BRING YOUR DREAMS INTO REALITY

Why is money essential, and what role does it play in our lives? Achieving personal dreams and aspirations often necessitates financial resources. Money forms the backbone of transforming aspirations into reality. Conversely, a lack of financial means can lead to insecurity in daily life, resulting in feelings of anxiety, dissatisfaction, unhappiness, and even depression. While dreaming is a natural aspect of existence, the imaginations we associate with those dreams can sometimes seem unrealistic due to psychological factors. However, the concept of life, as imagined, differs significantly from reality. In contrast, individuals often allocate financial resources to turn their dreams into reality.

"We all have dreams. But in order to make dreams come into reality, it takes an awful lot of determination, dedication, self-discipline, and effort." - Jesse Owens

Now, investing mindlessly in shares, mutual funds, and other investment products may risk the loss of your capital, as speculators play a vital role in inflating stock prices and vice versa. The effects of speculators and the Company's fundamentals are always contradictory.

In 2014, the capital market experienced significant gains, with both the NIFTY and BSE Sensex delivering approximately a 30% return. This robust performance was largely attributable to a stable central government, which fostered positive sentiment among investors.

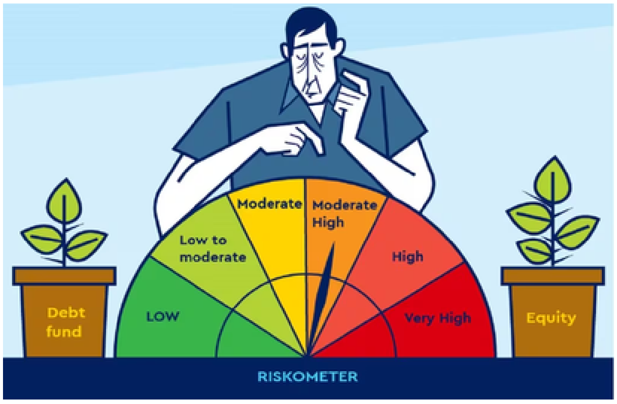
On January 14, 2020, the NIFTY reached an all-time high of 12,362, but subsequently fell to 7,610 by March 23, 2020, marking a decline of 38% due to the impact of the Covid-19 pandemic. Following this downturn, a bull run commenced, continuing until September 2024, when the NIFTY achieved a new all-time high of 26,216 on September 26, 2024.

Currently, the market is in a consolidation phase, with the NIFTY 50 moving approximately 1,000 points over the past six months. The outlook remains uncertain, as market trends are typically cyclical, oscillating between bull and bear phases. Expert analyses suggest that the NIFTY may reach the 30,000 level within the next year.

Generally, people buy more shares and mutual fund units when they are cheap and sell them when they are expensive. The question arises, how to judge the market and know the cost-effectiveness of shares/units? To understand these questions, you must know risk-return, the pros and cons of market elements, investor behavior, investment products, and other factors.

Risk & Return:

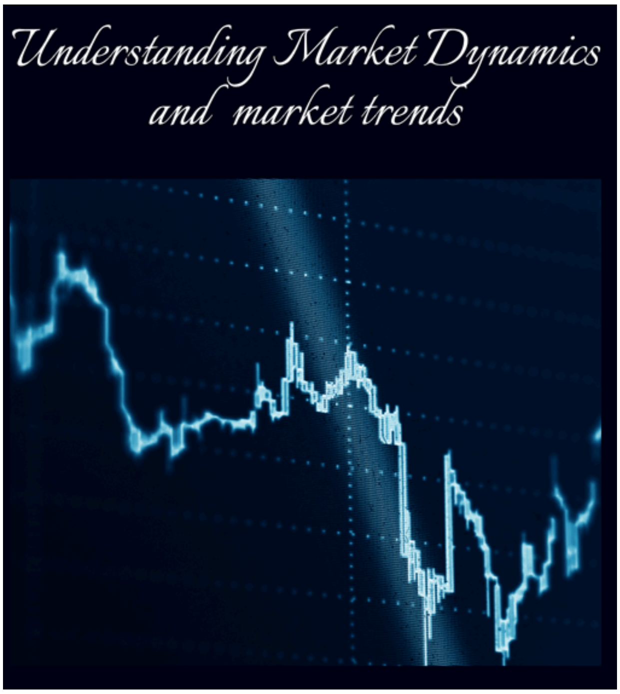
The higher the risk, the higher the return, and vice versa. Generally, risks can be characterized as low, medium, and high. Mutual funds can be classified by the securities they hold. There are various types of mutual funds, ranging from low risk (overnight funds, ultra-short-term funds, and liquid funds) to moderate risk (diversified large-cap funds) to high risk (diversified equity funds, aggressive hybrid funds, flexi cap funds, multi-cap funds, Fund of Fund, Solution-oriented funds, and sector-specific funds). You can better understand a fund's risk when investing by using the color-coded risk scale, which is mandatory under SEBI guidelines. The color code follows a risk-based system: brown for high-risk products, yellow for medium-risk products, and blue for low-risk products.



