

● YOUR MONEY

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A beginner's guide to CPSE ETFs

RECENTLY, THE THIRD tranche of the Central Public Sector Enterprise (CPSE) exchange traded fund (ETF) hit the markets. Since its fresh fund offering by Reliance Mutual Fund in 2014, the CPSE ETF has made two more fresh fund offerings.

An ETF is an equity security that tracks an index and can be traded on a stock exchange. The CPSE ETF is made up of equity investments in 10 of India's largest public sector companies. The biggest of these are ONGC, REC, Coal India, Container Corp, Oil India, Power Finance, GAIL, BEL, EIL, and Indian Oil.

Salient features

The CPSE ETFs are open-ended funds with no lock-in. They can be bought and sold on a stock market. They are pure equity investments, and you need to make a minimum investment of ₹5,000. ETFs are passive funds. It means that the proportion of the underlying assets remains the same. Therefore, the port-

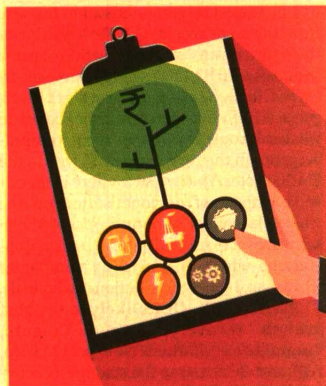


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folio of the ETF remains the same unlike a mutual fund that will be actively managed. Resultantly, ETFs have a low expense ratio. In the CPSE ETF's case, this ratio is 0.54%—lower than the expense ratio of a typical mutual fund which would range between 1-3%.

Risks & returns

The CPSE ETF targets 10 of India's largest companies which have a near-monopolistic position in India. As such, most of these companies are in the energy sector and are essential to the Indian economy. This makes the investment relatively low-risk. However, this ETF will respond to sectoral events.

Since the ETF's launch in 2014, the NAV has moved from ₹19.24, and has appreciated by 46%—most of which happened in 2016-17 period. In the Fresh Fund Offering in January, a discount of 5% had been offered to investors, which was lowered to 3.5% in the FFO in March. These discounts further increase the absolute returns of investors.

How to invest

Like most ETFs, the CPSE ETF can be bought with a demat trading account. You can log on to your trading platform to locate these ETFs and buy them as per the prevailing price. These can also be bought from Reliance Mutual Fund. The CPSE ETF has provided attractive returns in the last one year of over 40%. However, it is an equity investment and is subject to market risks—especially any risks in the energy sector.

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