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FUND FUNDAS

Should you invest in a PSU exchange traded fund?

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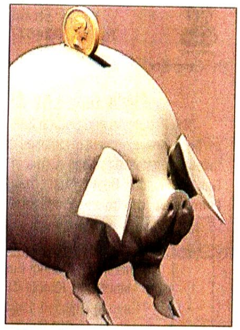
Reliance Nippon Asset Management Co Ltd has launched the second tranche of the Central Public Sector Enterprise Exchange Traded Fund (CPSE ETF). The fund has shares in companies that are part of (and in the same proportion as) the Nifty Central Public Sector Enterprises (CPSE) index. So, should you invest?

WHAT IS IT?

The 10 companies in the Nifty CPSE index are state-owned companies where the government has been selling stake. In 2014, as part of its disinvestment effort, the government constructed an index (CPSE index) comprising shares of the 10 companies. The plan was to offload a basket of its shares across these companies to an exchange traded fund that would then offer their



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units to the public. Goldman Sachs Asset Management Co (India) Ltd was chosen for this. The money that Goldman Sachs collected from the public (₹3,000 crore) was paid to the government, which then transferred the basket of shares to the fund at a discount of 5%, which was passed on to the investor. The fund then allotted units to the public.

The January 2017 CPSE ETF is a Further Fund Offer (FFO), an additional portion of an existing offering. Last year, Reliance Nippon acquired Goldman Sachs, and hence it gets to launch the FFO. This time, the government wants to raise up to ₹4,500 crore. If there is an over-subscription, it can raise another ₹1,500 crore.

WHAT WORKS?

Being state-owned companies, many of constituents of the fund's portfolio are leaders in their segments. They may not as attractive as they were in 2014 when the first tranche of CPSE ETF was launched but the price-equity multiple (P-E) of Nifty CPSE index was 11.48 times (which means it is not very expensive), as opposed to the Nifty index's P-E of 21.61 times as on November 30.

The first tranche of the CPSE ETF returned 11.23% between April 2014 and January 10, 2017. Large-cap funds returned 10.63% on an average and the Sensex returned 6.63% in the same period according to Value Research. The 5% discount at which the allotment will be made does make the fund attractive.

WHAT DOESN'T WORK?

Since these are state-owned companies, their health is subject to government policies.

Being an ETF, this is passively-managed and investors should not expect to outperform the benchmark index. Besides, it is a thematic fund whose fortunes depend on just these 10 state-owned firms.

MINT'S TAKE

CPSE ETF is perfect for investors who already have a well-diversified portfolio. First-time investors should stay away since this is a thematic fund.