Behaviour of Investor:

Investor behavior in the stock market and mutual funds often displays contrasting patterns. Retail investors typically enter the capital market during periods of rising prices, hoping to earn more profit, and exit with fear when prices fall. This behavior often leads to booking losses during significant market corrections, prompting many to vow never to return.

First-time investors often approach the stock market with aspirations of building substantial wealth over the long term. However, due to market volatility, they may shift from a long-term investment strategy to a more reactive, short-term trading approach. It has been proven that traders earn lower returns because they have not taken on the risk. Conversely, traders usually aim to capitalize on short-term market movements for quick profits. Unfortunately, a sharp market correction can turn these traders into reluctant investors, forcing them to hold onto their positions.



In today's financial landscape, identifying investors who are genuinely committed to building long-term wealth is increasingly challenging. Many individuals and institutions now lean towards short-term gains, often prioritizing quick profits over sustainable growth. This shift in focus can make it difficult for those who understand the importance of patience and strategic planning to find like-minded partners willing to invest in slow-and-steady wealth creation. As a result, the market is flooded with opportunities tailored for immediate returns, leaving long-term investment strategies underrepresented and overlooked.

Market Behavior:

It is too difficult to judge the market trend. Assessing market trends can be challenging due to the influence of various internal and external factors that govern the capital market. Key elements driving market dynamics include socio-economic conditions, inflation and interest rates, global events, a nation's political stability, exchange rate fluctuations, company performance, and corporate governance practices. Additionally, investor sentiment and speculators' actions significantly shape market trends, highlighting the complex interplay of factors at work in the financial landscape.

Investment products:

When planning investments, investors need to consider both short- and long-term strategies tailored to their individual financial needs. This approach allows for allocating resources in line with specific goals and time periods.

For short-term investment opportunities, options such as post office savings schemes, government bonds, Debt mutual funds such as liquid fund, short-term bonds, and ultra-short-term duration funds, and fixed deposits (FDs) can be suitable choices. These vehicles typically offer lower risk and relatively quicker access to funds.

In contrast, for those focusing on long-term growth, there are several effective investment avenues. These include the Public Provident Fund (PPF), the National Pension System (NPS), five-year recurring deposits (RD), the Pradhan Mantri Investment Scheme (PMIS), and 10 to 15-year infrastructure bonds. Additionally, Equity mutual funds and Equity Linked Savings Schemes (ELSS) can also be valuable for long-term financial planning. By understanding these options, investors can better position themselves to achieve their financial objectives over time.

Public Provident Fund (PPF):

PPF is a 15-year investment scheme under the Exempt Exempt Exempt scheme (EEE), in which an investor can invest a minimum amount of ₹500 and multiple of ₹100 therein up to ₹ 1,50,000 maximum per annum (over a maximum of 12 installments per year) and avail the income tax exemption at the time of deposit, accrual of interest, and withdrawal. At the end of 15 years, one can extend their subscription in blocks of 5 years or close the account.

One can deposit ₹ 1,50,000 (one lakh fifty thousand) at the beginning of each year, and after 15 years, she can receive ₹ 40,68,210 with an interest rate of 7.10% per annum(Current rate), assuming the rate remains the same for the 15 years. If one invests ₹ 12500 at the beginning of the month, as with a SIP, they can get ₹39,44,600 with 7.10% interest per annum after 15 years.

