

## Children's funds: Consider these factors before investing; 5 experts share their views

*Investing in children's funds is gaining precedence considering how the effect of inflation is disabling corpus accumulation for children's higher education, marriage, etc.*

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*Invest in children's fund after accounting for myriad factors beyond returns*

It is common for parents to worry about their children's future considering how the burden of so many responsibilities including their higher education, marriage, and more can cause them to worry about how they would meet their expenses in the long run. The effect of inflation has been terrifying in the past decade with even returns from the stock market being only a bit higher than the inflation rate.

This explains the need for concerned guardians to look at children's

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estimated properly and an appropriate product that offers the amount required in the future is taken.”

Age is an essential factor that many investors ignore while investing in these funds. Deepali Sen, founder partner, **Srujan Financial Services LLP** (a Mutual Fund Distributor) elaborates, “The most important element is the kid’s current age and his year of need, for example, a seven-year-old will require funds for higher education 10-11 years down the road. If the goal is more than seven years, then one can safely look at equity mutual funds.”

Sen added, “With that time horizon in mind, one can look at around 70-80 per cent in large and the balance in mid-cap and small-cap funds. If the time horizon is longer then the percentage of mid and small-cap mutual funds can be increased by five to 10 per cent and the large-cap component reduced to the same extent. If the time horizon is less than seven years we could do hybrid funds with some exposure to equity (20-60 per cent) for a four to six years range calibrating (increasing) the equity component based on when the money will be required. Also, even if the money is available for investment one time, it is better to set up a Systematic Transfer Plan (from liquid to equity funds) through 12 instalments.”

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Many investors do not look beyond returns from children’s funds, thus, causing them to chase high-yielding funds. However, past performance does not guarantee future results, which means that investors must look at myriad factors beyond just returns while choosing where to park their earnings.

There is more to a fund than only the returns that it delivers. Priyanka

child's future. However, returns should not be the only factor to consider when choosing children's funds. Firstly, it is important to evaluate the investment objective of the fund. Whether you are focusing on the child's education or seeking long-term capital appreciation, choose a fund that matches your risk profile and investment goals. Also, children's funds come with a mandatory lock-in period of 5 years. Therefore, before investing in a children's fund, investors must consider the mandatory lock-in period and penalties associated with early withdrawal since they can affect the liquidity of the investment and impact their financial goals as well."

To this, Vasudha Gupta, Finance Lead, **CommsCredible** adds, "Children's funds are long-term investments hence while choosing the same, there is a need to look at the various factors including the period of investment, inflation costs, risk, and fund size of investment along with the returns. The cost involved in the investment should be compared with its future benefits and tax implications. The government has also given various tax benefits to certain funds, reducing the tax burden on the investor, and resulting in more future benefits. The portfolio should be diversified for the children's funds to reduce the impact of risk and cost factors."

Elucidating this further, Viral Bhatt, Founder, **Money Mantra** shared, "Children's funds are designed to meet specific investment goals like education or marriage expenses. You should evaluate if the fund aligns with your objective. The fund's asset allocation should be appropriate for your investment objectives and risk profile."

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You cannot possibly take risks with such investments. Volatility is inherent to mutual fund investments, which is why you must factor in this possibility before deciding when and where to invest your money to secure your children's future. CA Kanan Bahl, **a financial educator and growth consultant**, says, "You should look at the safety of returns also. If the goal is maturing in say, the next two to three years, you may consider shifting the funds to a lesser volatile instrument, i.e., from equity to liquid deposits like [fixed deposits](#), etc."

there, but more concerning is the risk appetite. This explains why some investors limit their investments to bank deposits, government-sponsored schemes like the [PPF](#) or [debt funds](#) that earn well and help save on taxes too. In the end, what matters is how long you stayed invested to gain from the [compounding](#) effect.

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