

# Child-care Schemes Losing Sheen

Higher tax outgo and poor returns force investors to look at balanced funds

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**Mumbai:** Child-care schemes of mutual funds are losing popularity among investors after almost two years of steady inflows. While a section of the investors have stopped their monthly investments in these schemes, some others have pulled out of this product as returns have been lower-than-expected and higher taxes threaten to eat into gains.

Assets under management (AUM) of child-care plans offered by seven fund houses have remained stagnant at around ₹5,000 crore from the start of 2015. The AUM is not showing a decline despite the outflows because of the surge in the overall market. As hybrid products, these schemes invest in a mix of debt and equity. Child

funds with more than 65% equity allocation are classified as equity funds for taxation. Funds with a higher debt allocation are classified as debt funds for taxation.

"Child funds which are debt-oriented lose out on the taxation front, after the new tax laws came into place," says Jitendra Solanki, a certified financial planner. So if an investor withdraws before three years, and is in the highest tax bracket, he would end up paying 30% tax. Wealth managers said some of these investors are shifting the money to accomplished balanced plans. In a balanced fund, after one year, an investor pays zero capital gains tax on selling.

"Balanced funds have higher flexibility as they do not have a lock-in period. Since their size is large enough they merit higher attention from the key persons of the fund house," says Vishal Dhawan, chief financial planner, Plan Ahead Wealth Advisors. He recommends balanced funds to investors to meet their goals for children.

But, investors are not pulling out in a big way yet. "Often investors have a tendency to redeem their investments in case of liq-

## Few Takers

- 3-year return (%)
- 5-year return (%)
- AUM Change % (Jan-June 2015)



HDFC Children's Gift Fund-Investment			HDFC Children's Gift Fund-Savings		
23.26	17.41	8	12.12	10.67	-7
ICICI Pru Child Care Plan-Gift Plan			ICICI Pru Child Care Plan-Study Plan		
21.89	11.68	-4	19.09	14.13	15
UTI CCP Advantage			UTI CC Balanced Plan		
20.8	11.45	-1	16.89	11.84	-4
Tata Young Citizens			Source: Value Research, Accord Fintech Compiled by ETIG Database		
15.42	11.28	-2			

uidity needs, but with the fund's name clearly defining the objective- financial planning for your child, it attaches a certain emotional value to the investment, helping parents to refrain from redemptions," says S Naren, CIO, ICICI Pru MF.