This investment option is eligible for a deduction under Section 80C of the Income Tax Act, applicable in the old tax regime, with a maximum deduction limit of ₹ 150,000 per annum. It offers a reliable and secure option for individuals looking to plan for their retirement effectively.

National Pension System(NPS):

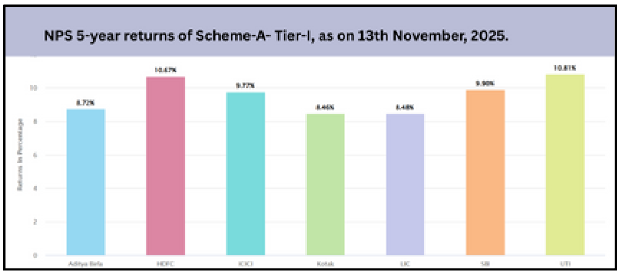
Pension plans offer financial security in old age when regular income ceases. The National Pension System (NPS) is a defined contribution scheme that is low-cost, tax-efficient, flexible, and portable. It operates under two tiers: a mandatory Tier I account requiring a minimum annual contribution of ₹6000 and an optional Tier II account with a minimum yearly contribution of ₹2000.

The government pension funds under the NPS are managed by SBI Pension Funds Pvt. Ltd., LIC Pension Fund Ltd., and UTI Retirement Solutions Ltd. Non-government pension funds are overseen by eleven registered Pension Fund Managers, including SBI, LIC, and UTI, as of early 2025.

Launched in 2009, the National Pension System (NPS) allows all citizens of India, including NRIs, to invest, accumulate savings, and receive a lump-sum payment or regular income through an annuity at retirement.

The NPS offers subscribers two investment options: active choice, where they select their investments, and auto choice, which automatically allocates funds based on predefined criteria.

NPS returns over the last five years vary by asset class and fund manager. Equity Tier-I has averaged 15.85% to 18.44%, while government bonds have averaged 5.72% to 6.21%. Returns depend on your specific asset allocation, with equity offering higher potential returns but more volatility. Among fund managers, SBI Pension Funds reported a 5-year equity return of 9.90% in Scheme A, HDFC Pension Funds reported 10.67%, and UTI reported 10.81%.



NPS allows an additional tax deduction under section 80 CCD (1B) for individuals for savings of ₹ 50,000/-, over and above the limit of ₹ 1.50 Lakhs under section 80C, under the old tax regime. Self-employed individuals who don't have the option of Employees Provident Fund(EPF) should invest in 15-year PPF accounts of ₹150,000/- per annum and may invest in Tier I NPS to avail additional tax benefit of ₹ 50000/ under section 80 CCD (1B).

According to current regulations, it is mandatory to amortize 40% of the final corpus of the National Pension System (NPS). This requirement is often viewed as a significant drawback of the NPS, as annuity investments tend to yield lower returns than traditional investment options under prevailing market conditions. Subscribers may find that annuities offer returns that are less favorable than those from bank fixed deposits. Furthermore, like interest earned on bank deposits, annuity income is fully taxable in the year it is received, affecting overall net gains.

One advantage of the NPS is that it permits tax-free withdrawal of 60% of the corpus, like the complete exemption available for the corpus of the Employee Provident Fund (EPF) and Public Provident Fund (PPF) at the time of withdrawal. While one can opt to purchase an annuity with 100% of the corpus, it is essential to note that annuity income is taxed as salary under the individual's income tax slab.

Additionally, a tax-friendly feature of the NPS is that no Goods and Services Tax (GST) is imposed on annuities purchased with NPS corpus. Given these factors, it is advisable to consider investing up to ₹2,00,000 per annum in the NPS. This investment allows individuals to take advantage of tax benefits under Section 80C for ₹1,50,000 and Section 80CCD(1B) for an additional ₹50,000, enabling savings of up to ₹15,000 per annum in additional taxes (excluding surcharges applicable to the highest tax bracket) under Section 80CCD(1B).

On the other hand, the National Pension System (NPS) offers tax benefits under the new tax regime, specifically for employer contributions made under Section 80CCD(2). Employees can claim a deduction for the contributions their employers make to their NPS Tier-I account. This deduction applies to up to 14% of an employee's salary, including basic pay and dearness allowance, for individuals working in both the central and state governments and the private sector.

