sustained in future.

2. Daily rolling three-year returns of CRISIL-AMFI ELSS Fund performance index since June 2001

Return distribution of different holding periods

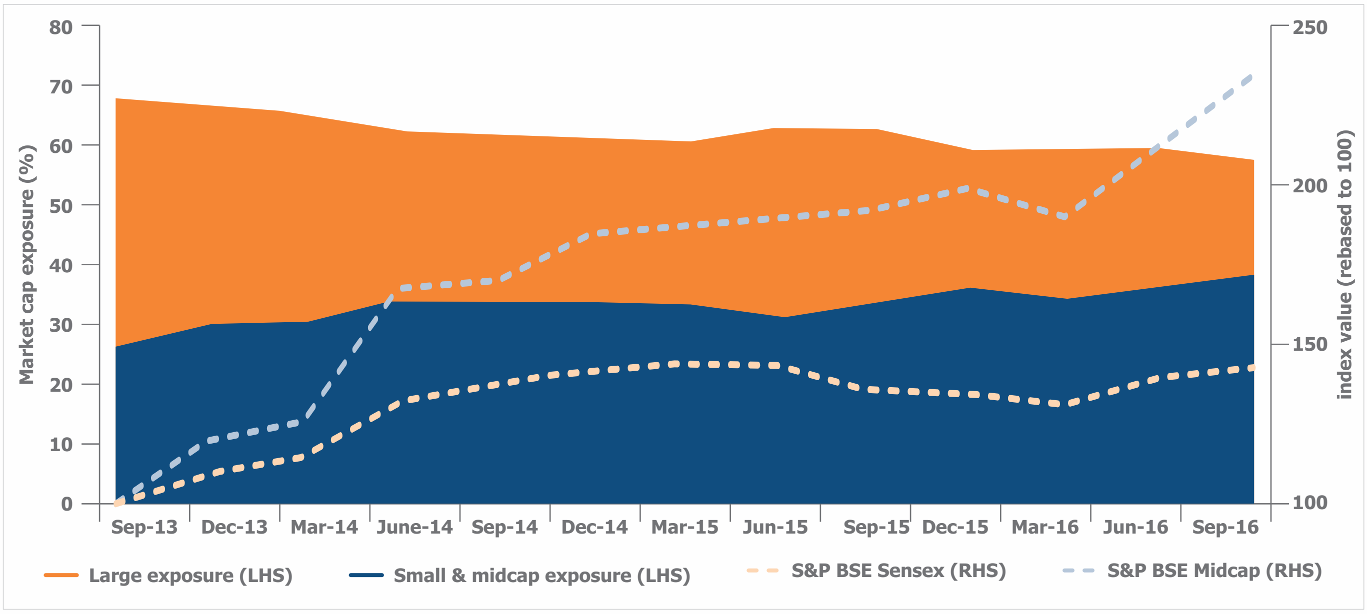


Rolling returns on a daily basis since inception (June-2001) of CRISIL – AMFI ELSS Fund Performance Index. Past performance may or may not be sustained in future.

Benefits of diversified portfolio

True to its label, ELSS diversifies across market capitalisation to derive benefit from each segment. Large cap exposure helps limit loss in a market downtrend, while small and mid-cap exposure boosts performance in an uptrend. ELSS can tactically change exposure across market cap based on market valuation. For instance, in the past three years, these funds have reduced large cap exposure and increased small and mid-cap exposure to benefit from the rise in mid-caps.

ELSS funds' market cap exposure



ELSS funds represented by CRISIL Ranked funds as of September 2016. Past performance may or may not be sustained in future.

As far as diversification among companies & sectors is concerned, it is at par with its close cousin - diversified equity funds.

Concentration analysis

Particulars	ELSS funds	Diversified equity funds	Large cap funds	Small and mid-cap funds
Total no. of holdings	53	48	43	57
Top 10 holdings (% of AUM)	41	43	47	34
Top 5 Sectors (% of AUM)	57	58	63	48

Portfolio data as of September 2016. Categories represented by CRISIL ranked funds as of September 2016.
Lower percentage in top 10 holdings and top five sectors denotes less concentration and higher diversification

Include ELSS in holistic financial planning

To reiterate, most tax saving investments ignore goals, which should not be the case. Investors should map their ELSS investments with life cycle goals. For instance, let's assume you have a goal to finance your child's higher education 15 years down the line, which in future value would cost Rs 30 lakh.

Investment of Rs 1.5 lakh annually in ELSS funds over 15 years, assuming minimum rolling returns (10%), would give you the desired amount. Similarly, other goals can be achieved by mapping your cash flow of tax savings with various life goals. Thus, ELSS funds not only help save tax, but also help achieve life goals.

Case study (meeting goals via ELSS investments)

Year	Value of investment in ELSS (in lakh) at the end of the year	Goal amount (in lakh)	Goals
1	3.15	-	-
2	4.97	-	-
3	6.96	-	-
4	9.16	-	-
5	11.57	-	-
6	14.23	-	-
7	14.15	3.00	Vacation
8	17.07	-	-
9	20.28	-	-
10	13.80	10.00	Renovation of home
11	16.68	-	-
12	19.85	-	-
13	23.34	-	-
14	27.17	-	-
15	31.39	30.00	Child education

Goals are subtracted from investment value at each stage. For representative purpose only

Summing up

Use ELSS funds wisely to achieve long-term goals. However, do consider various factors before investing such as due diligence on the choice of fund and allocation towards ELSS within tax exemption limit, both of which should be based on one's risk profile.

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