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Check out CPSE ETF to diversify portfolio

Reliance Mutual Fund's second tranche of CPSE ETF offers 5% discount to all investors and has low expense ratio

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INVESTMENT

RETAIL investors can look at thematic funds to diversify their portfolio. Reliance Nippon Life Asset Management has launched the second tranche of Central Public Sector Enterprises Exchange Traded Funds (CPSE ETF). The issue will offer 5% discount to all investors and the size of the offer is ₹4,500 crore with a greenshoe option of ₹1,500 crore.

Central Public Sector Enterprises ETF, which functions like a mutual fund scheme, comprises scrips of 10 bluechip government firms—ONGC, Coal India, IOC, GAIL, Oil India, PFC, Bharat Electronics, REC, Engineers India and Container Corporation of India.

The Further Fund Offer (FFO), which will close on January 20, is part of the government's disinvestment programme. The government has a disinvestment target of ₹56,500 crore for the current fiscal. Till now, it has mopped up around ₹24,000 crore. The FFO is open to all investors including anchor, retail, retirement funds, QIBs, non-institutional investors and foreign portfolio investors.

Low cost, higher returns

One of the major advantages of CPSE ETF is the lower expense ratio of 6.5 basis points (bps) as compared with up to 250 bps for other non-ETF products. "CPSE ETF FFO offers a compelling opportunity for investors, especially retail and retirement funds, to invest in the India growth story at an attractive valuation, lowest expense and embedded discounts," says Sundeep Sikka, ED and CEO, Reliance Nippon Life Asset Management.

The government had launched its first CPSE ETF in March 2014, taking the ETF route to disinvestment for the first time. It had raised ₹3,000 crore through the ETF then. CPSE ETF was acquired by Reliance Mutual Fund from Goldman Sachs Mutual Fund in October 2015. The first CPSE ETF went live on April 4, 2014 and got listed on NSE and BSE. The money collected by Goldman Sachs was paid to the government, which in turn, transferred the basket of shares to the fund. The fund later allotted units to the public.

The first CPSE ETF has given an annualised return of 14.2% since inception, outperforming the Nifty CPSE Index which gave a return of 6.25%. The ETF has an energy-biased portfolio and the performance would depend on the price of crude, coal, etc.

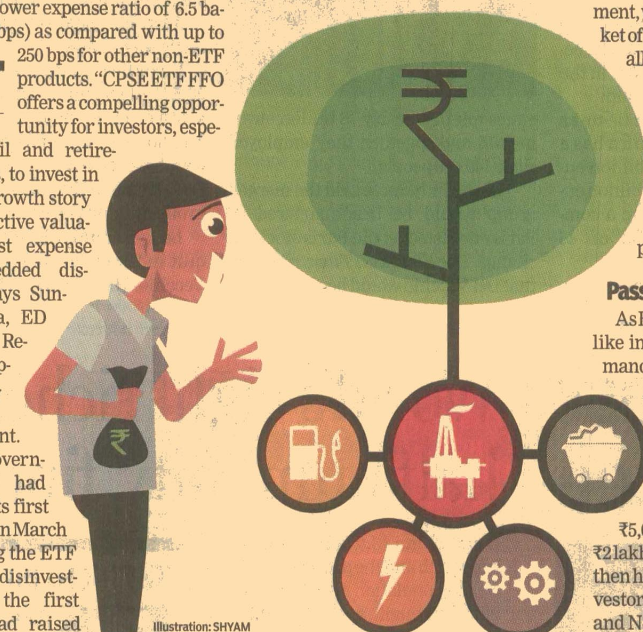
Illustration: SHYAM

Passively managed funds

As ETFs are passively managed funds like index funds, they replicate performance of a benchmark index by holding securities in the same ratio as the underlying index. CPSE ETF is benchmarked against Nifty CPSE Index. The minimum amount of investment for individual or retail investors is ₹5,000 and the maximum amount is ₹2 lakh. If one invests more than ₹2 lakh, then he will not be considered a retail investor. The units will be listed on BSE and NSE on or before February 10, 2017 and one can exit in the secondary market. CPSE ETF gets tax treatment of equity shares or equity mutual fund units. So, capital gains resulting from sale of ETF units within one year will attract capital gains tax of 15%. Long term capital gains, on holding the units for over one year, will be exempt from income tax.

Analysts say investors must analyse how the 10 PSUs are likely to perform in the long run based on input pricing, government policies and the overall business climate.

DECODING CPSE ETF

- It comprises scrips of ONGC, IOC, Coal India, GAIL, Oil India, PFC, BEL, REC, EIL and Container Corporation of India
- CPSE ETF has an expense ratio of 6.5 bps
- The Further Fund Offer will close on January 20
- CPSE ETF gets tax treatment of equity shares or equity mutual fund units
- Minimum investment for individuals is ₹5,000 and maximum is ₹2 lakh