Fixed deposits (FD):

A fixed deposit can be a viable investment option for pensioners within the 10% or 20% tax brackets. However, it's important to note that fixed deposits may not yield positive real returns over the long term, given the effects of taxes and inflation.

For example, if you invest in a bank fixed deposit receipt (FDR) at an interest rate of 7.20% per annum and are subject to the highest tax rate of 30.90%, your post-tax return after one year would be approximately 4.98%. When factoring in an inflation rate of 6% per annum, the resulting post-inflation return would effectively be negative 1.02%.

On the other hand, the actual value of assets will erode due to inflation and tax effects. Therefore, it is crucial to assess the potential risks associated with inflation and interest rate fluctuations when making investment decisions.

Equity & Equity-related instruments:

In India, "equity" refers to ownership in a company, allowing investors to receive profits in the form of dividends and assets through instruments such as ordinary shares. The term "equity-related instruments" encompasses a broader category, including not only equities but also other securities associated with a company's ownership, such as specific types of mutual funds, convertible securities, and equity-linked derivatives.

Mutual funds invest in capital instruments such as shares, debentures, bonds, government securities, commodities, and other short-term securities, including treasury bills, commercial paper, promissory notes, and certificates of deposit.

A mutual fund diversifies your money across different Assets. You can invest in gold, debt, and Equity through a mutual fund.

It is very liquid and less risky than Equity, as fund units are professionally managed. It is highly operational, transparent, and suitable for investors seeking to achieve their financial targets through a systematic investment plan (SIP).

Investment through SIP ensures disciplined investing regardless of market volatility. It helps an investor average their cost over market cycles and build a large corpus to achieve their goal without taking too much risk in the long run. Mutual funds help an investor make a well-balanced portfolio through their various categories, such as large-cap, multi-cap, large & mid-cap, mid-cap, small-cap, flexi-cap, hybrid, and debt funds. Equity funds are more likely to incur capital losses than hybrid/diversified funds. One can invest a fixed amount in a mutual fund regularly — daily, fortnightly, monthly, quarterly, and half-yearly — through a SIP. For example, if someone makes SIPs of Rs. 10000 per month, after 20 years, they will get ₹ 92.08 lakhs, assuming a rate of return of 12% per annum.

Equity Market Outlook:

U.S. equity markets rallied, driven by easing trade tensions, expectations of further policy easing from the Federal Reserve, and a positive outlook for artificial intelligence (AI), which in turn boosted demand for AI-related stocks. However, global macroeconomic conditions are becoming more challenging, potentially affecting global growth rates.

In contrast, India's economic fundamentals remain strong and sustainable, characterized by healthy balance sheets, robust consumption growth, sustained domestic demand, and prudent fiscal management. As a result, the long-term structural narrative for India's economy remains positive.

Recent RBI actions, such as liquidity injections, key policy rate cuts, significant dividends to the Government, and GST rationalisation, are positive for India's business cycle and, in turn, may result in India's growth and corporate earnings picking up. Indian markets have underperformed global markets considerably, making it a contrarian option. Having said that, valuations are not cheap but have moderated from the peaks.

So, investors with a long-term view can remain invested in equity markets. However, due to high valuations, fresh investments should be made cautiously. Mid-cap and Small-cap valuations continue to remain high. Also, at this point, a middle-of-the-road approach should be followed, as most asset classes are fully valued. Therefore, investing in (a) Hybrid & Multi Asset allocation schemes and (b) staggered investment in large-cap schemes or schemes with a flexible investment mandate that can take considerable cap exposure is prudent for the investors.

