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Understanding SIP Top Ups

A Systematic Investment Plan (SIP) is an effective wealth-building tool. By investing a fixed amount every month, the plan helps you accumulate wealth over the long term. But as your circumstances change and your income grows, you are likely to have more money available to invest. An SIP Top Up allows you to increase the monthly investment amount periodically. SIP Top Ups can be specified as a percentage or a fixed amount.

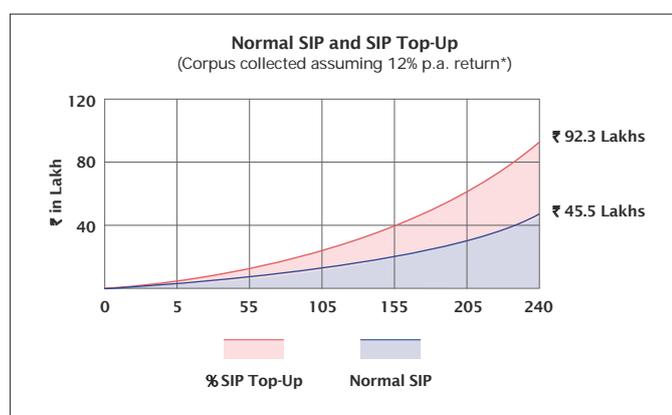
Consider the following example:

Suraj wants to save money for a vacation home in 20 years. He decides to start an SIP in a mutual fund that invests in equities. By investing ₹5000 each month and assuming a return of 12% p.a, Suraj can reach a corpus of ₹45.5 lakhs in 20 years.

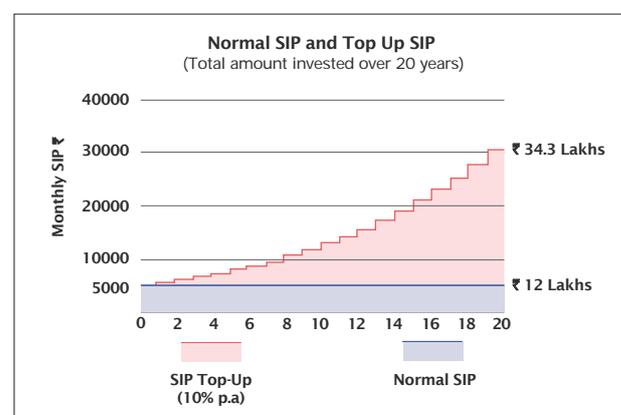
However, if Suraj decides to top up his SIP investment by a mere 10% every year, he can reach this ₹45.5 lakhs corpus in less than 16 years. That means his goal can be achieved 4 years earlier if he increases his SIP contribution by 10% every year.

Further, if Suraj decides to top up his SIP by 10% and keeps investing for the whole 20 years, he will accumulate ₹92.3 lakhs by the end of the term. That's nearly twice in the same period as compared to the corpus accumulated without topping up the SIP. Now, Suraj can think about buying a larger vacation home.

Here is a graphical representation of the result of these two strategies:



And here is how Suraj's SIP payments increased over the years:



*This is an assumed rate of return used only to explain the concept of Power of Compounding. It does not forecast or guarantee the returns given by any mutual fund scheme.

Topping up an SIP has several advantages:

- **Adapts to your rising income**-You expect your salary or income to increase every year. Employers offer increments or bonuses on an annual basis that can be invested as a top up to an existing SIP.
- **Helps reach financial goals faster**-SIPs are designed to help you achieve your long-term financial ambitions. A top up facility allows you to reach your financial goals faster or expand your goals to meet your needs. You can expect your income to grow over the years, so investing more in an existing plan is a logical step towards building wealth.
- **Helps fight inflation**-Many investors choose to increase their contributions to stay in line with inflation. As inflation consistently erodes the value of your money, it may be prudent to raise contributions to an investment plan for the longterm.
- **Allows you to keep investing in an existing plan rather than open a new one**-This facility also saves you from the hassle of managing multiple SIPs. A sudden rise in income or an unexpected new source of earnings would need to be systematically invested. But looking for a new investment opportunity is tedious and time-consuming. Instead, topping up an existing investment could be the most efficient option.

Conclusion

A top up facility lets you accelerate your target corpus. An SIP Top Up plan also helps you strike the right balance between discipline and flexibility. By adapting your investment plan to your changing circumstances you can achieve your financial goals sooner. Moreover, an investor has an option to cap the SIP Top up amount once the SIP installment (including Top Up amount) reaches a fixed pre-defined amount. Thereafter the SIP installment will remain constant till the end of the SIP tenure.