Debt fund:

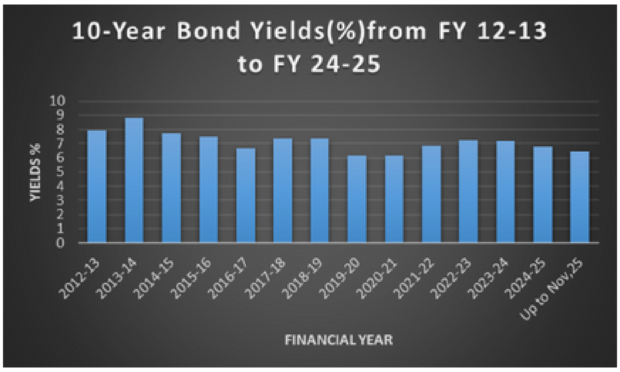
A debt fund may invest in short- or long-term bonds, securitized products, and money market instruments. A debt fund is a fully secured investment. It provides a fixed return to the investor over a period of time, with no risk or minimal risk. All government instruments present no risk. Debt funds aim to preserve investors' capital while generating regular income. It carries risks such as: credit risk, interest rate risk & liquidity risk.

Debt mutual funds are classified into several categories, including liquid funds, short-term debt funds, ultra-short-term debt funds, gilt debt funds, fixed maturity plans, and long-term debt funds.

When considering investment options, it's important to note that corporate bonds and fixed deposits (FDRs) tend to be less tax-efficient compared to equity mutual funds and Public Provident Funds (PPFs).

Debt Market outlook:

The RBI cancelled the auction of 7-year government bonds in the first week of November 2025 because investors were demanding a higher yield. It reflects that the RBI is uncomfortable with the prevailing 10-year bond yield of 6.45 per cent. Also, the central bank has suggested that the state government reschedule its borrowings to ease supply pressure. It is worth noting that the Monetary Policy Committee has reduced the policy repo rate by 100 basis points this year. Still, yields on the benchmark 10-year government bond have declined by only about 30 basis points.



On the contrary, yields on 10-year bonds have risen by about 20 basis points since the 50-basis-point rate cut in June. It shows that the rate cut effect has not been implemented in the market. Since yields on government bonds directly affect the cost of money in the financial system.

On the other hand, the demand of foreign portfolio investors(FPIs) too seems muted. FPIs brought Indian bonds worth only $1.20 billion net this year so far, compared to $12.60 billion during January to November last year(2024). Further net supply of bonds is expected to be higher in the second half of the current year compared to first. Given the prevailing bond market conditions, any further reductions in the repo rate are likely to be limited by the cost of funds, several market experts anticipated.

Investors in debt mutual funds in the current year have not generated capital gains due to the cascading effect on the bond market. Term premiums in government securities (G-sec) and corporate bonds are anticipated to decrease. Long-duration assets, particularly 10-year government bonds, could see a cooling effect as fiscal and demand-supply risks are seen as overvalued, according to expert analysis. From a tactical standpoint, long-duration assets and State Development Loans (SDLs) may not perform as well. In the existing policy environment, low-duration corporate bonds and short-term bond schemes are expected to outperform long-term bonds.

Conclusion:

The effective investment planning requires a balanced approach that accommodates both short- and long-term financial goals. By carefully selecting suitable investment vehicles — such as low-risk options for short-term needs and growth-oriented strategies for long-term objectives — investors can enhance their financial stability and growth potential.

To create a robust investment strategy, it's essential to identify options that align with your financial goals and requirements. A diverse portfolio might include investments in exchange-traded funds (ETFs), individual shares, equity mutual funds, PPFs, and various debt mutual funds. By clearly defining your investment objectives, you can strategically allocate your capital across different asset classes, which can help you secure favorable returns even in a fluctuating market.

Understanding the features and benefits of different investment options, like the Public Provident Fund, NPS, and various mutual funds, empowers individuals to make informed decisions that align with their unique circumstances. Thus, a well-structured investment strategy with tax-efficient products not only aims to maximize returns but also helps investors with their future financial needs.

Disclosure:

This article, “Brings dreams into Reality”, initially published in Early Times, Jammu, on January 11, 2015, has been thoughtfully updated with current data while maintaining its original structure.

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Social Finance – Finance for the Future

The perspective

Global environmental, social, and governance (ESG) trends are rapidly reshaping the economy and presenting significant risks and opportunities for investors. By 2050, the population is expected to grow by more than 30 percent, to more than 9.5 billion people, with the majority of this growth happening in urban areas in the developing world. Meeting the needs of this population in an increasingly resource-constrained world will require tens of trillions of dollars in investment. This also presents compelling business growth and investment opportunities for investors in many new markets and sectors. Resource scarcity, climate-related impacts, global health dangers, social instability, and substantial demographic changes already are presenting business leaders with issues and influencing decision making that will determine future business success and investment performance. More investors recognize the importance of these global trends to their investment decisions and are adjusting their asset allocation and investment-management strategies accordingly.

What is Social finance ?

Not too long ago, the notion of generating social good along with financial returns was considered a fringe idea by most investors. But recently the area of "social finance" has started to enter the mainstream and receive consideration from Wall Street giants and some of the world's largest institutional investors. Social finance is an approach to managing money which delivers a social dividend and an economic return. Social finance is often used to describe the lending and investment into companies who consider themselves social enterprises, charities, co-operatives, and other impact-focused organizations.

The term can include community investing, microfinance, investing in socially-responsible and sustainable businesses, social impact bonds, and social enterprise lending. Outcome-based philanthropic grant making and program-related investments, sometimes referred to as venture philanthropy, also fall under the umbrella of social finance.

Social finance is an approach to managing investments that generate financial returns while including measurable positive social and environmental impact. Social finance includes a full range of investment strategies and solutions across asset classes that can provide an array of risk-adjusted returns tailored to investor intent. Social finance is a tool that seeks to mobilize private capital for the public good. It creates opportunities for investors to finance projects that benefit society and for community organizations to access new sources of funds.

Social finance investments

- Involve access to capital that has a positive impact not only financially but also on society as a whole;
- Social investments can be made by different types of investors. These include charitable foundations, retail investors, banks, governments and institutional investors such as pension funds;
- Social investments can be made to a variety of organizations that seek to have a positive impact in their communities
- · Social investments can be made using a variety of financial tools, including loans, community bonds, equity investments and social impact bonds;

Finance for social good

What is social finance? Rachel Kalbfleisch of the International Development Research Centre (IDRC) defines it as a collection of approaches to managing money that create value for society or the environment, often while producing a financial return, while the MaRS Centre for Impact Investing calls it "an approach to managing money to solve societal challenges". In other words, social finance is a movement that covers various ways of using finance—via socially responsible investments, micro-loans, community investments, and so on—to achieve a social or environmental impact. Social impact investing is commonly used to describe the direction of investment funds to opportunities or companies that have desirable environmental, governance or social factors (also called ESG investing), and is related to social finance, which involves the use financial assets or instruments to fund projects that have a positive social or environmental impact.

Social Finance: Where Wealth and Values Meet

Investors who adopt social finance strategies don't have to sacrifice returns in order to feel good about the makeup of their portfolios or to effect meaningful societal change. The term “social finance" means different things to different people. Often, those words bring to mind the avoidance of so-called “sin stocks" — shares of companies involved in the manufacture or distribution of tobacco or alcohol, or shares of gambling enterprises. But the term encompasses much more. Social finance offers investors ways to realize competitive returns through investments designed to achieve meaningful societal or environmental impact. Investing in socially and environmentally conscious ways is growing in popularity with all types of investors.

Key Trends in Social Finance Activity

Much has been written about the evolution of social finance, from the early days of socially conscious investing aligned with religious values, and, later, to the use of social finance as a tool to eliminate racial discrimination and apartheid in South Africa. This focus on values and ethics has promoted the growth of strategies such as negative screening, which uses ESG factors as a basis to exclude sectors, countries, or practices from portfolios or funds. Today, the SRI world has moved from a practice of negative screening and exclusion to one of seeking or encouraging certain characteristics in portfolio companies. Social finance today offers a wide range of options aligned with different risk appetites, return expectations, liquidity needs, and investors' expectations of impact. Today Social finance has grown significantly over the past decade, with strategies and products across asset classes aligned with different investor needs, motivations, and return expectations. Estimates show that social finance activity today is valued at upward of US$22 trillion, and many strategies have the potential for double-digit growth in the near future. The diverse motivations and trends in social finance activity for some mainstream investor groups is helping drive this growth and diversity in investment opportunities.

Scaling social finance

Despite rising interest in the sector, some investors say the social finance market's development has been held back partly by a lack of suitable products to invest in, confusion surrounding the proliferation of industry terminology and questions of whether or not investments can be profitable given their limited track record. This has left many mainstream investors hesitant to dip their toe in the space.

To address these challenges, the social finance sector must come up with better ways to measure non-financial metrics, increase transparency of social and environmental impacts on financial performance and create a wider variety of investment products, growing investor interest in social finance into considerable capital allocation will necessitate systemic changes to the current system. This includes not only improving products to meet investor goals and performance expectations, but also strengthening the enabling ecosystem, including the infrastructure, skills, and incentives that shape business decisions and are needed to execute transactions. This requires a collective effort by the investor community to overcome key challenges and dismantle barriers to entry for mainstream investors in social finance. Investors themselves have an important role in this. They have a number of levers at their disposal, including large amounts of investment capital, the ability to partner with and engage policymakers, deep technical expertise, and the opportunity to exercise sector wide coalition-building power.

Imperatives and drivers of social finance

» Facilitate asset allocation across multiple social finance strategies that cater to varying risk appetites and return expectations.

» Code sign products with established return expectations and clear impact objectives for easier adoption.

» Deepen social finance expertise and knowledge across the investment value chain, particularly among advisory and investment teams.

» Develop and adopt standardized nonfinancial metrics across investment activities. » Integrate social and environmental impact into valuation and pricing of risk.

» Drive consistent and material disclosure of social and environmental impacts on financial performance and impacts on shareholders.

» Share best practices on the integration of social finance into portfolios with stakeholders, peers, and other beneficiaries to promote learning and increase awareness.

» Participate in industry dialogues to clarify and reinforce the interpretation of fiduciary duty to include ESG factors.

» Align internal and external incentives with long-term value and encourage good governance and positive policies that can respond to and support broader uptake of social finance.

» Provide guidance and technical assistance to strengthen the pipeline of investment opportunites tunities both investors and intermediaries.

Measure for Measure

Almost everyone (with good intentions) hopes to achieve positive social impact. The notion of the social impact of business has become so mainstream that government at the highest levels —including G8 leaders and even the Pope— advocate the creation of institutions to give greater attention to driving social impact". However, one of the most difficult challenges facing social finance revolves around the question: how do we measure social impact? There are, in fact, many ways to measure it, but the crucial question concerns how to consolidate these many methods under one impact measurement and evaluation system. At present, the impact measurement field is quite chaotic: each institution or region typically has its own assessment criteria for impact, and creates its own metrics. Though in recent decades the Global Impact Investing Network (GIIN) and Social Value UK (formerly the SROI Network) have made efforts to consolidate their metrics, there has not been a single governing authority to establish an official and centralised system of impact measurement and evaluation.

The promise of impact investing in India

Achieving the ambitious sustainable development goals (SDGs) by 2030 will take an estimated \$5 to \$7 trillion per year, with a financing gap of \$2.5 trillion in developing countries. In India alone, the outsize challenge has been translated into a financing gap of \$565 billion. While the country has seen huge progress across the social sectors, enormous challenges remain. Closing this gap requires action on several fronts; efficient and effective domestic resource mobilisation, outcome-focused donor efforts to ensure that money is spent well and harnessing private capital for good. In recent years, interest has grown globally amongst governments and markets to develop new investment approaches, such as impact investing or purpose-driven finance. Impact investment refers to the provision of finance to organisations with explicit expectations of financial returns as well as measurable social outcomes.

Conclusion: Looking Ahead

Going forward, social finance faces a broad set of opportunities and challenges. Ellie Howard of Cicero Group suggests that "in time, social finance will become inherent to the practice of investing in line with the progression to a conscious economy", but that "the sector first needs to establish itself". In other words, what is now somewhat of a fringe concept—investing to achieve measurable social impact—will eventually become inextricable from "plain-old" normal investing. When that happens, we'll have an economy that includes social impact in its core calculus; that incorporates more of the full costs and benefits of doing business; and that is more "conscious" of the impacts it has to integrate social finance into investment decisions it is necessary to help asset managers, advisors, and intermediaries communicate the options and benefits of social finance more clearly, and in ways that resonate with investors.

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Chief Executive Officer
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